MindShare

Volatility: A rose by any other name

VictoryShares products use volatility to weight portfolios of stocks. They are not leveraged bets on market volatility.

During the spate of severe equity market turbulence in February 2018, a few investment products focusing on implied volatility, as measured by the CBOE Volatility Index[1] (VIX), endured disastrous losses. Examples include both 40 Act Mutual Funds, as well as exchange-traded products (ETPs).

Before jumping to conclusions, however, it's vital for investors to understand that the word "volatility" can have vastly different connotations. Those investments that suffered catastrophic losses in February were focused on an overcrowded trade that was working spectacularly—until suddenly it didn't. Those investments are not related to any VictoryShares product.

THREE KEYS

1 Vol-weighting,[5] in the VictoryShares context, simply refers to how some of our ETFs use historical volatility—standard deviation[6]—to weight securities in a basket of stocks.

2 VictoryShares does not offer products remotely similar to any of the leveraged trading vehicles that short volatility.

3 VictoryShares does not offer leveraged or inverse ETFs.[7]

What happened?

The investment strategies in question were shorting[2] volatility—in other words, taking bets that the equity markets would continue to be calm. These products used derivative[3] products (futures in this case) that carry substantial risks associated with leverage.[4] Because the markets had been on an epic low-volatility run, evidenced by the fact that the S&P500® Index had gone more than a year without a five percent decline, they became fashionable. Unfortunately, some investors did not understand the true risks.

In early February, the prospect of interest rates accelerating faster than investors were anticipating caused equity markets to sell-off precipitously. Measures of near-term volatility spiked, and investors who were shorting volatility were on the wrong side of a very crowded trade. When these investors headed for the exits, a few of the associated products lost virtually all of their value thanks to the leveraged nature of the derivatives in play. In fact, one popular ETP plummeted so much in a single day that its sponsor subsequently decided to terminate the investment (as allowed by its prospectus).

VictoryShares is different

VictoryShares ETFs stand in sharp contrast to those trading vehicles that were caught shorting volatility. So while many of the VictoryShares ETFs have "volatility" in their name, that's where any similarity ends.

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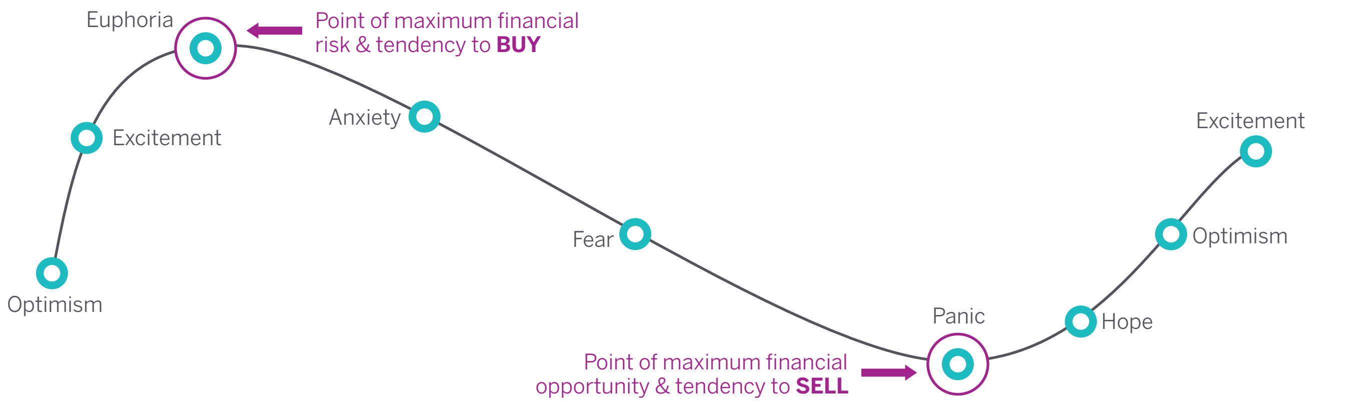
In the VictoryShares context, volatility simply refers to how stocks are weighted in the portfolio (vol-weighting), which is done in an effort to improve diversification benefits and, potentially, for downside mitigation. For VictoryShares, vol-weighting simply takes a historical statistic—standard deviation—and uses it to weight a particular basket of stocks. It is not an implied view on where overall market volatility is going based on a derivative product, as with some of these other leveraged ETPs.

Thus, there is no connection to the rapid unwinding of volatility-linked trading strategies with any VictoryShares product. Know the difference.

SOLVING FOR EMOTIONAL INVESTING

Volatile market conditions can sway investors to make short-term decisions based on fear and anxiety.



1 The Chicago Board Options Exchange Volatility Index (VIX), often referred to as Wall Street's "fear gauge" is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices

2 Shorting, or short selling, is the sale of a security that is not owned by the seller or that the seller has borrowed. Short selling is motivated by the belief that a security's price will decline, enabling it to be bought back at a lower price to make a profit.

3 Derivatives may be highly sensitive to market conditions and may amplify risks.

4 Leverage risk occurs when a fund borrows to increase its assets. This magnifies potential gains and losses, and also typically adds costs, which can lower returns.

5 Volatility weighting (vol-weighting), is a weighting mechanism used to better diversify an index. It typically weights constituents of an index weighted based on their daily standard deviation (volatility) over a period, often the last 180 trading days.

6 Standard deviation, when applied to the annual return of an investment, is a popular statistical measure that sheds light on historical volatility. More volatile stocks have higher standard deviations.

7 An inverse ETF—sometimes called a short ETF—uses derivative products (future and options, typically) to profit when the underlying product declines in value.

Want to learn more? Please contact your financial advisor or visit **www.victoryshares.com**

An investor should consider the Fund's investment objectives, risks, charges and expenses carefully before investing or sending money. This and other important information about the Fund can be found in the Fund's prospectus, or, if applicable, the summary prospectus. To obtain a copy, please visit www.victorysharesliterature.com, call your Financial Advisor, or call shareholder services at 866.376.7890. Read the prospectus carefully before investing.

Investing involves risk, including the potential loss of principal. There is no guarantee that dividends will be paid. The value of the equity securities in which the Fund invests may decline in response to developments affecting individual companies and/or general economic conditions.

You may lose money by investing in the Fund. There is no guarantee that the Fund will achieve its objective. The Fund has the same risks as the underlying securities traded on the exchange throughout the day.

Indexes are unmanaged and it is not possible to invest directly in an index.

VictoryShares ETFs are distributed by Foreside Fund Services, LLC. Victory Capital Management Inc. is the adviser to the VictoryShares ETFs. Victory Capital is not affiliated with Foreside Fund Services, LLC.

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V18.011 // 1Q 2018 VS In Brief: MindShare Volatility IB

20180326-452374

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