

## Victory Capital Management

127 Public Square  
Cleveland, Ohio 44114

Style: US Equities Other  
Sub-Style: Convertible Securities  
Firm AUM: \$129.1 billion  
Firm Strategy AUM: \$2.0 billion

Year Founded: 1894  
GIMA Status: Focus  
Firm Ownership: Employee Owned & Crestview Partners  
Private Equity  
Professional-Staff: 117

### PRODUCT OVERVIEW

Victory Capital Management Inc.'s (Victory) investment grade convertible securities investment strategy seeks to outperform the benchmark (ML Inv Grade Conv Exc 144A Index) over the long term with less risk. Victory believes that solid, risk-adjusted returns are achieved by identifying convertible securities that have strong underlying equity potential, solid financial fundamentals, and compelling convertible characteristics. Victory invests in hybrid securities that it believes offers the best of both worlds: attractive fixed income vehicles with fundamentally strong equity performance potential. Victory seeks current income and the opportunity for growth by investing in bonds, notes, preferred stocks and other securities that are convertible into common stock. The portfolio will be invested in at least 90% investment grade securities.

### TARGET PORTFOLIO CHARACTERISTICS

Number of stock holdings:	31
P/E ratio:	Similar to the S&P 500
Cash level over market cycle:	0 to 10%
Risk (standard deviation):	Below the ML Inv Grade Ex 144A -VX1N
Average turnover rate:	30 to 40%
Use ADRs:	—
Capitalization:	Large and Medium companies

### PORTFOLIO'S EQUITY SECTOR WEIGHTINGS +

Sector	-----06/20-----		12/19
	Victory	Index***	Victory
Energy	0.00	0.00	0.00
Materials	0.00	0.00	0.00
Industrials	10.94	0.00	8.27
Consumer Discretionary	4.08	0.00	4.59
Consumer Staples	0.00	0.00	0.00
Health Care	17.51	0.00	18.67
Financials	21.13	0.00	23.11
Information Technology	17.41	0.00	14.89
Communication Services	0.00	0.00	0.00
Utilities	16.44	0.00	17.53
Miscellaneous	0.00	0.00	0.00
Real Estate/REITs	6.39	0.00	6.50
Cash/Cash Equivalents	6.11	0.00	6.45

### PORTFOLIO STATISTICS

	-----06/20-----		12/19
	Victory	Index***	Victory
Number of stock holdings	31	—	30
Dividend Yield	2.8%	—	2.9%
Distribution Rate	—	—	—
Wtd avg P/E ratio <sup>1</sup>	28.10x	—	27.09x
Wtd avg portfolio beta	—	—	—
Mega capitalization +	0.0%	0.0%	0.0%
Large capitalization +	0.0%	0.0%	0.0%
Medium capitalization +	0.0%	0.0%	0.0%
Small capitalization +	0.0%	0.0%	0.0%
Micro capitalization +	0.0%	0.0%	0.0%

### PORTFOLIO'S TOP FIVE EQUITY HOLDINGS

	%
Novellus Systems, Inc. 2.625% 15-may-2041	5.6
Bank of America Corp 7.25 % Non Cum Perp Conv Pfd Regis	4.5
Wells Fargo & Company 7.5 % Non Cum Perp Conv Pfd Regis	4.4
Booking Holdings Inc. 0.9% 15-sep-2021	4.1
Anthem, Inc. 2.75% 15-oct-2042	4.1

### % PROCESS BASED ON

- 0 Asset allocation - cash vs. stock
- 0 Industry or sector weighting
- 0 Stock Selection

### MANAGER'S INVESTMENT STRATEGY

- Top-down / portfolio structures based on economic trends
- Bottom-up / portfolio structure based on individual securities

<sup>1</sup>The P/E used here is calculated by the harmonic mean.

<sup>+</sup>Total may not equal 100% due to rounding.

<sup>\*\*\*</sup>Index : ML Inv Grade Ex 144A -VX1N

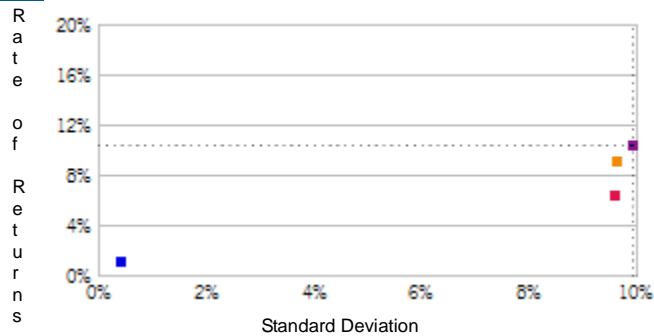
MANAGER'S INVESTMENT PROCESS	RISK CONSIDERATIONS	PORTFOLIO'S ALLOCATION HISTORY (%) <sup>+</sup>																									
<ul style="list-style-type: none"> <li>• Seeks what they believe are high quality convertibles with a strong equity potential</li> <li>• Evaluates individual convertible securities with a primary emphasis on the underlying common stock</li> <li>• Candidate securities are screened for liquidity and quality and then evaluated by both equity and fixed income analysts</li> <li>• Securities are considered for purchase only after determining the attractiveness of its underlying common stock and after confirming the financial strength of the company's debt</li> </ul>	<p>Investing in securities entails risks, including: Equity portfolios are subject to the basic stock market risk that a particular security, or securities in general, may decrease in value. Equity securities' prices may fluctuate in response to specific situations for each company, industry, market conditions and general economic environment. Companies paying dividends can reduce or cut payouts at any time. Strategies that invest a large percentage of assets in only one industry sector (or in only a few sectors) are more vulnerable to price fluctuation than portfolios that diversify among a broad range of sectors. Growth investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations. Value investing does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully employ corrective strategies which would result in stock prices that do not rise as initially expected. Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives and risk tolerance before investing in high-yield bonds. If a strategy expects to hold a concentrated portfolio of a limited number of securities, it should be noted that a decline in the value of these investments would cause the portfolio's overall value to decline to a greater degree than that of a less concentrated portfolio.</p>	<table border="1"> <thead> <tr> <th></th> <th>06/20</th> <th>03/20</th> <th>12/19</th> <th>09/19</th> </tr> </thead> <tbody> <tr> <td>Cnvt. Bonds</td> <td>61</td> <td>56</td> <td>55</td> <td>51</td> </tr> <tr> <td>Cnvt. Prfds.</td> <td>33</td> <td>36</td> <td>38</td> <td>36</td> </tr> <tr> <td>Common Stock</td> <td>0</td> <td>0</td> <td>0</td> <td>8</td> </tr> <tr> <td>Cash/Cash Equivalents</td> <td>6</td> <td>8</td> <td>6</td> <td>4</td> </tr> </tbody> </table>		06/20	03/20	12/19	09/19	Cnvt. Bonds	61	56	55	51	Cnvt. Prfds.	33	36	38	36	Common Stock	0	0	0	8	Cash/Cash Equivalents	6	8	6	4
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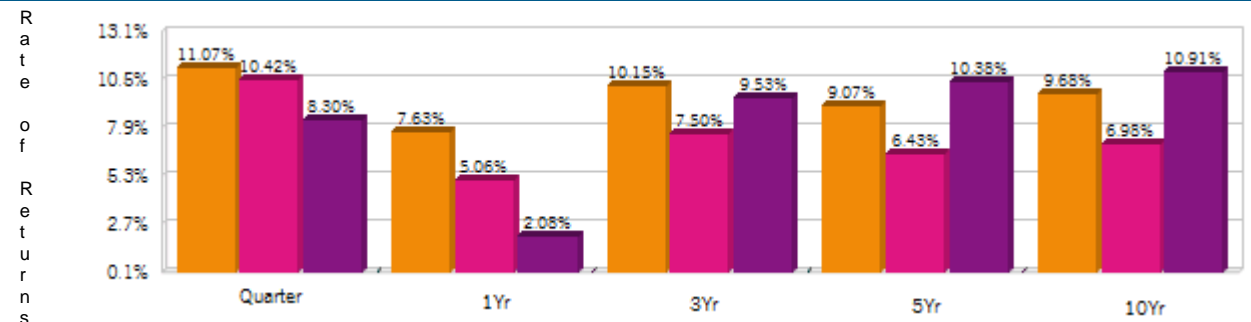
<sup>\*\*\*</sup>Index : ML Inv Grade Ex 144A -VX1N

RISK/RETURN ANALYSIS - 5 YEARS ENDING 06/30/20



	STD	ROR
Victory (Gross)	9.65	9.07
Victory (Net)	9.61	6.43
ML Inv Grade Ex 144A -VX1N	9.94	10.38
90-Day T-Bills	0.43	1.15

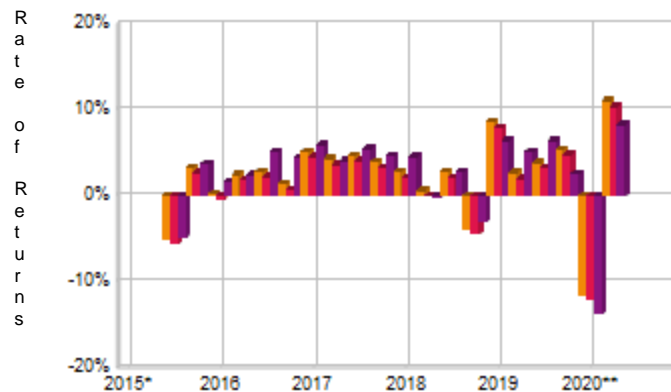
AVERAGE ANNUAL TOTAL RETURN (%) - PERIODS ENDING 06/30/20



INVESTMENT RESULTS

	Annual Rates of Return (%)										10 Year - Ending 06/30/20	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Annual	Std. Dev.
Victory (Gross)	11.38	-4.98	10.73	17.71	12.05	1.62	7.25	19.44	2.22	22.17	9.68	8.87
Victory (Net)	8.18	-7.52	8.04	14.89	9.32	-0.84	4.60	16.58	-0.27	19.25	6.98	8.83
ML Inv Grade Ex 144A -VX1N	7.65	-3.97	11.61	21.81	15.74	1.59	14.36	21.88	4.13	22.21	10.91	8.99

RISK VOLATILITY (%)



\*07/01/15-12/31/15      \*\*01/01/20-06/30/20

	Number Of	Up Qtrs.	Down Qtrs.
Victory (Gross)		17	3
Victory (Net)		15	5
ML Inv Grade Ex 144A -VX1N		16	4

PORTFOLIO'S QUARTERLY RETURNS (%)

	Quarter1		Quarter2		Quarter3		Quarter4	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
2010	3.12	2.37	-4.88	-5.63	7.28	6.53	5.86	5.11
2011	4.83	4.09	-1.80	-2.55	-10.10	-10.67	2.67	2.06
2012	8.67	8.03	-2.95	-3.56	4.93	4.29	0.06	-0.56
2013	5.27	4.63	1.82	1.19	5.43	4.80	4.17	3.54
2014	3.13	2.49	4.57	3.93	0.93	0.30	2.94	2.32
2015	1.35	0.72	2.15	1.52	-5.03	-5.62	3.36	2.74
2016	0.32	-0.33	2.46	1.83	2.90	2.28	1.40	0.77
2017	5.19	4.55	4.30	3.66	4.75	4.12	3.94	3.32
2018	2.77	2.15	0.60	-0.02	2.79	2.17	-3.82	-4.43
2019	8.66	8.01	2.69	2.06	3.86	3.23	5.43	4.79
2020	-11.51	-12.05	11.07	10.42				

Related      Select UMA

PORTFOLIO'S RISK STATISTICS -€<sup>1</sup> PERIODS ENDING 06/30/20 <sup>1 2</sup>

	3 Year	5 Year
Standard Deviation	11.58%	9.65%
Standard Deviation of Primary Benchmark	11.90%	9.94%
Sharpe Ratio	0.73	0.82
Sharpe Ratio of Primary Benchmark	0.66	0.93
Alpha	1.17%	-0.39%
Beta	0.92	0.91
Downside Risk	2.53%	2.69%
R-Squared	0.89	0.88
Tracking Error	3.96%	3.50%
Information Ratio	0.16	-0.37

PORTFOLIO DIVERSIFICATION - R<sup>2</sup>(INCEPTION THROUGH 12/14)+

	R <sup>2</sup>
Victory vs. ML Inv Grade Ex 144A -VX1N	0.90

+Statistics are calculated using gross of fee performance only.

1. Statistics are calculated using gross of fee performance only.
2. ML Inv Grade Ex 144A -VX1N was used as the primary benchmark and the 90-Day T-Bills Index as the risk-free benchmark.

See important notes and disclosures pages for a discussion of the sources of the performance data used to calculate the performance results and related analyses shown above.

## IMPORTANT NOTES AND DISCLOSURES

## COMPOSITE DISCLOSURES

**The disclosures provided below apply to performance information in this profile, if any. Past performance is not a guarantee of future results. Actual individual account results may differ from the performance shown in this profile. There is no guarantee that this investment strategy will achieve its intended results under all market conditions. Do not rely upon this profile as the sole basis for your investment decisions.**

Performance results in this profile are calculated assuming reinvestment of dividends and income. Returns for more than one calendar year are annualized and based on quarterly data. Returns for periods of less than a calendar year show the total return for the period and are not annualized. No representation is being made that any portfolio will or is likely to achieve profits or losses similar to those shown. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. Performance shown does not reflect the impact of fees and expenses of the underlying mutual fund and ETFs, as applicable.

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With respect to those accounts that are subject to the Employee Retirement Income Security Act of 1974 and/or Section 4975 of the Internal Revenue Code of 1986, as amended, and are invested in an investment strategy managed by a Sub-Manager that is an affiliate of MSSB, the Sub-Manager fees will be reduced to 0.00%

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Global Investment Manager Analysis ("GIMA") uses two methods to evaluate investment products in applicable advisory programs. In general, strategies that have passed a more thorough evaluation may be placed on the "Focus List", while strategies that have passed through a different and less comprehensive evaluation process may be placed on the "Approved List". Sometimes an investment product may be evaluated using the Focus List process but then placed on the Approved List instead of the Focus List.

Investment products may move from the Focus List to the Approved List, or vice versa. GIMA may also determine that an investment product no longer meets the criteria under either evaluation process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

GIMA has a "Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if GIMA identifies specific areas that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the investment product becoming "Not Approved". The Watch period depends on the length of time needed for GIMA to conduct its evaluation and for the investment manager to address any concerns. GIMA may, but is not obligated to, note the Watch status in this report with a "W" or "Watch" on the cover page.

For more information on the Focus List, Approved List, and Watch processes, please see the applicable Morgan Stanley ADV brochure ([www.ms.com/adv](http://www.ms.com/adv)). Your Financial Advisor or Private Wealth Advisor can provide on request a copy of a paper entitled "GIMA: At A Glance".

## ADDITIONAL DISCLOSURES

The information about a representative account is for illustrative purposes only. Actual account holdings, performance and other data will vary depending on the size of an account, cash flows within an account, and restrictions on an account. Holdings are subject to change daily. The information in this profile is not a recommendation to buy, hold or sell securities.

Actual portfolio statistics may vary from target portfolio characteristics.

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The portfolio may, at times, invest in exchange-traded funds (ETFs), which are a form of equity security in seeking to maintain continued full exposure to the broad equity market.

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## INDEX DESCRIPTIONS

### 90-Day T-Bills

The 90-Day Treasury Bill is a short-term obligation issued by the United States government. T-bills are purchased at a discount to the full face value, and the investor receives the full value when they mature. The difference of discount is the interest earned. T-bills are issued in denominations of \$10,000 auction and \$1,000 increments thereafter.

### ML Inv Grade Ex 144A -VX1N

Merrill Lynch Investment Grade Convertibles Excluding 144A Index is comprised of approximately 200 issues of convertible bonds and preferreds of investment grade quality and excludes 144A securities.

### S&P 500

The S&P 500 Total Return has been widely regarded as the best single gauge of the large cap U.S. equities market since the index was first published in 1957. The index has over \$5.58 trillion benchmarked, with index assets comprising approximately \$1.31 trillion of this total. The index includes 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities. This index includes dividend reinvestment.

**Indices are unmanaged and have no expenses. You cannot invest directly in an index.**

## GLOSSARY OF TERMS

**Alpha** is a mathematical estimate of risk-adjusted return expected from a portfolio above and beyond the benchmark return at any point in time.

**American Depositary Receipts (ADRs)** are receipts for shares of a foreign-based corporation held in the vault of a U.S. bank.

**Average Portfolio Beta** is a measure of the sensitivity of a benchmark or portfolio's rates of return to changes against a market return. The market return is the S&P 500 Index. It is the coefficient measuring a stock or a portfolio's relative volatility.

**Beta** is a measure of the sensitivity of a portfolio's rates of return to changes in the market return. It is the coefficient measuring a stock or a portfolio's relative volatility.

**Bottom-Up Stock Selection** Emphasis primarily on individual stock selection. Considerations of economic and industry factors are of secondary importance in the investment decision-making process.

**Capitalization** is defined as the following: Mega (Above \$100 billion), Large (\$12 to \$100 billion), Medium (\$2.5 - \$12 billion), Small (\$.50 - \$2.5 billion) and Micro (below \$.50 billion).

**Distribution Rate** is defined as the most recent distribution paid, annualized, and then divided by the current market price. Distribution rate may consist of investment income, short-term capital gains, long-term capital gains, and/or returns of capital.

**Dividend** a portion of a company's profit paid to common and preferred shareholders.

**Dividend Yield** annual dividend per share divided by price per share. Dividend Yield for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

**Downside Risk** is a measure of the risk associated with achieving a specific target return. This statistic separates portfolio volatility into downside risk and upside uncertainty. The downside considers all returns below the target return, while the upside considers all returns equal to or above the target return.

**Duration** is a measure of price sensitivity expressed in years.

**High Grade Corporate Bonds** corporate bonds from issuers with credit ratings of AA or AAA.

**Information Ratio** is a measure of the investment manager's skill to add active value against a given benchmark relative to how stable that active return has been. Essentially, the information ratio explains how significant a manager's alpha is. Therefore, the higher the information ratio, the more significant the alpha.

**Investment Grade Bonds** are those rated by Standard & Poor's AAA (highest rated), AA, A or BBB (or equivalent rating by other rating agencies or, in the case of securities not rated, by the investment manager).

**Price/Book Ratio (P/B)** weighted average of the stocks' price divided by book value per share. Book value per share is defined as common equity, including intangibles, divided by shares outstanding times the adjustment factor.

**Price/Cash Flow Ratio** a ratio used to compare a company's market value to its cash flow. It is calculated by dividing the company's market cap by the company' operating cash flow in the most recent fiscal year (or the most recent four fiscal quarters); or, equivalently, divide the per-share stock price by the per-share operating cash flow.

**Price/Earnings Ratio (P/E Ratio)** shows the multiple of earnings at which a stock sells. Determined by dividing current stock price by current earnings per share (adjusted for stock splits). Earnings per share for the P/E ratio are determined by dividing earnings for past 12 months by the number of common shares outstanding. The P/E ratio shown here is calculated by the harmonic mean.

**Price/Sales Ratio** determined by dividing current stock price by revenue per share (adjusted for stock splits). Revenue per share for the P/S ratio is determined by dividing revenue for past 12 months by number of shares outstanding.

**R2 (R-Squared)/Portfolio Diversification** indicates the proportion of a security's total variance that is benchmark-related or is explained by variations in the benchmark.

**Sharpe Ratio** measures the efficiency, or excess return per unit of volatility, of a manager's returns. It evaluates managers' performance on a volatility-adjusted basis.

**Standard Deviation** is a statistical measure of historical variability or spread of returns around a mathematical average return that was produced by the investment manager over a given measurement period. The higher the standard deviation, the greater the variability in the investment manager's returns relative to its average return.

**Top-Down/Economic Analysis** Emphasis primarily on macroeconomic trends as opposed to bottom-up stock selection.

**Tracking Error** represents the standard deviation of the difference between the performance of the investment strategy and the benchmark. This provides a historical measure of the variability of the investment strategy's returns relative to its benchmark.

**U.S. Treasury Bonds** a marketable, fixed interest U.S. government debt security with a maturity of more than 10 years. Treasury bonds make interest payments semi-annually and the income that holders receive is only taxed at the federal level.

**Volatility** a measure of risk based on the standard deviation of the asset return. Volatility is a variable that appears in option pricing formulas, where it denotes the volatility of the underlying asset return from now to the expiration of the option. There are volatility indexes. Such as a scale of 1-9; a higher rating means higher risk.