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Vident Core U.S. Bond Index (VUBDX) Quarterly Rebalance Review July 2017

Vident Financial, a principles-based index provider, undergoes quarterly rebalance of their fixed income index strategy.

Vident Core U.S. Bond Index™ (VUBDX) seeks to diversify interest rate and credit risks through the application of time-tested principles. In addition to diversifying across fixed income sectors, the strategy seeks to improve corporate bond exposures by screening for companies with stronger leadership, governance and creditworthiness factors.

Rebalance Goals:
The rules-driven objective quarterly reviews ensure the index continues to accurately reflect Vident's principles-based methodology and form an essential component of the index management. The goal is to identify changes in fixed income sector valuations for opportunity and risks. As well as, eliminate issuers with high risk of default and increase diversity by reducing concentrated positions. Rebalance changes and updates are driven by creditworthiness (made up of the leadership, governance and financial distress factors), duration and yield of issuers.

Outcomes of Current Rebalance
Interest rates remained range-bound and sectors of the bond market moved in sync with each other this quarter. Credit markets continued to perform better. The sector allocations remained similar to the previous quarter, with the exception of TIPS and Treasury allocations.

The portfolio no longer holds TIPS, which was the main contributor to the one-sided turnover at 15%. Over the last 6 months, subdued economic growth, price pressure, and weakened commodity prices contributed to decreased inflation expectations (IE). As a result, TIPS was the only sector that earned a negative return. In order to allocate to a non-core sector, the rules-based strategy behind VUBDX requires an attractive valuation with price/return momentum confirmation. Therefore, VUBDX did not allocate to TIPS as the confirmation was negative. The allocation that the index had for TIPS was added to the Treasury sector.

Treasury and High Yield sectors also contributed to the higher turnover to maintain credit quality and duration of the index methodology. Finally, from pre to post-rebalance, the portfolio yield* slightly decreased 0.12% from 2.77% to 2.65% and the effective duration** increased from 5.96 to 6.12.

About Vident Financial
Vident Financial develops and licenses transparent investment market solutions (indices and funds) based on a distinct philosophy and rigorous global research. Their investment strategies are founded upon sound principles that help identify environments where capital is going to thrive long-term. Many investment strategies are constructed by simply measuring single-factors such as a company's market capitalization or dividend yield. Vident's strategies are considered Systematic Active--measuring dozens of different factors (human productivity, economic freedom, quality leadership, etc.) embedded within multiple process layers. Such a systematic, rules-based strategy helps to avoid emotional decision-making biases as they identify companies who exhibit higher levels of principles. *Please visit www.videntfinancial.com for more information on Vident's indices.*

A link to the full methodology can be found here.

*Yield to Worst - The lowest potential yield that can be received on a bond without the issuer actually defaulting.
** Effective Duration - Duration is a measure of the sensitivity of the price of a bond to the change in interest rates.

All changes from this review will be implemented at the close of business Monday, July 31, 2017 and take effect from the start of trading on Tuesday, August 1, 2017.

Bloomberg is the source for all index data shown. The inception date of the VUBDX Index was 11/30/15. All information is provided for information purposes only.