



# The Vident International Equity Fund | VIDI

Fund Story | 1.31.2021

## International Investing: What Matters? Country Selection, Sector Selection or Company Selection

Research shows the majority of excess returns can be explained by a fund's country allocation\*

### BUILDING A PORTFOLIO FOCUSED ON COUNTRY SELECTION

The Vident Core International Equity Index (VIEQX) seeks to improve risk adjusted returns by addressing the inherent weakness in a market cap weighting international strategy: Overexposure to risk concentrations and overvalued securities.



Korean Peninsula at Night

#### Index Construction

The index's sophisticated multi-factor country and stock selection process results in a portfolio with improved exposure to countries with faster economic growth potential, lower fundamental risk, and more favorable demographics relative to traditional cap-weighted international equity approaches.

#### Security Selection

Once countries are selected, VIEQX seeks to tilt capital to higher quality companies at better valuations, diversifying risks across countries, regions, sectors, and stocks.



#### INVESTMENT PROCESS



The Index's country allocation model takes a two-pronged approach, assessing each country in the investable universe for both its opportunity as well as its resilience. These two evaluations are then combined to create an aggregated Country Principles Score, which forms the basis for the index's country allocation model. The Country Principles Score<sup>1</sup> is equally weighted composite of the Country Resiliency Score (CRI) and the Country Opportunity Score (COS). CRI captures the relative resilience of a country to economic and financial shocks and reflects the capacity of a country's equity markets to absorb and recover from such shocks. COS seeks to assess the relative attractiveness of investment opportunities across countries. It is not possible to invest directly in an Index. \*Eaton Vance 2014 Annual Report.

## DIVERSIFYING RISK FOR THE LONG RUN

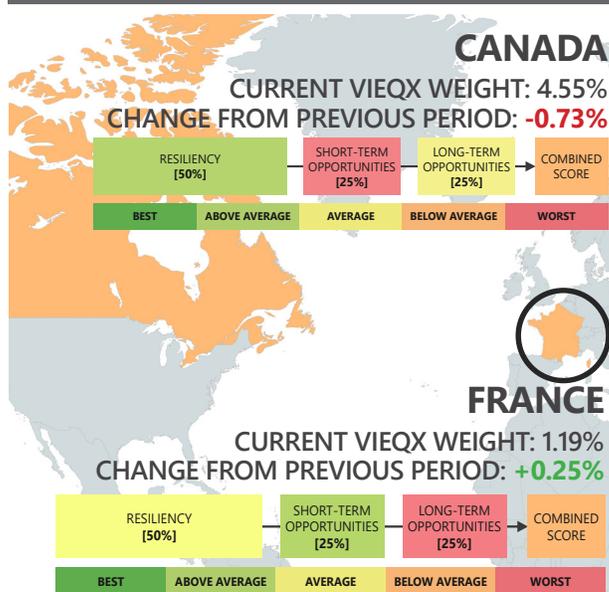
VIEQX's rules-based index strategy seeks to balance risk across 39 developed and emerging markets countries. The index seeks to further reduce country, currency, and company concentration risks that can sometimes be typical amongst traditional capitalization-weighted approaches.

### VIDI DIVERSIFICATION: COUNTRY CONCENTRATION



Source: Bloomberg, data as of 1.31.2021

## CASE STUDY: CANADA & FRANCE



**Canada** had a low Country Opportunity Score, ranking 26th out of 39 countries. While Canada did have a weak policy environment – particularly in Hiring Regulations and Minimum Wage – their primary problem was in valuation. They ranked 35th out of 39 countries in attractiveness of valuation and landed at the bottom of our list for Change in Bond Yield.

### MONETARY AND FISCAL INSTABILITY

Canada had a slightly better than average Resiliency score but quite weak in two resiliency sub-categories: Monetary Strength and Fiscal Fitness, ranking 37th and 29th respectively. Canada has a debt-to-GDP ratio of nearly 90%. They are projected to run their highest deficit ever. Interest rates have been near 0% since the beginning of the global pandemic and Canada's economy shrank more than the United States' did in 2020.

**France** had a low Country Opportunity Score, ranking 29th out of 39 countries. They had a very weak policy environment, ranking 34th out of 39 in our long-term category, which includes the cost of starting a business and median bond yields.

### UNRESILIENT

France has low scores in several resiliency metrics. They ranked near the bottom in Demographic Depth, indicating an older population with low birth rates. France also ranks low in Fiscal Fitness – they have a debt-to-GDP ratio of nearly 100% and have been consistently running deficits for decades. The French government has introduced two separate economic lockdowns, and GDP contracted by 8% in 2020.

Source: Bloomberg and Bowyer Research, data as of 1.31.2021



**Rafael Zayas, CFA**  
Senior Vice President, VIA

Over 15 years of trading and portfolio management experience in global equity products and ETFs. He is SVP, Head of Portfolio Management and Trading. PM of VIDI since September 2017.



**Austin Wen, CFA**  
Portfolio Manager, VIA

Mr. Wen has seven years of investment management experience, specializing in portfolio management and trading of equity portfolios and commodities based portfolios, as well as risk monitoring and investment analysis.

**Carefully consider the Fund's investment objectives, risk factors, charges and expenses before investing. To obtain a prospectus download one here [www.videntfunds.com/funds/vidi](http://www.videntfunds.com/funds/vidi) or call 800-617-0004. Please read it carefully before investing.**

Investing involves risk, including the risk of loss of principal. VIDI 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. Investments in non-U.S. securities involve certain risks that may not be present with investments in U.S. securities. These factors and others can make investments in the fund more volatile and potentially less liquid than other types of investments. The Fund may invest in companies organized in emerging market nations which can involve additional risks relating to political, economic or regulatory conditions. The Fund's performance may be adversely affected by a general decline in the market segments relating to its Index. Small and medium capitalization companies tend to have more limited liquidity and greater price volatility than large-capitalization companies.

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. \* These scores are based on internal Advisor research/opinion

Diversification does not ensure a profit or protect against a loss. Holdings and allocations are subject to change and are not recommendations to buy or sell any security. The fund's investment advisor is Vident Advisory, Inc. VIDI's sub-advisor is Vident Investment Advisory (VIA). Vident Financial owns the index that underlies the fund. The Vident International Equity Fund ETF is distributed by ALPS Distributors, Inc. ALPS is not affiliated with Vident Financial, Vident Advisory or VIA.