

# Trivalent International Small-Capitalization Equity Strategy Quarterly Commentary



As of December 31, 2020

## Market Environment

International small-cap equities rallied to a record high in the fourth quarter. The wave of optimism was primarily driven by positive news on multiple potential coronavirus vaccines and reduced uncertainty following U.S. elections. International returns were also boosted by a weakening dollar as the U.S. Dollar Index, which measures the U.S. Dollar against six major global currencies, fell 4.2% and reached its lowest level since January 2018. For the quarter, the S&P® Developed Ex-U.S. SmallCap Index advanced 18.2%. The Trivalent International Small-Capitalization Equity Strategy trailed the benchmark, reducing some of its full-year outperformance. All countries in the index advanced, with European small-cap equities outpacing their AsiaPac peers. Austria and Ireland were the best performing markets, up 40.0% and 36.0%, respectively. The United Kingdom gained 26.7% as a post-Brexit trade deal was finalized more than four and a half years after the country's referendum to leave the European Union. France increased 25.7% despite entering a coronavirus lockdown for the second time this year. On the other end of the spectrum, Japan trailed the broader index and was up only 6.9% despite new Prime Minister Yoshihide Suga announcing a \$708 billion stimulus package to further combat pandemic-related disruptions.

All sectors posted positive returns, with the more cyclical and commodity-exposed sectors outperforming. Energy rallied 29.1% as Brent crude oil prices rose 26.5% and hit a nine-month high on expectations that coronavirus vaccines will boost fuel demand. Consumer Discretionary, Financials, Industrials, and Materials all gained over 20%. The more defensive Consumer Staples stocks were the relative laggards, up 6.2%.

## Portfolio Review

Overall security selection was negative and accounted for the strategy's relative underperformance. Excess returns were generated in just one of five regions and two of the eleven economic sectors. From a style perspective, the strategy's limited exposure to deep value and lower quality stocks was a major detractor. Companies which have faced the greatest struggles during the pandemic materially outperformed, while beneficiaries of the pandemic era lagged despite continued strong execution and robust earnings. Across sectors, stock selection was weakest within Consumer Discretionary, Health Care, and Information Technology. The portfolio's top year-to-date contributor, Seegene, was the top detractor in the fourth quarter, highlighting the market's sharp reversal away from prior winners. Although the Korean Covid-19 test kit manufacturer has recorded record earnings, the stock sold off 19.7% after

Pfizer and Moderna each announced highly effective vaccines. Performance in Consumer Discretionary was impacted by a position in Komeri. The Japanese home center chain retailer drifted down 10.1% after a strong run as a beneficiary of increased spending on do-it-yourself home projects. Within Information Technology, Japanese IT service provider Net One Systems dropped 22.2% after uncovering indications of employee misconduct. The company was forced to delay publication of its quarterly results to allow time for an external investigation.

Notable outperformance was generated in the Energy sector, with the largest impact coming from positions in Beach Energy in Australia and Cairn Energy in the United Kingdom. The oil and gas producers jumped 47.2% and 54.0%, respectively, on the back of rising oil prices. In addition, Beach reported a significant gas discovery during the quarter, while Cairn Energy received a favorable court decision with respect to a long-standing dispute with the government of India. Australian mining company Mineral Resources was the top contributor, up 61.9% on positive sentiment for global growth and stronger industrial metals prices.

## Market Outlook

Despite a recent surge in Covid-19 cases in many parts of the world, global markets have shown a willingness to embrace riskier assets as vaccine approvals have boosted sentiment for a 2021 economic recovery. Reopenings of the hardest hit industries in the first half of this year should allow for a significant rebound in the latter half of 2021, which will largely depend on timely vaccine distribution. While uncertainty remains high, massive amounts of stimulus have mitigated the impact and continue to bridge the gap to herd immunity. The incoming Biden administration and Democratic-controlled Congress will likely lead to even more stimulus and potentially a large infrastructure bill. While global trade frictions may persist in the near term, there is optimism U.S. trade policy will become more consistent and cohesive. We continue to balance the view that a return to normal is on the horizon against the current challenges to control the virus. Markets have sharply rotated in favor of cyclical value stocks on the expectation that economic conditions will normalize. Nevertheless, we expect there will be lasting structural economic effects as the pandemic has accelerated digital trends for both consumers and companies. Opportunities for relative outperformance remain, particularly among the diverse and broad segment of international small-cap equities. We continue to be guided by our bottom-up analysis and remain focused on stock selection while adhering to our disciplined country and sector risk exposures.

Representative Account Top 5 Contributors* (%)	Return	Contribution to Relative Return
Mineral Resources Limited	61.9	0.6
ASM International N.V.	53.5	0.5
Sushiro Global Holdings Ltd.	52.5	0.3
Logitech International S.A.	24.6	0.3
Beach Energy Limited	47.2	0.3

Representative Account Top 5 Detractors* (%)	Return	Contribution to Relative Return
Seegene, Inc.	-19.7	-0.2
Net One Systems Co., Ltd.	-22.2	-0.2
Centamin plc	-43.0	-0.2
Real Matters, Inc.	-22.4	-0.2
United Laboratories International Holdings Ltd.	-31.1	-0.2

Source: FactSet.

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.

Representative Account Top 10 Holdings	Country	Sector
Mineral Resources Limited	Australia	Materials
ASM International N.V.	Netherlands	Information Technology
Logitech International S.A.	Switzerland	Information Technology
Soulbrain Co., Ltd.	Korea	Materials
Beach Energy Limited	Australia	Energy
Charter Hall Group	Australia	Real Estate
Eiffage SA	France	Industrials
OZ Minerals Limited	Australia	Materials
TAG Immobilien AG	Germany	Real Estate
Faurecia SA	France	Consumer Discretionary
<b>Total % of Portfolio</b>		<b>9.27%</b>

## ANNUALIZED RETURNS

Composite Performance (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception 9.1.07
Trivalent International Small-Capitalization Equity (Gross)	13.08	16.20	16.20	6.46	10.83	10.91	6.26
Trivalent International Small-Capitalization Equity (Net)	12.81	15.10	15.10	5.45	9.78	9.89	5.35
S&P® Developed Ex-U.S. SmallCap Index (Net)	18.15	13.81	13.81	4.69	9.35	7.20	4.53

## DISCLOSURES

Investing involves risk and there is no guarantee any investment will be profitable specifically in extreme market conditions. Loss of principal is possible. The value of an investment will fluctuate in response to macro factors such as general economic conditions, interest rates, and the political environment, as well as changes in the prospects of particular companies, including market, liquidity, credit, and management risks.

Past performance cannot guarantee future results. Returns for periods 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.

Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Net-of-fees returns are calculated by deducting one-twelfth 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 equal 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 Trivalent International Small-Capitalization Equity Composite includes all fee-paying, non-wrap discretionary portfolios of \$100,000 or more that are managed according to the Trivalent International Small-Capitalization Equity strategy. Prior to October 2012, the minimum size for inclusion in the composite was \$1 million. The strategy focuses on foreign small-cap companies that are characterized by improving business momentum and attractive valuations. The benchmark is the S&P Developed ex-U.S. SmallCap Index (Net). The composite creation date is September 2007.

The S&P Developed ex-U.S. Small Cap Index seeks to measure the stocks representing the lowest 15% of float-adjusted market cap in each developed country, excluding the U.S.

Index returns are provided to represent the investment environment during the periods shown. 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. Non-US indices are net of non-reclaimable withholding taxes, if any.

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\*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 in the final column is contribution to return. Holdings are as of quarter end and may change at any time.

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