VICTORY RS PARTNERS FUND QUARTERLY COMMENTARY

RS Investments
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of March 31, 2024

Market Commentary

Sometimes more of the same is a good thing for investors, and on the whole, that's what the domestic broad market delivered during the first quarter of 2024. The S&P 500® Index,[1] the most popular proxy for the U.S. stock market, continued its upward momentum and logged multiple new all-time highs during the quarter.

No doubt about it, the U.S. economy has been stronger than expected, replete with surprising job growth, strong labor participation, and a consumer that continues to spend, albeit at slightly more modest levels than last year. All this has helped fuel corporate earnings and, ultimately, drive many stocks higher. It's also noteworthy that the domestic stock market continued to defy—or ignore for the time being—a few potent headwinds. For starters, the benchmark 10-year Treasury climbed to 4.2% at the end of the first quarter. More than anything, this reflects slightly shifting expectations in monetary policy. At the start of the year, market pundits (as well as the fed funds futures) were pricing in significant and imminent rate cuts beginning as early as March. But "sticky" inflation readings throughout the first quarter have pushed back expectations to later in the year. Nevertheless, equities seemed unfazed.

Continuing geopolitical turmoil, as well as oil prices that seemed headed for $90 per barrel as the quarter ended, must also be viewed as potential threats to the economy and the stock market's strong momentum. Prolonged higher energy costs have the ability to reignite inflation, which could hamstring the Federal Reserve and keep interest rates higher for longer.

In terms of domestic value-oriented strategies—our area of focus—the Russell 3000® Value Index[2] returned 8.6% during the first quarter of 2024. In terms of market capitalizations, small-cap value stocks, as represented by the Russell 2000® Value Index,[3] returned 2.9% for the quarter. The Russell Midcap® Value Index[4] returned 8.2%, while large-cap stocks, as represented by the Russell 1000® Value Index,[5] returned 9.0% during the same period.

Driven largely by the Financials and Energy sectors, it was interesting to note that the Russell 3000® Value Index also delivered robust returns only modestly below those of growth stocks, as measured by the Russell 3000® Growth Index.[6] This is interesting given the vast underperformance of Value versus Growth strategies in 2023. Perhaps this indicates the beginnings of a trend change, one that we've been anticipating, in which companies generating cash flow and earnings will once again be rewarded more than those with growth potential but no earnings.

After an extended period of exceedingly low interest rates, fiscal tailwinds, and easy access to cheap capital, we continue to believe that we are in a new regime. Even if the Federal Reserve becomes more accommodative later this year, we do not believe we are headed back to an era of near-zero interest rates. This reality has been difficult for the market to digest, and we've seen that manifest in periods of volatility and uncertainty. Naturally, this often causes prices to dislocate from fundamentals, thus creating an environment that should benefit astute active managers.

As a result, we believe actively managed, value-oriented approaches should be well positioned going forward. Companies with sound balance sheets and solid fundamentals should once again be viewed favorably in this environment. Our team will continue to search for companies with a combination of improving ROIC (return on invested capital) and stock prices trading at what we perceive as a deep discount to intrinsic value. We believe that allocating to these types of businesses is a means to generate attractive risk-adjusted returns over longer time periods, and this continues to be a primary focus for us as we look toward the remainder of 2024 and beyond.

Performance Review

For the three months ended March 31, 2024, the Victory RS Partners Fund (A shares without sales charge) outperformed its benchmark Russell 2000® Value Index (the "Index") and returned 9.48% versus 2.90% for the Index.

In the first quarter, strong performance from stock selection in Financials and Information Technology aided relative performance, while stock selection in Real Estate and Energy detracted.

Investment Strategy

The RS Value Team seeks to invest in good companies, led by strong management teams, that are attractively valued. Our decision to invest in any company starts with business analysis and an understanding of the company's unit-level economics. Our work on unit-level economics helps us determine the quality and key drivers of the business. We are ROIC-focused investors and seek to invest in companies that we believe have the potential to create shareholder value due to an improvement in the returns of the existing assets or through attractive reinvestment opportunities. We are long-term investors who use our investment time horizon as a competitive advantage and are attracted to out-of-favor and/or misunderstood companies in the market.

The next step in our process is to assess the management team. Our evaluation of a company's management team is critical to our investment decision. We regularly meet with management to gauge how they think about their business: Are they focused on (and compensated for) growing earnings at any cost, or do they understand ROIC and how value is created? Additionally, we perform detailed historical analyses of management's capital decisions—looking at acquisitions, asset sales, and measures of capital stewardship. This analysis provides us with the conviction to invest with strong management teams that we expect will be able to navigate through short-term market volatility and appear to be poised to deliver long-term shareholder value.

The final step in our analysis is valuation. To the RS Value Team, value investing is buying a business at a discount to what we believe it is actually worth. We determine what a company is worth by assessing a company's current share price versus its expected cash flow streams or long-term net asset value based upon the management team's plan for value creation. ROIC is the lens through which we analyze that value creation. Our research has shown that, over time, stock price performance has a strong correlation to improving ROIC as opposed to traditional valuation

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measurements like price to earnings (P/E). We seek to invest in companies that we believe can create shareholder value due to an improvement in the returns of the existing assets or through attractive reinvestment opportunities. We pay close attention to a company's financial strength, scrutinizing financial statements, and we run various financial models to understand our downside. This quantitative analysis gives us confidence in our investment thesis and helps us determine at what stock price we are comfortable investing.

Select Position Review

Below, we review two businesses in an effort to use tangible examples to highlight our investment process.

Encompass Health (EHC) is the largest operator of inpatient rehabilitation facilities (IRFs) in the U.S. IRFs treat patients that are recovering from stroke, spinal cord injury, joint replacement, neurological diseases, traumatic injury, certain elective procedures, and other conditions. IRF patients are generally older and in fragile condition, needing hospital-level care while also able to receive 3+ hours of physical/occupational/speech rehabilitation per day.

Shares of EHC outperformed during the first quarter of 2024 due to several dynamics. Starting in late 2023 and continuing into 2024, various stakeholders called out a spike in healthcare utilization amongst seniors. This looks to be the result of pent-up demand from several years of deferred care during the pandemic years when seniors avoided the healthcare system. The market has credited Encompass as a beneficiary given their mix is heavily skewed toward Medicare (80% of revenue). On top of the favorable utilization backdrop, EHC also reported a strong finish to 2023 and introduced solid but attainable guidance for 2024 on their fourth quarter call in February. Finally, in late March, the Centers for Medicare and Medicaid Services (CMS) released their preliminary IRF rate update for 2025, including a 2.5% net increase (stronger than the historical average and consensus expectations). Importantly, the proposed rule did not include anything regarding the introduction of penalties for IRF patients that are discharged early to a home health setting. The rate update and home health penalty were viewed as overhangs, and EHC stock rerated higher in response.

We are encouraged by the positive developments during the first quarter and believe visibility through 2025 will allow EHC shares to benefit from strong fundamentals including upside risk from bed expansions at existing facilities, new facility openings, and continued moderation in nursing wage inflation. We continue to hold shares of EHC.

Prosperity Bancshares, Inc (PB) is a Houston, Texas based regional bank with over 250 branches in 7 major Texas markets along with 14 branches in Oklahoma. The bank has over $38 billion in total assets and is ranked second in deposit market share in Texas according to the FDIC. PB provides banking products and services to individuals and businesses. It offers a variety of traditional deposit and loan products to its customers, which consist primarily of small and medium-sized businesses and individual consumers. It generates most of its revenue and interest income on loans, service charges on customer accounts, and income from investment securities.

PB was an underperformer in the first quarter as shares sold off with the rest of the banking group following a strong fourth quarter rally. Investors remain highly focused on regional banks' commercial real estate exposure, which has led to increased volatility in the group. Despite the short-term volatility, our thesis remains intact. We continue to believe that PB is well reserved and will provide improving returns through margin expansion as well as benefit from the bank's strong balance sheet and capital levels. We continue to hold this position.

Outlook

The rate of inflation has subsided, and the consensus appears to be that we have reached the end of the rate hiking cycle. Debate is now focused around when the Fed may start easing. However, declaring a victory over inflation too soon is not without risks. The U.S. and the rest of the world continue to manage the impacts of excessively elevated prices and higher interest rates while contending with geopolitical upheaval. The potential for a policy error remains high, particularly as we transition from a pandemic to a normalized economy. At this juncture, we continue to lean toward a slowdown in economic activity through the remainder of 2024.

U.S. employment remains strong, and we believe the pieces are in place for that to continue. Heavy fiscal stimulus from passed U.S. legislation for defense, infrastructure, semiconductors, and energy investments is only now beginning to be awarded. The spending should not peak until later in the decade. We believe relatively high energy costs in Europe, and Germany in particular, make manufacturing here relatively more attractive. In our view, political risk in China makes that country less attractive to do business in. We expect housing to continue to be challenged by high mortgage rates and affordability concerns, although a shortage of housing after more than a decade of underinvestment should help home prices. Consumer balance sheets remain generally healthy for the majority of Americans, and consumer credit quality remains strong at the moment.

Following years of low interest rates helping to drive ever-higher growth stock valuations, we feel value investing is ripe for a period of outperformance. We continue to find opportunities to invest in quality businesses with solid balance sheets and cash flows, where the return on invested capital (ROIC) is improving, and whose share prices have detached from our assessment of the fundamentals.

We thank you, as always, for your support.

Sincerely,

RS Value Team

Sector Allocation[7]

As of March 31, 2024

Sector	% of Portfolio
Communication Services	1.6%
Consumer Discretionary	7.5%
Consumer Staples	4.2%
Energy	8.7%
Financials	27.5%
Health Care	9.3%
Industrials	14.9%
Information Technology	7.0%
Materials	7.3%
Real Estate	7.5%
Utilities	2.6%

Top 10 Holdings[8]

As of March 31, 2024

Holding	% of Portfolio
Fidelis Insurance Holdings Ltd.	3.06%
Northern Oil and Gas, Inc.	2.52%
Granite Construction Incorporated	2.50%
Verint Systems Inc.	2.43%
Nomad Foods Ltd.	2.42%
Plains GP Holdings LP Class A	2.30%
First Bancorp	2.16%
Encompass Health Corporation	2.12%
Prosperity Bancshares, Inc.	2.09%
Fortrea Holdings Inc.	2.06%

Performance

Average Annual Total Returns as of March 31, 2024

Victory RS Partners Fund (Class A – RSPFX)	First Quarter 2024	1-Year	3-Year	5-Year	10-Year	Since Inception (7/12/95)
without sales charge	9.48%	23.17%	9.03%	12.25%	8.07%	11.17%
with maximum sales charge (5.75%)	3.19%	16.07%	6.89%	10.93%	7.43%	10.94%
Russell 2000® Value Index[3]	2.90%	18.75%	2.22%	8.17%	6.87%	9.36%

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month-end, visit www.vcm.com. Returns include reinvestment of dividends and capital gains. Performance returns for periods of less than one year are not annualized. Fee waivers and/or expense reimbursements were in place for some or all periods shown, without which Fund performance would have been lower.

The Fund's total gross/net annual operating expense ratio as of the most current prospectus for the Class A Shares is 1.61%/1.13%. Net expense ratio reflects the contractual waiver and/or reimbursement of management fees through May 31, 2024. Other share classes are available, but not all share classes are available to all investors.

Carefully consider a fund's investment objectives, risks, charges and expenses before investing. To obtain a prospectus or summary prospectus containing this and other important information, visit www.vcm.com/prospectus. Read it carefully before investing.

All investing involves risk, including the potential loss of principal. In addition to the normal risks associated with investing, investments in smaller companies typically exhibit higher volatility. To the extent the Fund invests in a small number of issuers, its value may be more negatively affected by a decline in the market value of a particular security than if the Fund invested in a larger number of issuers. Investments concentrated in an industry or group of industries may face more risks and exhibit higher volatility than investments that are more broadly diversified over industries or sectors.

International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Companies in the financial services sector are subject to extensive government regulation that may affect the scope of their activities, the prices they can charge and capital maintenance. The industry is subject to severe competition and can be significantly affected by market conditions, including interest rate changes. The fund is also subject to liquidity risk, which is the risk that the Adviser may not be able to sell a security at an advantageous time or price, which may adversely affect the Fund.

The Fund may frequently change its holdings, resulting in higher fees, lower returns, and more capital gains.

The value of your investment is also subject to geopolitical risks such as wars, terrorism, environmental disasters, and public health crises; the risk of technology malfunctions or disruptions; and the responses to such events by governments and/or individual companies.

The opinions are as of the date noted and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes. Any discussions of specific securities should not be considered a recommendation to buy or sell those securities.

Index performance is shown for illustrative purposes only. It is not possible to invest directly in an unmanaged index.

1 The S&P 500® Index is a market-capitalization-weighted index designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

2 The Russell 3000® Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 3000® Index (which consists of the 3,000 largest U.S. companies based on total market capitalization) with lower price-to-book ratios and lower forecasted growth values.

3 The Russell 2000® Value Index is a market-capitalization-weighted index that measures the performance of those companies in the Russell 2000® Index (which consists of the 2,000 smallest-cap companies in the Russell 3000® Index) with lower price-to-book ratios and lower forecasted growth values.

4 The Russell Midcap® Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell Midcap® Index with lower price-to-book ratios and lower forecasted growth values. (The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index, which consists of the 1,000 largest U.S. companies based on total market capitalization.)

5 The Russell 1000® Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 1000® Index (which consists of the 1,000 largest U.S. companies based on total market capitalization) with lower price-to-book ratios and lower forecasted growth values.

6 The Russell 3000® Growth Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 3000® Index (which consists of the 3,000 largest U.S. companies based on total market capitalization) with higher price-to-book ratios and higher forecasted growth values.

7 The Fund's holdings are allocated to each sector based on their GICS classification. If a holding is not classified by GICS, it is assigned a GICS designation by RS Investments. Cash includes short-term investments and net other assets and liabilities.

8 Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.

The Funds are distributed by Victory Capital Services, Inc., an affiliate of Victory Capital Management Inc., the Fund's investment adviser.

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