

# VettaFi Sequential Factor Algorithm Weighting Methodology

---

## Key Parameters

### **Max Weight**

- Defines the maximum weight a single company can hold within the index.

### **Max Sector Variance**

- Range by which the weight of a sector within the factor index can deviate from the underlying benchmark

### **Min ADV (Minimum Average Daily Value)**

- This liquidity minimum mandates a company must surpass this minimum to qualify for the universe. If this parameter is null or zero, all companies within the universe are eligible for the factor variant.

### **Primary Factor:**

- The initial filter applied to the index. For example, if the primary factor is the quality factor, the top X companies based on this factor are selected.

### **Primary Factor Count:**

- The number of companies to be selected is based on the primary factor.

### **Secondary Factor:**

- The second filter applied to the selected companies from the primary factor. For example, selecting the top Y companies based on dividend yield.

### **Secondary Factor Count / Final Constituent Count:**

- The number of companies to be selected based on the secondary factor from the primary filtered companies.

## Methodology

### 1. **Sorting and Ranking Factors:**

- Factor scores and percentiles are computed for the primary and secondary factors
- The percentage of a factor is based on their rank within a sector or the universe.

### 2. **Primary Filter:**

- Rank the companies using the primary factor.
- Select the top companies X (where X is the Primary Factor Count) based on the primary factor ranking.

### 3. **Secondary Filter:**

- The remaining X companies are singled out and ranked using the secondary factor.
- Based on the secondary factor rankings, the top Y (where Y is the Secondary Factor Count/ Final Constituent Count) companies are selected for the final index

### 4. **Max Security Weight:**

- If the calculated maximum-security weight exceeds the index maximum weight parameter, the security maximum weight is set to the index maximum weight.

### 5. **Initial Weights:**

- A company's initial weight in the index (prior to sector reallocation) is the factor/float adjusted market cap of the company relative to total adjusted market cap of the final constituent list.

### 6. **Sector Reallocation:**

- Assess and reallocate weights proportionally to ensure sector weights are within acceptable variances from the underlying benchmark weights.