

# IN BRIEF



## 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.

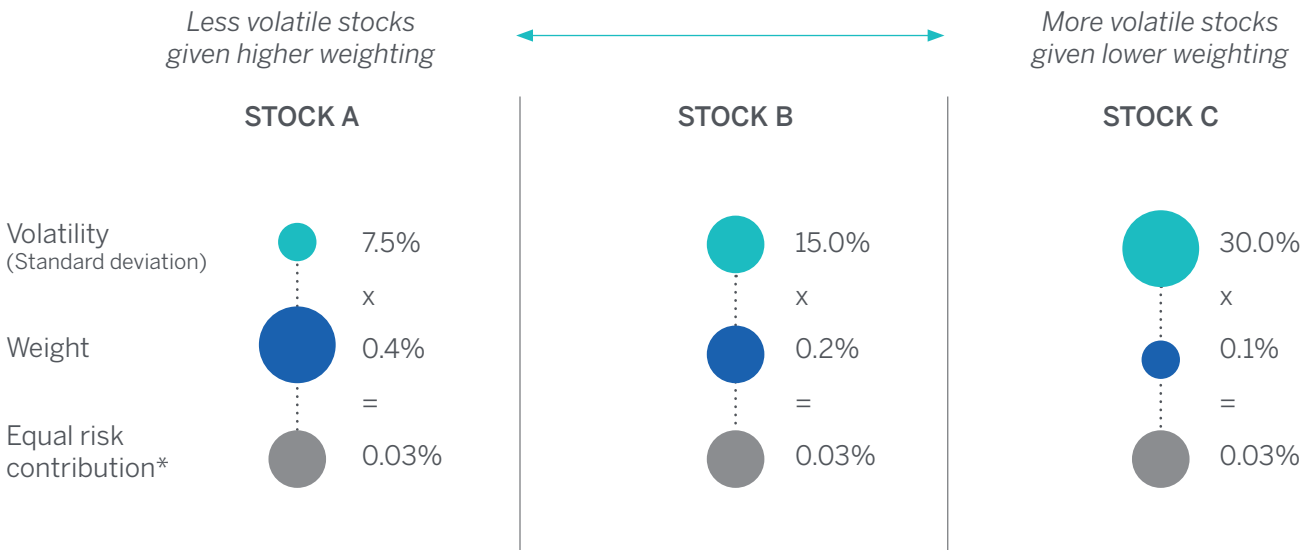
Investors are increasingly seeking broad, liquid and inexpensive access to large-cap domestic stocks. For many, the default approach has been an allocation to passive strategies benchmarked to the S&P 500® Index, that iconic index born in 1957 that has become synonymous with the U.S. stock market.

However, investors should be aware of the inherent limitations to the cap-weighted<sup>1</sup> methodology behind the S&P 500, 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 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 alternative.

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



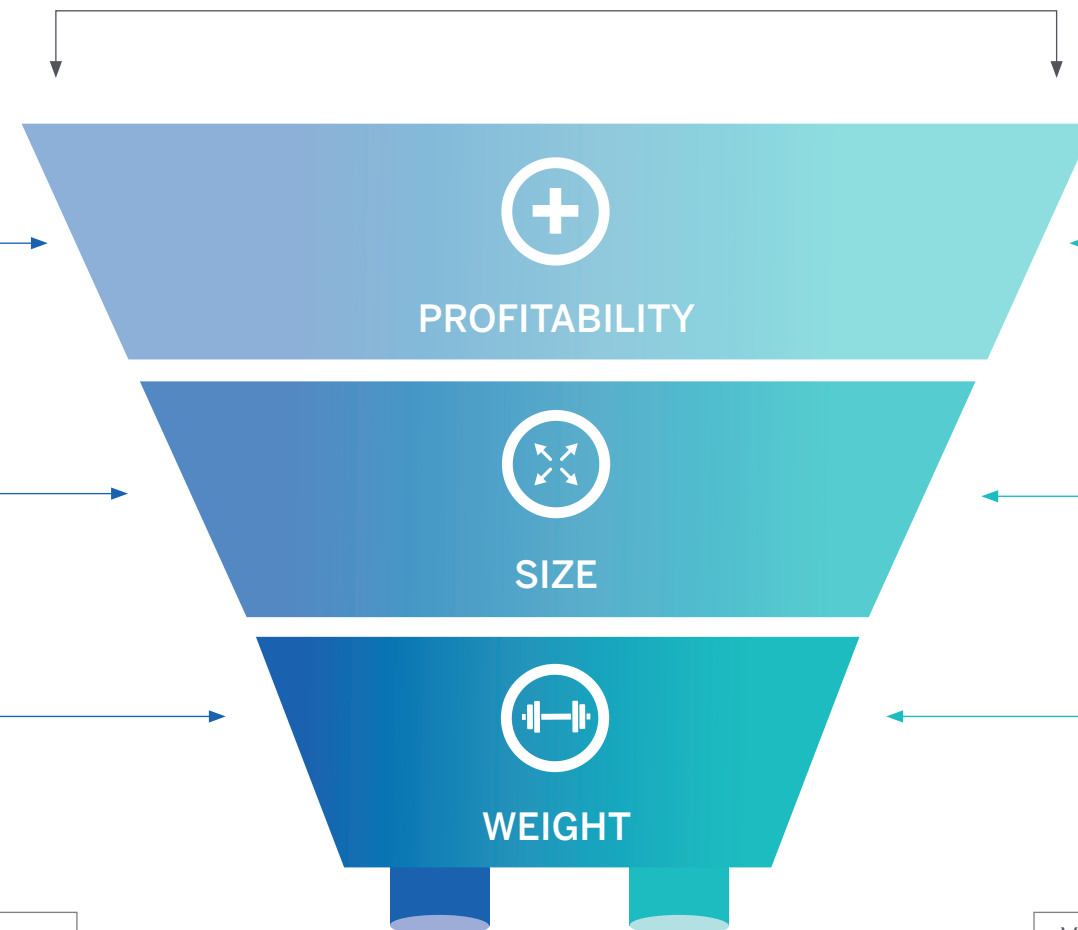
For illustrative purposes only. For purposes of this illustration, the median standard deviation is assumed at 15%. Standard deviation is a statistical measure of volatility and is often used as an indicator of the 'risk' associated with a return series. Standard deviation of return measures the average 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.

## 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.

## DOMESTIC STOCK UNIVERSE



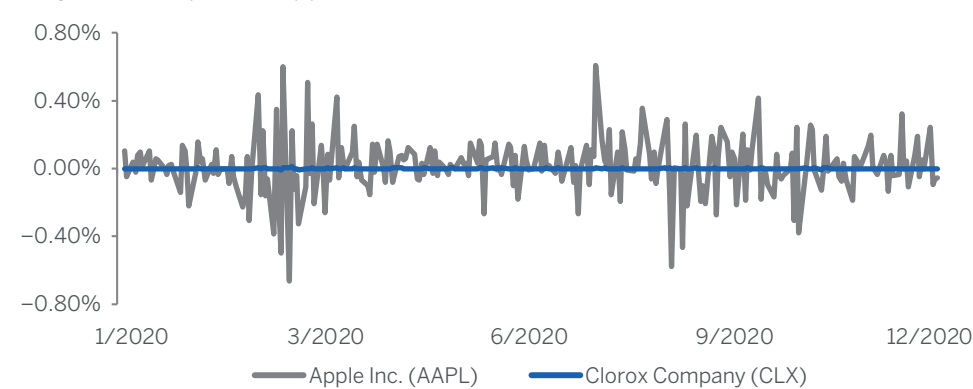
## VictoryShares US 500 Volatility Wtd ETF



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

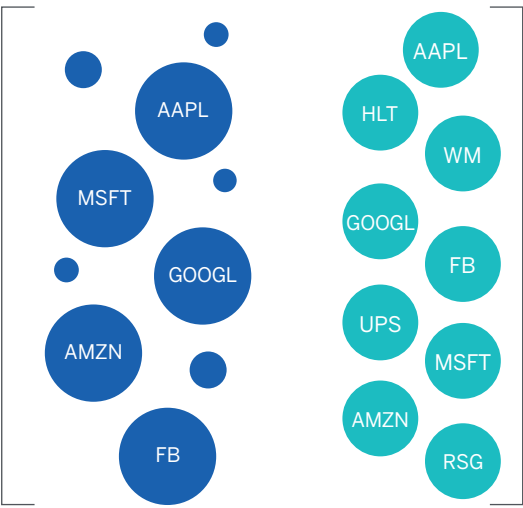
- > Screens for profitability.  
The most recent four consecutive quarters' earnings should be positive.
- > Selects the largest 500 stocks.
- > Weights stocks based on risk/volatility.  
Daily standard deviation, or volatility, over the last 180 trading days.
- > Reconstitutes twice a year.  
(every March and September)

Market Cap-Weighting concentrates the risk contribution  
Daily return impact of Apple and Clorox on the S&P 500 Index



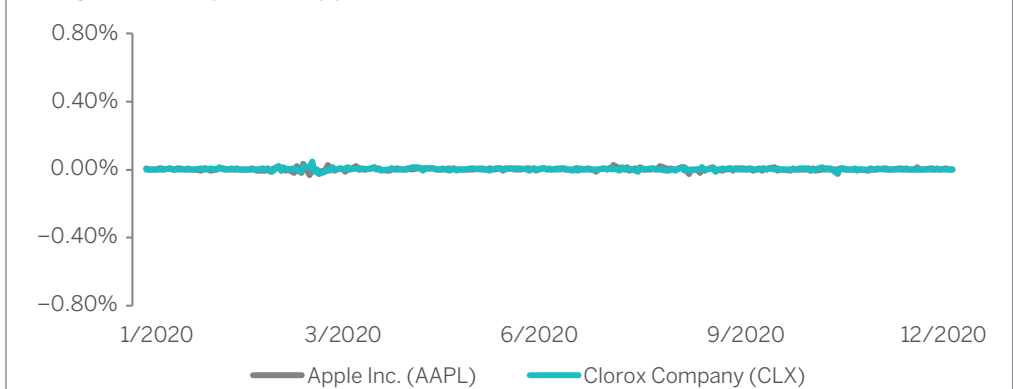
Source: Bloomberg. Past performance is not indicative of future results.

CONCENTRATED RISK EXPOSURE



EQUAL RISK CONTRIBUTION

Volatility-Weighting equalizes the risk contribution  
Daily return impact of Apple and Clorox on CFA



Source: Bloomberg. Past performance is not indicative of future results.

- > Weighted average market capitalization: **\$461.2B.**
- > The top **50** stocks account for **55%** of the index's weight.
- > The bottom **50** stocks account for **1%** of the index's weight.

- > Weighted average market capitalization: **\$63.9B.**
- > The top **50** stocks account for **14%** of CFA's weight.
- > The bottom **50** stocks account for **7%** of the CFA's weight.

\*Source: S&P U.S. Indices Methodology, January 2021 (<https://us.spindices.com/documents/methodologies/methodology-sp-us-indices.pdf>)

All data as of December 31, 2020. 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/nqvwlct>.

**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 risk-weighted approach to investing, contact your financial advisor or visit [www.victoryshares.com](http://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](http://www.vcm.com/prospectus). Read it carefully before investing.**

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

**Investing involves risk, including the potential loss of principal.** The Fund has the same risks as the underlying securities traded on the exchange throughout the day. Redemptions are limited, and commissions are often charged on each trade. ETFs may trade at a premium or discount to their net asset value. The Fund invests in securities included in, or representative of securities included in, the Index, regardless of their investment merits. The performance of the Fund may diverge from that of the Index. The value of your investment is also subject to geopolitical risks such as

wars, terrorism, environmental disasters, and public health crises; the risk of technology malfunctions or disruptions; and the responses to such events by governments and/or individual companies. Fund holdings and sector allocations are subject to change, may differ from the Index, and should not be considered investment advice.

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