

## Investment Objective

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

## 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.

## About Verity

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.

## Portfolio Allocation

Weightings will vary dynamically over time.

Potential Investment Universe
General Obligation
Higher Education
Water
School District
Medical
Transportation
Power
Airport

## Seeking Tax-Exempt Income

Historically, bonds have provided investors with diversification, stability, and income. However, the current low-rate environment has pushed many investors to take on increased levels of risk. In today's fixed income environment, municipal bond strategies are uniquely positioned to provide investors with a source of diversified, tax-advantaged income.

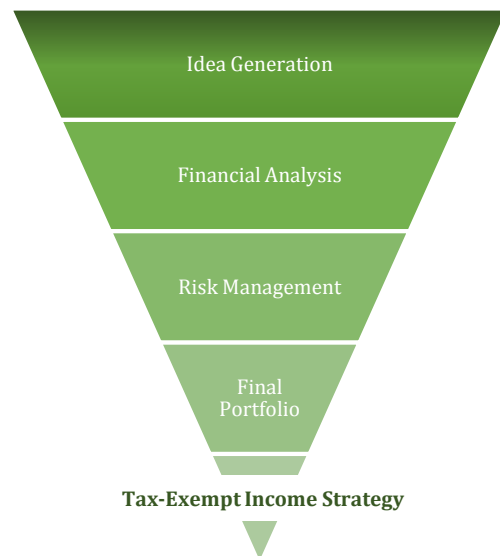
The chart below shows tax-equivalent yields for various federal income tax rates. The tax-equivalent yield is the yield a taxable investment would have to provide to equal, after taxes, the yield of a tax-exempt municipal bond. \*\*

Regular Federal Tax Exempt Yield						
	3.00%	3.50%	4.00%	4.50%	5.00%	5.50%
Federal Tax Rate	Tax-Equivalent Yield					
25.0%	4.00%	4.67%	5.33%	6.00%	6.67%	7.33%
28.0%	4.17%	4.86%	5.56%	6.25%	6.94%	7.64%
33.0%	4.48%	5.22%	5.97%	6.72%	7.46%	8.21%
35.0%	4.62%	5.38%	6.15%	6.92%	7.69%	8.46%
39.6%	4.97%	5.79%	6.62%	7.45%	8.28%	9.11%

## Investment Process

In constructing a Strategy's portfolio, the securities are selected based on the following criteria:

- **Idea Generation:** Establish an initial universe of income producing securities through theme development, quantitative screening, and business observations.
- **Financial Analysis:** Carefully vet each investment to provide a unique source of return and diversification. This multi-layer process includes:
  - Fundamental Analysis
  - Technical Analysis
  - Cyclical Analysis
  - Quantitative Analysis
  - Asset Allocation
- **Risk Management:** Measure and monitor key factors at both the portfolio and position levels in order to minimize unwanted risk.
- **Final Portfolio:** The Strategy will typically consist of a diversified portfolio of approximately 20 securities.





## **IMPORTANT DISCLOSURES**

The portfolios will be primarily invested in municipal bonds, but may at the discretion of the manager hold limited allocations to non-municipal short-term fixed income securities and cash equivalents. Municipal bonds and other fixed income securities are subject to market risk, along with credit, liquidity, and interest rate risk. Municipal bonds are also subject to risk associated with changes in federal income tax rates or rules. 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. Diversification does not assure a profit or protect against a loss in a declining market. This material contains forward looking statements. There is no guarantee that these outcomes will be achieved.

\*Income from the Strategy may be subject to federal alternative minimum tax (AMT), state and local taxes. Capital gains, if any, also may be subject to tax.

\*\*The chart is for purposes of illustration only, based on 2015 federal income tax rates. It is not intended to represent either past or future yields. Tax consequences for individual investors will vary. Investors should seek the advice of their personal tax advisors regarding their specific situation.

Before investing, see Verity's Form ADV Part 2 for additional description and fees.

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