Trust
Trust Company of America

“EVOLVE your practice, I DID”

FIRM: Verity Asset Management, Inc.

LOCATION: Durham, NC

FIRM TYPE: Investment Management

FOUNDED: 1996

AUM: $300M

CUSTODIAN: Trust Company of America

Gordy Wegwart

Verity Asset Management has achieved success working with independent advisors, individual investors, and retirement plan platforms by strategically outperforming the equity markets over time while protecting capital. “Today’s employers want their employees to have retirement success. And a lot of retirement-plan participants want the ability to appoint their own discretionary advisors.” - Gordy Wegwart

In 1996, Gordy Wegwart and three associates had a vision: to launch a firm that would bring better investment management at a lower cost to the educational retirement plan market (403(b)) and other middle market retirement plans. His investment philosophy at that time relied upon strategic asset allocation: managing portfolio holdings within fixed allocation targets, customized to each client. But as equity valuations continued to rise, increasing their risk, he reevaluated his strategy, and started shifting into asset classes demonstrating more favorable risk/reward profiles. After the dot.com crash of 2001 vindicated his concerns, he completed the transition to an entirely tactical allocation strategy, in the process adopting the kind of asset class diversification you'd more frequently see in institutional portfolios: commodities, real estate, emerging markets, foreign bonds, Treasury strips, and even inverse correlating funds.

Because the majority of Verity's client portfolios were (and still are) in retirement plans, Wegwart realized they were more time sensitive—and therefore, more risk sensitive—than traditional long-term portfolios. "We began to focus on managing risk," he says. "We realized that our clients needed us to maximize the probability of the investment results, not merely compete on the basis of comparative performance. Rather than defining risk simply as a function of historical asset class volatilities, we realized that factors such as unexpected correlation changes could dramatically affect overall portfolio risk. In addition, we started looking from a variety of perspectives at the macro potential for material price declines in an effort to limit downside risk and optimize the probability of favorable outcomes."

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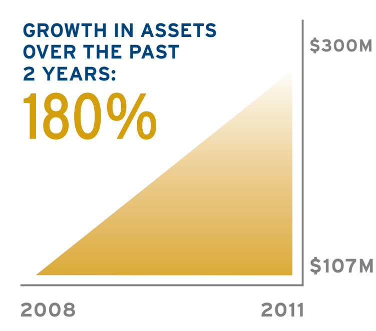
Wegwart assembled a team which started taking a broader look at the markets: at technical indicators in addition to fundamental analysis, at economic trends, at systemic risks, and at how asset classes were actually correlating currently. "Even before 2007, we saw market risk increasing," he says, "even though market volatility remained low."



Verity's investment committee adjusted its portfolios accordingly, and saved their clients a bundle. The net performance of Verity's four primary investment strategies tells the tale: From Oct. 9, 2007, until March 31, 2011, the Moderate strategy returned 9%; its Core strategy broke even; Verity's Aggressive strategy was down just 3%; and the Sector strategy returned 28%. Despite the market's rebound from massive declines, most major equity indexes – the NASDAQ (+2.29%) excepted – continued to show losses, with the DJIA still down 3%; the S&P 500 off 8%; and the MSCI EAFE down 27%. Verity's goal is not merely to maximize alpha; it's more plainly to outperform the equity markets over time while protecting capital. And historically, the standard deviations of the firm's strategies are substantially below their market bogeys, with equal, and often better, performance.

In 2005, Verity expanded its vision of high-quality investment management within retirement plans by introducing open architecture discretionary management into the 403(b) program at the University of North Carolina. "We had been providing allocation recommendations for plan participants," says Wegwart, "but we realized what people really wanted was to have their portfolios managed for them. So we were one of the earliest firms to launch participant account management on a meaningful scale."

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Like many of the investment portfolio innovations of the past decade, the key to Verity's transition to discretionary management was finding a technology platform that could handle the firm's sophistication within the complexity of retirement platforms. "We launched an exhaustive search for a technology partner," remembers Amy Simonson, Verity's Vice President of Finance and Operations. "Then we stumbled across a press release for Trust Company of America. When we made our first call, our Trust contact person said, 'Let me get on a plane and come see you.' We were floored; that's an unheard of level of service for a custodian. Our hands-on relationship with Trust has been a key component to developing our strategic plan and our unique business model. They have been incredible partners."

The first challenge for Verity was to be able to offer its unique style of management in a cost effective manner to accounts of all sizes on the retirement platforms they served. Then, as the firm began to operate within an increasingly institutional environment, Verity realized it needed to elevate its performance reporting to meet the Global Investment Performance Standards (GIPS). It was no small challenge. "Always the leading platform, Trust's technology has evolved and kept pace with our needs. They have been very willing to craft solutions for us," says Simonson. "We needed to meet GIPS verification standards to compete at an institutional level, and Trust worked with us to implement those reporting standards, and all the modeling, fee billing, and performance reporting tools that they require. We can now run our full retail menu on retirement platforms, with GIPS reporting, open architecture, and fee transparency. It takes extremely sophisticated technology to enable discretionary management on retirement platforms."

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In addition to providing services to plan sponsors and participants on Trust's technology platform, Verity now offers its discretionary strategies on major retirement platforms such as Fidelity Investments and TIAA-CREF. In fact, Verity has been named a charter member of TIAA- CREF's new network of independent RIAs. And in 2010, Verity started offering its investment services to other independent RIAs, particularly within the higher education marketplace. As you might imagine, this access to new platforms and markets has begun to have a significant impact on Verity's business: Its asset under management have increased some 180%, from $107 million to $300 million, in less than three years.

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As far as Wegwart is concerned, this is only the beginning: "We have spent nearly 15 years identifying and developing the investment process, technology, and systems required to provide high quality discretionary management to retirement plan participants on a major scale," he says. "And we have pioneered the delivery of those services, not just with our own clients, but with retirement platforms and other advisors that have clients who want discretionary management. We are very well positioned to deliver these services on a major scale. We believe our capacity in this space can take us well beyond $1 billion in the next three to four years."