



# Verity Asset Management

*Conservative & Fixed Income Strategies*

# Agenda

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Introduction to Verity

Verity's Investment Process

Verity's Strategies

State of the Market

# About Verity

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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.

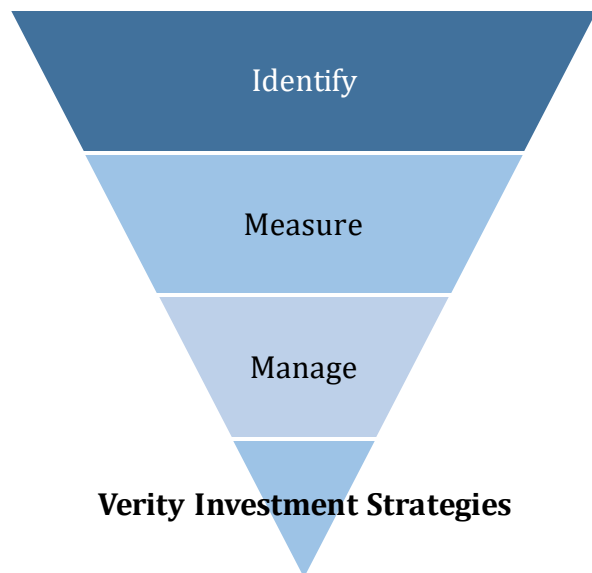
## **Brad Corbett - Portfolio Manager**

- Over 25 years of investment experience
- Manages several strategies that invest across the full risk-reward spectrum, including government bonds, corporate debt, preferred securities, high-yield debt, private lending and equities
- Created and managed an alternative investment vehicle for the North Carolina Department of State Treasurer – Retirement Systems Division
- Worked with the CFO, Treasurer and Chief Investment Officer at Blue Cross Blue Shield of North Carolina in deploying capital across a range of strategies
- 11 years as a Portfolio Manager at Franklin Street Partners managing several traditional and alternative investment portfolios
- Began his investment career at Barclays Capital in New York City trading asset-backed securities, mortgage-backed securities and Treasuries
- MBA from the University of North Carolina-Chapel Hill

# Verity's Investment Process

## *Our Key Principles:*

1. Always be invested in “acceptable” income producing securities
2. Take advantage of market inefficiencies
3. Keep balanced risk exposures
4. Control the downside by dynamically sizing the portfolio
5. Implement the portfolio in a liquid format



- *step 1 Identify:* Establish an initial universe of securities through theme development, quantitative screening, and business observations.

- ✓ General Market Analysis:
  - What are the secular trends?
  - Where are we in the business Cycle?
  - What is the short-term cycle telling us?

- ✓ Set Asset Allocation

- *step 2 Measure:* Carefully measure each investment to provide a unique source of return and diversification.

The relationship between risk and return is determined through factor analysis of technical, macroeconomic, sentiment, and valuation variables across a series of securities within each asset class.

$$\text{Investment Selection} = \frac{\text{Return Potential}}{\text{Associated Risk}}$$

- *step 3 Manage:* Manage key risk factors at both the portfolio and position levels in order to minimize unwanted risk.

- ✓ Monitor positions daily
- ✓ Analyze volatility and drawdown
- ✓ Active market outlook
- ✓ Monitor macro environment
- ✓ Assess model behavior

# Building Retirement Income Solutions

*Retirement Income solutions should generate the majority of their return from income rather than capital gains and have an expected drawdown appropriate for retirees.*

		Income	Capital gains	Total
U.S. Equites	Return	2%	5%	7%
	% Contribution	30%	70%	100%
International Equities	Return	4%	1%	5%
	% Contribution	30%	70%	100%
REITs	Return	3%	4%	7%
	% Contribution	43%	57%	100%
High Yield Corporate	Return	8%	-1%	7%
	% Contribution	110%	-10%	100%
Investment Grade Corporate	Return	4%	1%	5%
	% Contribution	80%	20%	100%
Mortgaged-backed Securities	Return	4%	1%	5%
	% Contribution	80%	20%	100%
U.S. Treasuries	Return	3%	1%	4%
	% Contribution	75%	22%	100%

Source: PIMCO and Bloomberg. Data from 31 January 2001-28 February 2020. Index proxies are as follows: US Treasuries, Bloomberg Barclays US Treasury Index; IG Corp, Bloomberg Barclays US Corp Index; MBS, Bloomberg Barclays US MBS Index, HY Corp, Bloomberg Barclays HY Index; REITs, Dow Jones US Select REIT Index; US Equites, S&P500 Index; Int'l equities, MSCI EAFE Index.

# Strategies

	<b>Growth:</b> Equities	<b>Income:</b> High Yield, Preferred Securities	<b>Safety*:</b> U.S. Treasury Securities
<i>Strategies</i>	<i>Target Allocation</i>		
Conservative Total Return Strategy	25%	40%	35%
Opportunistic Income Strategy	0%	100%	0%
Enhanced Income Strategy	0%	50%	50%
U.S. Treasury Total Return Strategy	0%	0%	100%
Tax-Advantage Income Strategy	100% Invested in Qualified Dividend Income securities		
Tax-Exempt Income Strategy	100% Invested in U.S. Municipal securities		

# Conservative Total Return Strategy

## CONSERVATIVE TOTAL RETURN STRATEGY

*A multi-asset strategy designed to dampen risk and provide income and growth potential*

Growth, Income, and Safety

**Conservative Total Return Strategy:** An actively managed strategy offers investors a solution to invest in equities and income producing securities while reducing their downside risk. The multi-asset strategy is designed to provide risk averse investors less volatile way to gain equity exposure.

## Conservative Total Return Strategy

<i>Asset Category</i>	<i>Target Allocation</i>
<b>Growth:</b> Equities	30%
<b>Income:</b> High Yield, Preferred Securities	40%
<b>Safety*:</b> U.S. Treasuries	30%

### Key Considerations:

- **Multi-Asset Strategy:** Provides exposure to 3 investment strategies that collectively seek to provide both attractive income and growth potential
- **Equity Diversifier:** A disciplined investment process designed to mitigate equity market volatility
- **Limit Drawdowns:** Engineered to potentially limit losses during down market cycles
- **Experienced Team:** The investment team has a long history of managing risk with a focus on capital preservation, effectively navigating turbulent markets and compounding investor capital.

# Opportunistic Income Strategy

## OPPORTUNISTIC INCOME STRATEGY

*A careful balance between  
income and risk*

Income

**Opportunistic Income Strategy:** An actively managed alternative investment strategy that invests flexibly across a broad range of income-generating securities, enabling it to seek the best risk-adjusted opportunities in the prevailing market environment, wherever they are found. The multi-asset strategy is designed to provide risk averse investors a better way to invest in income producing securities.

## Opportunistic Income Strategy

<i>Asset Category</i>	<i>Target Allocation</i>
<b>Growth:</b> Equities	0%
<b>Income:</b> High Yield, Preferred Securities	100%
<b>Safety*:</b> U.S. Treasuries	0%

### Key Considerations:

- **Fixed Income Diversifier:** An alternative investment strategy designed to diversify fixed income allocations
- **Managed Interest Rate Risk:** Actively managing portfolio duration to potentially limit drawdowns caused by changing interest rates
- **Low Correlation:** Strategically balanced among debt and other securities to provide enhanced diversification through low correlation
- **Experienced Team:** The investment team has a long history of managing risk with a focus on capital preservation, effectively navigating turbulent markets and compounding investor capital



# Enhanced Income Strategy

## ENHANCED INCOME STRATEGY

*A short-duration  
income strategy*

Income & Safety

**Enhanced Income Strategy:** An actively managed strategy that invests flexibly across a broad range of income-generating securities, including preferred shares, providing the ability to seek the best opportunities in the prevailing market environment.

## Enhanced Income Strategy

<i>Asset Category</i>	<i>Target Allocation</i>
<b>Growth:</b> Equities	0%
<b>Income:</b> High Yield, Preferred Securities	50%
<b>Safety*:</b> U.S. Treasuries	50%

### Key Considerations:

- **Attractive Income Potential:** The Strategy offers investors the potential to optimize their current income through exposure to multiple income producing asset classes including: preferred securities, high-yield securities, corporate bonds, government bonds, and international bonds.
- **Low Duration:** The Strategy's low average duration, targeted at three years or less, may potentially make the fund less sensitive to interest rate changes than funds with higher average durations.
- **Experienced Team:** The investment team has a long history of managing risk with a focus on capital preservation, effectively navigating turbulent markets and compounding investor capital.

# U.S. Treasury Total Return Strategy

## U.S. TREASURY TOTAL RETURN STRATEGY

*A strategy designed to  
minimize volatility and risk*

Safety

**U.S. Treasury Total Return Strategy:** An actively managed alternative investment primarily in U.S. fixed income government securities. The strategy employs a tactical asset allocation strategy, offering the opportunity to capitalize on total return potential created by changing market conditions.

## U.S. Treasury Total Return Strategy

<i>Asset Category</i>	<i>Target Allocation</i>
<b>Growth:</b> Equities	0%
<b>Income:</b> High Yield, Preferred Securities	0%
<b>Safety*:</b> U.S. Treasuries	100%

### Key Considerations:

- **Portfolio Diversification:** U.S. Treasuries may provide valuable diversification by providing to a portfolio a broader range of income-generating securities.
- **Active, Flexible Approach:** Employs a tactical asset allocation strategy, offering the opportunity to capitalize on total return potential created by changing market conditions
- **Emphasis on High Quality Securities:** The portfolio will consist of investment-grade securities, which have lower historical default rates than many other types of fixed income securities.

# Tax-Advantaged Income Strategy

## TAX-ADVANTAGED INCOME STRATEGY

*A tax-advantaged  
income strategy*

Income

**Tax-Advantaged Income Strategy:** The Tax-Advantaged Strategy seeks to provide high current income. In pursuing this investment objective, the Strategy seeks to achieve favorable after-tax returns for its investors by seeking to minimize the U.S. federal income tax consequences on income generated by the Strategy.

## Tax-Advantage Income Strategy

<i>Asset Category</i>	<i>Target Allocation</i>
<b>Income:</b> Preferred Securities	100%

### Key Considerations:

- **Attractive Tax-Advantaged Income Potential:** Preferred securities offer some of the highest income rates within investment-grade fixed income. Most distributions are treated as qualified dividend income (QDI) rather than interest, taxed at a top rate of 20% vs. 37%.
- **Portfolio Diversification:** Preferred securities may provide valuable diversification by providing to a portfolio a broader range of income-generating securities.
- **Active, Flexible Approach:** In a changing environment with the risk of increased interest rate volatility, investors may benefit from a flexible approach that actively seeks favorable opportunities across the preferred securities market.
- **Emphasis on High Quality Securities:** The portfolio will consist primarily of preferred securities, which are generally issued by historically stable, highly regulated banks and insurance companies and/or companies with steady cash flows, like utilities.

# Tax-Exempt Income Strategy

## TAX-EXEMPT INCOME STRATEGY

*A tax-advantaged  
income strategy*

Income

**Tax-Exempt Income Strategy:** The Tax-Exempt Strategies seek to provide current income exempt from regular federal income tax, while preserving capital.

## Tax-Exempt Income Strategy

*Asset Category*

*Target Allocation*

Municipal Securities

100%

### Key Considerations:

- **Attractive Tax-Free Income Potential:** Interest paid by municipal bonds is generally exempt from federal income tax, providing a potential benefit to investors, particularly those in higher tax brackets.
- **Portfolio Diversification:** Municipal bonds may provide valuable diversification by providing to a portfolio a broader range of income-generating securities.
- **Active, Flexible Approach:** In a changing environment with the risk of increased interest rate volatility, investors may benefit from a flexible approach that actively seeks favorable opportunities across the municipal bond market.
- **Emphasis on High Quality Securities:** The portfolio will consist primarily of investment-grade securities, which have lower historical default rates than many other types of fixed income securities.

# Notes

# Disclosures

**\* The word "Safety" as used in the Strategy descriptions and Asset Category illustrations is NOT intended to suggest that any parts of the portfolios are risk-free. All components have risk of loss. However, U.S. Treasury securities are backed by the full faith and credit of the U.S. government and thus are considered to provide safety relative to most other investments. In particular, they are considered safe if held to maturity, but trading of Treasury securities prior to maturity can result in a loss of principal.**

Target Allocations are provided for illustrative purposes only. Actual allocations will vary in response to portfolio manager outlook, primarily for risk management purposes.

The Verity Income Strategies may be allocated at various times with direct exposure to domestic and foreign equity and debt, emerging markets equity and debt, commodities, real estate, foreign currency, and short equity and debt funds. Securities may be selected from open and closed-end mutual funds, exchange-traded funds (ETFs), individual equities and debt, and other exchange-traded securities. We do not use leverage or derivatives, but we may strategically invest in funds that use leverage or derivatives of certain types.

Certain asset classes, including, but not limited to emerging markets, commodities, and gold, carry greater risk and are frequently more volatile than broad domestic bond and equity markets. Fixed income securities will be subject to credit, liquidity, and interest rate risk. Investments in emerging markets may also involve risks such as social and political instability, exchange-rate fluctuations, lower liquidity and limited regulation. Because they may not correlate with certain other asset classes, their inclusion in combination with other asset classes may help reduce overall portfolio volatility, but there is no guarantee this will be achieved. Unlike Money Market Funds, the Verity Income Strategies are not designed to maintain a stable value and will fluctuate.

This material may contain forward looking statements; there is no guarantee that these outcomes will be achieved. 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.

Verity Asset Management, LLC ("Verity") is an SEC registered investment adviser with its principal place of business in the State of North Carolina. Any references to the terms "registered investment adviser" or "registered," do not imply that Verity Asset Management or any person associated with Verity Asset Management have achieved a certain level of skill or training.

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