



# VictoryShares US Small Cap High Div Volatility Wtd ETF

QUARTERLY COMMENTARY • Q4 // December 31, 2020

## VICTORYSHARES US SMALL CAP HIGH DIV VOLATILITY WTD ETF ATTRIBUTION COMPARED TO THE RUSSELL 2000® VALUE INDEX

### Investment Strategy

The VictoryShares US Small Cap High Div Volatility Wtd ETF (CSB) offers broad exposure to dividend-yielding, small-cap U.S. stocks without subjecting investors to the inherent limitations of traditional market-cap or yield weighting. The Fund seeks to provide investment results that track the performance of the Nasdaq Victory U.S. Small Cap High Dividend 100 Volatility Weighted Index before fees and expenses.

CSB's rules-based approach combines fundamental criteria with volatility weighting in an effort to outperform traditional indexing strategies. The rules-based volatility weighting methodology weights stocks based on volatility, so each stock in the portfolio has an equal contribution to overall risk.

### VictoryShares Update

In the fourth quarter of 2020, VictoryShares continued to focus on rules-based solutions that seek to bridge the gap between active and passive management while delivering consistent outcomes for clients. At the end of the quarter VictoryShares had \$5.6 billion in assets under management, including \$100 million in CSB.

### Performance Update

CSB was up 34.09% in the quarter, outperforming the Russell 2000® Value Index (the "Index"), which was up 33.36%.

The goal of the high dividend volatility weighted methodology

### ANNUALIZED RATE OF RETURN (%)

| VictoryShares US Small Cap High Div Volatility Wtd ETF (CSB) | QTR   | YTD   | 1YR   | 3YR  | 5YR   | Since Inception Jul 8, 2015 | Expense Ratio (%)<br>Gross | Net  |
|--|-------|-------|-------|------|-------|-----------------------------|----------------------------|------|
| Net Asset Value (NAV)  | 34.09 | 10.73 | 10.73 | 7.70 | 12.63 | 10.47                       |                            |      |
| Closing Market Price   | 32.88 | 9.87  | 9.87  | 7.43 | 12.39 | 10.30                       | 0.44                       | 0.35 |
| <b>Indexes</b>   |       |       |       |      |       |                             |                            |      |
| Nasdaq Victory U.S. Small Cap High Div 100 Vol Wtd Index     | 34.29 | 10.97 | 10.97 | 8.00 | 13.01 | –                           |                            |      |
| Russell 2000® Value Index                                    | 33.36 | 4.63  | 4.63  | 3.72 | 9.65  | –                           |                            |      |

Past performance does not guarantee future results. The performance data quoted represents past performance and current performance may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month-end, visit [www.victoryshares.com](http://www.victoryshares.com). ETF shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. Market price returns are based on the price of the last reported trade on the Fund's primary exchange. If you trade your shares

is to build an income-generating, diversified market index. When grouping the Russell 2000® Value stocks into stocks that pay a dividend and stocks that don't pay a dividend, CSB will be overweight stocks that pay a dividend. Stocks in the Index that pay a dividend represent 69% of the market capitalization and were up 33% in the quarter. Stocks that don't pay a dividend represent 31% of the market capitalization and returned 35% in the quarter. When stocks that pay a dividend underperform stocks that do not pay a dividend, it is generally an unfavorable environment for CSB relative to the Index. However, the return differential between dividend payers and non-payers was insignificant during the quarter.

### Top Contributors

The top stock contributors to CSB's relative performance versus the Index were overweights to MTS Systems, +204%; Waddell & Reed Financial, up +74%; and B. Riley Financial, +79%.

The volatility weighted methodology led to an overweight of the Materials sector, +48%, and an underweight to the Real Estate sector, +23%, adding to relative performance during the quarter.

### Top Detractors

The largest stock detractors from CSB's relative performance were overweights to Weis Markets, +0.3%; Cass Information Systems, -3%; and Ennis, +4%.

An overweight to the Utilities sector, +16%, was a detractor during the quarter.

at another time, your return may differ. Returns include reinvestment of dividends and capital gains. Performance for periods greater than one year is annualized. High, double-digit returns are highly unusual and cannot be sustained. Investors should be aware that these returns were primarily achieved during favorable market conditions. Fee waivers and/or expense reimbursements were in place for some or all periods shown, without which Fund performance would have been lower. Index performance is shown for illustrative purposes only. Indexes are unmanaged and one cannot invest directly in an index.



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## SECTOR WEIGHTING (%)

| Sector                 | CSB  | Russell 2000®<br>Value Index |
|------------------------|------|------------------------------|
| Communication Services | 2.1  | 2.4                          |
| Consumer Discretionary | 9.6  | 12.8                         |
| Consumer Staples       | 8.0  | 3.6                          |
| Energy                 | 2.3  | 4.2                          |
| Financials             | 24.4 | 27.6                         |
| Health Care            | 1.2  | 6.4                          |
| Industrials            | 19.6 | 17.0                         |
| Information Technology | 4.5  | 6.4                          |
| Materials              | 16.3 | 6.1                          |
| Real Estate            | 3.0  | 9.1                          |
| Utilities              | 8.7  | 4.5                          |
| Cash                   | 0.4  | —                            |

## FUND TOP 10 HOLDINGS

|  | Market Cap<br>(\$B) | Weighting<br>(%) |
|--|---------------------|------------------|
| Waddell & Reed Financial, Inc. Class A | 1.6                 | 1.76             |
| Systemax Inc.                          | 1.3                 | 1.64             |
| Sensient Technologies Corporation      | 3.1                 | 1.57             |
| Universal Corp.                        | 1.2                 | 1.48             |
| B. Riley Financial, Inc.               | 1.1                 | 1.39             |
| Cleveland-Cliffs Inc.                  | 5.8                 | 1.37             |
| MTS Systems Corporation                | 1.1                 | 1.37             |
| Northwest Bancshares, Inc.             | 1.6                 | 1.31             |
| Weis Markets, Inc.                     | 1.3                 | 1.30             |
| Mercury General Corporation            | 2.9                 | 1.29             |

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.

All 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. Investments in smaller companies typically exhibit higher volatility. Dividends are never guaranteed. 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.

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

**Market price** is the price of the last reported trade on a fund's primary exchange.

**Net asset value or NAV** is a fund's total assets minus its total liabilities, divided by the number of outstanding shares.

**Premium/discount %** indicates whether the ETF is currently trading at a higher or lower

price than the current value of the securities in that portfolio.

The Nasdaq Victory U.S. Small Cap High Dividend 100 Volatility Weighted Index contains up to 100 of the highest dividend yielding stocks within the Nasdaq Victory U.S. Small Cap 500 Volatility Weighted Index.

The Russell 2000® Value Index is a market-capitalization-weighted index that measures the performance of those companies in the Russell 2000® Index with lower price-to-book ratios and lower forecasted growth values.

Net expense ratio reflects the contractual waiver and/or reimbursement of management fees through October 31, 2021.

The Nasdaq Victory Volatility Weighted Indexes are maintained by Nasdaq, Inc. (the "Index Provider"). The Index Provider is not affiliated with the Funds or the Funds' investment adviser, Victory Capital Management Inc.

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