SOPHUS EMERGING MARKETS SMALL CAP STRATEGY QUARTERLY COMMENTARY

Sophus CAPITAL
A VICTORY CAPITAL℠ INVESTMENT FRANCHISE

As of March 31, 2021

Executive Summary

Sophus Capital employs a disciplined, bottom-up approach utilizing both quantitative and fundamental processes to invest in businesses with the potential for strong and sustainable earnings growth at attractive valuations, with revisions as the catalyst. By investing in companies with these characteristics, coupled with our risk-managed approach, we seek to provide more consistent returns over time.

- The Sophus Emerging Markets Small Cap Strategy underperformed the MSCI Emerging Markets Small Cap Index (Net) during the quarter, returning 7.3% (gross).
- Emerging market small-cap equities advanced 7.7% for the quarter, outperforming EM large-caps, which advanced 2.0%.
- We are optimistic on emerging market small-caps going through 2021, as the economic reopening from the pandemic gains momentum.
- In our view, emerging markets small-caps offer an attractive long-term opportunity, as EM small-caps tend to be more driven by domestic demand, favorable demographics, local reform initiatives, and innovative niche markets/products. EM small-caps tend to be less efficient than the large-cap space, with generally limited research analyst coverage, often resulting in mispriced stocks.

Performance Recap

The Sophus Emerging Markets Small Cap Strategy advanced 7.3% (gross) for the quarter, underperforming its benchmark by 39 basis points. Stock selection had the biggest impact on relative performance. On a sector basis, the largest detractor from relative performance was consumer discretionary, from a combination of stocks owned and not owned across regions and industries. The largest contributor was industrials, led by various holdings, including Asian container and shipping stocks that are seeing strong pricing as exports accelerate given the reopening of the global economy. On a country basis, the largest detractor was China, driven by stock selection in consumer discretionary and IT. The largest contributor to relative performance was Taiwan, driven by stock selection in materials and industrials.

The largest detractor on a stock basis was Flat Glass Group Co., Ltd. (Ticker: 601865 CH). Flat Glass is China's second largest solar glass producer. After a strong 2020 performance, shares of Flat Glass began selling off in late February/early March on concerns over a normalization of solar glass prices (from previous abnormally high levels) as a result of capacity expansion. While we continue to see strong fundamentals for the renewable energy space longer-term, rich valuations and near-term earnings pressures led us to sell the shares for better opportunities elsewhere.

The largest contributor to performance at the stock level was Mexican industrial company Grupo Traxion (Ticker: TRAXIONA MM). Grupo Traxion provides ground transportation and logistics services in Mexico. The company reported strong 4Q results in February, benefiting from strong e-commerce logistics demand as well as passenger transportation on reduced mobility restrictions. More importantly, management provided upbeat guidance for 2021, reflecting particular opportunities in e-commerce growth in Mexico, as well as the reopening of the economy. We continue to own the shares.

Market Overview

It was an eventful start to the new year, with a new president in the US, rising interest rates on the heels of trillions in new stimulus, the rollout of Covid-19 vaccines and the global reopening (with some hiccups), a hot commodities market, fears of a double-dip recession in Europe, and inflation fears in the US and other parts of the globe. The increase in interest rates and focus on economic reopenings led to a sell-off in many of the high-flying tech names that did so well in 2020, with a rotation to the cyclical/value names, as many of the equity market indexes across the globe hit all-time highs.

For the quarter, EM small-cap equities advanced 7.7%, outperforming EM large-caps, which advanced 2.0%. The quarter started off slowly for EM small-caps, advancing 0.1% in January. Market volatility in the US, fueled by a retail squeeze of hedge fund short sellers and fears of a double-dip recession in Europe due to widespread lockdowns, contributed to the stalling of the cyclical/value rotation in the month. In February, the cyclical/value rally reignited, as the outlook for additional stimulus in the US and aggressive vaccination programs in parts of the world helped investors move their focus to the booming global growth outlook. EM small-caps advanced 6.0% in the month. Commodities experienced a strong rally, up over 13% in February, with oil spiking over 18% and industrial metals rising over 11%. In March, EM small-caps continued their upward trend, advancing 1.5% during the month. The ongoing vaccination rollout and the approval of a $1.9 trillion stimulus bill in the US (with talks of more coming in the form of an infrastructure bill) continued to push the global growth upcycle theme. Commodities declined 3.3% in March, pressured by a 2.6% advance in the US dollar in the month.

Within sectors, materials were the top performer in the quarter, advancing 12.0% on the strength in commodities. Financials advanced 11.6%, although there was wide disparity within the sector, with the strongest performers in the "fintech" space. Industrials advanced 10.5%, led by strength in shipping and containers on the heels of rising exports and shipping/container costs associated with that. Consumer discretionary and IT both advanced 10.3%. Health care was the worst performing sector, as investors continued to turn their attention to those stocks/sectors that are expected to benefit from the post-pandemic reopening.

On a regional basis, Asia was the top performer, advancing 9.1% in the quarter. India led the region, up 16.1%, benefiting from the announcement in February of a long-term growth focused FY22 budget. Taiwan advanced 9.6% on strength in the IT sector, particularly within semiconductors, where the globe is experiencing a semiconductor shortage. China rallied 12.3% on continued solid economic data. China was lifted by strength in two of the largest

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sectors within the China index, IT and consumer discretionary. South Korea lagged the region, advancing 2.8%, weighed down by weakness in health care. The EMEA region advanced 8.6%. Russia advanced 23.3%, mainly driven by one stock in particular, TCS (Ticker: TCS LI), which rallied on MSCI all-cap inclusion and corporate governance improvements. South Africa rallied 15.8% on strength in consumer discretionary and materials, with the latter benefiting from the general move higher in commodities. Saudi Arabia advanced 9.5% on strength in commodities as well as an announcement by Saudi's largest listed companies that they will reduce their dividends and redirect the money to help fund the country's $1.3 trillion economic overhaul plan. Latin America declined 3.9%, with Chile (+9.2%) the only country in positive territory in that region. Chile benefited from strength in commodities and a better economic outlook for 2021, buoyed by a very strong vaccination program, with one of the highest vaccination rates globally. Mexico declined 0.4% as they continued to battle relatively high Covid-19 cases and death rates in the quarter. Brazil declined 6.3% as they have had a far more difficult time managing the pandemic, with cases and deaths trending higher throughout the quarter, as well as increased political risk following Bolsonaro's removal of the Petrobras CEO.

The US dollar finished the quarter up 3.7%, climbing 2.6% in the month of March on the back of higher US Treasury bond yields, a reflection of the stronger US GDP growth outlook vis-à-vis the rest of the world. A basket of EM currencies declined 3.1% against the stronger US dollar. Amongst the majors, the Brazilian real declined 7.7% as Covid-19 cases continued to climb and concerns mounted regarding the country's budget deficit, which grew to over 10% of GDP. The South Korean won and Mexican peso fell 4.0% and 2.5%, respectively. The Turkish lira was the worst performing currency within all of EM, declining 9.8% on uncertainty surrounding the firing of the central bank governor and the deputy governor just days after the central bank dramatically raised rates to address double-digit inflation. The move led to market turmoil amid concerns Turkey may return to unorthodox economic policies and rapid, premature rate cuts. Commodities advanced 17.5% on a 26.5% spike in oil. Oil was pushed higher by the demand recovery expectations as economies reopen, as well as OPEC's unexpected announcement to roll over production cuts in an already undersupplied market. Industrial metals advanced 9.5%, with copper up 21.5%, while precious metals declined 9.9%. Agricultural commodities advanced 3.4%.

On a market factor basis, value was among the top performers, reflecting the ongoing strength in the value trade as economies continue to slowly reopen. Earnings revisions and momentum also worked well in the quarter. Quality and growth were mixed, but generally underperformed the median performance across all factors. Volatility was the biggest laggard, supporting our research that was showing this factor was both overvalued and overbought, and due for a pullback.

Outlook

Emerging markets small-cap equities are up over 116% since the market lows in March of last year related to the pandemic, and had a strong start to 2021. While much of the easy money has been made, we believe there are a number of reasons to be optimistic for the remainder of 2021 and beyond. A post-pandemic recovery of EM economies, accelerating global growth and a weaker US dollar over the long term are just a handful of the many factors supporting an exposure to emerging markets equities.

Valuations of emerging markets small-cap equities look a bit rich relative to historical norms. However, earnings momentum in EM small-caps continues to be positive. Consensus estimates have been rising since October, with earnings growth estimates currently standing at roughly 250% for 2021. Thus, we expect the majority of upward movement in equities to be from earnings growth, rather than a multiple rerating.

Despite lingering uncertainties about the global reopening process, vaccine distribution and virus containment measures have elevated global growth expectations for 2021. After a contraction of -3.5% in 2020, the global economy is forecasted to grow 5.5% in 2021, according to IMF estimates as of January 2021. While developed markets are anticipated to achieve 4.3% growth in 2021, EMs on average are forecasted to achieve 6.3% growth, as accelerated global trade and higher commodity prices boost EM current account balances, and general economic activity boosts domestic consumption. While EMs are uniquely positioned to benefit from a global recovery in the near term, considering how sharply these markets were hit in 2020, we believe their economic resilience to crisis, long-term structural and demographic shifts supporting consumption growth, and the economic impact of technology and digitalization make them especially compelling over the longer term. Furthermore, improved global growth prospects (together with supply constraints) should continue to support commodity prices, benefiting key EM commodity exporters.

Emerging market equities tend to do better in a weaker US dollar environment, as a weaker dollar leads to easier financial conditions and attracts foreign capital into emerging markets. Conversely, as the dollar strengthens, emerging markets typically experience outflows and weaker returns for US investors. The dollar has been range-bound over the past several weeks as US Treasury yields rose, and there is potential for some further strengthening if upward pressure on rates continues, and/or near-term US economic growth far outpaces the near-term growth in emerging markets. However, the fundamental factors for a longer-term trend of a weaker dollar continue – namely, massive money printing, a huge fiscal deficit, and broadening global growth. A weaker US dollar could provide a tailwind for emerging market equities to move higher.

Our process seeks out sustainable, attractive earnings growth. We know that earnings growth drives markets most of the time. We look to buy earnings growth at attractive valuations. We anticipate that markets will continue to be volatile as economies reopen and the pandemic evolves. Ultimately, we believe the pace of vaccinations/herd immunity across the globe and the potential for new variants creating a resurgence in the number of Covid-19 cases will be important in determining the pace of economic and earnings growth across countries and sectors. We have seen, and generally expect vaccination progress in most emerging markets to lag that in advanced economies, due to either logistical issues, supply or vaccine acceptance. Chile is the outlier, with roughly 40% of their population with at least one dose. However, most emerging markets are stuck at 5% or below. It is this issue that is a key variant in determining the timing and pace of economic growth and, we believe, a key reason why an active approach, with a focus on stock picking, is extremely important when investing in the asset class.

We thank you for your continued support.

Sincerely,

The Sophus Emerging Markets Team

Regional Allocation
As of March 31, 2021

Sector	% of Portfolio
Asia	75.4
EEMEA	11.6
Latin America	12.4

Top 10 Holdings
As of March 31, 2021

Holding	% of Portfolio
HMM Co., Ltd.	1.70
Hansol Chemical Co., Ltd.	1.46
National Bank of Greece S.A.	1.39
Impala Platinum Holdings Limited	1.36
Sequent Scientific Limited	1.33
Cholamandalam Investment and Finance Co. Ltd.	1.30
APL Apollo Tubes Limited	1.25
Ternium S.A. Sponsored ADR	1.25
Grupo Traxion SAB de CV Class A	1.22
Tung Ho Steel Enterprise Corp.	1.20

Top 5 Contributors
As of March 31, 2021

Holding	Contribution to Relative Return %
Grupo Traxion SAB de CV Class A	0.42
China General Plastics Corporation	0.39
APL Apollo Tubes Limited	0.39
Weimob, Inc.	0.38
Yang Ming Marine Transport Corp.	0.37

Top 5 Detractors
As of March 31, 2021

Holding	Contribution to Relative Return %
Flat Glass Group Co., Ltd. Class H	-0.31
Randon SA Implementos e Participacoes Pfd	-0.27
Anadolu Efes Biracilik ve Malt Sanayii A.S.	-0.27
SK Materials Co., Ltd.	-0.25
Minth Group Limited	-0.22

Performance
Average Annual Returns as of March 31, 2021

Sophus Emerging Markets Small Cap Strategy	Quarter	YTD	1-Year	3-Year	5-Year	7-Year	Since Inception (1/31/14)
Gross of Fees	7.28%	7.28%	80.24%	5.24%	12.51%	7.81%	8.38%
Net of Fees	7.01%	7.01%	78.45%	4.19%	11.29%	6.60%	7.15%
MSCI Emerging Markets Small Cap Index (Net)	7.67%	7.67%	87.13%	5.19%	9.59%	5.46%	6.25%

Past performance is no guarantee of future results. Returns greater than one year are annualized. Returns are expressed in U.S. dollars. Composite returns are net of transaction costs and gross of non-reclaimable withholding taxes, if any, and reflect the reinvestment of dividends and other earnings.

Please note: High double-digit returns are highly unusual and cannot be sustained. Investors should be aware that these returns were primarily achieved during favorable market conditions.

Investing involves risk, including loss of principal. International investing involves special risks, which include changes in currency rates, foreign taxation, differences in auditing standards and securities regulations, political uncertainty, and greater volatility. Emerging markets involve heightened risks related to the same factors, as well as increased volatility and lower trading volume.

Investments in small and mid-size companies can involve risks such as less publicly available information, higher volatility, and less liquidity than larger companies.

Contributors and Detractors Source: FactSet. The top contributors and detractors are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments. The percent displayed is contribution to return. Holdings are as of quarter end and may change at any time.

Characteristics, Top Ten Holdings and Sector Diversification source: FactSet Research Systems, Inc. The top ten holdings and sector diversification are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments.

Holdings do not include cash, money market instruments, options or futures.

The representative account serves as the model against which each Sophus Emerging Markets Small Cap strategy account is managed. The representative account is an actual portfolio and the information provided, including performance, will vary for other accounts. The representative account is being used solely as a tool to help demonstrate how performance can be attributed to the investment policies applied in the management of the Sophus Emerging Markets Small Cap strategy.

This information is based on data obtained from recognized services and sources and is believed to be reliable. Any opinions, projections or recommendations in this report are subject to change without notice and are not intended as individual investment advice. The securities highlighted, if any, were not intended as individual investment advice. A complete list of all recommendations of security selection is available by request for the previous 12 months. Furthermore, Victory Capital Management Inc., and its affiliates, as agents for their clients, and any of its officers or employees, may have a beneficial interest or position in any of the securities mentioned, if any, to any opinion or projection expressed in this report.

The Sophus Emerging Markets Small Cap Composite includes all discretionary accounts invested in the Emerging Markets Small Cap Strategy. The Strategy employs an integrated investment approach whereby proprietary quantitative screens are melded with deep fundamental analysis to capture the growth of small-capitalization companies in emerging markets countries. The composite creation date is March 2014.

Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Net-of fees returns are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model feel). The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equity to the composite net-of-fee return calculated using actual fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found on Part II of its Form ADV.

The MSCI Emerging Markets Small Cap Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the performance of small-cap stocks in the emerging markets.

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