



## **Verity Equity Strategies**

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## Introduction to the Verity Equity Strategies

*The purpose of the Verity Equity Strategies is to provide investors with **carefully targeted opportunities for growth**. They are designed with a focus on emphasizing the manager's **best ideas**.*

*None of the Equity Strategies are intended to be the only strategy in a client's portfolio. They are specifically designed to provide a strong complement to more broadly diversified portfolios.*

### ***The Verity Equity Strategies deliver two separate and distinct management styles:***

- ❑ The two **Verity Value Strategies** are quantitative - applying a strictly defined screening process, seeking to identify companies that are currently selling at a discount to full value. The premise is that the stock prices of undervalued companies are likely to increase over time.
- ❑ The **Verity Domestic Equity Opportunity Strategy** uses a dynamic and multifaceted subjective analysis, seeking to identify market sectors and individual companies currently demonstrating attractive fundamental prospects relative to their current pricing. It invests flexibly across the spectrum of both value and growth equities, searching for the best opportunities in the prevailing market environment.

## Value Strategies

*The two Value Strategies each operate with a goal of purchasing growing companies at bargain prices. They use a strictly disciplined approach to providing exposure to value stocks in the U.S. market.*

### General Parameters

- The strategies apply a quantitative screening process, using specific parameters for selection of stocks. The process does not rely on subjective decisions.
- The process uses proprietary valuation metrics, a time-tested weighting of multiple valuation ratios, such as price-to-earnings, price-to-book, price-to-sales.
- Portfolios of typically 15-25 stocks provide a concentration of the most highly ranked choices.
- Stocks in each strategy are equally weighted at the time of purchase.
- The screens are run at pre-determined intervals, regularly renewing the portfolio with the updated list of top choices.

## Value Strategies

### Stock Selection Process

For each of the Value Strategies, the manager narrows the appropriate investment universe using a screening process, which includes the following representative list of stages:

- Start with a database of over 6600 stocks
- Narrow to companies of appropriate market cap
- Apply minimum average daily trading volume
- Eliminate companies lacking recent sales growth
- Apply upper limits to price/earnings, price/book, price/sales and other factors
- Rank remaining stocks for purchase – retain only the most highly ranked

## Value Strategies

*Each strategy uses the same basic stock screening process, but there are two unique versions.*

### Small/MidCap Value

The objective is growth of capital, over full market cycles, at a rate greater than the unmanaged Russell 2500 Value Index, which measures the performance of the small to mid-cap value segment of the U.S. equity universe. It seeks to remain fully invested in 10 to 20 stocks.

### Multi-Cap Value

The objective is growth of capital, over full market cycles, at a rate greater than the unmanaged Russell 3000 Value Index, which measures the performance of the value segment of the broad U.S. equity universe, including both large and small-cap stocks. It seeks to remain fully invested in 10-20 stocks.



## Domestic Equity Opportunity Strategy

*The Domestic Equity Opportunity Strategy provides exposure to selected companies and sectors within the U.S. equity market. It invests flexibly across the broad range of domestic equities, allowing it to search for the best opportunities in the prevailing environment.*

### General Parameters

- Employs a dynamic decision making process – considering a wide range of industry conditions, and adjusting as well to changing macro-economic conditions.
- Designed to favor industry groups with more attractive fundamentals. May use index exposure to broad market sectors, but will focus on selection of individual stocks where they appear to offer more compelling opportunity and value.
- Will generally diversify across a number of sectors, with a minimum of three of the ten primary market sectors represented at any point in time.
- Invests in both value and growth companies across the broad range of U.S. large, mid, and small-cap stocks.
- Designed to remain 75-100% invested at all times. The level of cash will depend upon the assessment of market risk and the availability of sufficiently compelling opportunities in broad sectors and/or individual companies.

## Domestic Equity Opportunity Strategy

*The U.S. equity market is frequently divided into 10 sectors:*

- The portfolio will contain securities representing a minimum of three of the U.S. equity sectors at all times.

	<ul style="list-style-type: none"><li>• Technology</li><li>• Financials</li><li>• Health Care</li><li>• Consumer Discretionary</li><li>• Industrials</li></ul>	<ul style="list-style-type: none"><li>• Energy</li><li>• Consumer Staples</li><li>• Materials</li><li>• Utilities</li><li>• Telecom</li></ul>	

## Domestic Equity Opportunity Strategy

*Domestic Equity Opportunity takes a dynamic and multifaceted approach to investment selection. Its analytical process is designed to bring focus to industry groups and companies particularly well positioned to experience price appreciation.*

### Analysis

#### (A) Industry Groups

- Isolate sectors and sub-sectors with sound prospects for increased revenue and profit growth.
- Give priority to those with more compelling fundamental prospects.
- Favor sectors where the market may not be recognizing those advantages.

#### (B) Individual Companies

- Scrutinize companies in the favored industry groups, seeking:
  - Prospects for increasing free cash flow.
  - Sustainability of strong profit margins.
  - Attractive valuation relative to growth prospects.



## Domestic Equity Opportunity Strategy

### Allocation and Execution

#### Allocation

- Where the current advantages of specific industry groups appear to be represented by specific companies, individual stocks will be emphasized.
- Where entire industry sectors or subsectors are broadly attractive, sector-based ETFs or mutual funds may be used for diversified exposure.
- Preference is given to companies and sectors with advantages that appear sustainable over the longer term.

#### Execution

- Technical analysis is used to help determine optimal entry points.
- When considering changes among industry groups, various measures of market dynamics and technical analysis are used for confirmation of the fundamentals.

*Over time, we believe this strategy may provide returns that are less volatile than the broad indices. In mature bull markets, when the range of successful sectors and companies may narrow, this targeted approach has the potential to outperform the broad markets.*

## Portfolio Managers

**The Portfolio Managers for the Equity Strategies bring a considerable depth of experience.**



**Steve Lewis – Portfolio Manager, Value Strategies**

Steve is portfolio manager for the three Value Strategies. Steve joined Verity in 2006. Background includes nine years at Dreyfus Management, Inc., where he spearheaded the development of the Dreyfus Managed Portfolio, a discretionarily managed mutual fund service. After leaving Dreyfus, he ran the Global Navigator hedge fund for two years before joining JPMorgan Chase as a Vice President of Investments.



**Brian Kurtzer – Portfolio Manager, Domestic Equity Opportunity Strategy**

Brian is portfolio manager for the U.S. Equity Opportunity Strategy. As the firm's Senior Portfolio Manager, he also heads up management of the firm's Tactical Allocation Strategies. Brian joined Verity in late 2004 and became Portfolio Manager for the firm's Tactical Allocation Strategies in early 2006. He began his financial services career as a commodities broker and trader. As a principle owner of TriCom Commodities, Inc., he was a member of the Coffee, Sugar, and Cocoa Exchange followed by the New York Board of Trade from 1983 to 2008.



The stock selection process illustrated for the Value Strategies is representative of some of the steps in the actual process, but is not intended to demonstrate the entire screening process, components of which are proprietary. Concentration of portfolios in a limited number of securities or market sectors poses a greater risk of loss in value should individual securities or sectors suffer severe declines. The hedge position used for Tactical Multi-Cap Value, while designed to help reduce risk, could potentially increase risk of loss if the timing of implementing and removing the hedge is particularly unsuccessful.

**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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**Independent Thinking. Meaningful Results.**