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## PRESENTATION

**Operator**

Good morning and welcome to Victory Capital's Second Quarter 2018 Earnings Conference Call. (Operator Instructions) Please note that today's event is being recorded. I would now like to turn the conference over to Lisa Seballos for Victory Capital. Please go ahead.

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**Lisa Seballos**

Good morning. Before I turn the call over to David Brown, I would like to note that today's discussion may contain forward-looking statements and as such, includes certain risks and uncertainties. Please refer to our press release and our SEC filings for more information on the specific risks that could cause our actual results to differ materially from the projections described in today's discussion.

While a recording of this call will be made available by us on our website, any forward-looking statements that we make on this call are based on assumptions as of today, and we undertake no obligation to update these forward-looking statements to reflect new information or future events that occur or circumstances that exist after the date on which they were made.

In addition to U.S. GAAP reporting, we report certain financial measures that do not conform to Generally Accepted Accounting Principles. We believe these non-GAAP measures enhance the understanding of our performance. Reconciliations between these GAAP and non-GAAP measures are included in the tables found in our earnings release and the slide presentation accompanying this call, which can be accessed on our Investor Relations portion of our website located at ir.vcm.com.

Now I would like to turn the call over to David Brown, Chairman and CEO.

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**David Craig Brown** ***Victory Capital Management Inc. - CEO, Chairman, & Director***

Good morning and welcome to Victory Capital's Second Quarter 2018 Earnings Call. I'm joined today by Terry Sullivan, our Chief Financial Officer; and Mike Policarpo, our Chief Operating Officer. I'm going to spend a few minutes discussing highlights of our second quarter results as well as some components of our long-term strategy. Then I will turn it over to Terry, who will review our financial results for the quarter in more detail. Following our prepared remarks, Terry, Mike and I will be available to take questions.

We'll start on Slide 5. I'm pleased to report that Victory Capital delivered strong financial results for the second quarter of 2018. Relative investment performance across our investment franchises and our Solutions Platform remained strong, with 83% of our AUM outperforming its respective benchmarks over the trailing 1-year period and 80% over the trailing 5-year.

Looking at performance based on the number of strategies, 74% of our strategies outperformed benchmarks over the trailing 1-year and 71% over the trailing 5-year. Additionally, as of June 30, 2018, 69% of AUM in our mutual funds and ETFs earned 4- or 5-star overall ratings from Morningstar, and 64% earned 4 or 5 stars over 5 years. In our focused asset classes, 82% of AUM outperformed its respective benchmarks over the trailing 1-year period and 80% over the trailing 5-year.

Among strategies in our focused asset classes, 63% outperformed their respective benchmarks over the trailing 1-year and 61% over the trailing 5-year. 20 of the 30 funds and ETFs in our focused asset classes earned 4- or 5-star overall ratings from Morningstar as of June 30, 2018. We are very pleased with these investment results.

Assets under management increased to $62.3 billion during the quarter, which is the result of an improving flow picture and positive market action. Gross flows for the quarter were strong at $3.5 billion, while overall net flows were relatively flat at minus $102 million. We continued to experience somewhat elevated levels of client rebalancing activity during the quarter. However, that was primarily offset by positive net flows of $524 million into our focused asset classes.

Our Solutions platform, which includes our VictoryShares ETFs, had AUM of $3.8 billion as of June 30, 2018. AUM in our ETFs grew from $2.7 billion to $2.9 billion as of June 30, 2018.

Subsequent to quarter end in July 2018, our ETF AUM crossed the $3 billion mark. Net flows into our ETFs were $200 million for the quarter and $652 million for the first 6 months of the year, fueled by strong sales momentum that has been quite consistent. Our ETFs have experienced positive net flows every quarter and in 37 of the 38 months since April 2015 when we acquired CEMP and entered the ETF business. We are very excited about this differentiated part of our business and its future growth prospects. Overall, the long-term fundamentals of our business remain strong, and our won but not yet funded and our sales pipelines for the remainder of 2018 are healthy.

Additionally, we believe we did a good job executing against our financial plan during the quarter. We achieved strong earnings growth and meaningful margin expansion during a period of industry headwinds. Our average fees continue to be steady, healthy and exceed industry norms. We believe this is directly correlated to the value we are providing to our clients through our product set.

The prudent execution of our capital management plan remains a priority. In May of this year, we announced a share repurchase program authorizing the buyback of up to $15 million of our Class A common stock. The repurchase program is a reflection of our confidence in our long-term business strategy and our commitment to driving value for our shareholders.

We also continued to aggressively reduce our debt. We ended the quarter with $300 million of debt outstanding. Subsequent to quarter end, we reduced our debt to $280 million. Since our IPO in February of 2018, we've reduced our debt by 22%.

That said, we are firmly committed to our acquisition strategy. Our pipeline of potential acquisition opportunities remains full, with even greater activity than we've seen in previous quarters. We believe we are well positioned to participate in the consolidation occurring in our industry. We are excited about the opportunity this part of our plan presents us and believe our current capital management plan only enhances our ability to execute.

Now we'll turn to Slide 7. The foundation of our business is built on the 4 key pillars that you see here, which exemplify our culture and our commitment to our clients. Our commitment to these pillars has helped to create a very unique employee ownership culture that we believe serves as a key driver of our success, both today and in the future.

Let's turn to Slide 8. We believe our business is well diversified from multiple perspectives, including by business, distribution channel, by product type and by asset class. That's important when we think of the health and sustainability of the business through all market cycles. Approximately 56% of our AUM is from institutional clients and 44% from retail clients as of the end of the quarter. We have significant distribution traction in both channels.

On the institutional side, we have common clients with 8 of the top 10 institutional consultants in the U.S. across 7 of our 9 franchises. Additionally, we have more than one buy-rated franchise with 6 of the top 10 consultants across 5 franchises. To highlight an example, in the second quarter there was an allocation of more than $200 million to our Trivalent International Small Cap strategy by a large public fund. The allocation came as a result of search led by a large institutional consulting firm. Trivalent was selected from among 7 competitor semifinalists.

On the Retail and Retirement side of our business, we have at least 1 and as many as 13 products on the research recommended model portfolios of the top 10 U.S. intermediary platforms by AUM. This is across all of our franchises and our Solutions Platform. We also have selling agreements with all the top 20 retirement platforms by AUM, with at least 1 and as many as 8 approved products from 6 of our franchises on the recommended list of each of those top-20 retirement platforms that have recommended lists. In the second quarter, our Retail and Retirement distribution partners added 22 Victory products to their platforms. This includes 8 products that were added to focused or recommended lists across 4 of our franchises and our Solutions Platform.

Our Diversified Business Platform features a suite of active products and hybrid rules-based solutions, including our proprietary ETF brand, VictoryShares. Within those categories, we offer a wide range of asset classes and distinct investment approaches. Our clients choose from 71 investment strategies managed by our 9 franchises or our Solutions Platform. Each of our franchises employs a distinct investment approach and is producing its own unique alpha. We believe this leads to real diversification in investment return streams among franchises, even when we have multiple franchises investing within the same asset class. We call this concept "investment performance diversification" and believe it deserves greater focus from an industry perspective because it is part of the foundation for a healthy investment management business.

Slide 9 provides a snapshot of our scorecard, which we believe provides strong evidence that our unique culture and our platform are working for our investment franchises, and in turn, for our clients.

Slide 10 illustrates our short- and long-term outperformance relative to benchmarks. Some select examples that I would like to highlight at the investment franchise level includes RS Growth, Trivalent Investments, Sophus Capital and Sycamore Capital. On a trailing 1-year basis as of June 30, 2018, Victory RS Small Cap Equity Fund Class Y returned 32%, beating its benchmark by 10.2% and earning a Morningstar ranking of 11th percentile. Victory Trivalent International Small Cap Fund Class I returned 14.6%, beating its benchmark by 3.2% and earning a Morningstar ranking of 10th percentile. Victory Trivalent Emerging Markets Small Cap Fund Class Y returned 13.4%, beating its benchmark by 7.7% and earning a Morningstar ranking of 6th percentile. Victory's Sophus Emerging Markets Fund Class Y returned 12.6%, beating its benchmark by 4.4% and earning a Morningstar ranking of 9th percentile.

Our Sycamore franchise also continued to deliver top quartile results across both the Victory Small Company Opportunity Fund Class I and the Established Value Fund Class I as measured by Morningstar. Small Company returned 14.6%, beating its benchmark by 1.5%, and Established Value returned 11.5%, beating its benchmark by 3.9%.

The results delivered by our VictoryShares ETFs were also compelling. Our 3 inaugural ETFs, ticker symbol CFO, CFA and CDC, which were launched in 2015, are rated either 4 or 5 stars overall by Morningstar as of the end of June. In July of this year, 2 additional ETFs, ticker symbol CSB and CSA, achieved their 3-year track records and are each ranked in the top quintile by Morningstar as of July 31, 2018.

On Slide 12, I'd like to spend a few minutes discussing the strong momentum that we continued to achieve with our Solutions Platform, particularly our VictoryShares ETFs. Since we introduced ETFs on our platform in 2015 with the acquisition of CEMP, our ETF AUM has grown from $198 million to $2.9 billion as of June 30, 2018. Subsequent to quarter end in July 2018, our ETF AUM reached the milestone of $3 billion. At the end of the second quarter, VictoryShares was ranked 25th in overall ETF AUM among 140 issuers and 21st out of 140 ETF issuers in year-to-date net flows, according to Morningstar. Year-over-year, our ETF market shares increased by 55%. VictoryShares is the 5th fastest-growing ETF provider, with more than $1 billion in AUM based on year-over-year growth percentage.

From a fee perspective, our ETFs are priced between 30 to 45 basis points. This is important because it means that we are not directly competing with the traditional passive products. Instead, we've developed a suite of ETFs that help to bridge the gap between the active and passive elements of an investor's portfolio. We think we are in the early stages of increasing client demand for these types of products and believe we are well positioned to continue to provide clients with innovative solutions for this part of their portfolios.

We're also committed to continue to expand our ETF offerings to meet client needs. Since 2015, we have expanded our suite of ETFs from 5 to 14. In total, as of July 31, 2018, we have 6 ETFs with more than $100 million in AUM, including 2 with AUM of more than $600 million and 1 with more than $1 billion in AUM.

We distribute our ETFs through a single consolidated sales team that sells all of our products and structures such as mutual funds to our retail clients and partners. We believe this allows us to fully capitalize on our centralized distribution scale and reach in the retail channel while delivering a wide range of real solutions for client portfolios. When we acquired CEMP, the ETFs were distributed only through the RIA channel, with very limited platform coverage. Today, just 3 years later, 1 or more VictoryShares ETFs are approved on all of our major wire house, regional broker-dealers and independent platforms.

Before turning it over to Terry, I'd like to touch briefly on our growth strategy, which is highlighted on Slides 13 and 14. As our business has evolved, we have deliberately migrated to asset classes in which we believe active management has a higher likelihood of winning. These asset classes are those in which active managers have the potential to outperform relative to their respective benchmarks through security selection and portfolio construction.

Over the years and through acquisitions, we have intentionally selected investment franchises that specialize in these asset classes, which we call our focused asset classes. These asset classes today include U.S. Small Cap, U.S. Mid Cap, Global and Non-U. S. Equities and our Solutions Platform. Collectively, they make up 79% of our AUM as of June 30, 2018. This is up from 38% less than 5 years ago. Over the past 3 years, we've achieved $6 billion of new net flows on a focused asset class base AUM of $22.5 billion as of June 30, 2015. This represents an annual organic growth rate of 9% each year over the past 3 years. Moreover, during the past 2 years, we've achieved $2.8 billion of new net flows on a focused asset class base AUM of $25.2 billion as of June 30, 2016. This represents an annual organic growth rate of 5% each year over the past 2 years.

Strategies in these asset classes have historically experienced less fee compression than strategies in more commoditized asset classes. We believe demand for them typically exceeds the capacity of quality managers industrywide. Additionally, many of these asset classes have not been disintermediated by passive products. We believe this is because passive strategies have not been able to replicate the value being delivered by active strategies over a full market cycle within these asset classes.

Going forward, we intend to continue to focus our business on strategies in specialized asset classes that we currently have on our platform and in asset classes that would be new to our platform. We believe in our ability to identify and acquire the growers of the future. By that I mean unique, innovative investment strategies that solve issues for client portfolios.

Looking ahead, it's likely that the distinction between alpha and beta will become even more pronounced. Investors will more clearly delineate where they are willing to pay fees for actively managed, solutions-based products and where they are simply seeking beta or traditional market exposure and are unwilling to pay fees. The recent announcement by Fidelity to offer essentially fee-free index mutual funds, we believe, directly supports this viewpoint. Our goal is to be the active management solutions provider for our clients through a mix of innovative products across a number of asset classes in which we believe we have a competitive edge.

On Slide 14, we've highlighted our current focused asset classes and provide examples of the types of solutions we think our clients will demand in the future. We currently offer strategies in many of these asset classes through our franchises and our Solutions Platform, but there are others that we will seek to acquire and bring onto our platform.

As in the past, our strategy is to identify franchises that fit with us culturally, put them on our platform and allow them investment autonomy while providing the resources they need to be successful. In many cases, those resources are better than what they have in their existing environment. Once they are on our platform and perform, we'll leverage our centralized sales and marketing group to distribute the strategies that they manage across our distribution channels. The acquired franchise then would become an organic grower.

The evolution that we've seen in our Trivalent franchise provides a good example of this process at work. We acquired Trivalent through the Munder Capital transaction in October of 2014. At that time, the Trivalent International Small Cap strategy had approximately $500 million in AUM. As of June 30, 2018, AUM in that strategy had reached $3 billion and we believe will continue to grow. So we've achieved AUM growth of $2.5 billion or 500% in just under 3 years.

We believe that our differentiated platform and our proven experience in acquiring and integrating investment firms makes us a compelling partner in today's environment. Additionally, as a company of our size, any strategic progress that we make will be impactful. For example, if we do an acquisition, it has the potential to have a much greater impact on the fundamentals of our business than it would for a larger firm. Finally, we have the capital flexibility to move quickly should the right opportunity arise.

Through our acquisitions to date, we have added franchises that we believe can outperform the market over a full cycle and solve issues in clients' portfolios. We have a strong understanding of the core business's ability to drive growth for those franchises and our company as a whole. Depending on the circumstances, we would also consider acquisitions in asset classes and/or structures outside of what we have done historically.

Finally, as I mentioned earlier, we believe our current pipeline of acquisition opportunities is extremely strong, and we are very encouraged by the level of activity we are seeing and in our ability to move these opportunities to closures.

Now I will turn it over to Terry to discuss our financial results.

**Terence F. Sullivan** ***Victory Capital Holdings, Inc. - CFO & Head of Strategy***

Thanks, Dave. The financial results review for the second quarter 2018 begins on Page 16. AUM ended the period at $62.3 billion. This is an increase of 2.3% in a quarter in which we experienced positive market action and improved flows relative to the first quarter. Revenue decreased slightly to $104.4 million and is up 3% from the second quarter over last year. Our ANI with tax benefit EPS was $0.41 and EBITDA margin was 39%. Both measures reflect increases quarter-over-quarter, and in the case of year-over-year, significant growth as we continue to execute on our strategy. Overall, very solid financial results, especially within an industry facing headwinds.

On the capital management front, we maintained our focus on reducing debt while introducing another lever to our capital policy. During the second quarter and in subsequent activity in July-August, we reduced our Term Loan B debt outstanding to $280 million, a 13% decrease from March 31 and 22% decrease from our $360 million level at the time of our IPO. The pre-payments over the course of the second quarter and July and early August have resulted in $2.2 million in annualized interest expense savings.

Additionally, our board authorized a $15 million share repurchase program that we began executing in May. We believe the repurchase program is aligned with driving shareholder value and reflects our confidence in our long-term business strategy. Most importantly -- and I want to stress this -- it does not at all alter or limit our ability to focus on M&A or re-invest in our business for growth. Our strong cash flow profile enables us to strike the right balance across our capital management priorities: M&A, deleveraging and buybacks, in that order.

Slide 17 provides more perspective on our AUM progression. Our AUM grew 9% from the second quarter of '17, with our Solutions, Global Non-U. S. Equity and U.S. Small Cap Equity asset classes demonstrating the highest year-over-year and quarter-over-quarter growth. Focused asset classes grew 15% from the second quarter of '17 as we continued to see the benefits of our purposeful commitment to these strong-performing, value-added and in-demand asset classes.

Our mutual fund and ETF AUM finished the second quarter at approximately $41 billion in AUM, including approximately $3 billion in ETFs. With this AUM base and 59 different products across this platform, we are quite pleased with our scale and growth potential. We continue to operate a well-diversified platform relative to our AUM size, with 9 distinct investment franchises in the Solutions Platform, 8 asset classes, 71 investment strategies and 2 broad distribution channels balanced across the institutional and retail markets.

Slide 18 highlights our organic growth performance over the last several quarters. A few points to note here: we saw notable improvement in net flows in the second quarter of '18 as flows were negative $102 million. We continue to see client rebalancing away from strong-performing products, albeit at a lower rate than experienced in prior quarters.

Focused asset classes net flows were positive $524 million, bringing our focused asset class net flows to a positive $254 million year-to-date as of June 30. Gross flows were $3.5 billion, a positive indicator of the traction our products are gaining due to marketable investment performance, attractive asset class positioning and a scaled and efficient distribution system. Contributing to our gross sales progress were a number of retirement platform placements during the quarter, a direct result of the investment we have made over the years in building out this attractive channel.

Our ETF business, VictoryShares, had positive net flows of $200 million in the second quarter, maintaining its strong momentum and gaining market share. From an asset class perspective, Global Non-U. S., Solutions and Small Cap posted positive net flows, primarily driven by the strong results in our Trivalent Investments, Sophus Capital and Sycamore Franchises and in our Solutions Platform.

The intersection of strong relative investment performance and positive flow momentum is evident in a number of our investment products, including Trivalent International Small Cap, Sophus Emerging Markets, RS Small Cap Equity and Sycamore Established Value, just to name a few. Momentum here and with VictoryShares continues to drive the new product flow leader transition thesis we are seeing develop quite well in our business.

From a full-year 2018 perspective, we are pleased with the quarter-over-quarter improvement we saw in net flows and are confident in the fundamentals of our business. Our excellent investment results have provided a strong foundation for organic growth as we look forward. Our won but not yet funded book is high quality and well diversified across several franchises and distribution channels, while our sales pipeline is healthy.

Slide 19 provides a snapshot on quarterly revenues. Revenues grew 3% year-over-year, with slight fee decreases driven primarily by a slight shift in our asset mix, offsetting 9% average AUM growth. Quarter-over-quarter revenues were slightly down as a result of marginal declines in average AUM and average fee rates. These declines were partially offset by 1 extra day in the second quarter and positive asset mix shift, as our net inflows for the second quarter were priced higher than our net outflows.

Perspective on expenses is provided on Slide 20. Expenses decreased 18% year-over-year, reflecting the completion of the integration of RS Investments and operational efficiencies driven by our integrated platform. Expenses decreased 13% quarter-over-quarter to $79.4 million, primarily driven by reduced operating and non-operating expense levels. Personnel expenses increased 6% year-over-year and 1% quarter-over-quarter, primarily driven by the impact of higher earnings incentive compensation. As we've mentioned previously, the variable nature of our expense base means that personnel and other variable items will tend to move in line with revenue and earnings, a benefit of our variable based financial model.

Operating expenses decreased 19% from the second quarter of '17 and 8% from the first quarter of '18. In this category, we had favorable reductions in broker-dealer distribution expense and platform distribution fees as well as continuing runoff of legacy intangible amortization and restructuring charges. Lastly, non-operating expenses decreased 70% from the second quarter of '17 and 64% quarter-over-quarter. This significant reduction is reflective of a more normalized level of interest expense. The comparative prior quarters also included expenses related to the RS acquisition and our IPO and debt refinancing, respectively.

Slide 21 provides a view on our non-GAAP metrics. We provide these measures to investors, as these are the same financial metrics management uses to assess operating performance and we believe are most reflective of Victory Capital's economic performance. Year-over-year quarterly ANI with tax benefit increased 58%, primarily driven by higher revenues, EBITDA margin expansion and reductions in our interest expense and tax expense related to the 2017 Tax Cuts and Jobs Act. Interest expense and other financing costs are down 66% from the second quarter of '17 levels, a direct result from our proactive stance on deleveraging.

ANI with tax benefit increased 13% from the first quarter of '18, primarily driven by an increase in non-GAAP pre-tax income resulting from lower quarterly operating expenses, a 48% decrease in interest expense and a significant reduction in debt issuance costs. Adjusted EBITDA was $40.7 million, up 12% year-over-year and 2% from the first quarter of '18.

Our adjusted EBITDA margin expanded 310 basis points year-over-year and 110 basis points quarter-over-quarter. This margin expansion reflects the normalization of our expense base, given the completion of the RS acquisition as well as the gains we have made in driving operating efficiency into our platform. Our model gives us an opportunity to build scale in operations, administration and technology and has allowed us to reinvest efficiently in the business, with the goal of providing best-in-class service to our clients and our investment franchises. Our ability to expand our margin, given our position amongst industry leaders on this measure, is evidence of the scaling power of our integrated model.

As a final point, we would note the adjustments as a percentage of total ANI with tax benefit dropped quarter-over-quarter from 60% to 38%, a trend consistent with our view of these adjustments being nonrecurring and relatively short-term in nature.

Turning to capital management, Slide 22 outlines several key balance sheet items and metrics. As mentioned earlier, we closed the quarter at $300 million in debt outstanding. Subsequent prepayment activity has resulted in a current debt balance of $280 million, yielding a net debt:credit EBITDA ratio of 1.7x. Through our recent capital management activities, we have reduced our debt 13% over the last quarter and 22% since the IPO. The quarter and July-August debt prepayments translate to approximately $2.2 million in annualized interest expense savings.

We continue to proactively manage our balance sheet and capital policy in accordance with our overall growth strategy. As such, we added another lever to our capital policy by implementing a $15 million share repurchase program that is authorized through the end of 2019. We feel the buyback program demonstrates thoughtfulness and proactiveness on the capital management front, reflects our confidence in our long-term business strategy and is a useful tool to have in the toolkit to drive long-term shareholder value. Our strong cash flow profile enables us to strike the right balance across our capital management priorities of M&A, deleveraging and share repurchases. After authorizing the plan in late May, we acquired 66,000 shares and returned $720,000 of capital to shareholders.

To be clear, our deleveraging and stock buyback activity should not be viewed as taking priority over executing our M&A strategy. As Dave mentioned earlier, we feel very good about that part of our business strategy and are quite encouraged about the future prospects.

This concludes our prepared remarks. I would now like to turn the call over to the operator for questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from the line of Michael Carrier of Bank of America-Merrill Lynch. Again, Michael Carrier, your line is now open.

**Lisa Seballos**

Nicole, please move on. It seems like there's a problem with Michael Carrier's phone line.

**Operator**

Our next question comes from the line of Ken Worthington of JPMorgan.

**Kenneth Brooks Worthington** ***JP Morgan Chase & Co, Research Division - MD***

It looks like we're seeing a transition from Sycamore to other fund families like RS and Trivalent. So how is that transition going in your mind, and where do you think the sales force is in this transition?

**David Craig Brown** ***Victory Capital Management Inc. - CEO, Chairman, & Director***

I think you're correct. There is a transition going on from Sycamore to other franchises. The other franchises that are really, where we're seeing a lot of traction are RS, Trivalent, Sophus, and then our VictoryShares and Solutions Platform. As I went through in the prepared remarks, we're making great traction with a lot of the Retail and Retirement platforms as well as institutionally.

**Kenneth Brooks Worthington** ***JP Morgan Chase & Co, Research Division - MD***

Okay, and then I know you had discussed a little bit about the deal environment, but maybe talk about some of the challenges that you've been facing in terms of executing a deal. I think in the past, you guys discussed the desire to try a transaction, try to execute a transaction every year or so, and I think it's been about 2 years now. So what are the challenges you're facing, and maybe is it more realistic for us to expect you to pursue a transaction maybe every 2 to 3 years, or is sort of a 1-year outlook sort of still realistic as we look to the future?

**David Craig Brown** ***Victory Capital Management Inc. - CEO, Chairman, & Director***

So a couple of parts to that. I'd say the first part is we look at the environment and the competition as really, as being the same as it has been. We actually welcome the competition. It shows our strength and really the uniqueness of what our plan--or what our platform offers.

And I would also say around the timing, although we could never tell you exactly how -- what the frequency that we would do transactions with -- I would tell you that we are really working to get to conclusion on a number of the opportunities we have. Historically, this team -- and what I mean by "this team" is this is the management team that has executed all of the transactions in the past -- has been very active and we've been very successful.

There really is no reason to believe that the pace and what we've accomplished in the past is not a good indication of what is to come in the near future. So I would say from a frequency perspective, no change from what we've always discussed.

From a pricing perspective, as we discussed previously, I think the pricing is wide, and it really depends on the profile of the business. We're not seeing really a lot of change in the pricing when we talk to potential acquisition targets.

**Operator**

Our next question comes from the line of Michael Carrier with Bank of America-Merrill Lynch.

**Michael Roger Carrier** ***BofA Merrill Lynch, Research Division - Director***

David, maybe the first one, just on the flow picture. So you guys came in around breakeven, which relative to the industry, it was a win when we look at some of the trends in the quarter. Just wanted to get some color. You gave a lot of, I would say, distribution color, what you guys have been working on. But it seems like you're still seeing some of the rebalancing. So just wanted to get some sense of maybe what level are you still seeing on the rebalancing side? And then if I looked over the last 12 months, how much, like, say, distribution traction are you seeing, particularly, I would say, on the newer products or things that are in the Solutions area, some of the growth areas? Because it sounds like there is traction. You gave some of the numbers for the quarter. But just wanted to see maybe the momentum that you're seeing.

**David Craig Brown** ***Victory Capital Management Inc. - CEO, Chairman, & Director***

Yes, I guess to start on really the rebalancing, it definitely slowed this quarter, as we said in our prepared remarks. It's hard to predict. Many of the rebalancing activity is in the best-performing products as clients look to reallocate. It is sporadic and it's very unique to each client. So it's hard to predict, but we did see it slow. I wouldn't attempt to predict what will happen going forward. But it did slow this quarter.

As far as the traction, we're really excited about what we're seeing from a progress on the distribution side, specifically on the Solutions side. We've grown that platform, the ETF platform, every single quarter that we've been in the business. We have increased market share by 55% this year. And we really believe that we're really just in the beginning of the industry allocating, clients allocating a lot more in assets, and we think we're going to have a -- play a big part in it.

And then we're also seeing on the distribution side, it to be pretty balanced. We've made great progress on the institutional side in the subadviser channel and then also in the retirement channel. And it's really multi-franchise. So when we think of Trivalent, Sophus, VictoryShares, RS, we're really seeing great progress there. And we really, as we look out, we think we have really good prospects around growing those franchises.

**Michael Roger Carrier** ***BofA Merrill Lynch, Research Division - Director***

And then, Terry, maybe just a quick one on expenses. It seems like you came in a bit better this quarter. When you look at maybe some of the synergies and efficiencies that you realized from past deals versus some of the investment initiatives, how should we be thinking about sort of the expense base? And was there anything more unusual, say, this quarter?

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**Terence F. Sullivan** ***Victory Capital Holdings, Inc. - CFO & Head of Strategy***

Yes, I would say a couple of things about expenses and how that translates to what we think are positive impacts on our margins. I think, first and foremost, we have reached a normalized level of expenses, and that is consistent with our overall integrated multi-boutique model. I want to punctuate that point. The real driver of our margins has to do with the integrated model, where not only can we help franchises grow organically, but they can plug into a centralized infrastructure and support system which can drive economies of scale for us. So we think that's a really important element and is really the driver. It's the model that we're talking about here.

We also have, over the course of the years that we've executed our M&A strategy, an important part of our M&A strategy has been integration and optimizing the people, process and technology associated with our platform. So if you look at some of the decision we made at variabilizing our cost base, outsourcing some relationships, that all leads to investments that we have made that are now resulting in margins that we're quite comfortable with.

I think the last point I would make is that the platform -- and again, the nature of the model is such that there's upside. Our incremental margins are in excess of where we are today. And so we think that positions the business very well.

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**Operator**

Our next question comes from the line of Jeremy Campbell of Barclays.

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**Jeremy Edward Campbell** ***Barclays Bank PLC, Research Division - Lead Analyst***

Just appreciate the color on M&A. Just kind of wondering, kind of in this market right now where we're at, where sentiment around asset managers is kind of weak and you really have a divergence in kind of company by company, I guess how does that play into the whole conversational aspect of your M&A pipeline? Are you seeing any sort of differentiation in your conversations about willingness to sell, kind of with what's going on with the macro backdrop right now?

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**David Craig Brown** ***Victory Capital Management Inc. - CEO, Chairman, & Director***

I would say that what we offer and what we've talked about for a while is we really are value-added to these businesses that are potentially looking to sell. We bring best-of-class operations and technology and administration. And then we really bring an opportunity to distribute the product while keeping their investment autonomy, their brand. And many of the conversations that we're talking about, we're talking about how best to grow the target's business, how best to -- when they look out 5, 10 years -- how best to position themselves. So many of the discussions are really around the future of these businesses and less around the mindset of, "I really want to sell." It's more around, "How can we grow our business? How can we ensure our business stays competitive?" That is the nature of a lot of our conversations.

And again, as I said before, our conversations have been pretty consistent and steady, and our pipeline is very full when it comes to acquisition targets.

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**Jeremy Edward Campbell** ***Barclays Bank PLC, Research Division - Lead Analyst***

And then just one other thing on flows. It's not unexpected that your non-focused is still a little bit of a drag. But kind of, as we kind of look forward from here, I guess what kind of timeline do you think until we can see that be maybe a bit less of a drag, and so that we can get more of a pull-through of your kind of focused strategies on the overall flow number?

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**David Craig Brown** ***Victory Capital Management Inc. - CEO, Chairman, & Director***

We've grown, as we've showed on the slide, we've grown from 38% of our business back in 2013 to it now being 79% of our business, the focused asset classes. We think as that has grown, that will overtake any drag that we're seeing on the non-focused. I'm not sure we have a time frame, but I can tell you that the momentum, as you saw this quarter, and as we look out and look at our investment performance and we look at actually open capacity, so just in 2 franchises, Sophus and Trivalent, there's approximately $25 billion of open capacity. So you have open capacity there, you've got great investment performance, you have an area where active is still winning against passive. There's not as much of a headwind there. So we're pretty excited about that and how the business is shaping up.

From a transition or timing perspective, I think it will continue to evolve. I'm not sure we have a date or can give you exact, but we think the trend is going in the right way.

**Operator**

Our next question comes from the line of Michael Cyprys of Morgan Stanley.

**Michael J. Cyprys** ***Morgan Stanley, Research Division - Executive Director and Senior Research Analyst***

You mentioned Fidelity's price actions earlier on the passive side. Just curious how you see that filtering through, playing out on the pricing of active management as that gap widens. Just curious, your perspective there. And also, if you could talk to your latest viewpoints on the trajectory for your own fee rate. And also related to that, what if any appetite are you hearing from clients for performance-based pricing?

**David Craig Brown** ***Victory Capital Management Inc. - CEO, Chairman, & Director***

So I'll start off on the Fidelity comment. First, we've been in a highly competitive fee environment for years. So the announcement, although it was headline-grabbing, I would say that we, our business in active management has been in a highly competitive environment from a fee perspective.

I'd like to point out for our business specifically, we have about 60% of our mutual fund AUM is priced median or lower. And we review pricing at least every quarter. We've already reduced a number of our mutual funds in pricing. We've created share classes. So we feel that from our business perspective, it's nothing new. And we have not seen and we're not really seeing any significant pricing pressure today, or are we anticipating from this announcement any significant pricing pressure in the short term.

Now if we're wrong on that and there is, we actually think our business model is extremely well positioned from an industry perspective. We have close to 80% of our assets are in these focused asset classes. These are non-commoditized asset classes where active is still winning. They are less susceptible to pricing pressure.

And then also, and Terry mentioned this earlier, our business model is integrated, it's scaled. In the areas where we are, there's variable expenses, which we place a high focus on. It is really designed to absorb higher expenses and lower fees, should we see an acceleration of that.

Specifically, on performance fees and the appetite for clients, we've had many discussions with clients in the institutional channel and also on the Retail and Retirement side. And I would say the appetite, at least from our interactions, is not that high. Many of our clients don't want performance-based fees; some do. As you know, it is not impactful to our business. We don't have a lot of performance-based relationships.

**Michael J. Cyprys** ***Morgan Stanley, Research Division - Executive Director and Senior Research Analyst***

If I could just ask a follow-up question just on the non-focused asset classes. You called out the flows and the AUM for those asset classes. Just curious if you could talk to the profitability levels and revenue levels and contribution from the non-focused asset classes, and in what situation or scenario could it make sense to consider some sort of strategic alternatives there as it relates to the non-focused asset classes?

**Terence F. Sullivan** ***Victory Capital Holdings, Inc. - CFO & Head of Strategy***

Yes, I would say that there's really no material divergence in what we see from a profitability standpoint in our focused versus non-focused asset classes. And I think that when we think holistically about that part of the business, we still have plenty of optimism for growth in those parts. So I wouldn't say that we're contemplating anything strategic around non-focused asset classes.

**David Craig Brown** ***Victory Capital Management Inc. - CEO, Chairman, & Director***

I would add just one other thing. As you know, our franchises are integrated into our business. So unlike other multi-boutiques, our franchises are very integrated. And I'd also stress that although we have -- although these non-focused asset classes are not seeing -- I'd say there's headwinds -- we still very much like the way they're approaching the asset class, how they're approaching portfolio construction and stock selection. And we think, in a different environment -- and at some point, the environment might change -- these are going to be winners as well.

So these are not outcasts if you will. These are franchises which we think are highly competitive. They're just in an area of the market where there are headwinds.

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**Operator**

Our next question comes from the line of Alex Blostein of Goldman Sachs.

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**Alexander Blostein** ***Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst***

So maybe just back to the M&A discussion one more time. Could you guys maybe give a little bit more color around the pipeline and spend a minute, maybe, on the type of strategies you guys are pursuing? Anything in terms of kind of composition of the pipeline, either by size of potential targets or, again, kind of the strategies that they're pursuing?

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**David Craig Brown** ***Victory Capital Management Inc. - CEO, Chairman, & Director***

So let me start on the types of products first. We're very focused on, really, products of the future. And what we mean by that is these are products that will fit into clients' portfolios. These are products that are going to matter when they think about allocating to active management. They're solutions-based. And it's an area, from a product perspective, where we think we can win from an active-passive comparison and really from a competitive comparison.

And typically when you have those attributes, those products turn into higher-fee, higher-margin, kind of less potential for disintermediation by the passive wins, if you will. So from a product perspective, that's what we're looking for.

I guess from a pipeline and size, we are looking at -- really, we've used this $10 billion to $75 billion range. We're looking at opportunities within that range, and there are some that are smaller and there are some that are larger. It's really a wide range, but the common theme of all of the opportunities we're looking at is these are really organizations where we think the product set is for the future, where we think there's a cultural match, where we think that we can bring these businesses onto our platform and add a lot of value to their business and really make their businesses better on our platform.

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**Alexander Blostein** ***Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst***

Understood. And you had a little bit on that in some of the earlier responses. But has there been much in terms of a change in competitive landscape when it accounts for some of these properties? Obviously, the reason we all ask is that the industry's facing significant challenges and everybody's trying to figure out a way to kind of outgrow them. So as you think about other asset managers' potential looking to do deals, how has that changed recently versus the last couple of years? And again, is that starting to impact some of the deal discussions?

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**David Craig Brown** ***Victory Capital Management Inc. - CEO, Chairman, & Director***

So I think you're right. I think there are more people pursing acquisition strategies than in the past to try to account for some of the slower growth. But many of those firms have never done acquisitions in the past. We're very experienced.

And also, I think we have a very unique lane from an acquisition standpoint. We have a very unique platform that has very distinct and specific strengths. And I think it's very unique. So when we're having discussions, although there might be more people pursuing the property, we think that there are very few that have the same strengths and unique positives that we have. So, therefore, I would say from a competition standpoint, it really has been the same because we have, I think, very few competitors with what we're offering.

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**Alexander Blostein** ***Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst***

Maybe I could just sneak in one more. So the ETF strategy's definitely gaining some momentum for you guys. Can you spend a minute on pricing? And is that becoming at all of an issue, given the fact that smart beta as a category continues to face incremental pricing headwinds? And are you guys thinking about anything on the partnership front where you could partner more directly with either some of the retail brokers or some of the digital distribution platforms to accelerate that growth?

**David Craig Brown** ***Victory Capital Management Inc. - CEO, Chairman, & Director***

So I'll start off on pricing. We have not seen pricing pressure with our ETFs. They're priced from 30 to 45 basis points. You can see that they're growing. Our ETF business is very differentiated. Think of it as an active intuition in a rules-based way. We've got a track record. Many of our ETFs have 3-plus-year track records, and we're high-touch client service as well with our ETF buyers. So we have not seen the pricing pressure.

We have partnered with NASDAQ. We have a partnership with NASDAQ. And as in -- as I said in our prepared remarks, we have great distribution penetration on the retail side with some of the largest partners. We're exploring lots of partnerships, but we really feel like we're very well positioned, and we feel like that part of the ETF market is really getting ready to grow quite significantly, and we think we're very well positioned with products that have size and products that have track records that are Morningstar rated and very well positioned on some of the larger platforms.

**Operator**

Our next question comes from the line of Robert Lee of KBW.

**Robert Andrew Lee** ***Keefe, Bruyette, & Woods, Inc., Research Division - MD and Analyst***

Sorry to just kind of keep on the M&A theme, but a few questions. First, maybe could you talk a little bit about how maybe some things maybe have evolved or changed since your IPO? And what I mean specifically is could you refresh our memory on what your target leverage ratio would be? I mean if I think of the 3.6 it was a year ago, that's pretty far above where a lot of kind of public peers kind of target.

And then I guess maybe as part of that, understanding some of the unique strengths of your model and looking for the consolidation benefits, some of your competitors -- and this isn't new -- but some of your competitors obviously have a different model. Also looking at similar properties with good growth prospects, presumably some that are not currently in outflow. And they're also more willing to keep equity in the hands of those people they partner up with. So can you maybe talk a little bit about whether your model kind of is actually -- you end up kind of targeting a somewhat different product set than some of your peers who have an affiliate model with kind of an equity component to it. Or do you think that advantages you or disadvantages you in some cases, considering that you're all looking at kind of the growth-ier businesses out there?

**David Craig Brown** ***Victory Capital Management Inc. - CEO, Chairman, & Director***

So let me start with what's changed since the IPO. When we went public in February, I think that has only enhanced our ability to attract partners to our platform. It's been viewed very positively in all the discussions we've had. As Terry has mentioned, the leverage ratio has come down. I believe we're at 1.7x today. We have not given guidance on target leverage ratios, but we have significantly reduced our leverage quite aggressively.

As far as our operating platform and our M&A strategy, we are differentiated, as you've pointed out. We have an integrated approach. But as I stated in our prepared remarks, we are flexible, and we are flexible to other structures, and some of those other structures could look different than what we've done in the past, which could be more similar to what maybe some of our competitors are doing.

But the big difference and the uniqueness of our platform is we have a centralized distribution and marketing system that has size and scale that typically is utilizing relationships that can help grow these potential acquisition targets. And then we also have a centralized operating platform, which includes technology and administration, which typically is better or as good as the entity we're acquiring, so they view that as an upgrade.

But I would say that our opportunity to potentially garner synergies on our platform when we do these transactions is very differentiated because of the centralized model. I think it allows us actually more flexibility in the types of businesses we're able to pursue and actually look at it in a way where our scope of potential opportunities is actually as wide, if not wider than maybe some of our competitors because of that aspect.

As I mentioned earlier about our products that we're pursuing, these are products, as I've talked about, that are really products of the future. They're value-added; they're differentiated. And I'm not sure that there's really a narrow scope on that. I think that that's a pretty wide range of potential products.

**Robert Andrew Lee** ***Keefe, Bruyette, & Woods, Inc., Research Division - MD and Analyst***

Let's maybe one follow-up. I mean you -- many of your peers, all different business models, have been dedicating or dedicated a pretty significant amount of capital over the past several years to seed capital, bringing on new strategies and -- I mean you guys have plenty of, obviously, plenty of products to work with. But you haven't had to use capital for that. I mean do you see that changing in kind of, maybe over the short and intermediate term just as the competitive pressures to build in the industry and kind of always have to innovate to some degree, I guess, depending -- particularly in things like multi-asset class and what-not. So do you see that at all becoming a greater capital need over the next several years?

**David Craig Brown** ***Victory Capital Management Inc. - CEO, Chairman, & Director***

We've had great success growing smaller products. I think our ETF example that we've given is a great example of taking smaller products and growing them, and we have a great track record of doing that in a number of other asset classes. I've always said that the best gauge of whether a product is marketable and salable is to get a client to buy it. And so we don't think for our business that there's going to be a need for a large pool of seed capital, and I think that's really a testament to our distribution system and our relationships that we have.

**Operator**

Our next question comes from the line of Andrew Disdier of Sandler O'Neill.

**Andrew Paul Disdier** ***Sandler O'Neill + Partners, L.P., Research Division - Director***

So just as a follow-up on the M&A, you've described your strategy as a majority, if not kind of 100% stake, in target firms. So to Rob's question, given the step-up in competition in what's presumably more selection for sellers as far as potential deal terms go, I guess how flexible are you and willing to be with the targets, whether it be deal terms, pricing, whatever it might be in order to execute a transaction? Or should it look similar or sound similar to what we've heard in the past?

**David Craig Brown** ***Victory Capital Management Inc. - CEO, Chairman, & Director***

I would start off saying that we are flexible. The transactions we've done in the past have been all very different and unique. Each transaction is unique to itself. I don't think there's one type of transaction, so all the transactions are unique. We've been flexible in what we've done historically, and we will be flexible going forward. A key component of our M&A strategy is our platform and how the potential target plugs into our platform is really where a lot of the flexibility occurs. In the past, we've done 100% deals where we've bought 100% of the company because it made sense for that transaction. As we look forward, we'll have a flexible mindset with some key components that we -- from a platform perspective that we won't move. And part of it is integrating into our platform, but there are lots of different ways to do that.

I would just end and say that our platform is a positive and is not viewed as a negative from the people we're talking to, and our structure that we approach them with is a positive, and we actually believe that it widens our universe of opportunities as opposed to shrink them.

**Andrew Paul Disdier** ***Sandler O'Neill + Partners, L.P., Research Division - Director***

Understood. And then, Terry, appreciate the commentary on a normalized level of expenses for the quarter. So noticed that there were some PM adjustments and tweaks during the quarter, reduced at a couple of affiliates. Just wanted to ensure -- or franchises, rather -- but just wanted to ensure that the reduction in PMs is kind of fully captured in that top line, or are we going to see that step down a touch, just given some of the timing during the quarter?

**Terence F. Sullivan** ***Victory Capital Holdings, Inc. - CFO & Head of Strategy***

No, I would say what you're looking at is reflective of normalized levels.

**Operator**

Our next question comes from the line of Kenneth Lee of RBC Capital Markets.

**Kenneth S. Lee** ***RBC Capital Markets, LLC, Research Division - Analyst***

Just one on the separate accounts. Were there any particular drivers for the outflows in the quarter? Thanks.

**Terence F. Sullivan** ***Victory Capital Holdings, Inc. - CFO & Head of Strategy***

No, nothing in particular. I think the outflows you saw there are consistent with some of the themes that we talked about earlier, predominantly client rebalancing.

**Kenneth S. Lee** ***RBC Capital Markets, LLC, Research Division - Analyst***

And just one follow-up question. Wonder if you could give any updates on efforts to expand presence with Registered Investment Advisers?

**Terence F. Sullivan** ***Victory Capital Holdings, Inc. - CFO & Head of Strategy***

We wouldn't point to any specific strategies beyond some of the things that we talked about earlier. The retail channel for us, which is where we would put the RIA channel, is robust. We have taken a building block approach to that channel as well as our other intermediaries in the sense that we have had good traction with a number of our franchises, and we're building on that momentum with some of the other flow leaders that we've discussed. So we have a fairly consistent approach across the wire houses and the RIAs.

**Operator**

And our next question comes from the line of Chris Shutler of William Blair

**Christopher Charles Shutler** ***William Blair & Company L.L.C., Research Division - Research Analyst***

One more on the M&A front. So of the more serious conversations you're having, can you give us some sense how much is proprietary versus more formal processes? And then are the sellers more weighted to larger FIs, or are you seeing more independent firms?

**David Craig Brown** ***Victory Capital Management Inc. - CEO, Chairman, & Director***

I would say the conversations, the opportunities really come from a number of different avenues, so proprietary and from processes. I take both. And then on your second part of your question, can you actually repeat it, because you went in and out?

**Christopher Charles Shutler** ***William Blair & Company L.L.C., Research Division - Research Analyst***

So just the weighting to larger financial institutions relative to independent firms?

**David Craig Brown** ***Victory Capital Management Inc. - CEO, Chairman, & Director***

I think it's mixed as well. I think we're seeing both. I don't think there's one heavily skewed to one group or another.

**Christopher Charles Shutler** ***William Blair & Company L.L.C., Research Division - Research Analyst***

Okay, and then, Terry, just a couple of cleanups. The G&A expense, $7.1 million in the quarter. Just want to confirm that's a good run rate going forward. And then the incentive comp as a percentage of pre-bonus EBITDA, if you could give us a sense of what that was in the quarter.

**Terence F. Sullivan** ***Victory Capital Holdings, Inc. - CFO & Head of Strategy***

Yes, the G&A is normalized, so I think that's a good way to think about it. And on the incentive comp, as we've discussed before, it's a function of pre-incentive EBITDA, so thereby a function of revenue and, effectively, earnings. We have the flexibility to be in the 30% to 35% band, and the target or I guess the guidance we give right now, it's in 30% to 31% range.

**Christopher Charles Shutler** ***William Blair & Company L.L.C., Research Division - Research Analyst***

30% to 31% for the year?

**Terence F. Sullivan** ***Victory Capital Holdings, Inc. - CFO & Head of Strategy***

Correct.

**Operator**

Thank you, and I'm showing no further questions at this time. I'd like to hand the call back to David Brown for any closing remarks.

**David Craig Brown** ***Victory Capital Management Inc. - CEO, Chairman, & Director***

Thank you. Thanks for taking the time today to participate in our earnings call. If you have any additional questions, please don't hesitate to contact us. And thank you for your interest in Victory Capital.

**Operator**

Ladies and gentlemen, thank you for participating in today's conference. That does conclude today's program. You may all disconnect. Everyone have a great day.

# Victory Fund Performance

## As of June 30, 2018

| Ticker/Share class/index | Inception Date | 1-YR | 3-YR | 5-YR | 10-YR | S.I. | MORNINGSTAR PERCENTILE RANKINGS (%) 1-YR | 3-YR | 5-YR | 10-YR | EXPENSE RATIO (%) GROSS | NET |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Victory RS Small Cap Equity Fund<br>RSCYX Class Y | 5/01/07 | 32.03 | 11.91 | 16.57 | 14.15 | 11.02 | 11<br>81/701 | 35<br>196/606 | 7<br>27/534 | 4<br>11/404 | 1.34 | 1.10[3] |
| Russell 2000® Growth Index | | 21.86 | 10.60 | 13.65 | 11.24 | — | Morningstar category: Small Growth | | | | | |
| Victory Trivalent International Small-Cap Fund<br>MISIX Class I | 8/17/07 | 14.60 | 8.99 | 12.35 | 7.05 | 5.20 | 10<br>10/107 | 31<br>22/86 | 3<br>3/64 | 16<br>8/46 | 1.17 | 0.96[1] |
| S&P® Developed ex-U.S. SmallCap Index | | 11.43 | 9.31 | 10.80 | 6.12 | — | Morningstar category: Foreign Small/Mid Blend | | | | | |
| Victory Trivalent Emerging Markets Small-Cap Fund<br>MYEMX Class Y | 7/02/13 | 13.38 | 7.50 | — | — | 7.69 | 6<br>41/823 | 12<br>81/688 | —<br>-/- | —<br>-/- | 3.49 | 1.51[1] |
| MSCI Emerging Markets Small Cap Index (Net)<br>S&P® Emerging Markets Small Cap Index | | 5.64<br>8.71 | 2.55<br>3.99 | 4.32<br>5.39 | 4.44<br>4.48 | —<br>— | Morningstar category: Diversified Emerging Mkts | | | | | |
| Victory Sophus Emerging Markets Fund<br>RSENX Class Y | 3/10/09 | 12.65 | 8.06 | 7.43 | — | 11.73 | 9<br>59/823 | 8<br>46/688 | 4<br>18/489 | 39<br>-/203 | 1.33 | 0.99[3] |
| MSCI Emerging Markets Index (Net) | | 8.20 | 5.60 | 5.01 | 2.26 | — | Morningstar category: Diversified Emerging Markets | | | | | |
| Victory Sycamore Small Company Opportunity Fund<br>VSOIX Class I | 8/31/07 | 14.59 | 13.47 | 13.78 | 11.40 | 9.74 | 25<br>80/413 | 5<br>10/358 | 2<br>4/316 | 18<br>28/220 | 0.90 | 0.90[2] |
| Russell 2000® Value Index | | 13.10 | 11.22 | 11.18 | 9.88 | — | Morningstar category: Small Growth | | | | | |
| Victory Sycamore Established Value Fund<br>VEVIX Class I | 3/01/10 | 11.50 | 11.56 | 13.91 | — | 13.75 | 23<br>66/409 | 7<br>16/365 | 2<br>3/307 | 13<br>-/221 | 0.62 | 0.62 |
| Russell Midcap® Value Index | | 7.60 | 8.80 | 11.27 | 10.06 | — | Morningstar category: Mid-Cap Value | | | | | |

# VictoryShares ETF Performance

| Ticker/index | Inception Date | as of June 30, 2018 1-YR | 3-YR | S.I. | as of July 31, 2018 1-YR | 3-YR | S.I. | MORNINGSTAR PERCENTILE RANKINGS (%) as of July 31, 2018 1-YR | 3-YR | EXPENSE RATIO (%) GROSS | NET |
|---|---|---|---|---|---|---|---|---|---|---|---|
| VictoryShares US Small Cap Volatility Wtd ETF/ CSA | | | | | | | | | | | |
| Net Asset Value (NAV) | 7/08/15 | 15.75 | — | 12.81 | 17.67 | 13.77 | 13.15 | 35<br>253/787 | 10<br>64/646 | 0.68 | 0.35[1] |
| Closing Market Price | | 15.83 | — | 12.82 | 17.41 | 13.78 | 13.14 | | | | |
| Nasdaq Victory US Small Cap 500 Vol Wtd Index | | 16.15 | 12.85 | 13.14 | 18.08 | 14.10 | 13.46 | Morningstar category: Small Blend | | | |
| Russell 2000® Index | | 17.57 | 10.96 | 11.21 | 18.73 | 12.04 | 11.50 | | | | |
| VictoryShares US Small Cap High Div Volatility Wtd ETF/ CSB | | | | | | | | | | | |
| Net Asset Value (NAV) | 7/08/15 | 17.64 | — | 13.18 | 20.17 | 14.85 | 13.74 | 9<br>21/413 | 10<br>20/361 | 0.55 | 0.35[1] |
| Closing Market Price | | 17.73 | — | 13.20 | 20.18 | 14.84 | 13.72 | | | | |
| Nasdaq Victory U.S. Small Cap High Div 100 Vol Wtd Index | | 18.03 | 13.49 | 13.60 | 20.55 | 12.04 | 14.13 | Morningstar category: Small Value | | | |
| Russell 2000® Index | | 17.57 | 10.96 | 11.21 | 18.73 | 12.04 | 11.50 | | | | |

**Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be higher or lower. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. To obtain performance information current to the most recent month end please visit www.vcm.com.**

Performance returns for periods of one year or less are not annualized.

[1]Net expense ratios reflect the waiver, reimbursement or recoupment, if any, contractually agreed to through October 31, 2018.

[2]Net expense ratios reflect the waiver, reimbursement or recoupment, if any, contractually agreed to through February 28, 2019.

[3]Net expense ratios reflect the waiver, reimbursement or recoupment, if any, contractually agreed to through April 30, 2019.

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