



# PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

**AS OF APRIL 10, 2015**

Part 2A of form ADV

**Firm brochure**

**VERUSINVESTMENTS.COM**

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This brochure provides information about the qualifications and business practices of Verus Advisory, Inc. and Verus Investors, LLC. If you have any questions about the contents of this brochure, please contact us at 206.622.3700. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Verus Advisory, Inc. and Verus Investors, LLC is also available on the SEC's website at [www.advisorinfo.sec.gov](http://www.advisorinfo.sec.gov), or [www.SEC.gov](http://www.SEC.gov).

## ITEM 2: Material changes

The following are the material changes for our Brochure since our last update on March 31, 2014, including the material changes shown in our last update on March 31, 2014 for the year ended 31 December 2014.

- Item 1 and 4 – We have changed our legal name from Wurts & Associates, Inc. to Verus Advisory Inc., and our relying advisor has changed its name from KEI Investments, LLC to Verus Investors, LLC.
- Item 4 – We have updated our regulatory assets under management, reflecting regulatory assets under management as of December 31, 2014 in the amount of \$21, 307,554,082.
- We have made other stylistic changes with the aim of making our disclosure more clear regarding our discretionary and non-discretionary services.
- We have made other non-material amendments, not included in this summary, and we encourage you to read this document in its entirety.

# ITEM 3: Table of contents



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## ITEM 4: Advisory business

Verus is an independent, employee-owned provider of non-discretionary consulting and discretionary asset management services to a wide variety of institutional investors, including endowments and foundations, corporate defined benefit and defined contribution plans, public pension plans, and Taft-Hartley trusts. As of December 31, 2014, we provide services to institutional clients representing over \$103 Billion in assets.

Verus distinguishes our services along the fiduciary definition of discretion. Our consulting business, Verus Advisory, Inc. (“[Verus Advisory™](#)”), provides non-discretionary advice to clients representing more than \$82 Billion in assets. Our asset management service, Verus Investors, LLC (“[Verus Investors™](#)”), provides discretionary management of institutional plans representing more than \$21 Billion in regulatory assets under management. Within the investment industry, this discretionary management service is commonly called “OCIO” or outsourced Chief Investment Officer. Verus’ services, whether under the discretionary or non-discretionary fiduciary construct, are focused around the design of the entire portfolio, including investment policy, asset allocation, risk allocation and management, third-party investment manager evaluation, fiduciary education, and portfolio analysis, and are delivered in a highly personalized manner by experienced investment professionals. Our services are tailored to client’s enterprise objectives and guidelines, and governed by an Investment Policy Statement established by the client’s governing body.

Verus traces its roots back to 1986, when the firm was originally founded as Wurts, Johnson & Company. In 1996 the firm was renamed Wurts & Associates Inc., and in 2011 KEI Investments LLC was formed to deliver our discretionary services. In 2015 we renamed the company and all affiliates Verus (legal names being Verus Advisory, Inc. and Verus Investors, LLC.) to better unify our brand and to reflect who we have evolved to become over the past decade given our substantial investments into capital markets, risk management and technical investment expertise. “Verus” is a Latin word meaning “true,” “real,” “genuine,” and “just,” which we believe captures the spirit of our mission statement:

**Verus provides research-driven investment solutions that enable institutional investors to prudently discharge their fiduciary responsibility.**

**Through independent, conflict-free advice and investment expertise, our professionals strive to be the driving force that empowers clients to achieve their enterprise objectives.**

Verus is 100% employee owned. Our ownership structure is designed to allow us to attract and retain highly experienced and dedicated investment professionals. As such, Verus Advisory, Inc. and Verus Investors, LLC are operationally integrated, but have distinct ownership to align their key professionals’ interests with their clients’ interests directly. Verus Advisory, Inc. is owned by

Verus Holdings Company, which is owned by seven employees, of whom Jeffrey MacLean, CEO, represents a majority ownership interest. Verus Investors™' principal owners include Verus Holdings Company and Jeffrey Scott, Chief Investment Officer, with several additional employees owning the remainder.

Verus Advisory, Inc. (as a "Filing Advisor") and Verus Investors, LLC (as a "Relying Advisor") are operationally integrated, collectively conduct a single advisory business, and are together filing a single Form ADV on reliance and guidance from the SEC and under the United States Investment Advisers Act of 1940, as amended (the "Advisers Act"). Relying Advisors are Registered Investment Advisors and, as such are required to comply with all the provisions of the Advisers Act and the rules thereunder that apply to registered advisors. Registration does not imply a certain level of skill or training.

## ITEM 5: Fees & compensation

Verus derives 100% of its compensation from retainer agreements between the firm and our clients. These arrangements can be a flat annual retainer fee, a percentage of assets under advisement or management (dependent upon the discretionary or non-discretionary nature of the relationship), hourly rates, or a combination of these arrangements. Management fees that are based on assets under management normally range between 0 and 50 basis points.

The fee structure for each client relationship is based on considerations such as the type of asset pool and types of fund holdings, while also taking account of the management structure, the complexity of the servicing requirement, and consultant time and travel expenses.

We may deduct fees from assets or bill them to the client, based on the client's preference. We bill monthly or quarterly. Clients typically pay in arrears upon presentation of an invoice. Client fees may be paid by check, EFT, or direct debit, as authorized by the client. Should a client elect to terminate a consulting relationship with us, we require 30-day written notice. Additionally, Verus allows clients to terminate the relationship, without penalty, as long as the termination notice is received within five days of the initial contract signing. If a client elected to pay fees in advance, they will receive a check with a refund prorated from the effective date of the termination through the end of that billing cycle.

For services outside the scope of the agreement, the agreement between the client and Verus often stipulates an hourly rate.

All transaction, brokerage and custodian fees are paid by the client directly to the custodian, broker, and investment fund or investment manager. Please see the section labeled “Brokerage Practices” for further information.

It is important to note that Verus also does not accept compensation for the sale of securities or other investment products.

## **ITEM 6: Performance-based fees and side-by-side management**

Verus does not accept any performance-based fees and do not have conflicts of interests that may otherwise be present with side-by-side management.

## **ITEM 7: Types of clients**

Verus holds client relationships with a wide variety of institutional investors, including endowments and foundations, corporate defined benefit and defined contribution plans, public funds, Taft-Hartley trusts, and high net worth clients. These clients are either served on a discretionary basis by **Verus Investors™** or by our traditional non-discretionary practice, **Verus Advisory™**.

## **ITEM 8: Methods of analysis, investment strategies, and risk of loss**

Investing in securities involves risk of loss that clients should be prepared to bear. This section describes our approach to analysis, investment selection, and risk assessment and management.

Verus’ portfolio design methods are based upon the belief that each client’s investment objectives should be approached on a holistic and customized basis. This approach necessitates a thorough understanding of the client’s enterprise risk tolerance and objectives. We agree with industry research that shows the vast majority of portfolio results are driven by the asset and risk factor allocation, and as such we place heavy emphasis on this component throughout our portfolio design process. Our asset allocation process incorporates multiple tools including mean-variance optimization, scenario analysis and risk factor analysis in order to provide our clients unique and multiple perspectives on portfolio risk and diversification. Details on further methods of our analysis related to specific elements of our approach follow:

### **Investment policy statement**

Verus assists clients with the creation, updating, and monitoring of investment policy statements. We will review the current investment policy statement and make appropriate recommendations regarding

performance goals, risk control measures, and administrative procedures. Through this, we seek to enhance investment performance by providing a clearly defined strategic direction for the portfolio.

Each investment policy statement we advise on is tailored to the unique needs of the specific client. Within the context of our client's investment policy statement and guidelines, we seek to establish meaningful risk and returns objectives for the portfolio and asset class and thoughtfully delineate decision-making, while assigning specific responsibilities to respective parties.

### Asset allocation

Based upon the client's risk tolerances and anticipated liabilities, we construct policy portfolios and utilize a multi-faceted process that includes mean-variance optimization, scenario analysis, and risk factor analysis to determine an optimal solution for the client.

The first set of models uses the familiar portfolio analytical tools described as the Mean Variance Optimization ("MVO") framework. This describes likely portfolio behavior using assumed relationships between asset classes, describing the behavior of asset classes using simple mean return, volatility and covariance. Those simplifications and assumptions are well understood to be flawed (most particularly relating to the non-normal behavior of markets) and we therefore use mathematical techniques to minimize those problems (using fat-tailed distributions where possible) and avoid simplistic optimization approaches which maximize those errors.

In order to estimate more reasonable return forecasts and model realistic drawdown risks, we employ our proprietary Scenario Analysis Model. This tool drives returns and risk forecasts using current and prospective valuations, GDP growth and inflation, and potential valuations that could occur during various economic and market scenarios. Overall, this method assures that the resulting asset allocation is strongly rooted within the realities of the capital markets.

Further risk factor evaluation tools allow us to gain deeper insight into portfolio risks. We examine the asset allocation structure relative to the five prominent risk factors found in most all asset classes. These factors include: equity risk, interest rate risk, credit risk, inflation risk, and currency risk. This list is not exhaustive, and additional considerations may be warranted depending on the asset class considered.

Many of our pension fund clients require asset liability studies as part of the broader asset allocation process in order to properly execute their fiduciary obligations. We are experienced in utilizing the most recent actuarial valuations and the fund participant demographics towards addressing this requirement. By combining market-leading liability modeling tools and our firm's well-grounded and thoughtful

capital markets insights, we seek to provide clients with an asset allocation that takes unique account of the plan's liability constraints.

Periodically, price anomalies within the capital markets present themselves, providing long-term investors with an opportunity to realize potential gains. Our research and investment team focuses on how the capital markets are pricing risk factors on an absolute basis as well as relative to each other. This research, coupled with our work on the macro-economic environment, increases our awareness of these opportunities, allowing us to advise our clients to capitalize on these opportunities when they present themselves. Additionally, the nature of our discretionary client relationships ensures that execution upon such a trade idea is likely to be accelerated further.

For defined contribution plans, Verus is experienced in the designing of custom target-date model portfolios using either the plan's underlying fund options or a separate suite of investment managers. We may also design and monitor a custom asset allocation glide-path based on the unique demographics of the client investment programs.

### **Risk Allocation and management**

Verus believes that it much more efficient and useful to forecast risk, rather than return. The financial market dislocations that have been witnessed in recent history have bolstered this conviction and we have continued to seek to provide a more holistic, factor-based approach to risk allocation and management. Investment risk should be viewed as a precious and limited resource that should be employed with deliberate intent to generate the highest net-of-fee, risk-adjusted return, consistent with investment goals and beliefs.

Verus has developed proprietary risk analytics infrastructure for calculating and communicating the risk-oriented metrics of client portfolios to the staff and governing boards or committees. This application is an element of our risk management approach and includes dollar allocation to each asset class, geographic allocation, currency allocation, rate and spread duration, equity exposure, active risk, scenario analysis and stress test results, portfolio Value at Risk (VaR) compared to standard portfolios and asset classes, historical VaR relative to the benchmark, and total portfolio risk decomposition by asset class.

This risk infrastructure is extensively adopted by **Verus Investors**™ to serve its client relationships through the use of holdings-based analysis. This includes receiving more regular overviews of risk factors relative to asset classes.



In addition, returns-based analysis using our risk infrastructure is part of our standard non-discretionary consulting package. This involves quarterly analysis of risk factors relative to asset classes. **Verus Advisory™** can also offer the full suite of discretionary risk solutions to its non-discretionary clients through its Risk Advisory Services service offering. However, for these clients, this integrated, more regular, holdings-based service is offered at an additional rate.

### **Investment manager evaluation**

Our manager research team covers a broad universe of traditional and alternative investment managers for our clients. Our research approach involves a healthy dose of constructive skepticism as we believe risk factors, the macro-economic environment, and market momentum drive the majority of returns within actively managed portfolios. For this reason, the firm integrates our advanced perspectives about risk and capital markets into manager research.

Our process for evaluating managers combines both qualitative and quantitative elements. It includes universe screening, manager interviews, and on-site visits with the goal of accessing managers with the potential for generating strong risk-adjusted net-of-fee returns. The end result is a dynamic list of managers that we are confident in recommending to our clients.

### **Fiduciary education**

Verus continually monitors the markets, and will provide education to our clients in order to further our clients' knowledge and understanding of the numerous aspects of their investment decisions and obligations as fiduciaries. We believe that the ability to translate complex investment concepts and strategies to fiduciaries is key, and we believe that the manner in which advice is communicated is equally important, which is why such communication must be customized to the needs of each client.

We provide mid-cycle memos, Topics-of-Interest papers, and asset class outlooks, and conduct conference calls to keep our clients updated on significant events that may affect their plan, including any pertinent changes to the investments within the plan and opportunities that may be forming within the markets.

### **Portfolio analytics**

Since the inception of our firm, we have been engaged in portfolio analysis and performance measurement. Verus uses its own proprietary software as well as software provided by third party service providers to calculate performance at the total fund, manager, and asset class level. The scope of these resources allows us to provide a variety of comparative benchmarks and peer group comparisons towards providing deeper insight into performance.

### Discretionary services

**Verus Investors™** offers its clients a more integrated, discretionary investment solution for managing all, or a segment of their assets within agreed upon investment guidelines, using the processes and resources described above. **Verus Investors™** calls upon the same philosophical foundation and technical approach as our non-discretionary practice. **Verus Investors™** serves our Strategic Partnership Program and 'outsourced CIO' clients relationships, who desire to collaborate strategic decisions and delegate more of their decision-making responsibilities to an external entity. **Verus Investors™** discretionary services are highly customized to meet each client's unique needs. **Verus Advisory™** does not market its services to existing clients of **Verus Investors™**.

### Risk of loss

All investing involves risks that should be considered carefully. Additionally, any investment strategy should be cognizant of the strategy's associated fees, as these can have a material impact on performance.

Portfolios designed to earn a higher return than short-term government treasury securities have a higher potential for loss. A standard equity-debt portfolio experiences significant drawdowns turning adverse market conditions. However, our unique strategy reduces drawdown risk by building diversified portfolios, utilizing active risk budgeting and employing opportunistic tail risk hedging.

## ITEM 9: Disciplinary information

All advisors are required to disclose certain regulatory, criminal and civil events. We have no such events to disclose.

## ITEM 10: Other financial industry activities or affiliations

Verus does not receive compensation derived directly or indirectly from broker dealers, third party administrators or other outside financial service providers.

Verus provides its services through the operating entities of Verus Advisory, Inc. and Verus Investors, LLC. All persons acting on the behalf of **Verus Advisory™** and **Verus Investors™** are employees of Verus Advisory, Inc. **Verus Investors™** is under joint management, operation, and registration with **Verus Advisory™** and maintains its investment advisory business in the same office location. **Verus Investors™** uses a distinguishing identity to help differentiate the implemented services offered to our Strategic Partnership Program and 'outsourced CIO' client relationships from the non-discretionary traditional consulting services offered by **Verus Advisory™**. **Verus Advisory™** consults clients on manager selection

for their portfolios while **Verus Investors™** directly manages client portfolios. Verus maintains policies procedures to respond to potential conflicts of interest, including the possibility of limited access to invest with a particular manager based on a manager's limitations.

No management person has any active or pending application to become a broker-dealer or a representative thereof. Additionally, we do not have an active or pending application to become a futures commission merchant or commodities pool operator, trading advisor, or any associated person of such activities.

Under no circumstances does Verus accept fees, whether hard or soft, from investment managers in order to be included in client portfolios or recommended to clients. Additionally, we have no relationships or arrangements with broker-dealers, other investment advisors, futures commission merchants, banks or thrift institutions, accountant or accounting firms, law firms, insurance company, or pension consultants.

Verus prides itself on its efforts to maintain a conflict-free business operation and to respond to potential conflicts of interest in the best interests of our clients.

## **ITEM 11: Code of ethics, participation or interest in client transactions and personal trading**

We have adopted a Code of Ethics (the "Code"). Our Code reflects our expectations of appropriate ethical conduct by our employees. The Code provides guidance and specific standards of conduct for situations where violations, inadvertent or otherwise, could occur in the conduct of business. Employees must avoid situations where their personal interests conflict with the interests of Verus or our clients. The Code describes appropriate conduct surrounding gifts, outside employment, fiduciary appointments, political activities and personal investments and trading activities. In addition, the Code prohibits dishonest and fraudulent acts and reaffirms our commitment to client confidentiality. Every employee is required annually to sign a statement acknowledging that he or she agrees to follow the standards set forth in the Code. A copy of our Code of Ethics is available upon request.

Employees of Verus may, from time to time, purchase or sell shares of the same securities which are held in our clients' accounts. Given the types of investments we recommend, and the market value and liquidity of these types of investments, we do not believe there is a material risk that employees' personal trades that may coincidentally be placed at or near the time of client trades would in any way be detrimental to our clients. For certain types of securities, Verus requires employees to 'pre-clear' such transactions prior to entering any orders for their own accounts. We track and monitor all

employee trading through the use of a third party vendor. Our policy prohibits insider trading by any of our employees. The Code is designed to ensure that the personal securities transactions, activities, and interests of the employees of Verus will not interfere with making decisions in the best interest of our clients.

## **ITEM 12: Brokerage practices**

Verus does not receive any research or soft-dollar benefits from a third party in connection with client securities transactions.

Verus will advise non-discretionary clients regarding brokerage and custodial firms for their investment portfolio as may be requested. The advice given by representatives of our firm is not colored by any associated payments, and the considerations weighed are intended to be in the client's best interest. These considerations include, but are not limited, the firm's fee structure, size, activity within the commission rebate business, and rebate rate. Due to size of our clients and persistent interactions with different service providers, we are kept abreast of market leaders and industry best practice. We cannot guarantee that the execution costs or fees incurred by our clients through a brokerage or custodian are lower than available elsewhere. Lower fees for comparable services may be available from other sources.

For our discretionary client relationships, we will select brokerage service providers for trade execution. The service provider(s) that Verus Investors™ selects is based on the same considerations as with the advice given to our non-discretionary client relationships. These determinations are made through consultation between Verus Investors™ and its clients.

Client assets are managed in separate accounts with no aggregation with other client accounts.

## **ITEM 13: Review of accounts**

Our clients receive performance reports at quarterly, usually 30 to 45 days after its culmination. In addition, almost all clients meet with their relationship team at least quarterly. At each performance review, the consultant will discuss the clients plan's asset allocation relative to its policy. We will provide follow-up analysis and asset allocation reviews when adding an asset class or when making any incremental changes to the investment policy. Additionally a review of the asset allocation is conducted annually and at such other intervals as may be appropriate. The discussion surrounding the annual studies is strategic in nature while the quarterly discussions are more performance related. If no such

changes occur sooner, Verus will recommend a formal asset allocation study at least every three years, or when market conditions so warrant.

Due to the nature of discretionary client relationships, client reviews, portfolio management communication reports, risk dashboard positions and other items are more continuous through the uses of daily and intraday market evaluations and daily portfolio management tools.

## **ITEM 14: Client referrals and other compensation**

Through the course of servicing client relationships and having frequent interactions with investment managers, it is possible that we are referred to a third party with regards to our consulting services. We do not, however, pay any third party for client referrals or recommendations. We also reject any compensation from any source other than our clients.

## **ITEM 15: Custody**

Verus does not take direct possession of account assets, neither for our non-discretionary nor discretionary relationships. The custodian holds all client funds and account information, and this is the repository for information on performance. We encourage clients to carefully review custodial statements and compare them our performance reports.

## **ITEM 16: Investment discretion**

Verus Investors™, and not Verus Advisory™ assumes discretionary authority of some asset pools or portfolios under client contractual relationships. The extent of this discretion and size of the pool depend on the particular terms of the Investment Management Agreement (“IMA”) and Investment Policy Statement (“IPS”).

## **ITEM 17: Voting client securities**

Verus may accept voting responsibility for discretionary clients. As a matter of policy and as a fiduciary to our clients we vote proxies consistent with the best interests of our clients. We maintain written policies and procedures as to the handling, research, voting and reporting of proxy voting. Our policy and practice includes the responsibility to monitor corporate actions, receive and vote client proxies, disclose any potential conflicts of interest and maintain all relevant and required records.

In the absence of specific voting guidelines from the client, we vote all proxies from an issuer the way for each client. Clients may, however, place reasonable restrictions on our voting authority. We



generally vote in favor of routine corporate housekeeping proposals such as the election of directors and selection of auditors. In reviewing proposals, we consider the opinion of management, the effect on management, the effect on shareholder value, and the issuer's business practices. We identify any conflicts of interest by reviewing our relationship with the issuer of each security to determine if any financial, business, or personal relationship exists. If a material conflict of interest exists, we will determine whether it is appropriate to disclose the conflict to the affected clients, to give the clients an opportunity to vote the proxies themselves, or to address the voting issue through other objective means such as voting in a manner consistent with a predetermined voting policy.

Verus will not assume proxy voting authority for non-discretionary clients. Rather than voting proxies directly for our non-discretionary clients, [Verus Advisory™](#) assists clients in identifying a third party to direct proxies and monitor proxy voting programs. Additionally, we may provide opinions on how clients should vote their proxies but acknowledge that we may be unaware of all of the facts and circumstances that should be considered by a non-discretionary client towards achieving their economic interests.

## ITEM 18: Financial information

After nearly 30 years in business, we are financially stable with measured growth throughout our history. We are unaware of any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients. As evidence of our financial and organizational stability, several of our investment professionals invested their own personal capital in the firm over time as part of our continued efforts to diversify the ownership of the company.

We do not foresee any conditions under which we would be impaired in our ability to meet contractual obligations or service standards.