

Executive Summary

The THB Small Cap Core Strategy (the “Strategy”) seeks long-term capital appreciation over full market cycles by using a disciplined, actively managed approach. The Strategy typically holds 60–80 securities from the approximately 2,000 stocks within the Russell 2000® Index and has a high active share.

THB believes that the small-cap universe is inefficient and that a focused portfolio of high-quality securities in the space can offer strong risk-adjusted returns.

THB Small Cap Core Strategy underperformed the benchmark by 1.64% in the first quarter and underperformed the benchmark by -0.28% for the trailing one-year period (net of fees).

Market Review

US Equities were broadly lower this quarter as participants digested persistent levels of higher inflation, tighter monetary policy, and simmering geopolitical tensions that culminated with Russia’s invasion of Ukraine on February 24. The invasion of Ukraine had been weighing on the markets throughout February, and as of March 31, 2022, most indices have recovered to levels above the invasion day lows. Western countries reacted swiftly to the invasion and unleashed a host of sanctions against Russia and also effectively unplugged Russia from the world banking system by disallowing transactions via the SWIFT system. In addition to mandatory governmental sanctions, a significant number of major brands and corporations voluntarily decided to exit or cease operations in Russia. These sanctions and actions served to amplify preexisting inflationary drivers such as energy prices and supply chain disruptions. The Federal Reserve raised interest rates and struck a more hawkish tone, intending to bring inflation under control. Value outperformed growth across all market-cap spectrums this quarter, as the Russell 2000® Value Index and Russell Midcap® Value Index returned -2.40% and -1.82%, respectively, versus the Russell 2000® Growth Index and Russell Midcap® Growth Index returns of -12.63% and -12.58%, respectively.

A new era

We may look back on the invasion of Ukraine as a time marker when a new geopolitical and economic era began. In the short span of a few weeks, seismic geopolitical changes have taken place, which we believe will have a sizable impact on global economies, industries, and markets for years to come.

Globalization as we knew it ends

Years of Western countries’ appeasement and ignorance regarding the issues surrounding questionable trading partners and practices likely peaked with the invasion of Ukraine. Many of these issues have been clear for decades, but Western leaders turned the other way for a host of reasons. The naive view that economic interdependence would be a panacea for known issues in both China and Russia has ended abruptly. Intertwining Western economies with both China and Russia in large-scale ways has peaked and will likely undergo years of unwinding.

The revanchist tendencies of Mr. Putin set in motion changes that were hard to imagine a month prior. With a single action, he has united NATO and the EU, ended decades of Swiss neutrality, doubled the German defense budget, severely damaged and isolated the Russian economy for years to come, united the US Democrats and Republicans in their common support for Ukraine,

and managed to possibly damage his “no limits” friendship with China.

The next era of globalization will likely encompass trading blocs and regions versus full global integration. Countries will value self-sufficiency above other considerations and trade primarily with countries with shared values and politics. Looking inward (versus outward to low-cost manufacturing locations) will likely be a long-term positive shift for domestic workers and industries.

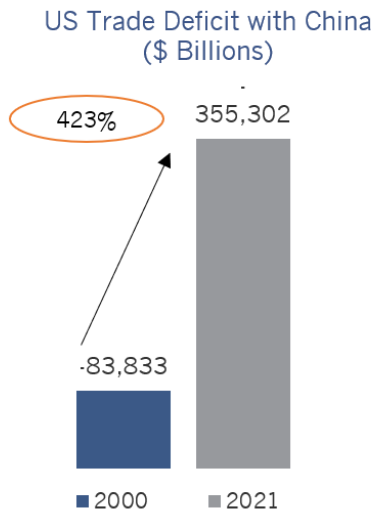
Inflation will not be homogenous

Inflation will not be homogenous across all goods, services, and wages. Unexpected winners and losers will emerge as secondary effects ripple through the economy and difficult-to-predict adaptations occur. Inflation is a point-to-point metric capturing shorter term (12-month to 18-month) directional changes. This is of course important, but sometimes misses the longer-term backdrop. Certain prices and wage groups have experienced a decade-plus of flat to declining movement. The recent “spikes” may be partially caused by current events but are also reflective of the secular declines witnessed during the prior periods. As the new era in geopolitics is ushered in, previous inflation trends may change and not reverse so quickly.

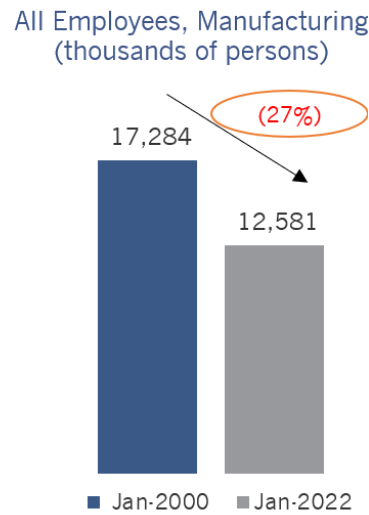
Globalization was a key deflationary factor in the global economy, creating its own set of countries, industries, and companies that experienced significant benefits as globalization roared ahead. One group that did not win during the globalization was the American factory worker. As jobs were shipped overseas, workers lost any expectation of wage increases. Jobs were scarce and workers were plentiful, allowing corporations to keep wages consistently flat during a fairly strong economic period.

As peak globalization occurs, many companies are aiming to shore up complex supply chains and move production back onshore. Such simultaneous actions by varying groups of industries are increasing the demand for this cohort of workers in an already tight labor market.

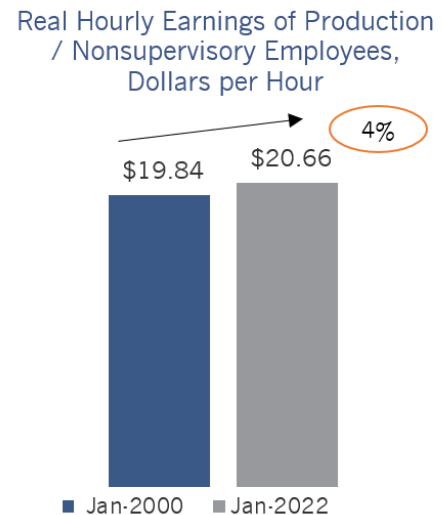
Inflationary effects on certain goods, as we have previously stated, will surely recede. The laws of supply and demand still hold true, and producers will move to take advantage of sharply higher prices with increased supply. Additionally, the rate of price change for certain goods will moderate slowing overall inflation. This relationship breaks down when multiple forces inhibit the anticipated supply response, as we are currently experiencing with the global energy markets.



Source: US Census



Source: US Bureau of Labor Statistics



Source: Federal Reserve Bank of St. Louis

En-flation

Hydrocarbons impact many aspects of our economy, and rising oil and gas prices will make controlling inflation even more difficult. The breadth of energy’s impact on our economy makes taming overall inflation very challenging. Factories run on energy, and hydrocarbons are a key raw material in many products we use each day. Additionally, labor-intensive industries such as farming use vast amounts of energy to plant and harvest the foods we eat. Rising energy prices will be passed along in the form of higher prices for food and services, impacting large parts of our economy. Fossil fuels have generally experienced boom-and-bust cycles largely anchored to the cyclical elements of supply and demand. Societal, governmental, and investment changes, such as ESG considerations and decarbonization, have altered the typical supply response. Investors and banks are reducing exposure to the industry, and the companies themselves are diverting cash flows from exploration (supply growth) to dividends and share repurchases. The supply problem is further complicated by where reserves are located. As Russian oil went under sanctions, the

countries with slack capacity (such as Iran, Venezuela, and Saudi Arabia) were discussed as areas from which to source increased supply. Iran and Venezuela already occupy spots on the list of top five most sanctioned countries in the world, and Saudi Arabia’s production facilities were recently attacked by Yemen rebels (Houthi). It should be clear that global slack energy capacity is not located in ideal or stable areas, and as certain European countries are quickly learning, this should not be viewed as a long-term supply solution. Fossil fuels, as the world has suddenly witnessed, have not been relegated to the dustbin of history just yet. As expected, the journey to a greener, lower carbon future will require hydrocarbons and not be as linear as some would hope.

Bare cupboard

The Ukraine invasion adds more supply pressures to what was already a tight market, and no quick solutions are apparent. Drilled but uncompleted wells (chart below) have hit a five-year low. These wells would typically come online quickly and provide a supply response. Currently, there is not much excess supply in the system or places that can bring that supply online quickly.

US Number of Drilled but Uncompleted Wells (Feb. 2016 – Feb. 2022)

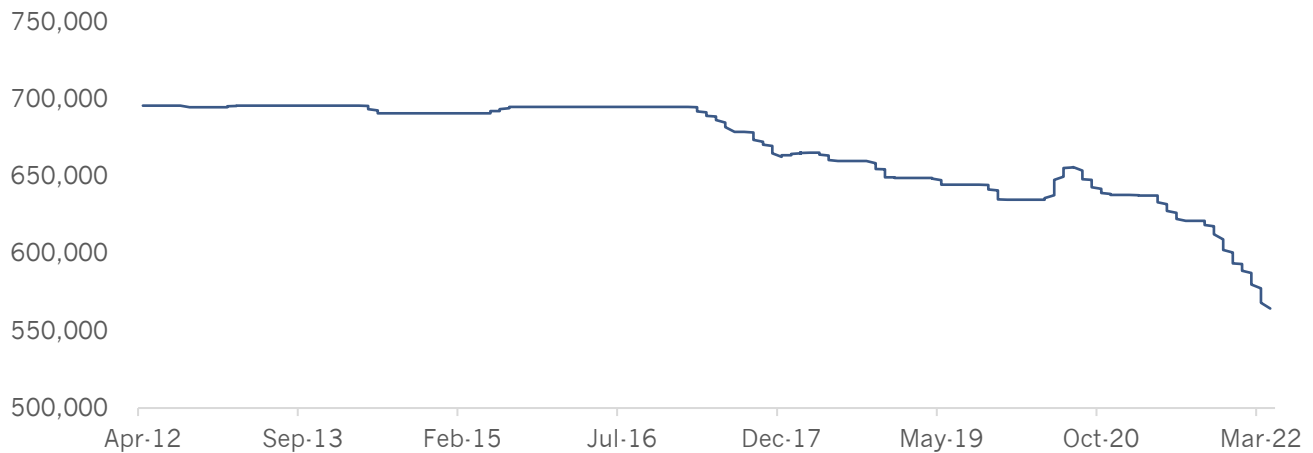


Source: US Department of Energy

On March 31, President Biden announced the largest-ever release from the US emergency stockpile of oil (Strategic Petroleum Reserve, or SPR) to combat high energy prices. Starting in May, the US will release 1 million barrels of oil per day from SPR. This will continue for six consecutive months, releasing approximately 180 million barrels in total. This equates to approximately nine days of US oil consumption and two days of global oil

consumption. Once released, US stockpiles in the SPR will be approximately 388 million barrels, down more than 40% from the recent high of 695 million in 2017. Releasing supply may not have the desired impact on pricing, as supply could possibly be cut by other (OPEC, Russia) global players. Additionally, those emergency reserves will need to be restocked at some point in the future.

DOE Strategic Petroleum Reserve (SPR) Total Inventory Data (Thousands, Barrels)



Source: US Department of Energy

Wars are inflationary

History has shown that wars are generally inflationary, and we are currently experiencing three “wars” across different fronts. We have an actual shooting war in Ukraine, the war against climate change, and the very recent battle against Covid-19. Wars typically require large amounts of “stuff” in a short time frame. Depending

on the actual war, food, machinery, ammunition, clothing, fuel, technological solutions, and vehicles are some examples of what is needed. Governments have historically printed money to finance wars, and the same is happening today. Governments across the world are increasing their budgets to fight these three wars, with some examples listed below.

- Germany – Annual defense budget increase of \$50 billion (since Ukraine invasion)
- Finland – One-time defense budget increase of \$2 billion (since Ukraine invasion)
- Japan – One-time defense increase of \$8 billion (host US troops and increase alliance cooperation)
- Japan – Aiming to increase annual defense budget from 1% of GDP to 2% (increase of \$45 billion annually)
- UK – Infrastructure / green energy – \$850 billion
- US – Covid-19 relief and actions – \$3.6 trillion
- Japan – Carbon neutrality by 2050 – \$10 trillion
- Ukraine – Rebuilding cost (TBD; current estimate \$600 billion)

Potential rate increases

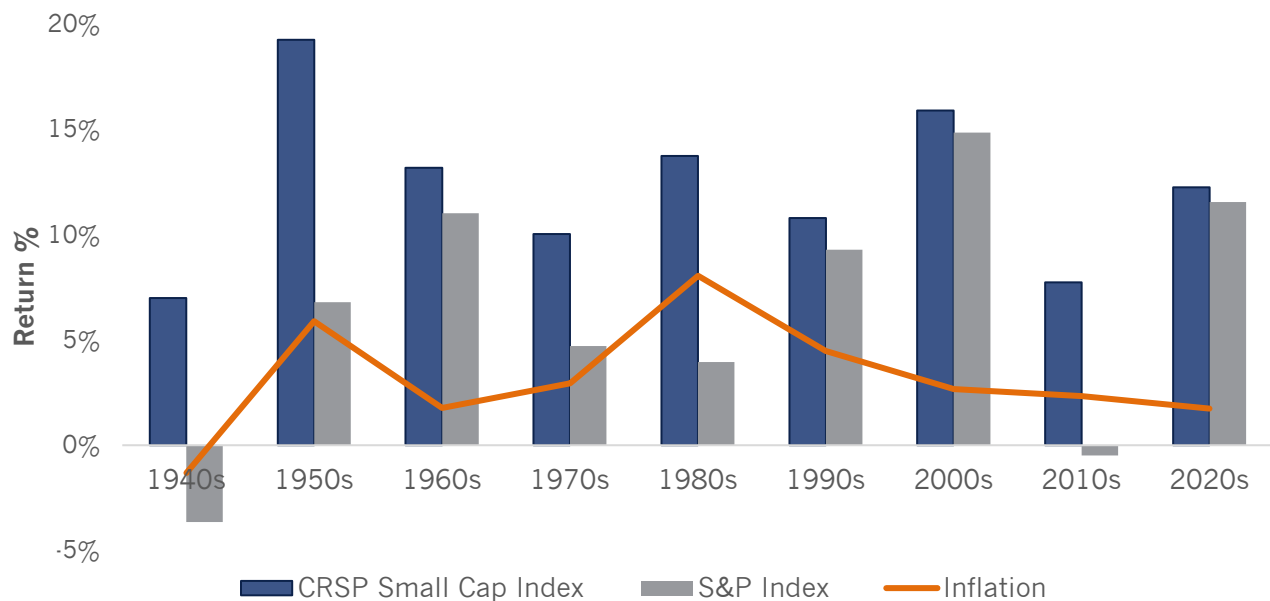
It is quite likely that the Federal Reserve’s monetary tightening will not be able to bring all elements of inflation lower. The economy is very strong; we expect rates (even considering the seven expected rate hikes) will still remain low; banks have plenty of capital to lend; overall financial conditions are accommodative; and certain elements of inflation appear more secular versus cyclical, as described above. We believe this makes the Fed inflation target of

2% unlikely to be achieved in the medium term. The economy may have to run hot for longer than the Fed desires, with inflation in the 3%–4% range. Its actions will be determined by its patience level with higher levels of inflation and if it wants to cause a recession to bring the Consumer Price Index lower. The cadence and existing scope of rate hikes will indicate which path the Fed plans to pursue.

Why small-caps work during inflationary periods

Small-cap stocks have historically performed well during inflationary periods.

Small and Large Cap Returns Versus Inflation



Source: CRSP

This relative outperformance is likely due to a host of factors. The structure of the underlying businesses, industry representation of the benchmarks, and labor force composition are some of the reasons that contribute to their ability to prosper during higher levels of inflation. Additionally, smaller companies typically have sizable market shares of lower total addressable market sizes. Put simply, smaller companies sell mission-critical, niche parts or services that go into much larger products or projects. This structure generally affords them pricing power.

- Nimble, flexible operating structures
- Pricing power
- Lower amounts of leverage
- Benchmark composition

Inflation opportunities in today's markets

Every market cycle, even with similar drivers such as inflation, will have differing sets of companies that prosper. Our investment process seeks out companies with traits such as low levels of debt, pricing power, high operating margins, and high returns on capital. Many of these traits are also shared by businesses which should prosper during inflationary periods.

Considering today's economic structure and inflation backdrop, we see a host of attractive opportunities. Some are textbook inflation hedges, and others are more tangential and situational to today's environment.

Commodity producers

Energy, metals, chemicals, wood products, fertilizers, aggregates, and food producers.

Commodity producer ecosystem

Companies that sell to or that service commodity producers should benefit from the higher volumes and increased revenue from their customers. These include oil service companies and machinery producers.

Distributors

Companies that distribute various goods (machinery, food, technology, chemicals) stand to benefit from inflation, assuming they are able to hold margins. They should experience higher gross margin revenue over some element of fixed costs.

People businesses/services

In the current very tight labor market, having an intact team that can provide various services will be in high demand. Customers may not have the ability to find and retain personnel needed to perform certain services. Companies that can provide them in a timely, efficient manner should do well.

Technology companies

Broad wage and goods inflation will spur capital investment into projects that increase efficiency and productivity. Software, services, and hardware will all be needed.

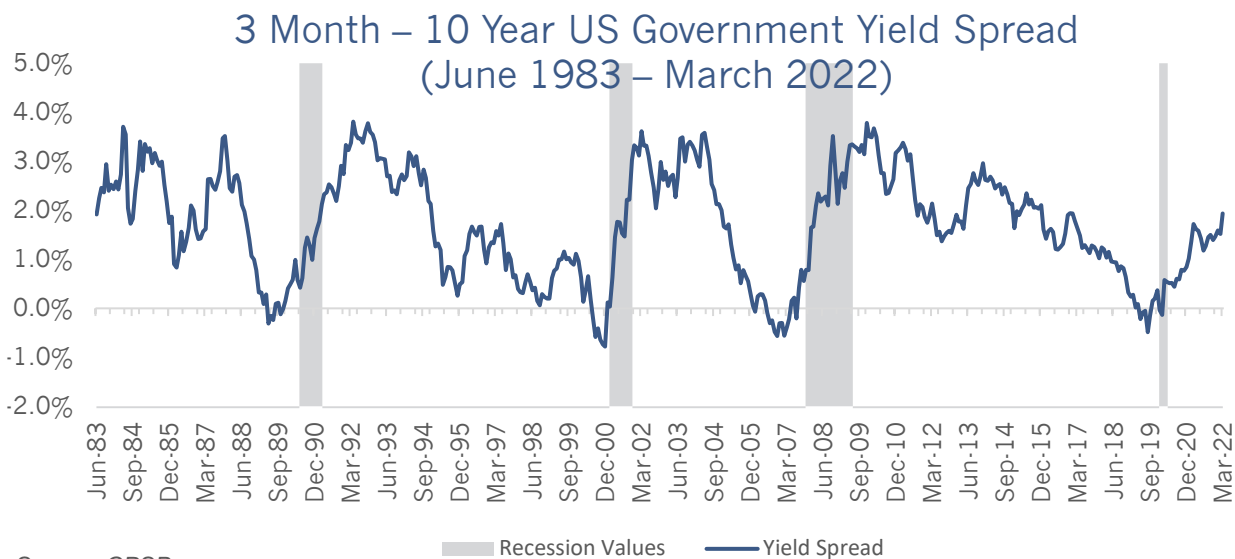
Fear creates opportunities

At times, the drumbeat of negative news can obscure the positives and lead to irrational decision making. If Covid-19 has taught us anything, it is to never doubt the media’s ability to fan the flames and add hysteria to any news story. Currently, there is a plethora of risks present in the market: geopolitics, inflation / energy prices, Covid-19, consumer confidence, and Federal Reserve tightening. While risks abound, so do many positives which make fears of a recession appear overstated. When fear and solid underlying fundamentals combine, it typically represents a good entry point.

Interest rates are topical and the fairly reliable recession indicator of US 3-month T-bill to US 10-year Treasury yield is not inverted or flashing a recession warning. The current spread is 1.83%, which is solidly above zero (an inverted yield curve has been a predictor of prior recessions).

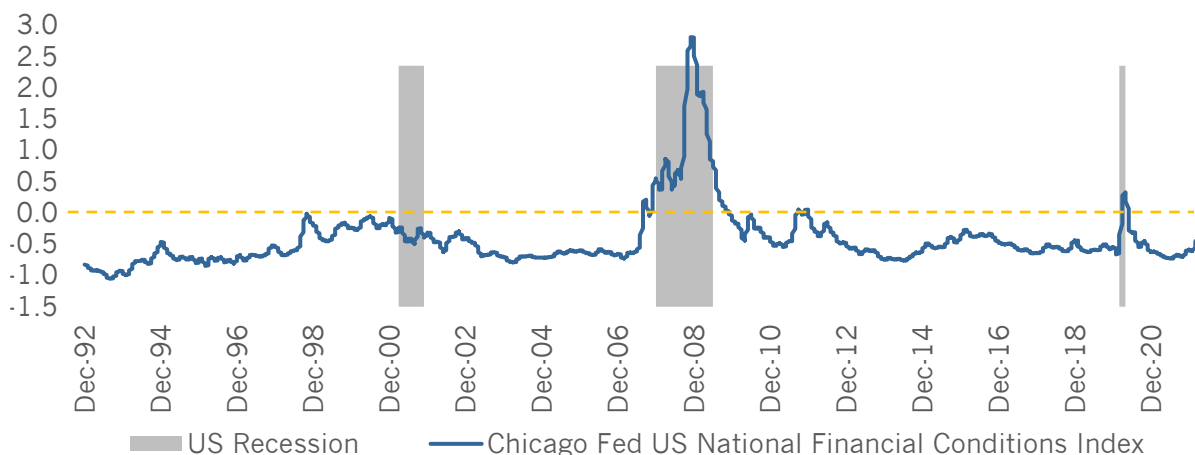
Post the 2007–2008 Global Financial Crisis (GFC), regulations and constant measurement of the banks’ soundness have greatly reduced risks in the system and increased the ability to weather an economic shock. Additionally, nonfinancial leverage (a component of the NFCI) is at all-time lows. This measures non-bank (corporate and consumer) debt relative to US GDP.

- Interest rate curve has not inverted
- Financial conditions are not restrictive
- US consumers are in incredibly good financial shape
- Rates (even factoring in expected rate hikes) are still low
- Tight labor market / job availability
- Onshoring



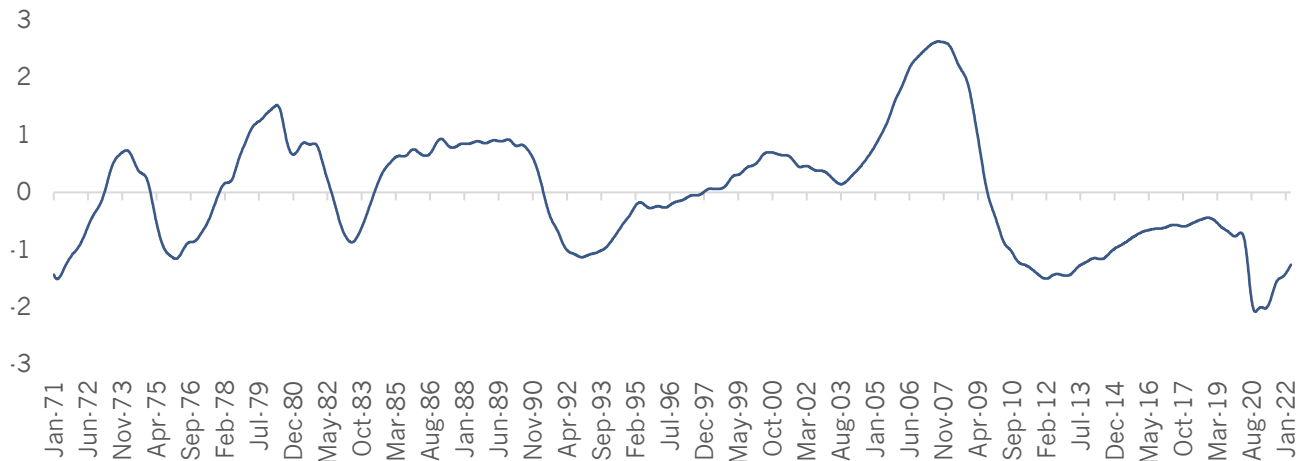
Source: CRSP

Chicago Fed US National Financial Conditions Index



Source: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis

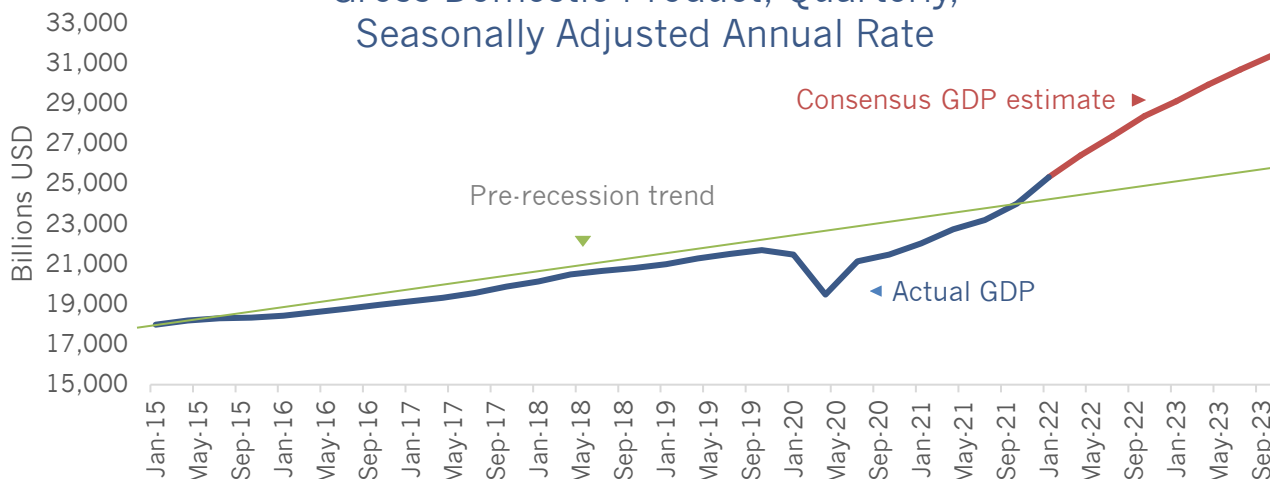
Nonfinancial Leverage



Source: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis

GDP expectations are positive above the long-term trend.

Gross Domestic Product, Quarterly, Seasonally Adjusted Annual Rate



Source: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis, Bloomberg

The big picture(s)

Getting buried in the news cycle and overloaded with real-time data can cause a loss of perspective. History is not a perfect guide or predictor of the future, but it can offer valuable insights. Wall Street has an expensive tendency to extrapolate current trends into infinity, utilizing phrases such as “new paradigms” to ignore the past.

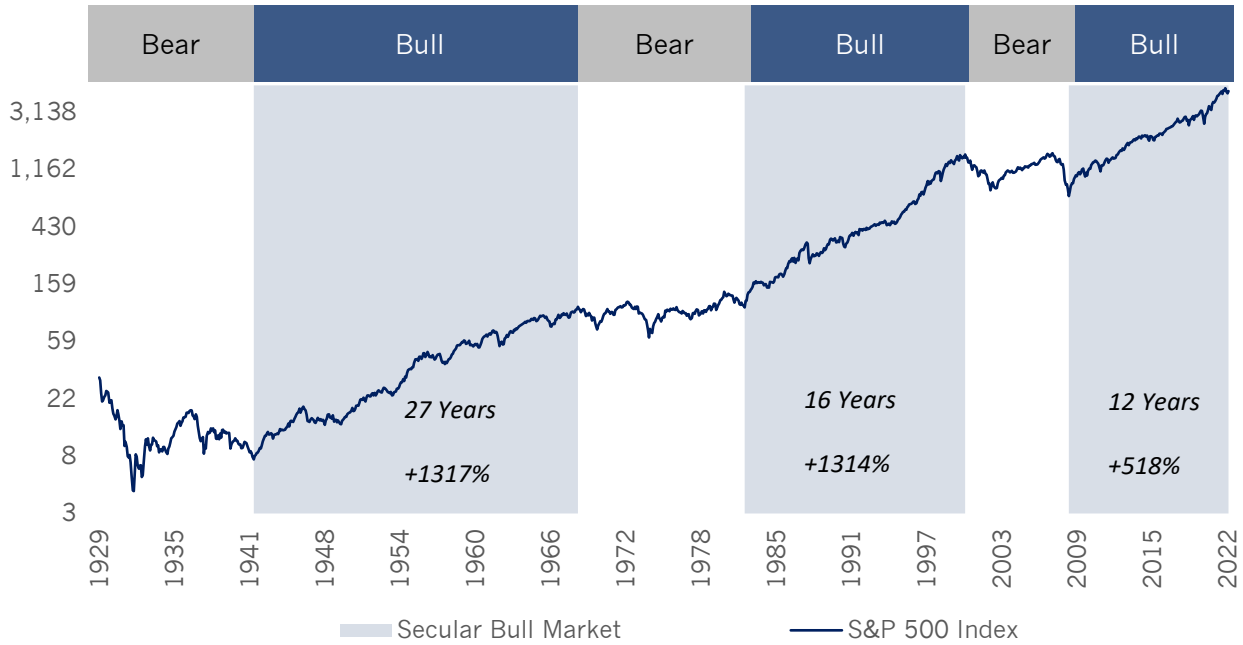
Our recent history has been formed with the backdrop of a four-decade bull market in bonds and ever decreasing levels of interest rates. The recent decade was dominated by a large-cap / mega-cap cycle and the only measure of risk was standard deviation, with little concern for preservation of future purchasing power. Many strategies formed during this period are based on these assumptions, making ultra-low volatility, single-digit annualized returns appear very attractive.

Predicting the direction of interest rates is an incredibly difficult parlor game, and exact clarity on the timing and causes of inflation

still remains a mystery. Currently inflation is real (duration yet to be determined), globalization (sizable deflationary force) is ending, interest rates recently touched 40-year lows, and the Federal Reserve is on a path of raising rates. It should be safe to assume that interest rates will likely be heading higher over the near term and possibly longer.

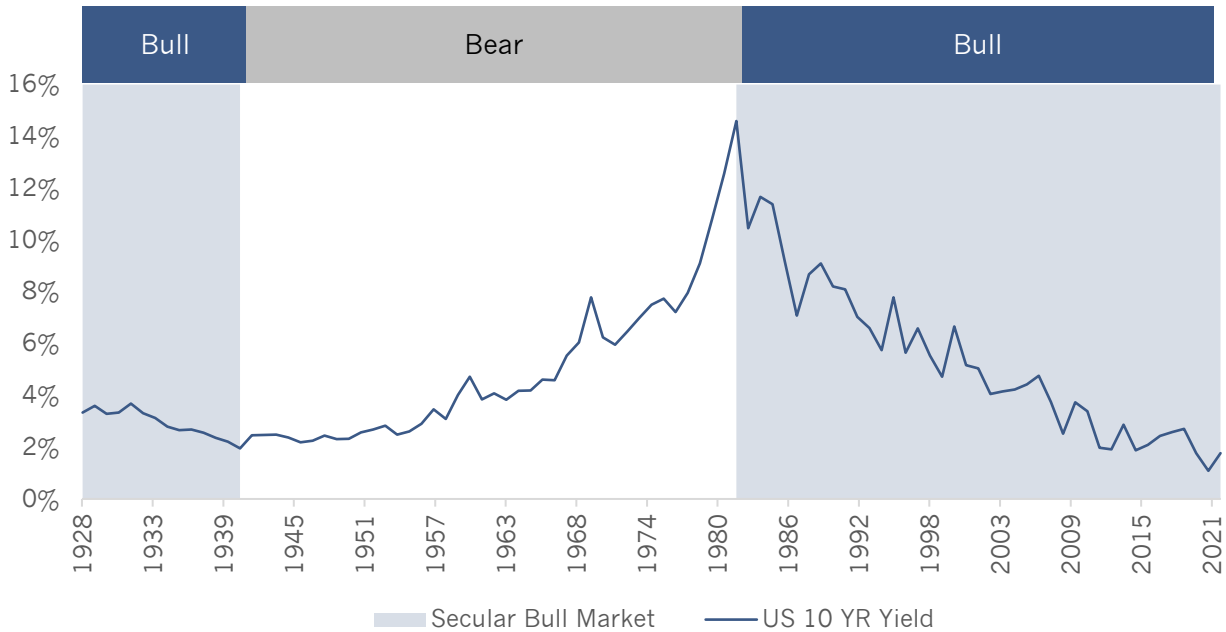
The current environment has been based on the premise that higher levels of interest rates result in a bad environment for stocks. However, prior cycles do highlight that stocks and bonds CAN move in opposite (stocks higher, yields higher) directions for an extended period of time. One could argue that the backdrop of one of the longest secular bull markets in US history has some resemblance to today. That bull market took place from 1941 and lasted until 1968, while the 10-year US Treasury yield increased from 1.95% to 7.8%. Similar to today, the US was building out infrastructure and domestic manufacturing, fought multiple wars (WWII, Korea, Vietnam), and experienced episodic bouts of higher inflation.

S&P 500 Index



Source: CRSP

10-Year US Government Yield



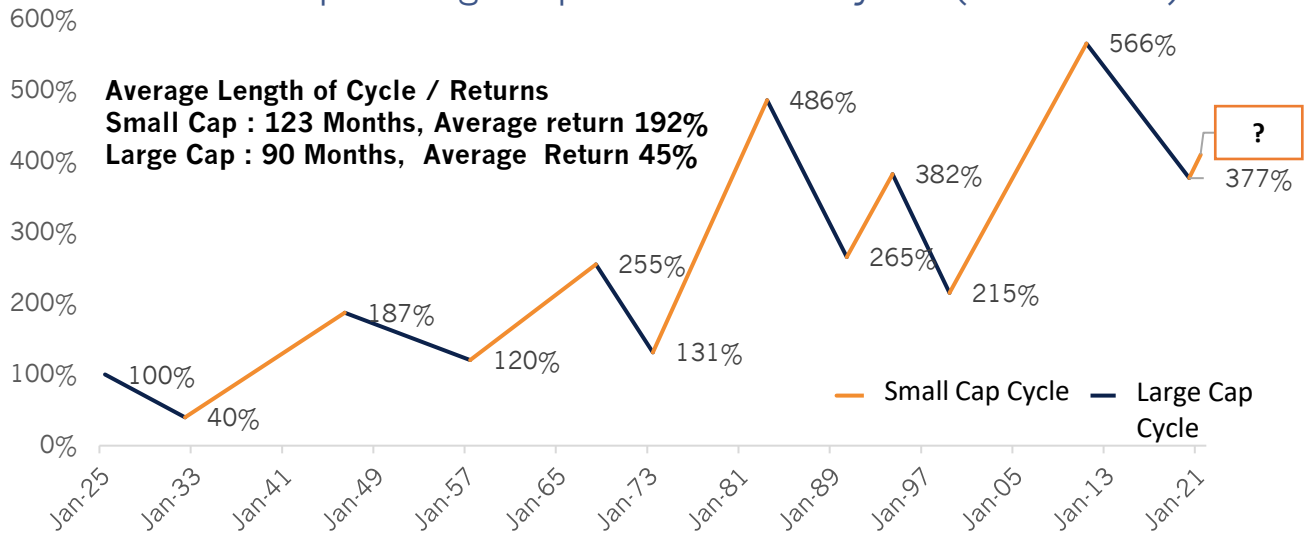
Source: CRSP

Cycles

Recent history has been marked by a decade of large-cap/mega-cap dominance. It is impossible to determine whether this was caused by or coincident with ultra-low interest rates and/or

globalization. A longer-term analysis of the small-cap and large-cap markets reveals the cyclical nature of the performance cycles and durations.

Small Cap vs Large Cap Performance Cycles (1925-2021)



Source: CRSP

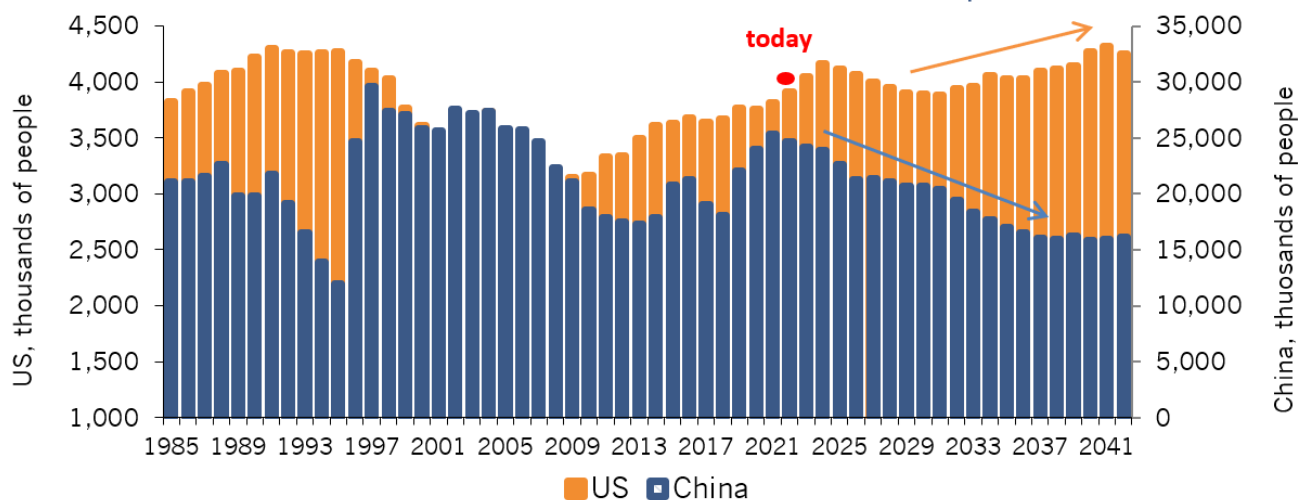
The large-cap / small-cap cycles have tended to be long and likely driven by a confluence of market and economic factors. We touched on inflation earlier, and another important element may be antitrust enforcement and views within the country. The period from 1940 to 1980 experienced high levels of antitrust enforcement and strong support for a robust competitive environment. Until very recently, there has been scant enforcement or challenges to mergers.

This trend appears to be changing. Recently, mega-cap technology companies have been able to unite Republicans and Democrats in their support of higher scrutiny of their questionable business practices and tactics which possibly unfairly quelled any competition. Unionizations are on the rise, and the Department of Justice is taking a much tougher stance toward mergers. This cycle of antitrust enforcement may be turning in a different direction.

The people

Demographics are an important part of a country's economic narrative that are at times overlooked by investors. These are predictable data sets that take a backseat to more prominent economic releases. GDP per capita of a country is one analysis utilized to highlight the economic possibilities of countries such as China as they expand their standards of living and total GDP. The US, however, has one significant demographic advantage over China. The chart below illustrates the historical and estimated native population of 35-year-olds in each country. That age demographic is a key spending milestone attributed to career stability, family formation, and housing needs.

United States & China 35-Year-Old Population



Source: National Center for Health Statistics, Statista

China, due to prior population policies, faces a significant future demographic headwind. In fact, this year marks the start of a multi-decade decline in that key spending cohort of their population. In addition to actual native population birthrates, the US benefits from the 1M+ immigrants who come to this country each year. China has had negative net migration for the past two decades.

Benchmark Performance

The Russell 2000® Index (the “Index”) returned -7.53% in 1Q 2022. Energy (+41.16%) was the best performing sector in 1Q, followed by Utilities (+3.18%) and Materials (-1.33%). Consumer Discretionary (-17.28%) was the worst performing sector, followed by Health Care (-14.42%) and Information Technology (-13.79%).

Portfolio Performance & Positioning

The THB Small Cap Core Strategy returned -9.17% in USD (net of fees) in 1Q, underperforming the Index by 164 bps.

The portfolio saw positive contribution from stock selection in Energy (+1.1%), overallocation to Energy (+0.8%), and stock selection in Health Care (+0.5%). Negative contribution came mainly from stock selection in Industrials (-0.8%), Consumer Discretionary (-0.7%), and Materials (-0.7%).

The portfolio's top five performing stocks (from a contribution standpoint) were RPC, Inc. (Energy, +2.6%); Renewable Energy Group, Inc. (Energy, +0.9%); Expro Group Holdings N.V. (Energy, +0.3%); Hexcel Corporation (Industrials, +0.3%); and Pacira Biosciences, Inc. (Health Care, +0.2%).

The bottom five performing stocks (from a contribution standpoint) were Fox Factory Holding Corp. (Consumer Discretionary, -0.8%); Installed Building Products, Inc. (Consumer Discretionary, -0.8%); Gibraltar Industries, Inc. (Industrials, -0.7%); Ambarella, Inc. (Information Technology, -0.6%); and Eagle Materials Inc. (Materials, -0.6%).

During the quarter, our portfolio companies announced ten acquisitions and seven stock repurchase authorizations.

A new holding we added to the strategy in the quarter is Now Inc., which we believe will benefit from the increasing demand of domestic energy production.

Now Inc. (DNOW) – NOW Inc. is one of the leading distributors of pipe, valves, and drilling and production parts to the Oil & Gas industry. The company operates 180 locations in 80 countries with an estimated 11% market share in the US, the second largest after MRC Global. DNOW would be a main beneficiary of increasing O&G production globally due to the recent geopolitical conflict with Russia. The company has relatively higher upstream exposure to the E&P investment cycle. Its diversified position in the energy sector across the full value chain, from upstream drilling to downstream distribution, makes it a preferred partner by all major energy companies. Blue-chip customers include BP, ExxonMobil, Kinder Morgan, Dow Chemical, Chevron, Flowserve, and many more. A strong balance sheet with \$313M in cash positions the company as a consolidator in the industry.

Outlook

Many of the challenges and opportunities witnessed and discussed over the past year remain in place. Like Covid-19, the war in Ukraine appears to be another accelerant for preexisting trends. In the short term, higher levels of volatility may be experienced as recalibration to a new geopolitical and inflationary environment takes place. Longer term, we believe there are many positive developments and conditions that will increase the opportunity set for smaller company investors. From a cyclical perspective, timing and many of the macroeconomic elements currently in place appear to favor continuation of the new small-cap cycle which began in 2020.

We thank you for your continued support.

Sincerely,

THB Asset Management

Top 10 Holdings (%)

as of March 31, 2022

Holding	Rep. Account
Home BancShares, Inc.	3.88
Stifel Financial Corp.	3.64
RPC, Inc.	3.54
First Busey Corporation	3.19
ePlus inc.	2.86
NOW Inc.	2.68
ExlService Holdings, Inc.	2.65
Movado Group, Inc.	2.59
Advanced Energy Industries, Inc.	2.55
Hexcel Corporation	2.52

Sector Diversification (%)

as of March 31, 2022

Sector	Rep. Account
Communication Services	0.00
Consumer Discretionary	11.05
Consumer Staples	0.00
Energy	8.04
Financials	13.84
Health Care	20.25
Industrials	24.18
Information Technology	21.16
Materials	1.00
Real Estate	0.00
Utilities	0.00
Cash	0.48

Performance

Average Annual Returns (%) as of March 31, 2022

THB Small Cap Core Composite	QTD	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception
Gross of Fees	-8.94	-8.94	-6.13	16.86	12.54	12.62	11.45
Net of Fees	-9.17	-9.17	-7.07	15.73	11.45	11.52	10.36
Russell 2000® Index	-7.53	-7.53	-5.79	11.74	9.74	11.04	9.70

Past performance cannot guarantee future results. Performance returns for periods of less than one year are not annualized. Returns include reinvestment of dividends and capital gains. 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 fee). 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.

Investing involves risk, including loss of principal.

The information in this article 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, which may be contrary to any opinion or projection expressed in this report.

The 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 are as of a point in time and may change at any time.

Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines, and other factors. The representative account is believed to most closely reflect the current portfolio management style. Holdings are as of quarter end and may change at any time. This material should not be construed as a recommendation to buy or sell securities.

The THB Small Cap Core Composite contains fully discretionary small-cap equity accounts and for comparison purposes is measured against the Russell 2000® Index. Beginning June 1, 2016, there is no minimum account size for the composite. From January 1, 1996, to June 30, 2016, the minimum account size for this composite was \$20 million. Prior to January 1, 1996, the minimum account size was \$10 million. Due to an error in calculation, the composite dispersion value was revised for 2001 and 2008. The objective of the THB Small Cap Core Strategy is to capture multi-investment themes across five broad sectors in a risk-averse portfolio. The Strategy implements a disciplined long-term approach, with an average portfolio turnover of 50%-

60%. The focus of the strategy is on smaller companies in the US market that are under-researched and overlooked.

The Russell 2000® Index is a market-capitalization-weighted index that measures the performance of the 2,000 smallest U.S. stocks by market capitalization in the Russell 3000® Index.

Index returns reflect the reinvestment of dividends and capital gains but do not include advisory fees, transaction costs, or other expenses. One cannot invest directly in an index. Victory Capital Management Inc. (Victory Capital) is a diversified global investment advisor registered under the Investment Advisers Act of 1940 and comprised of multiple investment franchises: INCORE Capital Management, Integrity Asset Management, Munder Capital Management, NewBridge Asset Management, RS Investments, Sophus Capital, Sycamore Capital, Trivalent Investments, USAA Investments, a Victory Capital Investment Franchise; and the VictoryShares & Solutions Platform. Munder Capital Management and Integrity Asset Management became part of the Victory Capital GIPS firm effective November 1, 2014; RS Investments and Sophus Capital effective January 1, 2017; USAA Investments effective July 1, 2019; THB Asset Management, effective March 1, 2021, and New Energy Capital Partners effective November 1, 2021.

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