



# Vident Asset Management

## Form ADV Part 2A Brochure

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This brochure provides information about the qualifications and business practices of Vident Advisory, LLC (d/b/a Vident Asset Management). If you have any questions about the contents of this brochure, please contact us at (404) 267-1501 or [disclosure@videntam.com](mailto:disclosure@videntam.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

Registration of an investment adviser does not imply any certain level of skill or training.

Additional information about Vident Asset Management is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



## ITEM 2 – MATERIAL CHANGES

Form ADV Part 2A requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes. This is the first brochure for Vident Asset Management.



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## ITEM 4 – ADVISORY BUSINESS

Vident Asset Management (“Vident”) is a Delaware limited liability company formed in December 2016. We have been registered with the SEC as an investment adviser since January 2019. As of July 14, 2023, Vident is owned by Vident Capital Holdings, LLC which is controlled by MM VAM, LLC. MM VAM, LLC is owned by Casey Crawford. Prior to July 14, 2023, Vident was a wholly owned subsidiary of Vident Financial, LLC (“VF”). VF was a wholly owned subsidiary of the Vident Investors’ Oversight Trust (“VIOT”). Vince L. Birley, W. Baker Crow, and Mohammad I. Baki served as the trustees of VIOT.

### *Funds*

Vident serves as the investment adviser to the Vident ETFs, four exchange-traded funds which are series of ETF Series Solutions (“ESS”) and distributed by ALPS Distributors, LLC (“ALPS”). Vident is not affiliated with either ESS or ALPS.

Vident also serves as the sub-adviser for third-party exchange-traded funds registered under the Investment Company Act of 1940, as amended (“IC Act”) (“ETFs”), pooled investment vehicles structured as Undertakings for Collective Investment in Transferable Securities (“UCITS”), and other privately offered pooled investment vehicles including business entities operating as hedge funds (“private funds”). Hereinafter, third-party ETFs, UCITS, private funds, and the Vident ETFs are collectively referred to as the “Funds”.

Vident is responsible for trading portfolio securities and other investment instruments on behalf of the Funds, including selecting broker-dealers to execute purchase and sale transactions or in connection with any rebalancing or reconstitution of a Fund’s underlying investment index. Transactions are subject to the supervision of the Funds’ primary adviser, management company, and/or board of directors (or trustees), as applicable.

Funds may trade various combinations of any asset class or investment vehicle, including global equities, fixed income, ETFs, mutual funds, money market funds, private funds, commodities, futures, and liquid alternatives, as permitted by an underlying benchmark, index, active investment strategy, or the offering document of the Fund. Vident does not tailor its advisory services to the individual needs of investors in the Funds. Each Fund’s offering documents set forth their respective investment strategies, guidelines, and restrictions. Prospective investors should review these documents carefully before making any investment in the Funds.

Unless otherwise noted herein, this brochure will focus its discussion on the services Vident provides to separately managed accounts (“SMAs”).

### *Separately Managed Accounts*

Vident provides discretionary investment sub-advisory services to SMAs via agreements with third-party managers (the “TPMs”). Vident’s sub-advisory services are tailored to the individual



needs of each SMA account owner. Vident's current discretionary sub-advisory SMA mandates include laddered bond portfolios ("LBP") and equity strategy SMAs ("ESMA").

### Laddered Bond Portfolios

Vident manages the LBP according to a customized fixed income strategy that is individually tailored to meet the cash flow needs of each SMA account owner according to the SMA's investment guidelines. The SMA may also place investment guidelines and/or restrictions on the account.

### Equity Portfolios

Vident manages the ESMA based on an instructed investment strategy model determined by the TPMs and the SMA account owners, inclusive of any established investment guidelines and/or restrictions, capital gains tax schedules, and other requirements established by the account owners. The concept of ESMA include, when chosen by the SMA, the use of select environmental, governance, and/or social screens chosen by the SMA and as implemented by Vident utilizing third-party providers' investment criteria screens or a TPM's own investment screens (or otherwise collectively considered as "values-based investment" screens).

### Account Management

Each SMA may trade various combinations of any asset class or investment vehicle, including equities, American Depository Receipts ("ADRs"), fixed income securities, government securities, ETFs (inclusive of the Vident ETFs), mutual funds, and money market funds.

As sub-adviser, Vident will work with the TPMs to understand established investment guidelines and/or restrictions, capital gains tax schedules, and values-based investment requirements of each SMA. In turn, the TPMs work with their clients, the SMA account owners. Vident will monitor account performance on an ongoing basis and will make changes to the investment portfolio as required by changes in market conditions, fixed income security maturities, changes in a TPM's investment strategy model portfolio selected by the SMA account owner, and/or changes in the financial circumstances of the SMA account owner (as relayed to Vident by the TPMs). Vident will not work directly with the SMA account owners, rather it will rely on coordination with the TPMs on the management of the account. Trading activity is influenced by the frequency of rebalances, contributions, withdrawals, and fixed income security maturities (including call exercise).

Vident's discretionary investment authority allows our firm to determine the specific securities and the amount of securities to purchase, sell or exchange for the SMA. The SMA, through the TPM, may request in writing that Vident make specific investments for the account, and the SMA has the ability to impose investment restrictions.

ESMA is unable to receive initial public offering allocations due to unknown eligibility and restrictions around "trading away" (as discussed further below in **Item 12 – Brokerage Practices**).



Please refer to further related and important discussions below in **Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss** and **Item 16 – Investment Discretion**.

### *Indices*

Vident also assists in creating or developing indices for licensing (or model portfolios) that may be used by third parties or sponsors of registered funds. At present, Vident sponsors the four indices utilized by the Vident ETFs (these indices were created by Vident’s prior parent company).

### *Wrap Fees*

Vident does not participate in wrap fee programs.

### *Assets Under Management*

As of May 31, 2023, Vident had \$7,071,774,860 in regulatory assets under management. Of this, \$6,477,766,269 was managed on a discretionary basis and \$593,978,591 was managed on a non-discretionary basis.

## **ITEM 5 – FEES AND COMPENSATION**

Vident charges an asset-based fee for its investment advisory and sub-advisory services. Certain Funds may be subject to an annual minimum fee, while the SMAs are subject to minimum quarterly fees as discussed below. The asset-based fees, annual minimum fees, and quarterly minimum fees are negotiable on a case-by-case basis.

### *Funds*

Vident generally enters into a sub-advisory agreement directly with an ETF’s, UCITS’ and/or private fund’s primary adviser for its services. Vident has entered into an investment advisory agreement with the ESS board of trustees for the management of the Vident ETFs. Such agreements contain Vident’s fees, which are negotiated on a case-by-case basis. Such fees are generally disclosed in a Fund’s offering documents, though certain documents (i.e., private fund) may only contain a general discussion of Vident’s sub-advisory services. The Vident ETFs, ETFs and UCITS do not charge incentive fees; and while the private fund may charge an incentive fee, Vident does not receive any such fee.

### *Separately Managed Accounts*

Vident enters into a sub-advisory agreement directly with the TPMs for its services. Such agreements contain Vident’s sub-advisory fees, which are negotiated on a case-by-case basis with the TPMs. Sub-advisory fees are not negotiated with individual SMA account owners. SMAs will also enter into a separate investment management agreement with the TPMs and incur separate fees directly with such manager.



### Laddered Bond Portfolios

The sub-advisory fees for LBP range as follows:

- **Municipal Laddered Bond and Corporate Laddered Bond:** 20-30 basis points (“bps”) on the first \$5 million of assets, 15-25 bps on the assets between \$5 million and \$10 million, and 10-15 bps on the assets above \$10 million. Subject to a minimum fee of \$100 per quarter.
- **Taxable Laddered Bond and CD/Treasury Laddered Bond:** 10-20 bps on all assets. Subject to a minimum fee of \$100 per quarter.
- **Custom Laddered Bond:** 20-30 bps on the first \$5 million of assets, 15-25 bps on the assets between \$5 million and \$10 million, and 10-15 bps on the assets above \$10 million. Subject to a minimum fee of \$1,000 per quarter.

Such fees are negotiable on a case-by-case basis. Certain LBP accounts have been grandfathered into a prior fee schedule and as a result may be paying more or less in fees given the introduction of quarterly minimums and fee tiers depending on the SMA’s value of assets under management.

Such sub-advisory fees are payable quarterly in advance based on the value of the assets under management at the end of the preceding quarter. For periods of less than three months, Vident’s fees will apply on a *pro rata* basis, which means that the sub-advisory fee is payable in proportion to the number of days in the quarter for which the SMA is sub-advised by Vident. Should a SMA account terminate intra-quarter, Vident will refund any fees received but not earned for the remaining period in the quarter following account termination. A SMA account owner should work with its TPM should it wish to terminate Vident’s sub-advising of its account.

A TPM may terminate the sub-advisory agreement upon 61-days’ written notice to Vident.

Vident will deduct our fee directly from the SMA account through the qualified custodian holding the account’s funds and securities as contemplated in the sub-advisory agreement with the TPMs. Further, the qualified custodian is obligated to deliver an account statement to the SMA at least quarterly. These account statements will show all disbursements from the SMA account. The SMA account owner should review all statements for accuracy.

### Equity Portfolios

The sub-advisory fees for ESMA range as follows:

- **Standard:** 20-40 bps on the first \$20 million of assets, 15-30 bps on the assets between \$20 million and \$40 million, and 10-20 bps on the assets above \$40 million. Subject to a minimum fee of \$250 per quarter.



- **Custom:** 25-50 bps on the first \$20 million of assets, 20-45 bps on the assets between \$20 million and \$40 million, and 15-40 bps on the assets above \$40 million. Subject to a minimum fee of \$375 per quarter. The Custom fee schedule will be assessed if the SMA's TPM directs the account into a non-standard target strategy and/or the account owner elects to utilize an alternative third party screening provider or provides a customized list of issuers above a reasonable number determined by Vident.

The above fees are negotiable on a case-by-case basis.

Such sub-advisory fees are payable quarterly in advance based on the value of the assets under management at the end of the preceding quarter. For periods of less than three months, Vident's fees will apply on a *pro rata* basis, which means that the sub-advisory fee is payable in proportion to the number of days in the quarter for which the SMA is sub-advised by Vident. Should a SMA account terminate intra-quarter, Vident will refund any fees received but not earned for the remaining period in the quarter following account termination. A SMA account should work with its TPM should it wish to terminate Vident's sub-advising of its account.

A TPM may terminate the sub-advisory agreement upon 61-days' written notice to Vident.

Vident will deduct our fee directly from the SMA's account through the qualified custodian holding the account's funds and securities as contemplated in the sub-advisory agreement with the TPMs. Further, the qualified custodian is obligated to deliver an account statement to the SMA at least quarterly. These account statements will show all disbursements from the SMA account. The SMA account owner should review all statements for accuracy.

#### Other Fees for Separately Managed Accounts

SMA's typically bear certain expenses in addition to investment advisory fees the accounts pay to the TPMs and Vident's separate sub-advisory fees, including custodial fees, certain third party screening provider access, transaction charges (such as ticket charges or mark up/down on fixed income transactions) and/or brokerage fees when purchasing or selling securities. The broker-dealer or custodian through whom the SMA account transactions are executed typically imposes these custodial and brokerage charges and fees. Fees, if any, paid by the SMA account to the TPM and/or broker-dealer/custodian are separately negotiated without Vident's involvement. Vident is not a party to those separate agreements.

LBP and ESMA account owners enter into an investment advisory agreement with a TPM which covers the TPM's advisory services. The TPMs may have negotiated certain commission rates (including zero brokerage commissions), custodial fees, transaction charges, or other fees with its preferred custodian that SMA's may chose for services. While the fee structure of such agreements is outside this brochure, it is relevant to note that such arrangements will not extend to other brokers or other custodians as discussed further in **Item 12- Brokerage Practices**.

Vident does not share in any portion of the brokerage fees/transaction charges imposed by the broker-dealer or custodian.





When an SMA invests in ETFs, mutual funds, and/or money market funds, the SMA will indirectly bear its proportionate share of any fees and expenses payable directly by such funds (including, for example, the fund's investment advisory fees or applicable Rule 12b-1 fees). This is in addition to Vident's sub-advisory fees, or any fees charged by the TPM. However, if a SMA invests in the Vident ETFs, such investment will not be factored into the overall sub-advisory fees assessed to the SMA so as to avoid double-counting of fees paid to Vident. When placing SMAs in mutual funds and/or money market funds, Vident intends to utilize no-load share classes (meaning no upfront sales charges or Rule 12b-1 fees) when applicable and the SMAs meet the share classes' investment criteria.

Clients should note that similar advisory services may or may not be available from other investment advisers and asset managers for similar or lower fees.

### *Indices*

Vident's fees for index (or model portfolio) construction are negotiable and depend on the negotiated agreement between Vident and the end recipient/licensor of the index (or model portfolio).

## **ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Vident does not charge clients a performance-based or incentive fee.

Vident may manage investments for a variety of clients including the Vident ETFs, third-party ETFs, UCITS, private funds and SMAs. Potential conflicts of interest can arise from the side-by-side management of these clients based on fee structures. Vident has policies and procedures designed and implemented to ensure that all clients are treated fairly and to prevent this conflict from influencing the allocation of investment opportunities among clients. Please see **Item 12 – Brokerage Practices**.

## **ITEM 7 – TYPES OF CLIENTS**

Vident currently provides investment advisory services to the Vident ETFs and sub-advisory services to third-party ETFs, UCITS, private funds, and SMAs. SMA account owners include individuals, high net worth individuals, and charitable organizations.

Vident requires an LBP account to have a minimum of \$300,000 in investable assets, and an ESMA account to have a minimum of \$500,000 in investable assets. The minimum investable assets is negotiable. Vident may approve an account to fund with a lower amount of investable assets depending on the strategy to be implemented or where the SMA agrees to meet the stated minimum of investable assets within a mutually agreed upon timeframe.



## ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### *Investment Strategies*

#### Funds

With regard to the ETFs, UCITS, and private funds, Vident does not have any specific proprietary investment strategies; rather, Vident tracks the underlying benchmarks, indices, investment models or other applicable investment mandates of such accounts. Vident serves as the investment adviser and index provider for the Vident ETFs. Where Funds seek to track the performance, before fees and expenses, of an index, Vident may use a “replication” strategy to achieve its investment objective, meaning it will invest in all of the component securities of the index, or a “representative sampling” strategy, meaning it may invest in a sample of the securities in the index whose risk, return and other characteristics closely resemble the risk, return and other characteristics of the index as a whole.

Vident may use any asset class or investment vehicle, including global equities, fixed income, ETFs, mutual funds, private funds, REITS, commodities, futures, and liquid alternatives, permitted by an underlying benchmark, index, model strategy or the offering document of each Fund.

Investors should refer to a Fund’s offering documents for further information concerning its investment strategy.

#### Separately Managed Accounts

##### **Laddered Bond Portfolios**

With respect to LBP, Vident maintains a municipal laddered bond strategy, a corporate laddered bond strategy, a taxable laddered bond strategy, a CD/Treasury laddered bond strategy, and a custom laddered bond strategy (in certain circumstances) that can be tailored to the cash flow needs of the individual SMA. The average duration of bonds within each type of LBP can vary from one to ten years but is typically at or around three to five years. Vident will implement the management and trading of the selected investment strategy, taking into consideration established investment guidelines and/or restrictions.

The municipal laddered bond strategy primarily invests in federal tax-exempt municipal bond securities. The corporate laddered bond strategy primarily invests in corporate bonds having an investment grade rating from at least one of the three major rating agencies. The taxable laddered bond strategy primarily invests in U.S. Treasury debt, U.S. government agency debt, and/or investment-grade corporate debt. The CD/Treasury laddered bond strategy may invest in newly issued brokerage certificates of deposit, U.S. Treasury notes, or a combination thereof. Under certain circumstances (e.g., an anticipated change in a SMA account owner’s future tax status), a custom bond strategy may be employed that contains both municipal bond securities and a



mixture of taxable bonds (Treasury, government agency, and/or investment-grade corporate debt). Such a custom strategy would be employed with the goal of maximizing the SMA's taxable-equivalent yield from the portfolio. An LBP portfolio may deviate temporarily from its stated mandate based on guidance from the TPM.

### Equity Portfolios

With respect to ESMA, each account will be able to select an investment strategy model offered by the TPMs or a mutually agreed upon custom strategy that is generally not offered by the TPMs. Vident will implement the management and trading of the selected investment strategy model, taking into consideration established investment guidelines and/or restrictions, capital gains tax schedules, and applicable values-based investment screens.

Vident may use any asset class or investment vehicle, including equities, ADRs, fixed income, ETFs (including the Vident ETFs), mutual funds, and money market funds. For most ESMA's, equity securities listed outside of the U.S. are cost prohibitive to trade with the ESMA's custodian (due to commission rates and foreign exchange transaction fees), therefore Vident anticipates using ADRs and ETFs to gain exposures to non-U.S. securities. When using ADRs, Vident will run an analysis to select ADRs that most closely emulate the desired international exposure in the portfolio. When using ETFs, Vident will search for funds that have a tracking error reasonable for the ESMA's investment strategy benchmark, while also taking into consideration the fund's total expense ratio.

Vident does not generally anticipate investing ESMA's in the Vident ETFs. However, in certain cases, Vident may find that the ESMA account size warrants investment in the Vident ETFs to assist in limiting tracking error against the ESMA's intended investment strategy benchmark. In such cases, Vident will not include such Vident ETF investments in the calculation of the SMA sub-advisory fee as discussed above in **Item 5 – Fees and Compensation**.

### Restrictions

Vident will also exclude certain securities from a SMA's account as instructed by the SMA account owner. This exclusion will be either by a SMA requesting certain securities be removed, or by removing certain business types selected by a SMA. Such exclusions will be discussed between the SMA account owner and its TPM. Vident will typically not have any immediate contact with the SMA account owner and will work with the respective TPM on matters affecting the account.

Certain SMA's may seek to impose certain values-based investment screens chosen from a menu of options presented to the SMA at the time of its account opening or during the life of the account; though the SMA account owner may change its selection(s) at any time. Such options and screens are based on the methodologies presented and implemented by a third-party vendor as captured through Vident's order management system, and other third-party vendors that provide a manual list for Vident's implementation. A SMA account owner's perception may differ from Vident's or the third-party vendors' on how to judge an issuer's adherence to certain values-



based investing requirements. While SMAs generally cannot customize or edit the methodologies of the values-based investment screens used on its account, the SMA account owner can direct that certain distinct issuers be held or not be held.

### **Account Funding, Monitoring, and Unsupervised Assets**

SMAs may look to utilize subscriptions in-kind to fund the opening of their accounts. In some instances, the securities being transferred may not be appropriate for the new account's investment strategy. Vident will work with the TPMs to understand the SMA's tax budget (i.e., ability to realize capital gains) or other account limitations to assist Vident in setting an investment plan of bringing the SMA in-line with its intended investment strategy.

Vident has risk management systems that allow investment personnel to monitor tracking error, factor exposure, beta, and scenario analysis. Investment personnel review such reports as necessary and during their quarterly meetings.

Under certain circumstances, SMA account owners may request that Vident's discretionary authority be limited as to certain assets in the account, while retaining discretion over other portions of the account. Such assets are commonly referred to as "Unsupervised Assets." SMAs agree that Vident will have no fiduciary obligation as to, or discretion over, Unsupervised Assets. Vident may agree to hold Unsupervised Assets together with supervised assets as an accommodation to the SMA, but Vident has the right to reject doing so. In particular, SMAs should expect Vident not to provide investment advice, vote proxies, or advise as to or effect corporate action decisions with regard to such assets.

### **Indices**

Indices created and sponsored by Vident have established methodologies set for the rules for constituent criteria, rebalancing, universe definition, and corporate actions. Vident's Index Policy Committee oversees each index and meets on a regular basis. For the Vident ETFs, a description of each respective index is included in each fund's offering document.

Vident has established a governance framework designed to prevent the use and dissemination of material non-public information with respect to Index Policy Committee which makes decisions on the index or portfolio composition, methodology and related matters from those that may perform portfolio management or trading activities. Vident engages unaffiliated third parties to calculate the indices, and to calculate and disseminate the index values.

### **Investment Risks**

All investing involves risk, including the permanent loss of capital. Vident does not guarantee the future performance of a Fund, SMA, or index, the success of any investment decision or strategy, the reduction of tracking error, or the success of the overall management of a Fund or SMA. Clients should understand that investment decisions made for their accounts by Vident are subject to various market, liquidity, commodity, currency, economic, political, and business risks,



and that those investment decisions will not always be profitable. Clients should be prepared to bear the risk of loss that accompanies investing in securities, as well as other burdens and risks associated with ownership of securities, including tax reporting, litigation, and safekeeping.

While the Funds, SMAs, and/or indices may share similar investment risks, the following focuses on those investment risks applicable to the sub-advised SMAs (in alphabetical order). With respect to the Funds, key investment and other risks are set forth in each Fund's offering documents (i.e., prospectus and Statement of Additional Information). Vident encourages a review of such documents to fully understand the risks of the Funds prior to any potential investment.

**Asset-Backed and Mortgage-Backed Securities Risk.** Asset-backed and mortgage-backed securities are subject to risk of prepayment. These types of securities may also decline in value because of mortgage foreclosures or defaults on the underlying obligations. Mortgage-backed securities offered by non-governmental issuers are subject to other risks as well, including failures of private insurers to meet their obligations and unexpectedly high rates of default on the mortgages backing the securities. Other asset-backed securities are subject to risks similar to those associated with mortgage-backed securities, as well as risks associated with the nature and servicing of the assets backing the securities. Asset-backed securities may not have the benefit of a security interest in collateral comparable to that of mortgage assets, resulting in additional credit risk.

**Business, Terrorism and Catastrophe Risk.** Clients will be subject to the risk of loss arising from exposure that they may incur, indirectly, due to the occurrence of various events, including hurricanes, earthquakes, and other natural disasters, terrorism, war, and other catastrophic events such as a pandemic. These catastrophic risks of loss can be substantial and could have a material adverse effect on Vident's business and clients' portfolios including investments made by Vident.

**Call Risk.** Call risk is the possibility that during periods of falling interest rates, a fixed income security will be prepaid (called) prior to its expected maturity date. Such a prepayment produces cash flow that may need to be reinvested at a lower interest rate, causing the overall portfolio return to decline. To limit call risk, LBP will generally be constructed using non-callable bonds.

**Credit Risk.** Credit risk is the potential that the credit rating of an individual bond may be lowered. Credit risk is related to the credit quality of the issuer, a reflection of the market's judgement concerning the ability of the issuer to meet its obligations over the life of the bond. In general, issues with higher credit quality earn a lower return. Because LBP portfolios will be invested to maintain a high level of credit quality, credit risk is expected to be low.

**Cybersecurity Risk.** Vident and its service providers are subject to risks associated with a breach in cybersecurity. Cybersecurity is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from both intentional cyber-attacks and hacking by other computer users as well as unintentional



damage or interruption that, in either case, can result in damage or interruption from computer viruses, network failures, computer and telecommunications failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes.

A cybersecurity breach could expose both Vident and its clients to substantial costs (including, without limitation, those associated with forensic analysis of the origin and scope of the breach, increased and upgraded cybersecurity, identity theft, unauthorized use of proprietary information, litigation, adverse investor reaction, the dissemination of confidential and proprietary information and reputational damage), civil liability as well as regulatory inquiry and/or action. In addition, any such breach could cause substantial withdrawals from a client account. While Vident has established an incident response plan in the event of, and risk management strategies, systems, policies and procedures to seek to prevent, cybersecurity breaches, there are inherent limitations in such plans, strategies, systems, policies and procedures including the possibility that certain risks have not been identified. Furthermore, Vident and its clients cannot control the cybersecurity plans, strategies, systems, policies and procedures put in place by other service providers to the clients and/or the issuers in which clients invest.

**Default Risk.** Default risk is the possibility that a bond issuer will fail to make timely payments of interest or principal and is viewed as the most extreme form of credit risk.

**Depository Receipts Risk.** To the extent the ESMAs invest in stocks of foreign corporations, the ESMAs' investment in securities of foreign companies may be in the form of depository receipts or other securities convertible into securities of foreign issuers; normally via ADRs. ADRs are dollar-denominated receipts representing interests in the securities of a foreign issuer, which securities may not necessarily be denominated in the same currency as the securities into which they may be converted. ADRs are receipts typically issued by U.S. banks and trust companies which evidence ownership of underlying securities issued by a foreign corporation. Generally, ADRs in registered form are designed for use in domestic securities markets and are traded on exchanges or over-the-counter in the U.S. The ESMAs will not invest in any unlisted Depository Receipts or any Depository Receipt that Vident deems to be illiquid or for which pricing information is not readily available.

**Diversification Risk.** Diversification will be achieved by holding numerous individual securities, issuer types, sectors, and/or laddering of fixed income securities' maturities. The smaller relative size of a SMA's portfolio compared to that of, for example, a mutual fund, however, could result in less diversification and, therefore, slightly more issuer specific risk.

**Emerging Markets Risk.** Securities of companies in emerging markets may be more volatile than those companies in developed markets. Markets, economies, and government institutions are generally less developed in emerging market countries. Investing in securities of companies in emerging markets may entail special risks relating to the potential for social instability and the risks of expropriation, nationalization, or confiscation. Investors may also face





the imposition of restrictions on foreign investment or the repatriation of capital and a lack of hedging instruments.

**Equity and Fixed Income Risk.** A principal risk of investing in the SMA strategies managed by Vident is equity and fixed income risk. This type of risk is the probability that the prices of the securities held by a client will fall due to general market and economic conditions, perceptions regarding the industries in which the companies issuing the securities participate, and the issuer company's particular circumstances. Fixed income securities' prices and interest rates move in the opposite direction of one another, meaning as one rises, the other falls.

**Exchange-Traded Fund Risk.** As with all ETFs, their shares may be bought and sold in the secondary market at market prices. Although it is expected that the market price of an ETF's shares will approximate the fund's net asset value ("NAV"), there may be times when the market price of shares is more than the NAV intra-day (premium) or less than the NAV intra-day (discount) due to supply and demand of shares or during periods of market volatility. This risk is heightened in times of market volatility, periods of steep market declines, and periods when there is limited trading activity for shares in the secondary market, in which case such premiums or discounts may be significant.

**Foreign Securities and Currency Risk.** Investments in foreign securities involve risks relating to political, social, and economic developments abroad, as well as risks resulting from the differences between the regulations to which U.S. and foreign issuers are subject. These risks included expropriation, differing accounting and disclosure standards, currency exchange risks, settlement difficulties, market illiquidity, difficulties enforcing legal rights and greater transaction costs.

**General Market Risk.** The value of the portfolio may fluctuate based on the performance of the portfolio's investments and other factors affecting the securities markets generally.

**Government-Sponsored Entities Risk.** The LBP may invest in securities issued or guaranteed by government-sponsored entities. However, these securities may not be guaranteed or insured by the U.S. Government and may only be supported by the credit of the issuing agency. Securities issued by U.S. Government agencies and instrumentalities have different levels of U.S. Government credit support. Some are backed by the full faith and credit of the U.S. Government, while others are supported by only the discretionary authority of the U.S. Government or only by the credit of the agency or instrumentality. No assurance can be given that the U.S. Government will provide financial support to U.S. Government-sponsored instrumentalities because they are not obligated to do so by law. Guarantees of timely prepayment of principal and interest do not assure that the market prices and yields of the securities are guaranteed.

**High-Yield Fixed Income Securities Risk.** High-yield fixed income securities or "junk bonds" are fixed income securities rated below investment grade and are subject to additional risk factors such as increased possibility of default, illiquidity of the security, and changes in value based on public perception of the issuer. Such securities are generally considered speculative because they present a greater risk of loss, including default, than higher quality debt securities.



**Income Risk.** Income risk is the potential for a decline in a portfolio's total income due to falling market interest rates. A SMA portfolio's income and proceeds from maturing bonds is typically reinvested at future interest rates, which can fluctuate substantially from the portfolio's initial interest rates. The LBP portfolio will have laddered maturities, which averages interest rates from multiple periods, lowering the portfolio's exposure to income risk.

**Index-Related Risks.** There is no assurance that the index provider or any agents that may act on its behalf will compile the index accurately, or that the index will be determined, composed, or calculated accurately. While the index provider provides descriptions of what the index is designed to achieve, neither the index provider nor its agents provide any warranty or accept any liability in relation to the quality, accuracy or completeness of the index or its related data, and they do not guarantee that the index will be in line with the index provider's methodology. Errors in respect of the quality, accuracy and completeness of the data used to compile the index may occur from time to time and may not be identified and corrected by the index provider for a period of time or at all, particularly where the indices are less commonly used as benchmarks by funds or managers. Such errors may negatively or positively impact a portfolio managed to an index strategy ("index portfolio"). There is no guarantee that an index portfolio will achieve a high degree of correlation to its index and therefore achieve its investment objective. Market exposure and regulatory restrictions could have an adverse effect on the index portfolio's ability to adjust its exposure to the required levels in order to track its index.

**Inflation Risks.** The value of assets or income from investments may be lower in the future as inflation decreases the value of money. As inflation increases, the value of a portfolio's assets can decline, as can the value of a portfolio's distributions.

**Interest Rate Risk.** Interest rate risk is the potential for fluctuations in bond prices due to changing interest rates. In general, bond prices vary inversely with interest rates. That is, if interest rates rise, bond prices tend to fall; if interest rates fall, bond prices tend to rise. In addition, longer-maturity bonds generally fluctuate more in price than shorter-maturity bonds but may offer higher yields to compensate investors for this risk.

**Issuer Risk.** Current reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility.

**Issuer Specific Risk.** The value of an individual security can be more volatile than the market as a whole and can perform differently from the market. An account could lose all of its investment in a company.

**Large Capitalization Risk.** The securities of large, established companies may be unable to respond quickly to new competitive challenges such as changes in technology and consumer tastes. Many large companies may not be able to attain the high growth rate of successful smaller companies, especially during extended periods of economic expansion.

**Liquidity Risk.** Trading opportunities are more limited for fixed income securities that have not received any credit ratings, have received rating below investment grade, or are not widely





held. These features make it more difficult to sell or buy a security at a favorable price or time. Consequently, a portfolio may have to accept a lower price to sell a security, sell other securities to raise cash or give up an investment opportunity, any of which could have a negative effect on its performance. Infrequent trading of securities may also lead to an increase in their price volatility. Liquidity risk also refers to the possibility that a portfolio may not be able to sell a security or close out a position in a timely manner. If this happens, the portfolio will be required to hold the security or keep the position open, and it could incur losses.

**Management Risk.** The portfolio manager's judgments about the attractiveness, value and potential appreciation of the portfolio's investments may prove to be incorrect and the investment strategies employed by the portfolio manager in selecting investments for the portfolio may not result in an increase in the value of your investment or in overall performance equal to other similar investment vehicles having similar investment strategies.

**Mid-Capitalization Risk.** The securities of mid-capitalization companies may be more vulnerable to adverse issuer, market, political, or economic developments than securities of large-capitalization companies, but they may also be subject to slower growth than small-capitalization companies during times of economic expansion. The securities of mid-capitalization companies generally trade in lower volumes and are subject to greater and more unpredictable price changes than large capitalization stocks or the stock market as a whole, but they may also be nimbler and more responsive to new challenges than large capitalization companies. Some mid-capitalization companies have limited product lines, markets, financial resources, and management personnel and tend to concentrate on fewer geographical markets relative to large-capitalization companies.

**Municipal Securities Risk.** The municipal securities market is volatile and can be significantly affected by adverse tax, legislative or political changes, and the financial condition of the issuers of municipal securities. Income from municipal bonds, while exempt from federal taxes, may be subject to state and local taxes and at times the alternative minimum tax. Vident does not provide legal or tax advice.

**Portfolio Turnover Risk.** Certain investment strategy models are rebalanced on a pre-determined schedule by the third-party manager, which may result in the account experiencing excess portfolio turnover. Excessive portfolio turnover may also occur if a SMA funds its new account with securities from another account that do not meet the criteria for the selected investment strategy or values-based investment screens chosen by the SMA. The greater portfolio turnover may lead to greater transactions costs (generally applicable to situations where trades are not executed with the SMA's chosen custodian or exceed a certain traded share threshold) to the account, including the payment of transaction costs on the purchase and sale of securities, which could have an adverse effect on the account's total rate of return.

**Prepayment and Extension Risk.** Many types of fixed income securities are subject to prepayment risk. Prepayment occurs when the issuer of a fixed income security can repay principal faster than expected prior to the security's maturity. Fixed income securities subject to prepayment risk can offer less potential for gains during a declining rate environment and similar



or greater potential for loss in a rising interest rate environment. In addition, the potential impact of prepayment features on the price of a fixed income security can be difficult to predict and result in greater volatility. On the other hand, rising interest rates could cause prepayments of the obligations to decrease. This is known as extension risk and may increase the portfolio's sensitivity to rising rates and its potential for price declines.

**Restricted Securities Risk.** The SMAs may invest in restricted securities (securities with limited transferability under the securities laws) acquired from the issuer in "private placement" transactions. Private placement securities are not registered under the Securities Act of 1933, as amended and are subject to restrictions on resale. They are eligible for sale only to certain qualified institutional buyers and are not sold on a trading market or exchange. While private placement securities offer attractive investment opportunities otherwise not available on an open market, because such securities are available to few buyers, they are often both difficult to sell and to value.

**Small Capitalization Risk.** The securities of small companies may involve greater risks than investing in larger, more established issuers. Small companies typically have relatively lower revenues, limited product lines and lack of management depth and may have a smaller share of the market for their product or service than large companies may. Stocks with small capitalizations tend to have less trading volume than stocks with large capitalizations. Less trading volume may make it more difficult for our portfolio managers to sell securities of small-capitalization companies at quoted market prices. There are periods when investing in small-capitalization stocks fall out of favor with investors and the stocks of small-capitalization companies underperform.

**Tax Loss Harvesting.** Vident sub-advises ESMA with tax loss harvesting (i.e., effect or order a transaction so as to realize a loss or gain) in mind. The TPM or ESMA account owner may request that Vident maximize loss harvesting. In such case, Vident reviews the tax loss harvesting request to ensure that the account is discretionarily managed by Vident and that the tax harvesting instructions provided are clear and precise. If Vident deems such instructions to be clear and precise, then it will make reasonable efforts to process the tax harvesting request within stated guidelines. ESMAs should be aware that events such as market changes (during the period before instructions are complied with and decisions are made) may increase or reduce the amounts of losses and gains that are realized from the ESMA's portfolio at any time. Additionally, this activity may adversely affect the portfolio's performance and may increase the volatility of its results. ESMAs are reminded to consult a tax advisor prior to making any tax harvesting request, as Vident does not provide tax advice. Although Vident will make reasonable efforts to avoid wash sale rule (the act of selling a security at a loss for the tax benefits, but then purchasing the same or a similar security within a 30-day period) violations, Vident cannot guarantee that wash sale rule violations will not occur during tax loss harvesting activity. In some cases, Vident may execute a trade that will generate a wash sale rule violation when it deems this in the best interest of the ESMA. Furthermore, since tax laws are subject to change, future tax liabilities may increase and therefore tax loss harvesting may not result in the anticipated benefits. Finally, there is no guarantee that the U.S. Internal Revenue Service will not limit and/or prohibit recognition of realized losses.



**Tax Reform Risk.** Occurs if a flat tax or other significant tax reform were implemented, reducing, or eliminating altogether the present tax benefits of holding municipal securities. Historically, tax reform legislation has grandfathered in outstanding issues, but there is no guarantee that this will occur.

**Tracking Error Risks.** The divergence between the performance of a client's account and the designated index, positive or negative, is called "tracking error." Tracking error can be caused by many factors, such as restrictions imposed by a client on the types of securities held in the account; available loss harvesting opportunities; regulatory, operational, custodial or liquidity constraints; corporate transactions; asset valuations; transaction costs and timing; tax considerations; investments in securities not included in the index or ADRs; and index rebalancing. In addition, cash flows into and out of a client account, purchases and sales of securities, expenses and trading costs all affect the ability of a client account to track the performance of the index, because the index does not have to manage cash flows and does not incur any costs.

**Valuation Risk.** The prices provided by the SMA's custodian, pricing service or independent dealers may be different from the prices used by other SMAs or from the prices at which securities are actually bought and sold. The prices of certain securities provided by a custodian or pricing services may be subject to frequent and significant change and will vary depending on the information that is available.

**Values-Based Investment Screen Risk.** Certain SMAs may impose certain environmental, faith-based, governance, and/or social screens. Such screens may lessen the universe of investments than that of other SMAs and therefore the SMA's implemented strategy may underperform the market as a whole if such investments underperform the market. The SMA may forgo opportunities to gain exposure to certain attractive companies, industries, sectors or countries and it may choose to sell a security when it might otherwise be disadvantageous to do so. Responsible investing and screening are subjective by nature, and Vident relies on screening methodologies provided by third-party vendors. A SMA account owner's perception may differ from Vident's or the third-party vendor's on how to judge an issuer's adherence to responsible investing principles.

**When-Issued Securities Risk.** The price or yield obtained in a when-issued transaction may be less favorable than the price or yield available in the market when the securities delivery takes place, or that failure of a party to a transaction to consummate the trade may result in a loss to the portfolio or missing an opportunity to obtain a price considered advantageous.

**Zero-Coupon Bonds Risk.** Zero-coupon bonds do not pay interest on a current basis and may be highly volatile as interest rates rise or fall. In addition, while such bonds generate income for purposes of generally accepted accounting standards, they do not generate cash flow and thus could cause the portfolio to be forced to liquidate securities at an inopportune time in order to distribute cash, as required by tax laws.



## **ITEM 9 – DISCIPLINARY INFORMATION**

There are no reportable legal or disciplinary events for Vident or its employees.

## **ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

In addition to our status as a registered investment adviser with the SEC, Vident is registered as a Commodity Trading Advisor with the Commodity Futures Trading Commission and is a member of the National Futures Association.

Vident serves as sub-adviser to certain SMAs via a sub-advisory agreement with Ronald Blue Trust, Inc. (“RBT”). RBT is a Tennessee-chartered public trust company. Vident and RBT are under common control.

ALPS acts as distributor of the Vident ETFs. Certain Vident employees are registered representatives of ALPS. These individuals do not receive commissions, fees, or other remuneration in connection with securities transactions.

## **ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Vident has adopted a Code of Ethics (“Code”), pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended (“Advisers Act”) and Rule 17j-1 under the IC Act, that describes the standards of business conduct that it requires of employees and accounts owned predominantly by persons associated with Vident, and establishes procedures intended to prevent Vident, and its personnel and certain of their immediate family members, from inappropriately benefiting from Vident’s relationships with its clients. The Code is reviewed annually and updated as applicable. The Code provides that:

- The policies and procedures are based on general concepts of fiduciary duty to clients;
- Each employee’s professional activities and personal investment activities must be consistent with the Code, which is designed to help avoid actual or potential conflicts between the interests of clients and those of Vident or its employees;
- Employees must abide by the standards set forth in Rule 204A-1 and Rule 17j-1; and
- Employees will be required to act with competence, dignity and integrity, in an ethical manner, when dealing with clients, the public, prospective clients or investors, third-party service providers and fellow employees.

Vident requires certain employees referred to as “Reporting Persons” to obtain prior written approval before acquiring a direct or indirect beneficial ownership (through purchase or



otherwise) of: (i) a “Reportable Security”, (ii) cryptocurrency, or (iii) a security in a limited offering (generally meaning a private placement, such as a hedge fund or private equity fund). Reporting Persons are prohibited from acquiring a security in an initial public offering.

Reporting Persons are subject to certain restrictions as to the purchase and sale of their personal security holdings to the extent that a client advised by Vident holds or is expected to trade the same security, though a *de minimis* exception applies to certain trading. The Code also contains restrictions on, and procedures designed to help prevent, inappropriate trading while Vident is in possession of material non-public information.

Vident will provide a copy of its Code to any client or prospective client upon request. Such a request may be made by submitting a written request to Vident by email or to the address on the cover page of this brochure.

Vident does not have a material interest in any securities traded in a client’s account (notwithstanding its involvement in the Vident ETFs as discussed previously). Vident does not engage in principal transactions with its clients. A principal transaction is one in which Vident or an affiliate of Vident sells or purchases a security for its own account, and the other party to the transaction is a Vident client.

## ITEM 12 – BROKERAGE PRACTICES

Vident has discretion in deciding what brokers-dealers and other counterparties clients will use and in negotiating rates of brokerage compensation (subject to any restrictions agreed on between Vident and an applicable client). For ESMAs, Vident generally limits to trading with the applicable ESMA’s custodian given the rates negotiated by the TPMs, while the LBP generally “trade away” from the custodian as discussed further below.

### *General Selection Criteria*

It is Vident’s policy to seek best execution, based upon a number of considerations, from the broker-dealers and other counterparties with whom it places trades for execution on behalf of its clients; though Vident may be limited in this regard as detailed below under “Directed Brokerage”.

While trade price is often a significant quantitative factor in best execution, Vident also evaluates qualitative execution factors, such as execution capability overall, order flow in a stock, market making capabilities, promptness of execution, the ability to access various market centers, the ability to execute non-standard transactions, the ability to successfully process allocations and block trades, broker quality overall, client service and reporting, data security and protection of client personal information, the financial condition and stability of the broker-dealer and other counterparties, the ability or willingness to maintain and commit adequate capital when necessary to complete trades, technology integration capabilities, fee structure and reputation and integrity of the broker-dealer and other counterparties. The determining factor is not the lowest possible commission cost alone.



## Soft Dollars

Vident utilizes research-related products and other brokerage services on a soft dollar commission basis. The term “soft dollars” refers to the receipt by Vident of products and services provided by such brokers without any cash payment by Vident, a Vident ETF, or an ETF, based on the volume of revenues generated from brokerage commissions for transactions executed for the Vident ETFs and certain ETFs (as permitted by the ETF client) (collectively, the “Soft Accounts”). Section 28(e) of the Securities Exchange Act of 1934, as amended provides a “safe harbor” to advisers who use soft dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the adviser in the performance of investment decision making responsibilities.

Vident’s soft dollar policy is to make a good faith determination of the value of the product or services in relation to the commissions paid. Vident maintains soft dollar arrangements for those products and services, which assist Vident, in its investment decision-making process. Vident uses such products and services in the investment decision-making for all clients, not just for those accounts whose commissions may be considered to have been used to pay for the products or services.

When Vident uses the Soft Accounts’ brokerage commissions to obtain research-related products or brokerage services, it receives a benefit because it does not have to produce and/or pay for the products or services. Therefore, Vident may have an incentive to select or recommend a broker based on its interest in receiving products or services, rather than on a Soft Account’s interest in receiving the most favorable execution. The Soft Accounts may pay commissions to brokers providing soft dollar research, products and other services that are higher than those charged by brokers for “execution only” transaction commissions. Vident also participates in a commission sharing arrangement where a single broker, not used for traded execution, aggregates soft dollar credits when other brokers participating in the arrangement execute trades for Vident on a soft dollar basis. As noted above, Vident addresses this possible conflict by seeking best execution based upon a number of considerations, including the value of the obtained soft dollar products and services.

In the event Vident obtains any mixed–use products or services on a soft dollar basis (where a portion of the product or service is deemed non-research related), Vident will make a reasonable allocation of the cost between that portion which is eligible as research or brokerage services and that portion which is not so qualified. The portion eligible as research or brokerage services will be paid for with discretionary Soft Account commissions and the non-eligible portion (e.g., computer hardware, accounting systems, etc.) which is not eligible for the safe harbor provided under Section 28(e) will be paid for with Vident’s own funds. For any mixed-use products or services, Vident will maintain appropriate records of its reviews and good faith determinations of its reasonable allocations.





### *Usage Incentive Program*

For certain fixed income security trading, Vident may utilize a platform service that assists in putting program trades out to bid to various broker-dealers in the platform's network. As an incentive for using this platform service, Vident, under the rules of the service's incentive program, may receive billing credits which offset a portion of Vident's cost of its order management system. Vident may have an incentive to execute trades via the platform service versus going directly to a broker-dealer based on its interest in receiving billing credits for its order management system. Vident addresses this possible conflict by seeking best execution based upon a number of considerations, including the market sector, assessment of price, trade ability, and exposure to market liquidity.

### *Aggregation of Orders*

#### Funds

Vident does not generally aggregate Fund orders as it generally does not have more than one account with the same or similar investment strategy and has limited scenarios where aggregation is feasible. Trade orders are generally processed and executed in the order received. As a result of Vident not generally aggregating Fund orders, a client account may have a different net execution cost and/or average price, which may be more or less favorable. Not aggregating orders also presents the possibility of the undesirable scenario of having more than one order in the market competing against each other. In addition, Vident may realize certain operational efficiencies by not aggregating Fund orders as aggregating Fund orders may not be practical due to the fact that different orders can arrive and be generated at different times in day. If Vident were to aggregate trade orders for Funds having the same or similar investment strategy, each account will receive the average executed price and a *pro rata* share of the commissions (if applicable).

#### Separately Managed Accounts

Vident may aggregate SMA trades when such aggregation is expected to be in the best interest of all participating SMAs. Vident will consider each participating account's size, diversification, cash availability, investment objectives, and any other relevant factors, when placing trades. In particular, Vident may provide a greater than *pro rata* allocation of aggregated trades to new ESMA accounts that are not yet fully invested, as well as pre-existing accounts that have received additional uninvested ESMA capital. LBP accounts generally trade based on the needs of an individual account, but if more than one accounts' strategies are in close alignment, Vident may have the ability to purchase a larger block of bonds and allocate to the individual accounts based on their individual size needs.

If the trade is fully filled by the end of the day, Vident will provide the executing broker-dealer with the pre-trade allocation instructions for order fulfillment. If the trade is partially filled at the end of the day, Vident will instruct the broker-dealer to allocate the trade *pro-rata* based on the written



pre-allocation. *De minimis* deviations from the pre-allocation are permitted in the interest of placing round lots in SMA accounts.

If investment personnel receive a new trade order for an investment where a block trade is already pending, investment personnel will instruct the broker-dealer to allocate all interests already traded to the original block's participants on a *pro-rata* basis and will then form a new block that includes the new participants' order, as well as the unfilled portion of the original participants' order.

When placing SMA transactions through multiple broker-dealers (should this occur in a "trade away" scenario), Vident will use a rotation schedule designed to be fair to all SMAs over time. Such "trade away" transactions could incur additional fees assessed by the applicable custodian (as with the LBP custodian) and commission charges for equity securities assessed by the executing broker-dealer. Vident does not share in any portion of the brokerage fees/transaction charges imposed by the TPMs, or the broker-dealer or custodian.

All accounts participating in a block trade must receive the average price and pay a proportional share of any commission, subject to minimum ticket charges.

Vident will seek to allocate trades in a manner that is fair to clients and will never allocate trades based on an account's performance or fee structure.

### *Directed Brokerage*

The ESMAs in their agreement with the TPMs must select a single custodian to effect all equity, ETF, mutual fund and/or money market trades. The TPMs and custodians have negotiated their own commission and fee arrangements. Vident is not involved in the custodian selection process of any SMA, and has no ability to suggest alternative custodians, or negotiate any fees, rates, or commissions with said custodian. The custodian's execution procedures are designed to make every attempt to obtain the best execution possible, although there can be no assurance that it can be obtained. SMAs should consider whether the appointment of the single custodian as the sole broker for such trading may result in certain costs or disadvantages to the SMA as a possible result of less favorable executions. Execution through a broker other than the designated custodian will increase costs to the client due to incurred trade away fees and brokerage commissions for equity securities. Because of this, in order to minimize a SMA's trading costs, Vident attempts to execute most trades for SMAs through the designated custodian.

In other instances where Vident begins with the ability to execute with broker-dealers of its choice, a client may also direct Vident to effect transactions in their account through a specific broker-dealer. Under such a directed brokerage arrangement, the client is responsible for negotiating terms for their account directly with the broker-dealer. Vident will only direct brokerage pursuant to specific instructions that have been signed and dated by the client.

For accounts subject to directed brokerage arrangements discussed immediately above, Vident will not aggregate trades or seek better execution services or prices from other broker-dealers.





Vident will place trades on behalf of accounts subject to directed brokerage arrangements after trading on behalf of other accounts. Consequently, Vident may not obtain best execution on behalf of clients that direct brokerage; such clients may pay materially disparate commissions, greater spreads, or other transaction costs, or receive less favorable net prices on transactions than would otherwise be the case.

In order to meet directed brokerage mandates and trade in an efficient manner, Vident may ask clients that direct brokerage to permit the use of “step-out” trades.

Regarding the Vident ETFs and ETFs, Vident will not consider any sale or promise to sell shares of the Vident ETFs or the ETFs by a broker-dealer when considering using such a broker-dealer to transact transactions for the Vident ETFs and ETFs.

### *Principal Trades and Cross Trades*

Vident will not enter into any principal trades with clients, nor enter into any cross trades between SMA accounts. Vident has the ability to enter into cross trades involving the Funds pursuant to the Funds’ policies and procedures.

### *Brokerage for Client Referrals*

Vident does not receive client referrals from broker-dealers or third parties in exchange for selecting or recommending a broker-dealer.

### *Trade Errors*

As a fiduciary, Vident seeks to exercise utmost care in making and implementing investment decisions for client accounts. Nonetheless, from time to time a trade error may occur. When a trade error occurs, Vident seeks to promptly correct such an error to minimize client impact. Where an error results in net loss to a client, Vident will reimburse the client unless otherwise disclosed or negotiated between Vident and the client. For this purpose, the economic effect (including costs) of all related transactions (i.e., the erroneous trade(s) and any related corrective trade(s) or other remedial actions) are considered. Where an error results in a net gain to a client, the client will generally retain the net gain. However, when retaining the net gain is inconsistent with applicable law, creates adverse tax consequences, or is inconsistent with a client’s policies, clients may renounce the gain and such gains may be donated to charity.

Vident has established an error account with various SMA custodians to limit any financial impact on an SMA account when a trade error occurs. Vident will be responsible for settling any net losses in the error account with the custodian each month, whereas any net gains exceeding \$100 will be payable to Vident and Vident will donate such monies to charity.



## ITEM 13 – REVIEW OF ACCOUNTS

Subject to the information discussed above, including **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**, Vident reviews client accounts on an ongoing basis to determine accomplishment of investment objectives, diversification of each portfolio and security positions. Such reviews are performed by Vident’s portfolio management personnel. Reviews may be triggered by market conditions or market and economic events. Further, Vident formally reviews registered fund clients any time there is a material change to each relevant prospectus or statement of additional information.

The securities broker-dealer or custodian, through whom a SMA’s transactions are executed, sends or delivers in written or electronic format to the client a confirmation of each transaction. The broker-dealer or custodian also sends the SMA a written monthly statement of the account showing all transactions during the month and the month-end position in either physically printed or electronic format.

## ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION

Vident neither compensates any third party for client referrals nor does the firm receive compensation for any client referral.

## ITEM 15 – CUSTODY

All client assets are held in custody by unaffiliated broker-dealers or banks. Under Rule 206(4)-2 under the Advisers Act, Vident is deemed to have custody of client assets if we are authorized to instruct the custodian to deduct our sub-advisory fees directly from a client account. For such accounts, account custodians send statements directly to the account owners on at least a quarterly basis. Clients should carefully review these statements and should compare these statements to any account information provided by Vident. Otherwise, Vident is not deemed to have custody over any client account.

Vident is not deemed to have custody of the Vident ETFs’ or ETFs’ funds and securities as these are maintained at a qualified custodian and subject to Section 17(f) of the IC Act and the rules thereunder.

## ITEM 16 – INVESTMENT DISCRETION

Vident has discretionary authority (except as discussed below) to manage securities accounts on behalf of clients pursuant to a grant of authority in each client’s governing and investment management documents. Vident has discretion to determine:

- Securities to be bought or sold for client accounts;



- Amount of securities to be bought or sold for client accounts;
- Broker-dealer to be used for a purchase or sale of securities for clients' accounts; and
- Commission rates to be paid to a broker-dealer for clients' securities transactions (when trading away from a SMA's custodian).

Vident is not limited in this authority except to the extent the advisory or sub-advisory agreement and/or client has established specific guidelines and/or prohibitions with respect to its investment account and specific securities.

Vident serves as trading sub-adviser for certain UCITS where we only provide non-discretionary advice concerning the purchase and sale of securities. This means Vident only takes action at the direction of the UCITS investment manager.

## ITEM 17 – VOTING CLIENT SECURITIES

Vident votes the proxies for any clients that have given it authority to do so; which includes the Vident ETFs and ESMA's. Vident has not been given proxy voting authority over the third-party ETFs, UCITS, and private fund its sub-advises.

For ESMA, it is expected that such SMAs will grant Vident the authority to vote proxies on the account's behalf, with the exception of those Unsupervised Assets discussed above in **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**.

Vident's proxy voting policies and procedures are designed to ensure that proxies are voted in the best interests of clients without regard to any relationship that any client or affiliated person may have with the issuer of the security and with the goal of maximizing value to clients consistent with governing laws and the investment policies of each client. While securities are not purchased to exercise control or to seek to effect corporate change through share ownership activism, Vident supports sound corporate governance practices within companies in which clients invest.

Vident's Proxy Voting Committee is responsible for overseeing the proxy voting process and ensuring that the voting process is implemented in conformance with established policies and procedures. The committee has developed custom proxy voting guidelines which are reviewed at least annually by the Proxy Voting Committee. Vident has hired a third-party proxy voting administrator to assist in the implementation of the proxy voting process pursuant to Vident's custom proxy voting guidelines. The Proxy Voting Committee shall also be responsible for overseeing the third-party proxy voting administrator to determine that it accurately applies the custom proxy voting policies and operates as an independent proxy voting agent. Vident's oversight process of the proxy voting administrator includes an assessment of its policies and procedures, including conflict controls and monitoring, receipt and review of routine performance-related reporting, and periodic due diligence meetings.



While Vident uses its reasonable best efforts to vote proxies, in certain circumstances, it may be impractical or impossible for Vident to vote proxies (e.g., limited value or unjustifiable costs). Additionally, proxy voting in certain countries requires 'share blocking'. Shareholders wishing to vote their proxies must deposit their shares with a designated depository before the date of the meeting. Consequently, the shares may not be sold in the period preceding the proxy vote. Absent compelling reasons, Vident believes that the benefit derived from voting these shares is outweighed by the burden of limited trading. Therefore, if share blocking is required in certain markets, Vident may not participate and refrain from voting proxies for those clients impacted by share blocking.

As a general matter, securities on loan will not be recalled to facilitate proxy voting (in which case the borrower of the security shall be entitled to vote the proxy). However, as it relates to portfolio holdings of the Vident ETFs, if the Proxy Voting Committee is aware of an item in time to recall the security and has determined in good faith that the importance of the matter to be voted upon outweighs the loss in lending revenue that would result from recalling the security, the security will be recalled for voting.

Vident may have a conflict of interest regarding a proxy to be voted upon if, for example, Vident or their direct affiliates have other relationships with the issuer of the proxy. In most instances, conflicts of interest are avoided through a strict and objective application of Vident's custom proxy voting guidelines. However, when the third-party proxy voting administrator is aware of a material conflict of interest regarding a matter that would otherwise require a vote by the Proxy Voting Committee or that, in the determination of the Proxy Voting Committee, otherwise warrants the taking of additional steps to mitigate the conflict, the Proxy Voting Committee or the third-party proxy voting administrator shall address the material conflict by using any of the following methods: (i) instructing the third-party proxy voting administrator to vote in accordance with the recommendation it makes to its other clients; (ii) disclosing the conflict to the client and obtaining their input and/or consent before voting; (iii) engaging an independent fiduciary who will direct the Proxy Voting Committee how to vote on such matter; (iv) consulting with outside counsel for guidance on resolution of the conflict of interest; (v) erecting information barriers around the person or persons making voting decisions; (vi) voting in proportion to other shareholders ("mirror voting"); or (vii) voting in other ways that are consistent with Vident's obligation to vote in the best interests of its clients.

For information concerning how Vident voted on any particular proxy matter, or to obtain a copy of Vident's proxy voting policy, please contact us via the contact information on the cover page of this brochure.

Vident votes corporate actions, and the making of all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to securities held in client account(s).



## **ITEM 18 – FINANCIAL INFORMATION**

Vident is not required to provide financial information to clients because Vident does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, does not take custody of client funds or securities, and does not have a financial condition that is reasonably likely to impair the firm's ability to meet its commitments to clients. Vident has not been the subject of a bankruptcy petition.

## **ITEM 19 – REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

Not applicable.