



Verity Income Strategies Overview for 2015

VERITY

Introduction to Verity Income Strategies

ABOUT OUR FIRM

Founded in 1996, Verity Asset Management is an SEC-Registered Investment Adviser that maintains corporate headquarters in Durham, North Carolina. Verity provides investment management services to individual investors, retirement plan sponsors, higher education clients, and institutional accounts through a national network of advisors.

Our founding principles of applying rigorous fundamental research, managing risk and maintaining a long-term view still guide our investment process today.

- Separately Managed Accounts
- Serving Individuals and Institutions

Alternative Income Solutions

Verity Asset Management Income Strategies seek to provide alternative investment income solutions designed to diversify and mitigate risk, including equity risk, credit risk and interest rate risk, within an investor's overall asset allocation.

- 1| Provide Income & Capital Appreciation
- 2| Manage Interest & Credit Risk
- 3| Expand the Income Landscape

Strategy Highlights

Income Diversifiers – Alternative strategies designed to diversify fixed income and cash allocations.

Managed Interest Rate & Credit Risk – Actively managed with heavy emphasis on fundamental analysis to potentially limit drawdowns caused by dynamic credit risks and changing interest rates.

Multi-Investments - Investments flexibly managed across a broad range of income-generating securities, including equities and preferred shares, enabling them to seek the best opportunities in the prevailing market environment.

3 Distinct Strategies

I. Opportunistic Income

An Unconstrained Income Strategy

II. Enhanced Income

A Short Duration Strategy

III. Tax-Exempt Income

A Municipal Bond Strategy

Independent Thinking. Meaningful Results.

Verity Income Strategies

Verity employs three distinct income strategies.

STRATEGIES	<u>Opportunistic Income Strategy</u>	<u>Enhanced Income Strategy</u>	<u>Tax-Exempt Strategy</u>
STRATEGY CHARACTERISTICS	<p>The Verity Opportunistic Income Strategy invests flexibly across a broad range of income-generating securities, including stocks, enabling it to seek the best opportunities in the prevailing market environment, wherever they are found. The Portfolio is constructed to invest across two core strategies: 1) Traditional Income, 2) Non-Traditional Income. Each strategy is designed to provide a unique source of return and diversification for the Portfolio.</p>	<p>The Verity Enhanced Income Strategy is an actively managed enhanced cash strategy that seeks income and total return opportunities by investing predominantly in short-duration securities just beyond the reach of money market funds. The Portfolio explores high-quality return opportunities by actively allocating among asset classes, geographic regions and short-duration maturities.</p>	<p>The Verity Tax-Exempt Strategy is for investors who favor current income exempt from federal income tax and, in some cases, also exempt from state income tax. The Strategy may be particularly well suited for income-oriented investors in higher tax brackets willing to assume some risk of principal in exchange for higher yield potential. Income may be subject to federal alternative minimum tax (AMT), state and local taxes.</p>
POTENTIAL INVESTOR BENEFITS	<ul style="list-style-type: none"> • An opportunistic and unconstrained income strategy, allowing investors to access attractive total return opportunities based on prevailing market conditions with a strong focus on managing downside risks • Built to maintain a low correlation with most of the other risk exposures in our clients' portfolios • An investment team with a long history of managing risk with a focus on capital preservation, effectively navigating turbulent markets and compounding investor capital • Approach integrates deep fundamental, catalyst-driven, top-down research with the economic cycle 	<ul style="list-style-type: none"> • A yield advantage over typical short duration strategies because of its longer duration range (1-3 years) and an ability to capitalize on a wider opportunity set (Unlike money market funds, the portfolio is not designed to maintain a stable value) • Less interest rate sensitivity than intermediate duration strategies - a potential benefit in periods of rising interest rates • Multiple value-added techniques such as duration positioning, credit analysis and sector emphasis - in an effort to enhance returns and manage risk • An active investment strategy managed for all market environments, using both top-down macroeconomic analysis and bottom-up issue selection 	<ul style="list-style-type: none"> • Interest paid by municipal bonds is generally exempt from federal income tax • As a result, after tax total returns could potentially be higher than those offered by taxable bond funds, depending on an investor's tax bracket • Strategy generally holds investment grade securities that have historically exhibited lower default rates than other types of fixed income assets

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Accomplished Leadership

Verity's investment team has a long history of managing risk with a focus on capital preservation, effectively navigating turbulent markets and compounding investor capital.

Brad Corbett, Portfolio Manager

18 years of experience investing across stressed/ distressed credit, corporate restructurings, government fixed income, asset-backed securities and value equities.

2014-Present
Verity Asset Management

Director of Fixed Income & Alternative Investments
Portfolio Manager for the Verity Income Strategies

2012-2014
Whiteley Capital Advisor

Portfolio Manager
Special Situations & Distressed Debt Investing. Worked with a select group of clients, including the Chief Investment Officer and Treasurer of BlueCross BlueShield of North Carolina, in managing and implementing various investments and capital structure initiatives.

2002-2012
Franklin Street Partners

Portfolio Manager
Head of Global Equity Strategies,
Portfolio Manager for the Opportunistic Fixed Income Fund,
Portfolio Manager of Multi-Strategy Hedge Fund.

1997
Barclays Capital

Fixed Income Trading
Held a variety of fixed income trading roles involving mortgage-backed securities, asset-backed securities and US Treasury securities

Education

MBA, University of North Carolina – Kenan-Flagler Business School
BA, Gettysburg College

Gordon Wegwart, CIO

32 years of experience in strategic and tactical allocation across domestic, foreign, and emerging equity and debt; real estate; and commodities.

1996-Present
Verity Asset Management

Chief Investment Officer
Developed the firm's proprietary tactical allocation strategies and risk management processes between 1998 and 2001. Led the evolution and application of those strategies across multiple environments nationally, encompassing higher education, corporate retirement, and outside investment advisor networks.

2005-2006
Verity Asset Management

Portfolio Manager
Handled discretionary management of the firm's tactical allocation strategies. Innovatively applied these strategies to management of participant accounts on retirement platforms in the higher education environment.

1996
Verity Asset Management

Founder
Co-founded Verity Asset Management and its parent, Verity Financial Group

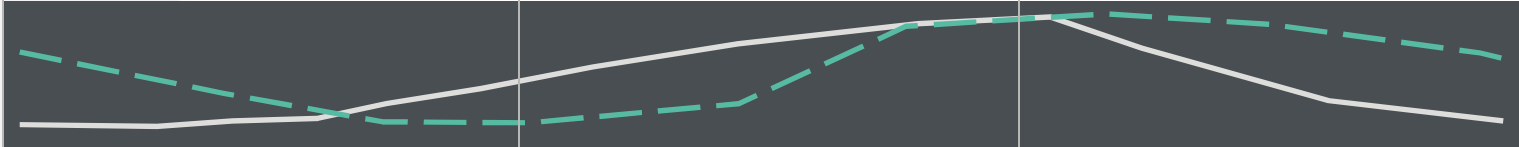

Education

BA, Duke University

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Strategies for Dynamic Markets

The team employs a deep, value-oriented approach designed to seek opportunistic investments in any situation.

ECONOMY			
	Asset Prices		
DEFAULT RATES	High  Low		
CREDIT SPREADS	Wide	Normalized	Narrow
MARKET CHARACTERISTICS	<ul style="list-style-type: none"> De-leveraging economy Value moves up the capital structure Preference for investing in good businesses with bad balance sheets Expected portfolio: focus on accumulating dividend equity and high yield 	<ul style="list-style-type: none"> Economy is mending Credit remediates Enterprise values rebound Expected portfolio: roughly balanced credit/equity exposures, appearance of special situations unique to end of cycle (e.g., CMBS, CLO equities) 	<ul style="list-style-type: none"> Re-leveraging economy Value moves down the capital structure Heightened scrutiny – “bubbles”, “risk inflections” – necessitates nimble, active trading
POTENTIAL INVESTMENTS	Secured bonds and loans; equities with bulwark balance sheets	Performing credit; restructured equities; distressed securities; special situation securities	Value and event driven equities; secured, performing debt

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Our Investing Philosophy

- Make preservation of capital a top priority
- Seek to profit from trends in the global markets
- Combine extensive fundamental research with strong technical analysis
- Expand the universe of opportunities by seeking optimal investments across multiple asset classes
- Evaluate and rate opportunities on thematic and individual basis so that capital can be allocated accordingly
- Actively manage positions
- Employ separate risk management methodologies when measuring the risk profile for each strategy

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Flexible Investment Strategies

Income Strategies have expanded dramatically in recent years, becoming a diverse asset class covering a wide range of investments, providing Income investors with a multitude of approaches that may be employed to generate returns.

Traditional Income Strategies

- U.S. Equity Dividends
- Corporate Bonds
- Treasuries
- Municipal Bonds
- Global Equity Dividends
- Mortgaged-backed Securities
- High Yield Bonds



Non-Traditional Income Strategies

- U.S. Equity Dividends
- Corporate Bonds
- Treasuries
- Municipal Bonds
- Global Equity Dividends
- Mortgaged-backed Securities
- High Yield Bonds
- REITs
- Insurance-linked Securities
- Global Debt
- Bank Loans
- MLPs
- Preferred Stocks



Verity Income Strategies invest flexibly across a broad range of income-generating securities, including equities and preferred shares, enabling them to seek the best opportunities in the prevailing market environment

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Structured Investment Process

*Verity Income Strategies seek to invest in the best income opportunities across all asset classes.
Every investment is carefully vetted to provide a unique source of return and diversification for the Portfolio.*

Investment Process



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Unique Idea Generation

Deciding which Investment Ideas are compelling...

Idea Generation

- Identify developing themes
- Analyze the business models
- Marry the vision of possibilities several years down the road with the realities of a company's sustainable advantages today

Method	Why?	How?
THEME DEVELOPMENT	<ul style="list-style-type: none"> • Leverage research capacity • Having "wind at your back" eases security selection challenges 	<ul style="list-style-type: none"> • Look for changes in: business model (i.e. outsourcing), lifestyle (i.e. consumer trade-down), current events (i.e. clean technology), and technology (i.e. mobile computing)
QUANTITATIVE SCREENING	<ul style="list-style-type: none"> • Narrow universe to companies with strong/improving financial characteristics 	<ul style="list-style-type: none"> • Screen for improving ROIC, positive earnings estimate revisions, value cushions, and price changes on strong volume, among other attributes
BUSINESS OBSERVATION	<ul style="list-style-type: none"> • Identify positive and negative inflection points 	<ul style="list-style-type: none"> • Take time to read, think, observe, and cut through the information overload to discover change

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Thorough Financial Analysis

Assessing a company's ability to execute...

Financial Analysis

- **We seek to invest in companies with the following characteristics:**
 - Strong market positions relative to competitors
 - Positive ROC (return on capital)
 - Stable to rising profit margins
 - Improving cash flows in excess of necessary capital expenditures
 - Attractive valuations relative to growth considerations
- **Our analysis includes:**
 - Market opportunity
 - Market share
 - Pricing power
 - Components of ROC (return on capital)
 - Cash generation and usage
 - Sustainability of growth

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Strong Risk Management

Seeking to avoid serious declines in value...

Risk Management

- Measure and monitor key factors at both the portfolio and position level in order to minimize unwanted risk
- At the position level, establish 12-month price target by applying the appropriate valuation method
- Apply qualitative and quantitative scans of markets for possible non-correlated moves
 - Long-term trends, yesterday winners, volatility
- Scenario Analysis
 - Monitor yield curve shifts, equity market drops, and foreign exchange devaluations
 - Apply confidence level in weighting upside vs. downside targets

Position Level

- 2:1 upside/ downside profile on a probability weighted basis
- Ongoing risk evaluation regardless of realized or unrealized profits or losses
- Monitor liquidity levels

Portfolio Level

- Will never compromise the investment strategy in order to be fully invested
- Manage correlation risk dynamically across strategies, themes and asset classes
- Limit concentrations by security, subsector, asset class



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Our Edge

- **Repeatable, value-added process seeks to generate both outstanding, long-term thematic investments and advantageous, short-term trading opportunities**
- **Multi-disciplined team with experience in different market conditions, geographies and financial instruments**
- **Deep experience in effective portfolio management**
- **Confluence of top-down idea generation and active risk management**
- **Extensive global network of contacts**

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Verity Income Strategies

The Portfolios will be primarily invested in diversified sectors in the fixed income markets (including government securities, corporate bonds, municipal bonds, high yield bonds, and mortgage and asset-backed securities) and income producing stocks. The portfolios may also at various times own limited positions in other publicly traded securities, including convertible bonds, REITS, commodities, and preferred securities. The portfolios will be subject to market risk. Fixed income securities will be subject to credit, liquidity, and interest rate risk. Diversification does not assure a profit or protect against loss in a declining market.

Unlike Money Market Funds, the Enhanced Income is not designed to maintain a stable value and will fluctuate.

All investing involves risk of loss. Portfolio values will fluctuate with changing market conditions, and there is no guarantee that strategies that have been successful in the past will be similarly successful in the future. This material contains forward looking statements. There is no guarantee that these outcomes will be achieved.

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