Victory Capital Management had an idea: to bring the active pedigree of its traditional business to in-demand passive products - and to create a new class of exchange-traded funds (ETFs). While ETFs have garnered considerable assets and acclaim recently, from the VCM perspective, a large portion hadn’t changed much for the better part of 10 years.

ETFs, as VCM saw it, were stuck in gear. So the firm set out to blend active elements within an indexing structure. It wasn’t reinventing the ETF wheel, but VCM was intent on bringing it out of the stone age. With a history of delivering alpha and value, VCM saw an opportunity to innovate.

Before it could bring the vision to fruition, however, the company needed an accomplished and ambitious partner. VCM found that partner in Nasdaq.
The Challenge

In 2017, VCM was looking to launch two ETFs: VictoryShares US Multi-Factor Minimum Volatility ETF (VSMV) and VictoryShares Dividend Accelerator ETF (VSDA). According to Mannik Dhillon, President, VictoryShares and Solutions (VCM’s ETF arm), the business faced two challenges: the complexity of the product relative to naive indexes and an aggressive time to market. On their own, those forces may not have posed much problem, but combined they compounded to create a tricky situation.

Dhillon said a key reason why VCM decided to work with Nasdaq was the exchange’s commitment to doing new things in the index businesses. Here was a provider that was comfortable pushing the boundaries and not staying in the status quo, while executing with flexibility: an approach that fit perfectly with VCM’s desire to do something creative. Nasdaq’s brand captured its willingness to innovate, as well as its reputation as a services provider, Dhillon said. It was this identity that helped VCM place Nasdaq ahead of others in assessing suitability for taking on this task.
The Solution

As the two organizations got down to development, Dhillon noted Nasdaq’s capacity to act as a dedicated partner was critical to proceedings. Throughout the experience, it became clear that Nasdaq’s approach to client relationships, as well as their inherent flexibility and value add, were differentiating factors.

When VCM realized applying a minimum volatility approach to an established multifactor screening methodology could lead to an attractive ETF product, it brought the idea to Nasdaq. The parties sat down and discussed the whole process, thoroughly analyzing the theory behind it and how to actualize an ETF. VCM brought the methodology to the table, and Nasdaq, along with its indexing services, brought a risk optimizer that Dhillon and his team worked with during VSMV development. Similarly, in the course of creating VSDA, VCM found Nasdaq’s dividend database to be more robust than its own. The trove was the perfect base to overlay with its rules-based processes for Dividend Achievers. Dhillon estimated the arrangement yielded a better outcome than would have otherwise been possible.

The combination of effective solutions and civility in partnership was directly responsible for cultivating a workflow that was repeatable and could achieve the same high-quality results. Dhillon said the experience gave him confidence that Nasdaq could use its data and systems to responsibly replicate VCM rules.
The Outcome

In the end, Nasdaq helped VCM navigate the twin currents of product complexity and accelerated time to market to deliver the innovative ETFs it had set out to launch. The few stumbling blocks it had were deftly maneuvered around to meet the standards for quality and timeline, Dhillon said. During that time, colleagues at Nasdaq were professional, courteous and, above all, responsive.

“While the entire experience was rewarding, Nasdaq surpassed expectations with their follow-up work to raise awareness and support the launch and product. In a relatively short turnaround, Nasdaq published research papers that supported the VSMV and VSDA methodologies, which were timely and helpful. Nasdaq also invited VCM to participate in a smart beta webinar, and provided further aid by referring potential institutional and retail sales opportunities from time to time.”

- Mannik Dhillon, President, VictoryShares and Solutions

The sum effect was the positive relationship VCM had looked for when it partnered with Nasdaq. According to Dhillon, the overarching advantages to Nasdaq were brand quality, flexibility and willingness to innovate — themes that underpinned the process at every stage.

Dhillon said Nasdaq’s involvement with artificial intelligence and machine learning was emblematic of its innovative streak, placing it above other potential providers given the challenge VCM faced. The flexibility it displayed in facilitating a true partnership was crucial to developing a complicated product on a short timeline, and its support through the Nasdaq brand was powerful. These benefits, and others, were deciding factors in VCM’s decision to continue work with Nasdaq.

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Additionally, we are one of the largest providers of Smart Beta indexes (based on AUM).

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