

Volatility weighting: A better way to diversify?

Market cap-weighted indexes can be swayed by a few very large companies. Weighting stocks based on volatility may be a better way to construct a core equities portfolio.

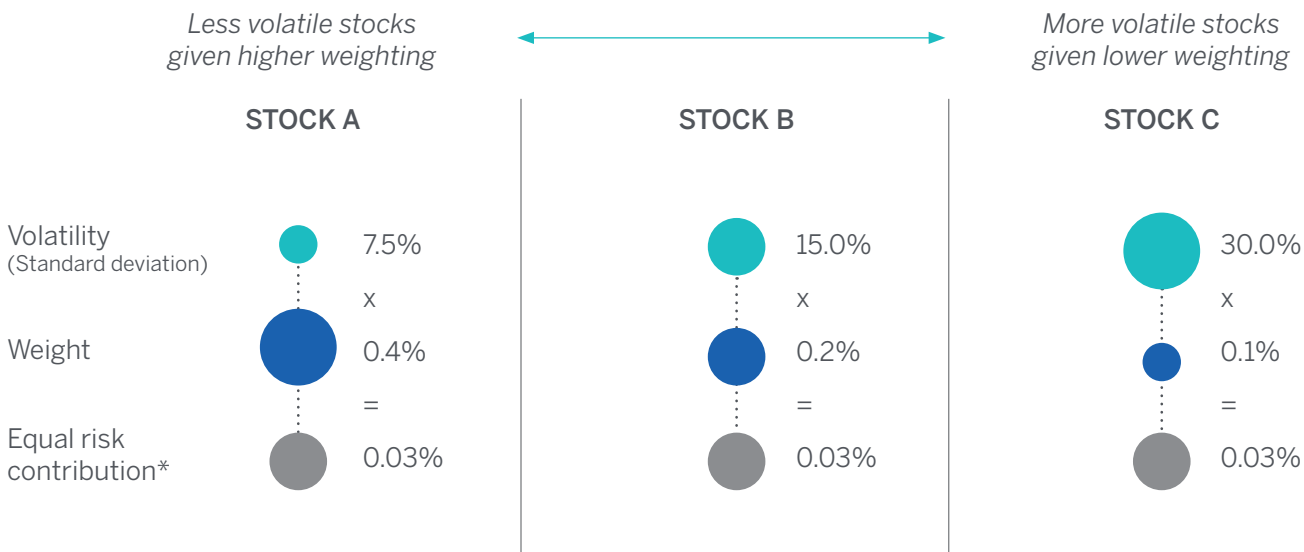
Investors are increasingly seeking broad, liquid and inexpensive access to large-cap domestic stocks. For many, the default approach has been an allocation to passive strategies benchmarked to the S&P 500® Index, the iconic index born in 1957 that has become synonymous with the U.S. stock market.

However, investors should be aware of the inherent limitations to the cap-weighted¹ methodology behind the S&P 500 Index, whereby constituent companies are weighted according to size. The S&P 500 Index

provides large company exposure, but with a heavy tilt to the biggest companies in the domestic investment universe. Thus, passive investments that track the S&P 500 Index typically will be dominated by the performance of a handful of mega-caps and, conversely, discount the performance of smaller constituents.

If investors prefer a diversified, rules-based approach to large-cap domestic stocks, a risk-weighted index might be a viable consideration.

VOLATILITY-WEIGHTING, also known as risk-weighting, seeks to spread the risk more evenly across a portfolio.



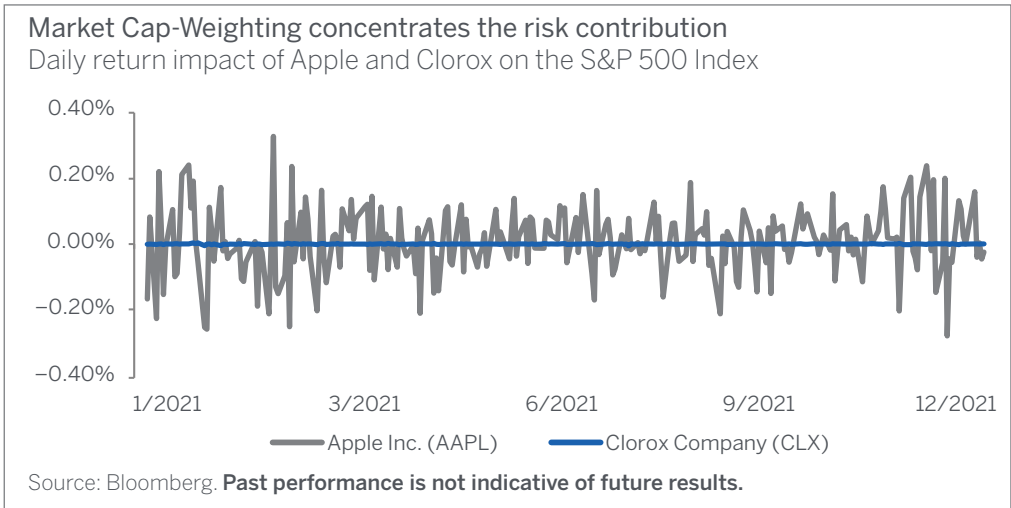
For illustrative purposes only. For purposes of this illustration, the median standard deviation is assumed at 15%. Standard deviation is a statistical measure of volatility and is often used as an indicator of the 'risk' associated with a return series. Standard deviation of return measures the average deviations of a return series from its mean. A large standard deviation implies that there have been large swings in a particular security or portfolio return series.

¹ Market capitalization is the total dollar value of all outstanding shares computed as number of shares times current market price.

S&P 500 Index*

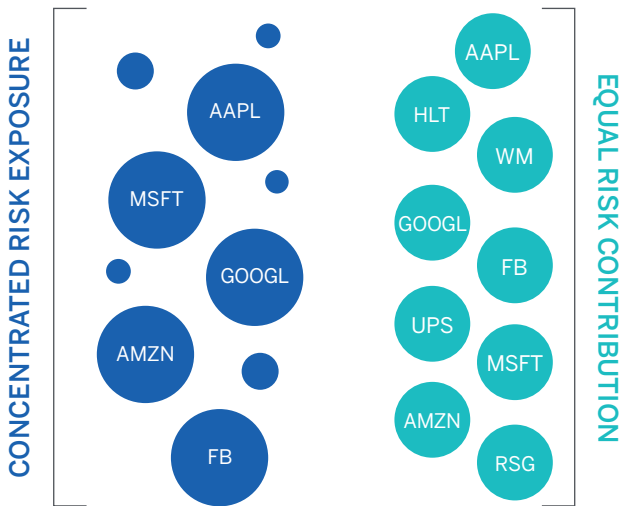
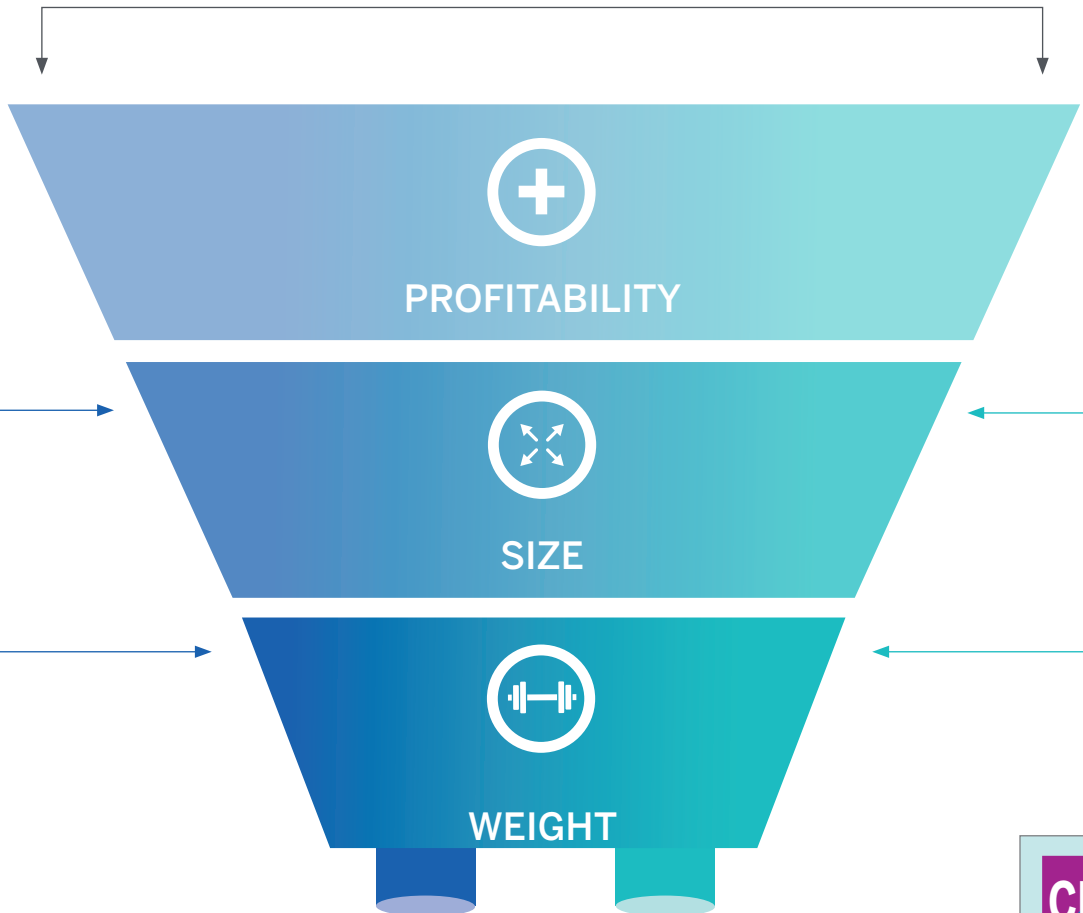
Traditional capitalization-weighted indexes, like the S&P 500, concentrate exposure in a small portion of stocks.

- > Screens for profitability
The sum of the most recent four consecutive quarters' earnings should be positive as should the most recent quarter.
- > Selects the largest 500 stocks.
- > Weights stocks based on size
Large stocks dominate the index.
- > Index stocks rarely change.



- > Weighted average market capitalization: **\$623.5B**.
- > The top **50** stocks account for **55%** of the index's weight.
- > The bottom **50** stocks account for **1%** of the index's weight.

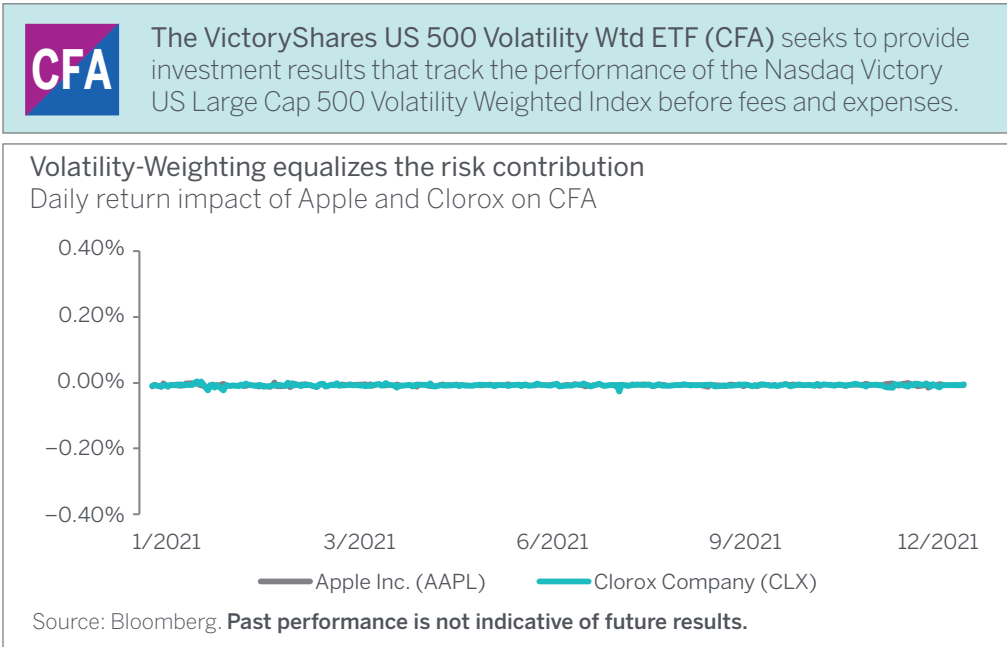
DOMESTIC STOCK UNIVERSE



Nasdaq Victory US Large Cap 500 Volatility Weighted Index

Volatility-weighted strategies seek to spread risk evenly and offer broad exposure to the market.

- > Screens for profitability.
Companies must have positive net earnings across the last twelve months.
- > Selects the largest 500 stocks.
- > Weights stocks based on risk/volatility.
Daily standard deviation, or volatility, over the last 180 trading days.
- > Reconstitutes twice a year.
(every March and September)



- > Weighted average market capitalization: **\$87.5B**.
- > The top **50** stocks account for **16%** of CFA's weight.
- > The bottom **50** stocks account for **4%** of the CFA's weight.

*Source: S&P U.S. Indices Methodology, January 2022 (<https://us.spindices.com/documents/methodologies/methodology-sp-us-indices.pdf>)

All data as of December 31, 2021. For illustrative purposes only. The methodology for the S&P 500 Index and the Nasdaq Victory US Large Cap 500 Volatility Wtd Index includes additional factors. To learn more, refer to the S&P U.S. Indices Methodology, available online at <https://us.spindices.com>, or visit <https://indexes.nasdaqomx.com/index/overview/nqvwlt>.

INDEX INSPECTION: Choose wisely.

	S&P 500 INDEX	NASDAQ VICTORY US LARGE CAP 500 VOLATILITY WEIGHTED INDEX
Large cap domestic exposure	•	•
Ongoing profitability screen		•
Diverse exposure across all constituents		•
Concentrated risk/return	•	
Reconstitutes on a regular schedule		•
Dominated by mega-caps	•	

VictoryShares offers volatility-weighted ETF solutions covering a range of domestic, international, small- and large-cap ETFs

VICTORYSHARES VOLATILITY-WEIGHTED CORE BROAD MARKET ETF SOLUTIONS



VictoryShares US 500 Volatility
Wtd ETF



VictoryShares US Small
Cap Volatility Wtd ETF



VictoryShares International
Volatility Wtd ETF

To learn more about volatility weighting and our approach to investing,
contact your financial advisor or visit www.victoryshares.com

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

Investing involves risk, including the possible loss of principal. Shares of ETFs may be bought and sold throughout the day on an exchange through a brokerage account. Brokerage commissions are often charged and will reduce returns. Shares are not individually redeemable from an ETF, however, shares may be redeemed directly from an ETF by Authorized Participants, in large blocks known as creation units. ETFs may trade at a premium or discount to their net asset value.

The VictoryShares volatility-weighted ETFs are not actively managed and attempt to track the performance of an index by investing in securities representative of their index. The Funds' performance will be negatively affected by general declines in the representative securities. The Funds are subject to tracking error which is the divergence of its performance from its index and because a Fund will incur fees and expenses while the Index does not.

The VictoryShares US Small Cap Volatility Wtd ETF invests in small-capitalization companies which may involve greater risks than those associated with larger, more established companies. These securities may be subject to more abrupt

or erratic price movements, have less diverse product lines which could be more susceptible to adverse developments and may lack sufficient market liquidity.

The VictoryShares International Volatility Wtd ETF invests in foreign securities which subject to political, regulatory and economic risks. Fluctuations in the exchange rates between the U.S. dollar and foreign currencies, currency exchange control regulations, and restrictions or prohibitions on the repatriation of foreign currencies may negatively affect an investment.

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