VIDENT FINANCIAL
vī'dĕnt' - they oversee, they care for...

Vident Core US Bond Strategy ETF | VBND

Fund Story | 1.31.2020

Bonds: How do you make sector, issuer, and Bond decisions?

VBND seeks to track the Vident Core U.S. Bond Index (VUBDX), a principles-based, multi-factor bond index strategy that focuses on sector selection, issuer selection and bond selection factors within the U.S. fixed income market.

BUILDING A INDEX FOCUSED ON...

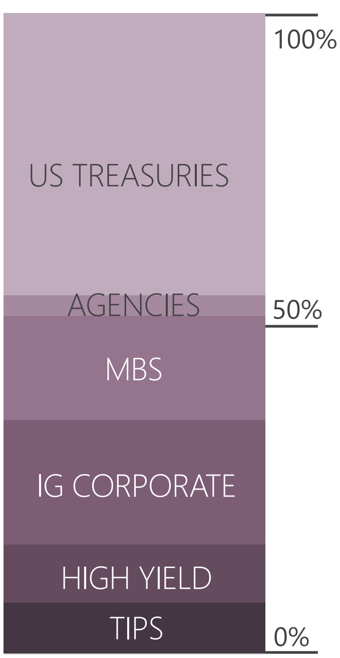
The index (VUBDX) seeks to improve risk adjusted returns by addressing the inherent weakness in a debt weighted bond portfolio: Overexposure to risk concentrations and interest rate risk, and missing Leadership, Governance and Distress criteria.

Index Construction

We believe the index's multi-factor sector selection process systematically allocates capital to better valued sectors in an attempt to capture returns and mitigate risk in "flight-to-safety" environments.

Issuer and Bond Selection

After weighting sectors, the index selects individual issues within each sector in an attempt to maximize the overall yield while considering creditworthiness, leadership, governance and distress factors.



VALUATION

Allocate toward High Yield and TIPS when valuation and momentum are favorable

DIVERSIFICATION

We distribute risks across core and non-core (high yield and TIPS) fixed income sectors

GOVERNANCE

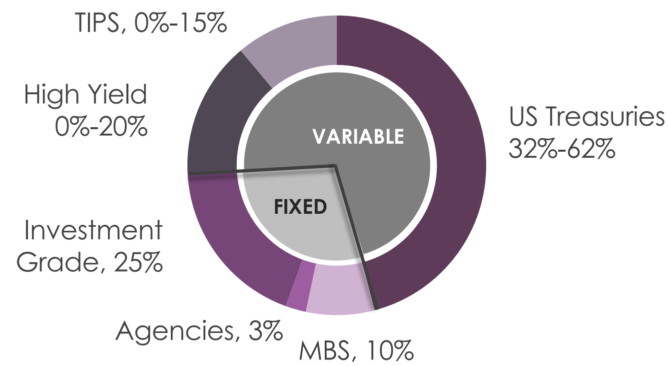
Corporate bonds selected based on leadership, governance, and creditworthiness

DIVERSIFYING RISK

Traditional debt-weighted bond funds lack a strong valuation methodology as well as Leadership, Governance, and Distress criteria. The index that VBND tracks (VUBDX) seeks to avoid weaker credit sectors and companies in "flight-to-safety" environments. This is accomplished by systematically allocating to sectors and companies based on their creditworthiness.

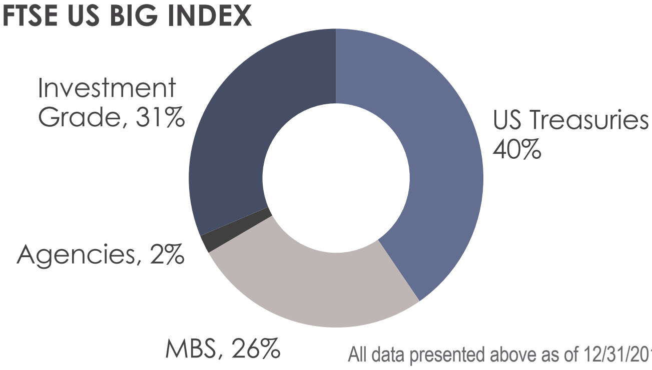
Vident Core U.S. Bond Index:
Allocations increase/decrease based on principles/relative valuation

VUBDX ALLOCATION RANGES



Debt-Weighted Index:
Allocations increase/decrease based on debt outstanding

FTSE US BIG INDEX



All data presented above as of 12/31/2019.

The FTSE US Broad Investment-Grade Bond Index (USBIG) measures the performance of US Dollar-denominated bonds issued in the US investment-grade bond market. The index covers US Treasury, government sponsored, collateralized, and corporate debt providing a reliable representation of the US investment-grade bond market. **High-yield bonds** are bonds issued by companies that are judged likely, relative to stronger companies, to default by failing to make interest and principal payments on schedule. **Treasury Inflation-Protected Security (TIPS)** is a Treasury bond that is indexed to inflation to protect investors from the negative effects of rising prices. The principal value of TIPS rises as inflation rises. A **Treasury bond** is a government debt security that earns interest until maturity, at which point the owner is also paid a par amount equal to the principal. An **agency bond** is a bond issued by a government agency. These bonds do not include those issued by the U.S. Treasury or municipalities. A **mortgage-backed security (MBS)** is an investment similar to a bond that is made up of a bundle of home loans bought from the banks that issued them. An **investment grade (IG)** is a rating that signifies a municipal or corporate bond presents a relatively low risk of default.

Diversification does not assure a profit or protect against a loss in a declining maket.

INVESTMENT PROCESS

HIGH YIELD & INVESTMENT GRADE UNIVERSE

U.S. Corporate Issuers (High Yield & Investment Grade)

- Financial risk assessment of High Yield performed
- High Yield bonds and Issuers with higher probability of financial distress are removed

Financial Score Calculation (FSC)

- Remaining Issuers and Bonds scored based upon financial strength and quality

Governance, Leadership & Distress Factors ("GLD") Rank

- FSC is further refined by tilting issuers based on GLD rank
- Companies with a lower probability of financial distress are rewarded
- Companies with a higher probability of financial distress are penalized

Aggregated Credit Risk Score Created (Combination of FSC & GLD Rank)

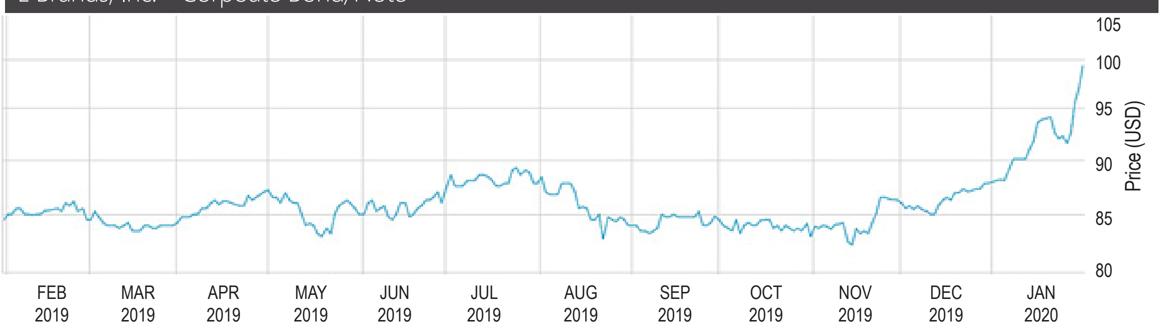
- Lowest scoring bonds are removed (~ 25-30%)
- "Best bond" selection occurs from this pool.

VBND PORTFOLIO

CASE STUDY: L BRANDS, Inc.

- L Brands, Inc. is a fashion retailer, with its most recognizable brands being Victoria's Secret and Bath & Body Works.
- VUBDX had acquired the L Brands 6.75 7/1/2036 bond initially in the January 2019 rebalance at a price and has continued to hold a position throughout the year. The VUBDX methodology looks to maximize yield* while considering diversification, duration and credit risks. Considering the methodology, This bond was very attractive due to its high, 8.53% yield.
- Victoria's Secret has been battling sluggish sales, and in January 2020, L Brands announced that they would be looking to either spinoff or sell the it, giving investors newfound optimism...

L Brands, Inc. - Corpoate Bond/Note



The L Brands bonds, which we acquired due to highly attractively yield, then performed very well, **going up 13.6% during the month of January.**

Past performance does not guarantee future results. The fund is not actively managed and may be affected by a general decline in market segments related to the index. The fund invests in securities included in, or representative of securities included in, the index, regardless of their investment merits. As of 12.31.2019 VBND held 0.43% in L Brand, Inc. *Yield refers to the earnings generated and realized on an investment over a particular period of time, and is expressed in terms of percentage.

Shirish Malekar

Chief Investment Officer (WeatherStorm Capital)

- Over 25 years of experience in global bonds, currencies, credits and equities.

Denise M. Krisko, CFA

President and Co-Founder of VIA (Sub-adviser)

- Over 20 years of trading and portfolio management experience
- Primary responsibility for the day-to-day management of the Fund since June 2015.

Jim Iredale, CFA

Senior Portfolio Manager - Fixed Income (VIA)

- Over 15 years of investment management experience
- Portfolio manager of the Fund since April 2015

Carefully consider the Fund's investment objectives, risk factors, charges and expenses before investing. To obtain a prospectus download at www.videntfunds.com/funds/vbnd or call 800-617-0004. Please read it carefully before investing.

Investing involves risk, including the risk of loss of principal. VBND has the same risks as the underlying securities traded on the exchange throughout the day at market price. Redemptions are limited and often commissions are charged on each trade. VBND may invest in illiquid or thinly traded securities which involve additional risks such as limited liquidity and greater volatility. VBND may make investments in debt securities. The Fund's investments in high yield securities expose it to a substantial degree of credit risk. These investments are considered speculative under traditional investment standards. Debt issuers and other counterparties may not honor their obligations or may have their debt downgraded by ratings agencies. An increase in interest rates may cause the value of fixed-income securities held by the Fund to decline. VBND may also invest in asset backed and mortgage backed securities which include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. The Fund invests in the securities included in, or representative of its Index regardless of their investment merits. The performance of the Fund may diverge from the Index. The Fund is not actively managed and its performance may be adversely affected by a general decline in the market segments relating to its Index.

The fund's investment advisor is Vident Advisory, Inc. VBND's sub-adviser is Vident Investment Advisory (VIA). Vident Financial owns the index that underlies the fund. The Vident Core U.S. Bond Strategy ETF is distributed by ALPS Distributors, Inc. ALPS is not affiliated with Vident Financial, Vident Advisory or VIA.

Investor shares are bought and sold at market price (not NAV), may trade at a discount or premium to NAV and are not individually redeemed from the Fund. Ordinary brokerage commissions apply.

Diversification does not assure a profit or protect against a loss in a declining market.