



# **Victory Free Cash Flow International Index Series Methodology**

- Victory International Large Cap Free Cash Flow Index  
IFLO
- Victory International Large Cap Free Cash Flow Growth Index  
GRIN

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## Introduction

### Index Objective

The Victory Free Cash Flow International Index Series consists of two index families.

The Victory Free Cash Flow index family measures the performance of profitable companies that exhibit high free cash flow yield and higher growth characteristics. The indices are subject to sector, country and individual security weight constraints. The constituents are weighted by modified free cash flow yield.

The Victory Free Cash Flow Growth index family measures the performance of profitable companies that generate high free cash flow from invested capital and display higher growth characteristics. The indices are subject to sector, country and security weight constraints. The constituents are weighted by modified absolute momentum.

### Index Family & Highlights

The index families include:

- Victory International Large Cap Free Cash Flow Index

The strategy aims to select high quality companies from the International Developed ex US market by applying profitability screens. It then selects companies with the strongest free cash flow yield that exhibit higher growth. Higher free cash flow gives companies the ability to reinvest cash, pay dividends, or repay debts.

- Victory International Large Cap Free Cash Flow Growth Index

The strategy focuses on high quality profitable companies from the International Developed ex US market that display a positive free cash flow trend. It selects larger cap companies with the highest free cash flow relative to invested capital that also exhibit higher growth. The higher free cash flow of these companies enables them to reinvest cash, pay dividends, or repay debts.

### Dates

Reference Dates: First Friday of the last month of each calendar quarter.

Reconstitution Dates: Indexes reconstituted quarterly on the third Friday of the last month of each calendar quarter.

Weight Date: Six business days prior to rebalance effective date.

Rebalance Dates: Indexes are rebalanced quarterly on the third Friday of the last month of each calendar quarter.

## Supporting Documents

This methodology is meant to be read in conjunction with supporting documents providing greater detail with respect to the policies, procedures and calculations described herein.

The list of the main supplemental documents for this methodology can be found in the Methodologies and Governance tabs on the [Index Resources](#) page as follows:

Supporting Documents
Index Maintenance Policy
Index Governance
Index Policies
Methodology Policies
Glossary
Index Change and Consultation Policy

## Eligibility Criteria and Index Construction

### Universe

Index	Index Universe <sup>1</sup>
Victory International Large Cap Free Cash Flow Index	VettaFi Developed World ex United States Index
Victory International Large Cap Free Cash Flow Growth Index	VettaFi Developed World ex United States Index

### Eligibility Criteria

At each quarterly rebalancing, a company must satisfy the following requirements, as of the rebalancing reference date, to be eligible for index inclusion:

- Have ICE sector other than Financials, REITS and Quasi Government.
- Have positive average of forward 1-year and last 12-month historical Free Cash Flow.<sup>2</sup>
- Have positive average of forward 2-year and last 12-month historical EPS.<sup>3</sup>
- Have a float market cap in top 98 percentile.

<sup>1</sup> As of Rebalance/Reconstitution date.

<sup>2</sup> Forward one-year period is defined as next 12 months (Profitability screen)

<sup>3</sup> Forward two-year period is defined as next 12 months and second next 12 months (Profitability screen)

Please see Appendix for details

- Following index specific additional eligibility criteria is applied:

- IFLO –

Company may not be shareholder unfriendly:

A company is considered to have a Shareholder Friendly Year if:

(Net Sale or Repurchase of Stock) - (Cash Dividends Paid) < 0

A company is considered unfriendly if it has two or more unfriendly years in the last five years.

- GRIN –

Have a positive Free Cash Flow trend. If there are less than 400 eligible companies this condition is dropped.

Have non null one year momentum.

## Multiple Share Classes and Dual Listed Companies

Each company is represented once by the listing with the highest liquidity subject to meeting the eligibility criteria. The market capitalization of all traded common stock listings is combined for the purposes of ranking.

## Index Construction

### Constituent Selection

#### Victory International Large Cap Free Cash Flow Index

The selection of index constituents is done from the eligible companies as follows:

- Calculate free cash flow yield for all N eligible companies, defined under eligibility criteria.

$$\text{Free Cash Flow Yield} = \frac{\text{AVERAGE}(\text{forward 12 month free cash flow}, \text{trailing 12 month free cash flow})}{EV} \quad (1)$$

*Enterprise Value (EV) = Diluted Shares Outstanding \* Share Price + Preferred Stock + Total debt + Accumulated minority interest – Cash & cash equivalents*

- Calculate growth score for all N companies.

$$\text{Growth Score} = \text{average}(\text{Sales trend Z score}, \text{Ebitda trend Z score})$$

(2)

- Select the top 150 companies (P) with the highest free cash flow yield that have a growth score and are shareholder friendly.
- Select the top 100 companies (S) with the highest growth score from P.

### Victory International Large Cap Free Cash Flow Growth Index

The selection of index constituents is done from the eligible companies as follows:

- Calculate Free Cash Flow over Invested Capital for all eligible N companies.

$$\text{Free Cash Flow Over Invested Capital} = \frac{\text{Free Cash Flow}}{\text{Invested Capital}} \quad (1)$$

- Calculate growth score for all eligible N companies.

$$\text{Growth Score} = \text{average}(\text{Sales trend Z score}, \text{Ebitda trend Z score},) \quad (2)$$

- Select the top 150 companies (P) with the highest free cash flow over invested capital that have a growth score.
- Select the top 100 companies with the highest growth score from P.

For more details on the profitability, growth score and z-score calculations/ winsorization, please see Appendix.

### Constituent Weightings & Constraints

#### Victory International Large Cap Free Cash Flow Index

The steps are as follows:

- Cap the free cash flow yield at 15%
- Set initial constituent weight as follows:

$$c. \quad w_{i,t} = \frac{fcfy_{i,t} * (fcf_{i,t})^{\frac{1}{3}} * mdv\_multiplier_{i,t}}{\sum fcfy_{i,t} * (fcf_{i,t})^{1/3} * mdv\_multiplier_{i,t}}$$

(3)

where:

$w_{i,t}$  = weight of stock i at the close of day t  
 $fcf_{i,t}$  = free cash flow yield of stock i at the close of day t  
 $fcf_{i,t}$  = free cash flow used to calculate free cash flow yield of stock i at the close of day t  
 $mdv\_multiplier_{i,t}$ <sup>4</sup> = multiplier of stock i at the close of day t

- d. Cap the constituent weight at 4%.
- e. The sum of the constituent weights of each country cannot exceed 20% more than the weight of the country in the Starting Universe.
- f. The sum of the constituent weights of each sector cannot exceed the minimum of 45% or 20% more than the weight of the Sector in the Starting Universe.
- g. Weights in each sector over this cap are reduced pro-rata until the constraint is met. This weight is then distributed pro-rata to all other securities not part of a capped sector that are under the maximum constituent weight of 4%.
- h. Weights in each country over this cap are reduced pro-rata until the constraint is met. This weight is then distributed pro-rata to all other securities not part of a capped country that are under the maximum constituent weight of 4%.
- i. The last two steps are repeated iteratively until all the constraints are satisfied.

### Victory International Large Cap Free Cash Flow Growth Index

The steps are as follows:

- j. Calculate absolute momentum for the selected securities.
- k. Set initial constituent weight as follows:

$$w_{i,t} = \frac{\text{abs\_mom\_multiplier}_{i,t} * (fcf_{i,t})^{\frac{1}{3}} * mdv\_multiplier_{i,t}}{\sum \text{abs\_mom\_multiplier}_{i,t} * (fcf_{i,t})^{\frac{1}{3}} * mdv\_multiplier_{i,t}} \quad (2)$$

where:

$w_{i,t}$  = weight of stock i at the close of day t  
 $\text{abs\_mom}_{i,t}$  = risk adjusted absolute momentum of stock i at the close of day t  
 $fcf_{i,t}$  = free cash flow of stock i at the close of day t  
 $mdv\_multiplier_{i,t}$  = float cap adjustment of stock i at the close of day t  
 $\text{abs\_mom\_multiplier}_{i,t}$ <sup>5</sup> = risk adjusted absolute momentum adjustment of stock i at the close of day t

<sup>4</sup> mdv multiplier: For the top 50% of the constituents of the universe by float market cap, multiplier= 1 and for the bottom 50% of the constituents, multiplier is a modified cumulative normal distribution of market cap (CDF\*.5+.5)

<sup>5</sup> abs\_mom\_multiplier: Multiplier is cumulative normal distribution of z score of absolute momentum(CDF)

- l. Cap the constituent weight at 4%.
- m. The sum of the constituent weights of each country cannot exceed 20% more than the weight of the country in the Starting Universe.
- n. The sum of the constituent weights of each sector cannot exceed the minimum of 45% or 20% more than the weight of the Sector in the Starting Universe.
- o. Weights in each sector over this cap are reduced pro-rata until the constraint is met. This weight is then distributed pro-rata to all other securities not part of a capped sector that are under the maximum constituent weight of 4%.
- p. Weights in each country over this cap are reduced pro-rata until the constraint is met. This weight is then distributed pro-rata to all other securities not part of a capped country that are under the maximum constituent weight of 4%.
- q. The last two steps are repeated iteratively until all the constraints are satisfied.

## Index Maintenance

### Rebalancing

The Indexes are rebalanced on the “Rebalance Date” and additionally reconstituted on the “Reconstitution Date”. Pricing used in share weights used for reconstitutions are as of the “Weight Date”. Share weights for the rebalanced Indexes are computed as of the “Weight Date”. Changes to the Indexes related to the rebalances are as of the “Rebalance Date”. Additions are only made on reconstitution dates.

### Corporate Actions

Please refer to the Index Maintenance Policy document for information on Corporate Action processing.

### Base Date and History Availability

Index history availability, base dates and base values are shown in the table below.

Index	Price Index	Base Date	Base Value	Total Return Index	Base Date	Base Value
Victory International Large Cap Free Cash Flow Index	IFLO	12/17/1999	1000	IFLOT	12/17/1999	1000
Victory International Large Cap Free Cash Flow Growth Index	GRIN	12/17/1999	1000	GRINT	12/17/1999	1000

Date	Version	Previous	New
May 2025	1.0.0		Initial Version

## Index Calculation

Please refer to the Index Maintenance Policy document for information on index calculations.

## Index Governance

The index is governed and managed by a VettaFi Index Committee for the purpose of meeting the goals of the index. For more information, please refer to the Index Governance document.

## Index Policies

Please refer to the Index Policies document for information regarding Announcements, Holiday Schedules, Unexpected Exchange Closures, and Recalculation Policy.

## Contact Information

For any questions regarding an index, please contact: [index.production@vettafi.com](mailto:index.production@vettafi.com)

## Appendix

### **Profitability Screen:**

Time weighted consensus estimates for the next 12 months and second set of 12 months from the reference date as well as trailing 12 months from the reference date are used to calculate average FCF as well as EPS described under eligibility section. Priority is given for the estimated trailing 12-month data over actual data when available. The average is calculated based on the available observations.

### **Growth Score:**

Sales Trend: Slope of two forward years of sales and five years of trailing sales divided by the average of those years.

EBITDA Trend: Slope of two forward years of EBITDA and five years of trailing EBITDA divided by the average of those years.

### **Z score and Winsorization:**

The z-score for each of the fundamental variables ((Sales trend, EBITDA trend) for each security is calculated <sup>6</sup>using the mean and standard deviation of the relevant variable within each of the index universes (equation 1) The z-score above +3 is capped at +3 and z-score below -3 is capped at -3.

Final Growth Score:

Each security's Final Growth Score is the average of available z scores. Note: If EBITDA Trend Z-Score is not available, EPS Trend Z-Score is used in its place.

## Modifications

### Disclaimer

The Indices are proprietary to VettaFi. No use or publication may be made of an Index, or any of its provisions or values, without the prior written consent of VettaFi. VettaFi is not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. In no event shall VettaFi be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content.

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<sup>6</sup> If less than 50% of the eligible securities have trend value, then the corresponding z score does not contribute to the final growth score.