RS CONCENTRATED ALL CAP VALUE STRATEGY 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, 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 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, returned 2.9% for the quarter. The Russell Midcap® Value Index returned 8.2%, while large-cap stocks, as represented by the Russell 1000® Value Index, 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. 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 RS Concentrated All Cap Value strategy outperformed its benchmark Russell 3000® Value Index (the "Index") and returned 13.86% net versus a return of 8.62% for the Index.

In the first quarter, strong performance from stock selection in Utilities and Financials aided relative performance, while stock selection in Industrials and Communication Services 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 & 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.

During the quarter we initiated a position in **SS&C Technologies (SSNC)**, the largest fund administrator, which provides trade reconciliation, financial statement preparation, and recordkeeping. The company serves 9 of the top 10 prime brokers, 75 of the top 100 hedge funds, and all of the top 20 asset managers. SSNC's product suite has a strong moat because it is integrated into its customers' operations and embedded in daily work processes. Switching between fund administrators is such a painful technological, operational, and integration challenge that SSNC has 97% revenue retention. The company has consistently gained share through reinvesting in its technology ($2B of R&D over the last 5 years) as well as acquisitions that have expanded its product suite to meet its customers' full needs.

We believe SSNC is poised to improve its ROIC because the company changed its executive incentive compensation to focus on organic growth and operating cash flow. We have already begun to see signs of organic growth improving from 2% to 3% over the last two years to 4.5% last quarter. In 2022, SSNC paid $1.7B to acquire the Blue Prism Group, a leading robotics processing automation company. Of SSNC's 27,000 employees, we believe half are focused on routine repetitive processes that can be automated by Blue Prism's software, which will cut costs and improve margins. Critically, the founder and CEO is the company's largest shareholder (13% or $2B of stock), which gives us confidence that he is laser-focused on these efforts.

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

Top Contributors (Representative Account)
As of March 31, 2024

Holding	% Contribution to Return
Vistra Corp.	2.06
Progressive Corporation	1.64
White Mountains Insurance Grp Ltd.	1.00
Fairfax Financial Holdings Limited	0.96
Verint Systems Inc.	0.80

Top Detractors (Representative Account)
As of March 31, 2024

Holding	% Contribution to Return
Humana Inc.	-0.54
Keurig Dr Pepper Inc.	-0.27
Sensata Technologies Holding PLC	-0.11
Four Corners Property Trust, Inc.	-0.09
Equity Commonwealth	-0.06

Composite Performance
Average Annual Returns as of March 31, 2024

RS Concentrated All Cap Value Composite	First Quarter 2024	1-Year	3-Year	5-Year	10-Year	Since Inception*
Gross of fees	14.10%	27.77%	13.27%	12.81%	9.82%	10.58%
Net of fees	13.86%	26.69%	12.31%	11.86%	8.87%	9.54%
Russell 3000® Value Index	8.62%	20.18%	7.74%	10.18%	8.86%	7.99%

Past performance does not guarantee future results. Returns for periods greater than one year are annualized. Returns are expressed in U.S. dollars and reflect the reinvestment of dividends and other earnings. Composite and benchmark returns are presented net of non-reclaimable withholding taxes, if any. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Net-of-fees returns reflect gross performance less investment management fees. Net-of-fees returns are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equal to the composite net-of-fee return calculated using actual fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found on Part 2A of its Form ADV. *06/30/2005.

All investments carry a certain degree of risk, including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class.

Index returns are provided to represent the investment environment during the periods shown. Index performance does not reflect management fees, transaction costs or expenses that would be incurred with an investment. One cannot invest directly in an index.

Contributors and Detractors Source: FactSet. The top contributors and detractors are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments.

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The Russell 3000® Value Index is a market-capitalization-weighted index that measures the performance of those companies in the Russell 3000® Index with lower price-to-book ratios and lower forecasted growth values.

The RS Concentrated All Cap Value Strategy primarily invests in a diversified portfolio of small-cap, mid-cap, and large-cap companies.

Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines, and other factors. The representative account is believed to most closely reflect the current portfolio management style.

Advisory services offered by Victory Capital Management Inc., an SEC-registered investment adviser, 15935 La Cantera Parkway, San Antonio, TX 78256.

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