



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

- **Victory US Large Cap Free Cash Flow Growth Index**      **GFLW**

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## Introduction

### Index Objective

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 and security weight constraints. The constituents are weighted by modified absolute momentum.

### Index Family & Highlights

The index family includes:

#### Victory US Large Cap Free Cash Flow Growth Index -

The strategy focuses on high quality profitable companies 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 US Large Cap Free Cash Flow Growth Index	SNR1000 – VettaFi 1000 US Large Cap 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 positive Free Cash Flow trend.
- 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 US Large Cap Free Cash Flow Index**

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<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

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

- Select top 400 companies (N) by float market capitalization from the eligible companies defined under eligibility criteria<sup>4</sup>.
- Calculate Free Cash Flow over Invested Capital for all N companies.
- Calculate growth score for all N companies.

$$\text{Growth Score} = \text{average}(\text{Sales trend Z score}, \text{Ebitda trend Z score}, \text{EPS Long term growth Z score}) \quad (1)$$

- 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

The steps are as follows:

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

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

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

$\text{fcf}_{i,t}$  = free cash flow of stock i at the close of day t

$\text{mdv\_multiplier}_{i,t}$ <sup>5</sup> = liquidity adjustment of stock i at the close of day t

- c. Cap the constituent weight at 4%.
- d. 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. 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%.

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<sup>4</sup> If less than 400 companies meet eligibility criteria, Free Cash Flow trend > 0 constraint is removed.

<sup>5</sup> GFLW - mdv\_multiplier = 1

- e. 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 US Large Cap Free Cash Flow Growth Index	GFLW	12/17/1999	1000	GFLWT	12/17/1999	1000

## 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.

Long-term growth (LTG): EPS Consensus Estimates of 3-5 Year Long Term Growth Rate

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

The z-score for each of the fundamental variables ((Sales trend, EBITDA trend and LTG) 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.