

DOL Fiduciary Rule Policies and Procedures

Verity Asset Management / Verity Investments / Verity Financial Group

DOL Fiduciary Rule Background

On April 6, 2016, the U.S. Department of Labor (“DOL”) released its final rule which defines “fiduciary” under section 3(21)(a)(ii) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). The new rule includes the following:

Under the DOL Fiduciary Rules, a “Fiduciary” is defined as a person who provides “Investment Advice” to a “Retirement Investor” for a fee or other compensation (direct or indirect) and who:

- * Represents or acknowledges that it is acting as a fiduciary;
- * Renders the advice pursuant to a written or verbal agreement, arrangement or understanding that the advice is based on the particular investment needs of the Retirement Investor; or
- * Directs the advice to a specific Retirement Investor (or investors) regarding the advisability of a particular investment or management decision with respect to securities or other investment property of the plan or IRA is appropriate.

For DOL purposes, a person shall be deemed to be rendering “Investment Advice” with respect to moneys or other property of a plan or IRA if they meet the above definition AND if such person provides to a plan, plan fiduciary, plan participant or beneficiary, IRA, or IRA owner the following types of advice for a fee or other compensation, direct or indirect:

- * A recommendation as to the advisability of acquiring, holding, disposing of, or exchanging, securities or other investment property, or a recommendation as to how securities or other investment property should be invested after the securities or other investment property are rolled over, transferred, or distributed from the plan or IRA;
- * A recommendation as to the management of securities or other investment property, including, among other things, recommendations on investment policies or strategies, portfolio composition, selection of other persons to provide investment advice or investment management services, selection of investment account arrangements (e.g., brokerage versus advisory); or
- * Recommendations with respect to rollovers, transfers, or distributions from a plan or IRA, including whether, in what amount, in what form, and to what destination such a rollover, transfer, or distribution should be made.

“Recommendation” is defined as a communication that, based on its content, context, and presentation, would reasonably be viewed as a suggestion that the advice recipient engage in or refrain from taking a

particular course of action. The following would typically not be seen as recommendations: a platform of investment options without regard to the needs of the specific investors; general communications; education; general financial, investment, or retirement information; asset allocation models to provide guidance but not individualized advice; or, questionnaires, worksheets, etc., to help investors evaluate their options (without guiding to any particular investment option).

A “Retirement Investor” includes the following:

- * Participant or beneficiary of a Plan subject to Title I of ERISA with authority to direct the investment of assets in his or her Plan account or to take a distribution
- * 403(b) accounts under Title I of ERISA
- * Individual Retirement Accounts (IRAs)
- * Health Savings Accounts (HSAs)
- * Archer Medical Savings Accounts (MSAs)
- * Coverdell Education Savings Accounts
- * Fiduciaries acting on behalf of these accounts

The regulations, as adopted, establish a transition period from June 9, 2017 to January 1, 2018 during which relief from the prohibited transaction provisions of ERISA and the Code is available for Financial Institutions and Advisers. This period is intended to give Financial Institutions and Fiduciary Advisers time to prepare for compliance with the full conditions of the regulations and applicable prohibited transaction exemptions while safeguarding the interests of Retirement Investors. During the Transition Period, the Financial Institution must comply with, and require its Financial Adviser(s) to comply with, the Impartial Conduct Standards.

IMPARTIAL CONDUCT STANDARDS

Financial Institutions (FIs) and Fiduciary Advisers (FAs) are required to adhere to and comply with the following Impartial Conduct Standards:

- * When providing investment advice to the Retirement Investor, the FI and FAs provide investment advice that is, at the time of the recommendation, in the Best Interest of the Retirement Investor. Such advice reflects the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, based on the investment objectives, risk tolerance, financial circumstances, and needs of the Retirement Investor, without regard to the financial or other interests of the FA, FI or any Affiliate, or other party.**

*** The recommended transaction will not cause the FI, FA or their Affiliates to receive, directly or indirectly, compensation for their services that is in excess of reasonable compensation within the meaning of ERISA section 408(b)(2) and Code section 4975(d)(2).**

*** Statements by the FI and its FAs to the Retirement Investor about the recommended transaction, fees and compensation, Material Conflicts of Interest, and any other matters relevant to a Retirement Investor's investment decisions, will not be materially misleading at the time they are made.**

Firm Business Model

Verity Asset Management is registered as an investment adviser under the Investment Advisers Act of 1940. Our Firm provides investment advisory services to various types of clients including, but not limited to, employee benefit plans and individual retirement accounts (IRAs), collectively referred to as Retirement Investors.

Pursuant to the Employee Retirement Income Security Act ("ERISA"), and regulations under the Internal Revenue Code of 1986 (the "Code"), Verity and our Fiduciary Advisers ("FAs") will be deemed to be investment advice fiduciaries (hereinafter "ERISA Fiduciaries") when we render individualized investment advice to a plan, plan fiduciary, plan participant or beneficiary, IRA or IRA owner, Health Savings Account ("HSA"), Archer Medical Savings Account and/or Coverdell Education Savings Account (together, "Retirement Accounts") for a fee or other compensation, whether direct or indirect.

The following fiduciary investment advisory services are among those Verity provides or seeks to provide to Retirement Investors: pension consulting services provided to plan sponsors; discretionary asset management services to Retirement Accounts; and financial and retirement planning services.

As Fiduciaries to our clients pursuant to the Investment Advisers Act of 1940 and ERISA regulations, the Firm and our FAs have an affirmative duty to always serve our clients' best interests, placing our clients' interests first and foremost without regard to the financial interests of our employees, affiliates, and any related entities or other parties. Furthermore, we are required to act prudently on our clients' behalf, exercising care, skill and diligence when providing our services. As ERISA Fiduciaries, Verity and our FAs are committed to these Impartial Conduct Standards: (i) providing prudent advice that is, at the time of the recommendation, in the Best Interest of our client, (ii) receiving no more than reasonable compensation, and (iii) statements made regarding the recommended transaction, fees and compensation, material conflicts of Interest and other matters relevant to the Retirement Investor's investment decisions, will not be materially misleading at the time they are made.

Investment advisor representatives of Verity Asset Management operate primarily on two platforms: a "Workplace" platform, which provides investment management of accounts services in retirement plans such as 403(b), 401(a), 457(b) and 401(k); and a "Retail" platform, which provides investment management services for accounts in the general marketplace, such as individual accounts, IRAs, and

trust accounts. There are fee differences between these two platforms, which relates in part to the generally greater breadth and complexity of investment strategy options and financial planning issues as well as the generally greater degree of expertise required to provide prudent investment advice in the full Retail market as compared with the more limited investment options generally found in the Workplace plan market. On the Workplace platform, fees earned by the Firm are level, in the sense that the Firm does not earn any fee differential based on investment strategy selection. On the Retail platform, the firm charges different fees for various investment strategies due to underlying cost differentials associated with providing those strategies.

Investment Adviser Representatives - Certain related persons of Verity Asset Management are separately licensed as registered investment adviser representatives of our Firm. Under ERISA and the Code, these individuals are considered to be ERISA Fiduciaries to a plan or IRA when they render individualized investment advice on behalf of our Firm for a fee or other compensation, direct or indirect, with respect to any securities, moneys or other property of such plan or IRA.

Registered Representatives - Certain related persons of Verity Asset Management are separately licensed as registered representatives of Verity Investments, Inc., an affiliated FINRA member broker-dealer. Under ERISA and the Code, these individuals are considered to be ERISA Fiduciaries to a plan or IRA when they render individualized investment advice on behalf of the Firm for a fee or other compensation, direct or indirect, with respect to any securities, moneys or other property of such plan or IRA.

Insurance Agents - Certain related persons of Verity Asset Management are separately licensed as insurance agents under Verity Financial Group, an affiliate which is the parent company of Verity Asset Management. Under ERISA and the Code, these individuals are considered to be ERISA Fiduciaries to a plan or IRA when they render individualized investment advice on behalf of the Firm for a fee or other compensation, direct or indirect, with respect to any securities, moneys or other property of such plan or IRA. [Fixed exemption?]

Summary of Firm Procedures

Verity Asset Management and its Affiliates may separately or jointly provide or seek to provide investment advice recommendations to Retirement Investors. Verity and our Affiliate(s) have reviewed and, where necessary, adopted new and/or amended policies and procedures.

Verity:

- * has adopted, and will comply with, written policies and procedures that are reasonably and prudently designed to ensure that its FAs adhere to the Impartial Conduct Standards;
- * has specifically identified and documented its Material Conflicts of Interest;

* has adopted measures reasonably and prudently designed to prevent such conflicts from causing violations of the Impartial Conduct Standards; and

* has designated the Firm's Compliance Officer, Gordon T. Wegwart, as the individual with primary responsibility for overseeing the implementation of Verity's Impartial Conduct Standards, which includes monitoring our fee and compensation practices for consistency with our stated Reasonable Compensation policy and ongoing monitoring of our FAs' strict adherence to the Firm's Impartial Conduct Standards, along with periodic review of the policies and procedures and maintenance of requisite disclosures and other records.

Full Procedures

Impartial Conduct Standards - The Firm and its FAs will adhere to and comply with the following Impartial Conduct Standards:

* Give prudent advice that is in the client's best interests. Give only advice that reflects the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, based on the investment objectives, risk tolerance, financial circumstances, and needs of the retirement Investor, without regard to the financial or other interests of the Firm, its Affiliates, or its FAs.

* Reasonable compensation. The recommended transaction does not cause the Firm, Affiliates or FAs to receive, directly or indirectly, compensation for their services that is in excess of reasonable compensation within the meaning of ERISA section 408(b)(2) and Code section 4975(d)(2).

* Avoid misleading statements. Statements by the Firm, its Affiliates, and its FAs to the Retirement Investor about the recommended transaction, fees and compensation, Material Conflicts of Interest, and any other matters relevant to a Retirement Investor's investment decision, will not be materially misleading at the time they are made.

Material Conflicts of Interest

For Verity Asset Management, its Affiliates, and its FAs, conflicts of interest arise as a consequence of differential fees and commissions across and within several platforms:

- Retail fee pricing (including variable pricing of investment strategies)
- Workplace fee pricing
- Broker-dealer commissions (including mutual funds, variable annuities, and direct participation programs)
- Insurance commissions (including various fixed annuities)

Mitigating Conflicts of Interest

Within the Retail and Workplace fee platforms, Verity's FAs, whether working as employees or independent contractors, are Level Fee Fiduciaries, and there is no link between their compensation and firm profitability. The potential exception is for certain executive officers of the Firm who provide recommendations to clients; while there is no direct link between their compensation and firm profitability, consideration must be given to the potential for executive officers to favor investment strategies which they may perceive to be more profitable to the firm and which might thus provide an opportunity for increases to their salaries. This condition represents a conflict of interest.

When working **across** platforms, there is a compensation differential to all FAs, which represents a conflict of interest.

When doing business on the the Broker-dealer and Insurance platforms, there are compensation differentials both **within** the platforms – due to differences in commissions among products – and compensation differentials **across** platforms – due to the difference in compensation between Broker-dealer, Insurance, and/or advisory fee platforms. These differences represent a conflict of interest.

The following types of recommendations must be carefully monitored:

- * Recommendations to transfer funds between Verity's Workplace and Retail platforms;
- * Recommendations to transfer or roll over funds from retirement plans or IRAs held outside of Verity;
- * Recommendations for investment strategy changes on the Retail fee platform by Verity executive officers.
- * Recommendations by Verity FAs to purchase commission based investment products for IRAs or retirement plan accounts through Verity's broker-dealer affiliate, Verity Investments, Inc. or commission based insurance products through Verity's insurance licensed affiliate, Verity Financial Group.

As the receipt of differential forms of compensation may result in one or more Material Conflicts of Interest, Verity has adopted policies and procedures that are reasonably designed to ensure compliance with our Firm's Impartial Conduct Standards. The procedures are designed to ensure that any differentials in compensation are based on neutral factors, such as the time or complexity of the work involved; that the differentials do not incentivize FAs to violate the Firm's Impartial Conduct Standard; and that the Firm may promptly identify and respond to violations of our policies and procedures.

The procedures include the following:

- * Review and approval of all new accounts and transactions of Retirement Investors to ensure appropriate client information, financial objectives, and any restrictions have been identified;
- * Review and approval of all rollovers, transfers, platform changes, and all strategy allocation changes. The review will consider conflicts of interest, soundness of the change in the context of the client's best interest, and content of pertinent disclosures;

- * Requiring with rollovers, transfers, investment strategy allocation changes, and any other transaction which may represent a conflict of interest, a document which provides a sound expense comparison and an outline or explanation of the rationale for the change;
- * Monitoring of FA recommendations to evaluate the advice rendered to individual Retirement Investors, particularly with respect to recommendations associated with higher compensation and recommendations at key liquidity events of an investor (e.g., rollovers);
- * Refunding fees where it is determined that intended standards have not been met based on a review of any customer complaints or indications that conflicts are not being carefully managed;
- * Ensuring that no FA nor any supervisor earns more for the sale of any investment strategy over other comparable strategies available on the pertinent platform, and ensuring that the FA discloses to customers the fee differentials for the investment strategies;
- * Assessment of recommendation(s), services and fees to (i) identify any previously unidentified conflicts of interest, and (ii) prevent engaging in a prohibited transaction;
- * Review and approval of business conducted by the Firm's Executive Officers by a non-executive compliance principal; and
- * Conducting periodic reviews of the policies and procedures and revising, if necessary.

Reasonable Compensation

To assure that compensation for services is reasonable:

- * Verity's principals have evaluated and compared the Firm's current fees associated with the provision of fiduciary investment advice to ascertain their relative consistency with current industry norms. The Compliance Officer will maintain records documenting this evaluation;
- * Verity's principals have evaluated and compared the compensation of FAs to ascertain consistency with current industry norms. The Compliance Officer will maintain records documenting this evaluation;
- * Verity's principals have reviewed and evaluated the Firm's Fiduciary Adviser (FA) compensation structure to identify whether such practices result in potential conflicts of interest insofar as they create an incentive for the Firm, a FA and/or Affiliate to prefer their interests rather than those of our clients;
- * Verity's policy requires that neither our Firm nor (to the best of its knowledge) any Affiliate or Related Entity use or rely upon quotas, appraisals, performance or personnel actions, bonuses, contests, special awards, differential compensation or other actions or incentives that are intended or would reasonably be expected to cause FAs to make recommendations that are not in the Best Interest of the Retirement Investor;
- * The Compliance Officer and/or designee monitors and reviews the fees billed to Retirement Investors for consistency with the applicable fee structure and range as disclosed, and

* The Compliance Officer or designee promptly revises required disclosures pursuant to any revisions to the firm's fees.

No Misleading Statements

To assure that there are no misleading statements to Retirement Investors:

* The Compliance Officer will review all written materials, including but not limited to, marketing materials, investment education materials, any client disclosure documents, and general communications provided to existing and prospective Retirement Investors, plan fiduciaries and IRA owners;

* Verity will conduct periodic training of personnel regarding the Impartial Conduct Standards and the firm's policies and procedures.

Training of Personnel

Verity's policy and practices permit recommendations under which multiple types of compensation may be earned. However, as this practice could result in one or more prohibited transactions under ERISA and Code regulations, we mitigate these conflicts in the following manner:

* Verity and our Affiliates provide training to employees pursuant to regulations adopted by the Department of Labor (DOL) that set forth our Firms' Impartial Conduct Standards, which must be adhered to by all employees;

* Training will include a specific focus on the identification of practices that constitute fiduciary investment advice, particularly those considered to be recommendations under the DOL's final rules redefining the term "Fiduciary", and related Conflict of Interest rules;

* Attendance is mandatory for relevant personnel, and attendance records will be kept;

* FAs will provide written acknowledgement that they understand and agree to abide by our respective Firms' adoption of Impartial Conduct Standards policies and procedures pertaining to communications with and services provided to potential or existing Retirement Investors. At minimum, this acknowledgment will be made annually at the time of the Firm's Annual Compliance Meeting.