



Vident Core U.S. Equity Fund | VUSE

Fund Story | 1.31.2020

Does a Company's Governance and Leadership Impact Risk and Return?

BUILDING A PORTFOLIO FOCUSED ON GOVERNANCE, LEADERSHIP & VALUE

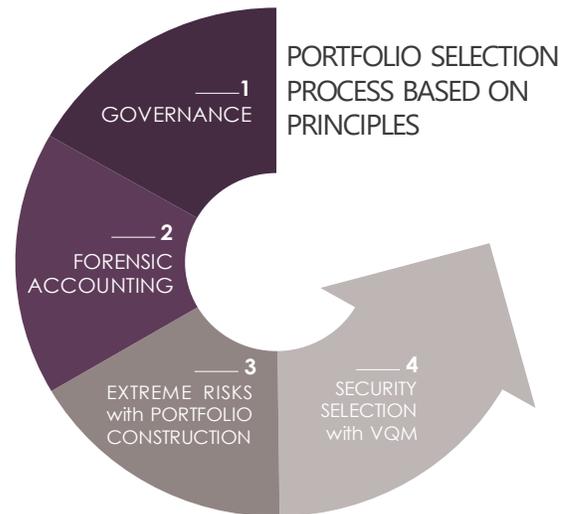
The index seeks to improve risk adjusted returns by addressing the inherent weakness of a market cap weighted U.S. equity strategy: Overexposure to risk concentrations, overvalued securities, and lack of consideration for Leadership and Governance risks.

Index Construction

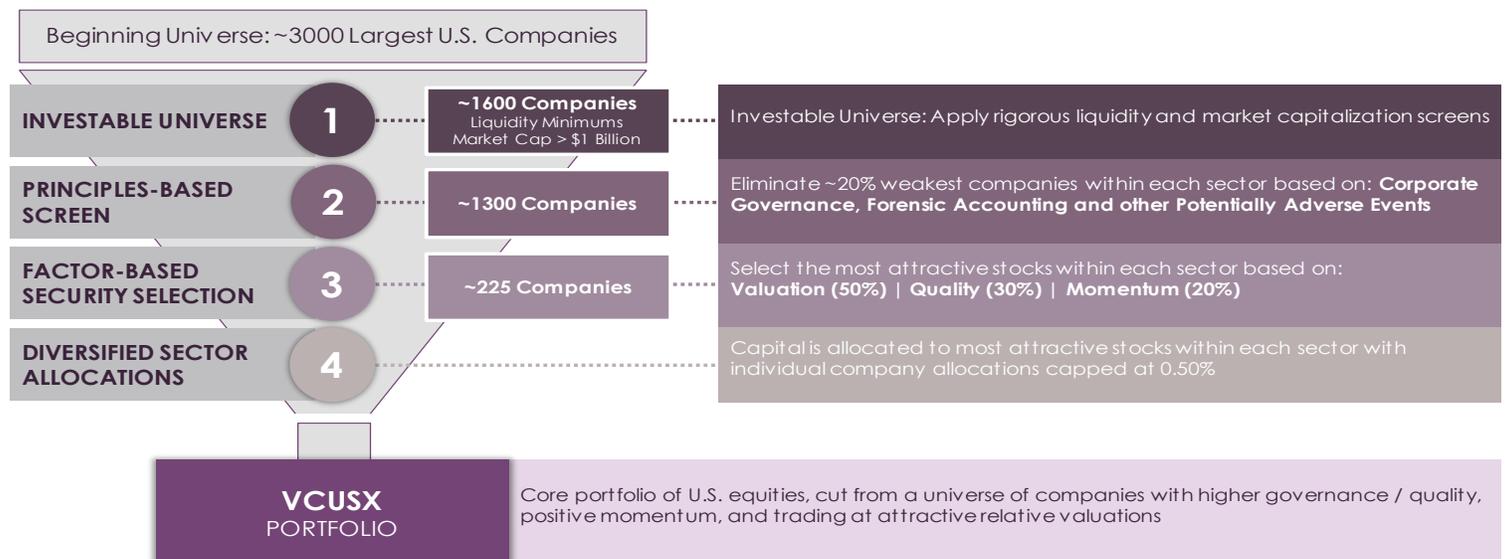
The index's rules driven, multi-factored selection process seeks to address liquidity risks, governance risks, forensic accounting risks, and other extreme risks to define the investible universe.

Security Selection

Utilizing Value, Quality and Momentum factors, capital is then tilted to higher quality companies at better valuations. The resulting portfolio seeks to diversify risk across sectors, stocks and the traditional capitalization spectrum



INVESTMENT PROCESS

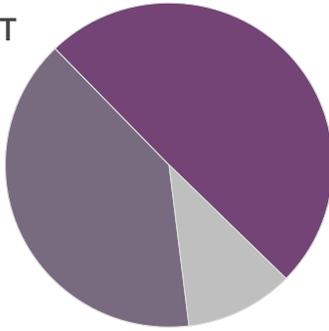


DIVERSIFYING RISK

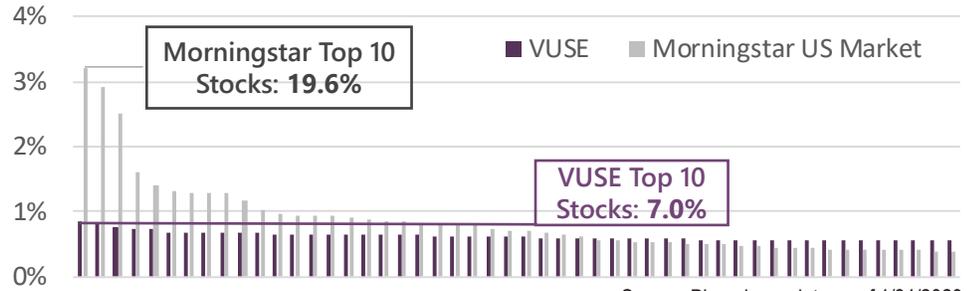
VUSE seeks to achieve a better risk adjusted return over time by tracking VCUSX. The index's distinct focus on Governance, Leadership and Value spreads risk across individual companies throughout the capitalization spectrum and addresses some of the shortcomings of a traditional cap-weighted approach.

U.S. MARKET EXPOSURE

- Large Cap
- Mid Cap
- Small Cap



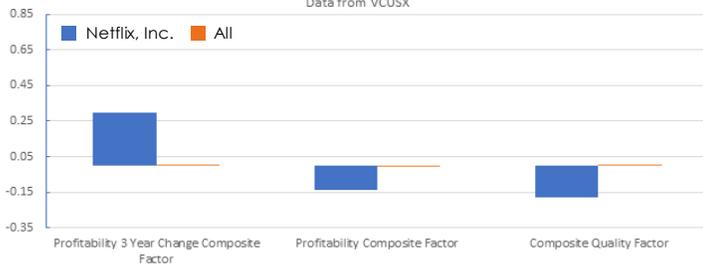
VUSE DIVERSIFICATION: TOP 50 STOCK ALLOCATIONS



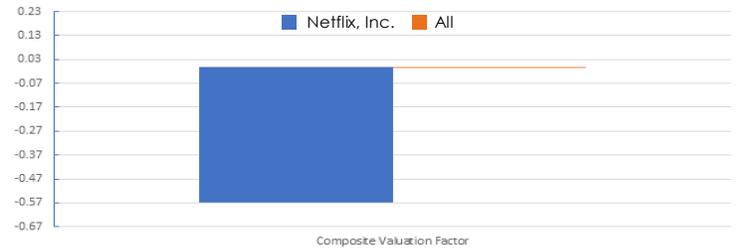
Source: Bloomberg, data as of 1/31/2020

CASE STUDY: NETFLIX

Jul 2019 Netflix, Inc. Earnings Quality
Data from VCUSX



Jul 2019 Netflix, Inc. Valuation
Data from VCUSX



Netflix was a zero weighting in VCUSX and was underperforming the broader index since last rebalance.

Netflix issues at the time of most recent rebalance:

Governance Issues:

Netflix was flagged as a governance Worst Offender. They were flagged for 16 governance offenses, including ownership issues such as Executive Misconduct, Combined CEO and Chair, and voting issues such as Confidential Voting, and shareholder right to convene meetings.

Valuation Issues:

Netflix had major valuation issues: their Composite Valuation Factor Score was nearly -60%, well below the average of all companies in our universe.

Earnings Quality¹:

Netflix also demonstrated issues with Earnings Quality. While they had a positive score in Profitability 3 Year Change factor, they had negative scores in both Profitability Composite Factor² and the Composite Quality Factor³.

¹The average score of all publically traded U.S. companies with market capitalization greater than 250 million dollars. ²This is an internal composite of the various company-level valuation factors. ³Internal metric based designed to evaluate the quality of dividends.

Andrew Alden, CFA



Head of Quantitative Research

- Over 10 years of investment management experience
- Responsible for developing the index strategy that VUSE tracks (VCUSX).

Denise M. Krisko, CFA



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

- Over 20 years of trading and portfolio management experience
- VUSE PM since December 2014 and previously the Fund's PM from its inception in January 2014 until November 2014 with the Fund's previous sub-adviser.

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

Investing involves risk, including the risk of loss of principal. VUSE 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. The Fund invests primarily in securities of large cap companies. As a result, the Fund's performance may be adversely affected if the securities of large cap companies underperform. The Fund may also invest in small and medium-capitalization companies. Small and medium-capitalization companies tend to have more limited liquidity and greater price volatility than large-capitalization companies. 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 may invest a significant portion of its assets in the securities of companies of a particular sector of the economy therefore its performance will be especially sensitive to developments that significantly affect those sectors.

The fund's investment advisor is Vident Advisory, LLC. VUSE's sub-adviser is Vident Investment Advisory (VIA). Vident Financial owns the index that underlies the fund. The Vident Core U.S. Equity Fund 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.

Diversification does not ensure a profit or protect against a loss