

**Part 2A of Form ADV: *Firm Brochure***

**Verity Asset Management, Inc.**

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This brochure provides information about the qualifications and business practices of Verity Asset Management, Inc.. If you have any questions about the contents of this brochure, please contact us at 919-490-6717 (Ext. 105) or [compliance@verityinvest.com](mailto:compliance@verityinvest.com). 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. Registration with the SEC as an investment adviser does not imply a certain level of skill or training.

Additional information about Verity Asset Management, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 158667.

## **Item 2    Material Changes**

There have been no material changes since the date of our last brochure.

<b>Item 3</b>	<b>Table of Contents</b>	<b>Page</b>
Item 1	Cover Page	1
Item 2	Material Changes	2
Item 3	Table of Contents	3
Item 4	Advisory Business	4
Item 5	Fees and Compensation	14
Item 6	Performance-Based Fees and Side-By-Side Management	19
Item 7	Types of Clients	19
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss	19
Item 9	Disciplinary Information	22
Item 10	Other Financial Industry Activities and Affiliations	22
Item 11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	24
Item 12	Brokerage Practices	27
Item 13	Review of Accounts	28
Item 14	Client Referrals and Other Compensation	29
Item 15	Custody	29
Item 16	Investment Discretion	30
Item 17	Voting Client Securities	30
Item 18	Financial Information	30

**Brochure Supplement - Investment Committee**

## **Item 4    Advisory Business**

Verity Asset Management, Inc. is a SEC-registered investment adviser. Our principal place of business is located in the American Tobacco Historic District in Durham, North Carolina. Our firm was formed as an independent broker-dealer in 1996 under the name, Verity Investments, Inc.; we began conducting business as a registered investment adviser in 2005. In June, 2011, the broker-dealer business was moved to a separate corporate entity, and we changed our name to Verity Asset Management, Inc.

Verity Financial Group, Inc., our firm's parent corporation, owns 100% of the stock of both Verity Asset Management, Inc. and our broker-dealer sister company, Verity Investments, Inc.

**Verity Asset Management, Inc. offers the following advisory services to our clients:**

### **DISCRETIONARY ACCOUNT MANAGEMENT**

**AMOUNT OF MANAGED ASSETS** - As of 12/31/2013, we were actively managing \$387,688,640 of clients' assets on a discretionary basis. We do not directly manage any accounts on a non-discretionary basis.

### **INVESTMENT ADVISORY SERVICES: MODEL PORTFOLIO MANAGEMENT**

Our firm provides discretionary portfolio management services to clients using model portfolios. Models may be managed by us or by outside third party managers which we have selected. Most of the models are based on a broad tactical asset allocation approach to investment management. A few more specialized models use other methodologies, which will be described below. Each model is designed to meet a specific investment objective.

#### ***Tactical Asset Allocation Models***

Asset allocation is an investment strategy that seeks to balance risk and reward by diversifying a portfolio across multiple asset classes, such as stocks, bonds, and cash. Tactical asset allocation is an active version of the strategy that seeks to improve the risk-adjusted returns by modifying the allocation mix to take advantage of market pricing anomalies and/or market trends. Anomalies could include overpriced or underpriced markets or market sectors. Tactical allocation focuses on general movements in complete markets or sectors rather than on performance of individual securities.

To enhance our potential to identify opportunities and to increase our portfolio diversification options, we may select securities from a very broad range of asset classes, market sectors, and countries. We may also elect to place parts of a model into strategies managed for us by outside third party managers. Models may be invested at various times with direct exposure to both U.S. and foreign equity and debt securities, emerging markets equity and debt, commodities, real estate, and currencies.

We may also purchase securities that "short" selected equity or debt markets; as a result, they increase in value when those markets decline. Securities of this type are most often used to hedge or offset market risk.

Specific securities in these portfolios may be selected from open and closed-end mutual funds, exchange-traded funds (ETFs), and individual stocks.

Although tactical allocation is used with the intent of better managing overall market risk, the risk of loss inherent in securities markets remains. There can be no assurance that the strategy we implement will not result in greater risk of loss if our assessment of market conditions and choice of securities and/or hedging strategies prove incorrect. Among other risks, the specific market anomalies on which the strategy is based may change or

disappear in the future, and the timing of our adjustments to the portfolio may be inappropriate. In addition, if used alone, securities with direct exposure to commodities, emerging markets, and currencies traditionally have considerably greater risk than average large company U.S. stocks and bonds; by using them as part of a larger asset allocation strategy, our intent is to actually reduce overall portfolio risk, but there is no guarantee we will achieve that objective in all instances.

#### **Moderate Model**

**The objective is growth of capital with a material reduction of risk compared to a typical diversified stock portfolio.**

#### **Core Model**

**The objective is growth of capital at a rate superior to yet less erratic than broad U.S. equity markets. The model seeks to achieve outperformance, not on a year to year basis, but over multi-year cycles of market ups and downs. The Core Model is more aggressive than the Moderate Model.**

#### **Aggressive Model**

**The objective is to seek returns that materially exceed broad U.S. stock market returns over the long term, while assuming greater volatility and risk of loss.**

#### **Social Responsibility Models**

Versions of the Moderate and Core models are available using funds screened to include only companies judged socially responsible. The screening of companies is conducted by each mutual fund company based upon their own selected social criteria. Our firm does not do additional social screening, nor do we make an independent assessment of the screening criteria used by each fund company. Mutual funds and ETFs which invest with direct exposure to commodities, currencies, and money market instruments, and funds which short indexes of stocks and bonds, are considered socially neutral for our purposes and are not subject to social screening. One risk of using funds screened for social responsibility criteria is that the selection is more limited, and certain market sectors are not well represented.

#### **Income Model**

The objective is to produce a yield superior to typical money market instruments along with potential growth of capital with low portfolio volatility. The model is expected to consist primarily of bond mutual funds and ETFs along with a smaller percentage of higher yielding equity securities. The portfolio manager has discretion to use funds that short the markets, primarily for the purpose of protecting the portfolio against the potential negative impact of rising interest rates. One primary risk is the negative effect of rising interest rates on bond funds and other funds which are negatively affected by rising rates; another is that the equity securities, though limited as a percentage of the portfolio, may be very volatile.

#### **Diversified Bond Models**

The objective is to produce a yield comparable to high grade U.S. bond funds, while providing broader diversification than high grade bond funds. The model is expected to consist primarily of bond mutual funds and ETFs. These may be selected from funds that invest in municipal bonds, foreign bonds (including emerging markets), and below investment grade corporate bonds. It will not hold equity securities. The portfolio manager has discretion to use funds that short the bond markets, primarily for the purpose of protecting the portfolio against the potential negative impact of rising interest rates. One risk of this approach is that, in falling interest rate markets, the short position will reduce portfolio performance relative to funds that do not use a hedge. Other risks include default risk and risks associated with investing in foreign markets, including currency risk.

For taxable accounts, this model is available in state-specific versions that may use municipal bond funds in an effort to reduce tax liability. However, in the interest of diversification and risk management, only a part of the portfolio will be invested in municipal bond funds, so a material level of taxable income will remain.

#### 403(b) Retirement Plan Models

The Moderate, Core, and Aggressive models above are available in versions that may be used by 403(b) retirement plans. These versions are closely parallel in methodology to the models above, but they are restricted from using certain types of securities, such as individual stocks.

#### ***Retirement Platform Models***

Our firm provides discretionary portfolio management of retirement accounts for individual participants on certain retirement plan platforms, particularly those of TIAA-CREF and Fidelity Investments. These accounts are managed using model portfolios. We base our management of these models on the tactical asset allocation strategies developed for the Moderate, Core, and Aggressive models outlined above. However, our security selection for the retirement platform models is limited to the mutual funds (and, in some cases, variable annuity subaccounts) available within each retirement plan. As a result, the strategies are modified as may be appropriate based upon the specific fund options of each plan.

##### TIAA-CREF Moderate Model

The objective is growth of capital with a material reduction of risk compared to a typical diversified stock portfolio.

##### TIAA-CREF Core Model

The objective is growth of capital at a rate superior to yet less erratic than broad U.S. equity markets. The model seeks to achieve outperformance, not on a year to year basis, but over multi-year cycles of market ups and downs. The Core Model is more aggressive than the Moderate Model.

##### TIAA-CREF Aggressive Model

The objective is to seek returns that materially exceed broad U.S. stock market returns over the long term, while assuming greater volatility and risk of loss.

##### Fidelity Moderate Model

The objective is growth of capital with a material reduction of risk compared to a typical diversified stock portfolio.

##### Fidelity Core Model

The objective is growth of capital at a rate superior to yet less erratic than broad U.S. equity markets. The model seeks to achieve outperformance, not on a year to year basis, but over multi-year cycles of market ups and downs. The Core Model is more aggressive than the Moderate Model.

##### Fidelity Aggressive Model

The objective is to seek returns that materially exceed broad U.S. stock market returns over the long term, while assuming greater volatility and risk of loss.

*Verity Asset Management, Inc. is not sponsored by, affiliated with, or in any way related to TIAA-CREF or Fidelity Investments or any of their affiliates.*

#### ***Specialty Models - Managed by Verity***

In certain instances, we may elect to offer Specialty Models managed by internal Verity portfolio managers. These specialized strategies may be more targeted or aggressive than the majority of our models, or they may be unique in other ways. They may be selected for the purpose of offering additional opportunities for growth, diversification, and/or other potential benefits. Each Specialty Model will have additional management fees over

and above the basic investment advisory fee applied to each account. This is illustrated completely in Item 5 - Fees and Compensation.

#### Sector 2 Model

The objective is very aggressive growth of capital. The model is expected to exhibit significant volatility and a greater risk of loss compared to a typical diversified equity portfolio. It is designed for clients seeking an aggressive component to complement a more broadly diversified portfolio.

The model may be invested at various times with exposure to U.S. and foreign equity and debt securities, emerging markets equity and debt, commodities, real estate, and currencies. It may also purchase securities that short selected equity or debt markets and thus increase in value when those markets decline. It may generally be very concentrated in one or a limited number of market sectors and in a small number of securities. Specific securities may be selected from open and closed-end mutual funds, exchange-traded funds (ETFs), and individual stocks, but most investments will typically be individual stocks, including very volatile stocks trading at very low share prices.

Portfolio concentration and use of stocks with low share prices, as noted above, both pose a significant increase in portfolio risk, and high volatility should be expected. Securities in this model are also subject to short-term trading, so this model may be expected to exhibit much greater turnover of securities than less aggressive models. As a consequence, accounts may experience higher transaction costs (which we expect to be minimal), and tax consequences of short-term trading should be considered if the model will be used in taxable accounts.

#### Small/MidCap Value Model

The objective is growth of capital at a rate greater than the unmanaged Russell 2500 Value Index. The Russell 2500 Value Index is an unmanaged index of U.S. small and midcap value stocks.

The portfolio manager uses a set of screening criteria in an effort to identify small and midcap companies that are currently selling at a discount to their estimated value. The premise is that the market will ultimately recognize the estimated full value of the company, and the share price will rise to reflect that value. A primary risk of the strategy is the potential that the portfolio manager's assessments of value are incorrect. In addition, share prices of smaller companies tend to be more volatile than those of larger companies.

The model will typically consist of 10 to 20 individual stocks and is designed to be close to fully invested at all times. As such, it can be expected to experience market risk and volatility similar to the Russell 2500 Value Index.

#### Tactical MultiCap Value Model

The objective is growth of capital at a rate greater than the unmanaged Russell 3000 Value Index over full market cycles. The Russell 3000 Value Index is an unmanaged index of U.S. value stocks across the spectrum from smallcap to largecap.

The portfolio manager uses a set of screening criteria in an effort to identify companies that are currently selling at a discount to their estimated value. The premise is that the market will ultimately recognize the estimated full value of the company, and the share price will rise to reflect that value. A primary risk of the strategy is the potential that the portfolio manager's assessments of value are incorrect.

To manage risk, the manager will monitor earnings trends for U.S. stocks. Negative changes in the earnings trend may trigger the implementation of a hedge position designed to offset much or all of the risk of a decline in stock prices. There is no guarantee that the timing of this strategy will be successful.

The model will typically consist of 10 to 25 individual stocks. As such, it can be expected to experience market risk and volatility similar to the Russell 3000 Value Index when fully invested, though the goal is to materially reduce market risk over longer periods of time using the hedging strategy explained above.

#### Other Models

In limited instances, certain investment adviser representatives may direct allocation strategy for models used only with certain of their personal clients, based on their assessment of client financial circumstances and investment objectives. Suitability and allocation strategy adhere to the Core model objective above and are monitored directly by the Chief Investment Officer. All trading is conducted by one of our firm's portfolio managers.

#### ***Specialty Models - Managed by Outside Third Party Managers***

We may also elect to use Specialty Models managed by outside third party managers. In evaluating, selecting, and monitoring these models, we are acting as a manager of managers. As with our internally managed Specialty Models, these specialized strategies may be more targeted or aggressive than the majority of our models, or they may be unique in other ways. They may be selected for the purpose of offering additional opportunities for growth, diversification, and/or other potential benefits. Each Specialty Model will have additional management fees over and above the basic investment advisory fee applied to each account. This is illustrated completely in Item 5 - Fees and Compensation. Clients should also refer to the Form ADV Part 2 of the outside third party manager, which we will provide, for a full description of their services.

#### CMG Global Equity Model

The goal is growth of capital through investment in global companies judged to have demonstrated superior financial strength and consistency. This strategy is structured as a mutual fund (CMG Global Equity Fund) which invests in a portfolio of approximately 50 global stocks. The investment process uses a series of key financial ratios to rate the combined earnings and financial strength of companies worldwide, including emerging markets. Companies are further evaluated based upon the consistency of each company's financial performance over time. Stocks of the companies with the highest overall ratings are selected to form the global portfolio.

To manage risk, CMG has designated AlphaSimplex Group, LLC as a sub-advisor to the fund, with responsibility for active volatility management. Active volatility management seeks to identify periods of high market risk; during periods when downside risk is deemed to exceed upside potential, the sub-advisor will use futures contracts to partially hedge portfolios risk, effectively reducing its exposure to the market. However, it is the goal of the strategy to have at least 50% or greater exposure to stocks at all times.

One of the risks of the strategy is that the assessments of financial strength do not necessarily mean stock prices of the companies selected will be favorable moving forward. In addition, investments in foreign stocks, and particularly those in emerging markets, are subject to elevated risks as compared to comparable investments in U.S. stocks. There can be no guarantee as to the effectiveness of the active volatility management strategy; failure of the strategy to perform as intended could hurt portfolio performance in both rising and falling markets.

#### CMG / Scotia Partners Dynamic Momentum Model

The objective is aggressive growth of capital. The underlying program analyzes price data on nine U.S. equity sectors to identify which are exhibiting strong positive price momentum. Only sectors with positive price momentum are eligible for investment in the portfolio, which is comprised of Rydex and/or ProFunds U.S. equity mutual funds. Sectors with strong momentum and low volatility will generally receive larger allocations in the



portfolio. To further manage risk, the process may reduce portfolio exposure to the market based on factors such as overall market trend and a measurement of "overbought" market conditions. A primary risk in this process is the potential for market prices to fluctuate in a manner which disrupts the historical effect of the fund selection indicators. As a consequence, the model could experience periods of declining value even in generally rising markets.

#### CMG Opportunistic All Asset Model

The objective is to generate positive returns over varying market cycles and varying market conditions. The strategy can be implemented using a broad universe of either mutual funds or exchange traded funds (ETFs), which are typically divided into 11 carefully selected groups. Each group contains funds representing a variety of asset classes and market sectors. The fund selection process utilizes a variety of mathematical and technical indicators to identify the fund or ETF in each group with the strongest emerging price trend. In this manner, each group contributes one fund to the actual portfolio. The process is designed to actively manage risk by making "cash" one of the options in each group, allowing each group to move to cash in the event of broad market weakness. A primary risk in this process is the potential for market prices to fluctuate in a manner which disrupts the historical effect of the fund selection indicators. As a consequence, the model could experience periods of declining value even in generally rising markets.

#### ***Investment Risk***

It is important to note that there is no guarantee the investment objective of any model will be achieved. There is always a risk of losing money in any investment strategy, and there is no guarantee that strategies that have been successful in the past will be similarly successful in the future.

#### ***Model Suitability***

Through personal discussions with each client in which the client's risk tolerance, personal and financial status, and account objectives are established, we select with the client a suitable model portfolio or portfolios. Each model is managed based on the portfolio objective of the model, rather than on each client's individual objectives. The Chief Investment Officer is responsible for monitoring all models for adherence to their stated strategies. To ensure continued suitability of the model selection(s) for each client's account(s), we will:

1. Seek to maintain regular communication with each client, no less than annually, consistent with the nature of the account and the client's desired frequency of communication. One objective of this periodic communication will be to stay informed of any change in financial circumstances or investment objectives that might warrant a change in model selection, and to determine whether the client wants to make or modify any reasonable restrictions on the management of the account;
2. Send written account profile forms to each client no less than every 36 months requesting updated information regarding changes in the client's financial circumstances and investment objectives;
3. Require written confirmation from the client for all model changes, with suitability of the change approved by one of our firm's compliance principals.

#### **INVESTMENT ADVISORY SERVICES: INDIVIDUAL PORTFOLIO MANAGEMENT**

In limited instances, a client may request that some of all the account assets be held outside of any model. In some cases, this will be a temporary circumstance for new clients of our firm who have transferred their assets

to our custodian in kind and are transitioning their accounts over a short period of time into our models. In all such cases, our firm provides continuous advice to the client regarding the investment of client funds based on the individual needs of the client. As a result of personal discussions in which goals and objectives based on a client's particular circumstances are established, we develop and manage a suitable portfolio.

We manage these advisory accounts on a discretionary basis. Account supervision is guided by the client's stated objectives (i.e., aggressive, moderately aggressive, moderate, etc.), as well as tax considerations.

Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

Our investment recommendations are not limited to any specific product or service, including those offered by a broker-dealer or insurance company, and will generally include advice regarding the following securities:

- Exchange-listed securities
- Securities traded over-the-counter
- Equity options
- Foreign issuers
- Corporate debt securities (other than commercial paper)
- Municipal securities
- Variable life insurance
- Variable annuities
- Mutual fund and exchange traded fund (ETF) shares
- United States governmental securities
- Interests in partnerships investing in real estate
- Interests in partnerships investing in oil and gas interests

Because some types of investments involve higher degrees of risk, they will only be recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

#### **INVESTMENT ADVISORY SERVICES: INSTITUTIONAL PORTFOLIO MANAGEMENT**

Our firm offers portfolio management services to institutional accounts, including defined benefit pension plans, endowments, foundations, and family offices. The investment strategy will be determined based upon the needs and circumstances of the pertinent entity, and will operate within the parameters of the entity's investment policy statement (IPS).

The selected strategy will typically utilize or mirror one or more of our tactical asset allocation models, depending on the entity's risk tolerance profile, liquidity considerations, and time horizons. Tactical asset allocation is an active version of asset allocation strategy that seeks to improve the risk-adjusted returns by modifying the allocation mix to take advantage of market pricing anomalies and/or market trends. It focuses on general movements in complete markets or market sectors rather than on performance of individual securities.

To enhance our potential to uncover opportunities and to increase diversification options, our firm makes investment selections from a very broad range of asset classes, market sectors, and countries. Models may be invested at various times with exposure to U.S. and foreign equity and debt securities, emerging markets equity and debt, commodities, real estate, and currencies. We may also purchase securities that short selected equity or debt markets and thus increase in value when those markets decline. Such positions are most often used for hedging purposes in the management of portfolio risk.

Specific securities may be selected from open and closed-end mutual funds, exchange-traded funds (ETFs), and individual stocks, with the primary emphasis on ETFs.

Although tactical asset allocation is used with the intent of better managing overall market risk, the risk of loss inherent in securities markets remains. There can be no assurance that the strategy will not result in greater risk of loss if our assessment of market conditions and choice of securities prove incorrect. Among other risks, the specific market anomalies on which the strategy is based may change or disappear in the future, and the timing of our adjustments to the portfolio may be inappropriate. In addition, if used alone, securities with direct exposure to commodities, emerging markets, and currencies traditionally have greater risk than average large company U.S. stocks and bonds; by using them as part of a larger asset allocation strategy, our intent is to actually reduce overall portfolio risk, but there is no guarantee we will implement that objective successfully in all instances.

The entity's IPS may place restrictions on investing in certain securities or types of securities.

#### **INVESTMENT ADVISORY SERVICES: SUB-ADVISORY, THIRD PARTY MANAGER, OR INVESTMENT STRATEGIST SERVICES**

Our firm may offer certain of the above services through agreements with outside Investment Advisers and/or retirement plan platforms. Under these agreements, we may provide to clients of the outside Investment Advisers or platforms any of the model portfolio strategies outlined above, depending upon the terms of each specific agreement. We may also provide to outside Investment Advisers administrative and operational services, including fee calculation and trade management. Under the terms of these agreements, we do not have direct contact with the individual clients and do not make a determination of the suitability of the model selected. That responsibility remains with the Investment Adviser and/or the client which is electing to use our portfolio management services. In some arrangements, we may elect to provide an investment strategy selection guide to assist in this process.

#### **OTHER SERVICES**

##### **INVESTMENT ADVISORY SERVICES TO RETIREMENT PLAN SPONSORS**

We provide various advisory services to pension plans either separately or in combination. Clients for these services may include 401(k) plans, 403(b) plans, other defined contribution plans, and/or profit sharing plans.

#### *Investment Policy Statement Preparation (IPS):*

We may assist the plan sponsor in developing an appropriate investment strategy that reflects the plan sponsor's stated investment objectives for management of the overall plan. Using this information, we will prepare a written IPS detailing objectives, responsibilities, investment guidelines, and monitoring criteria, among other considerations.

#### *Selection of Investment Vehicles:*

We may screen and recommend to plan sponsors an appropriate menu of investment options for plan participants, taking into consideration fund management, expenses, risk characteristics, and asset class, among other factors.

#### *Monitoring of Mutual Funds / Investment Managers*

We may monitor the plan's fund lineup on a quarterly basis, and provide detailed reports to the plan sponsors. Included in our reports will be funds that have been placed on "watch lists" for possible replacement, and recommendations for replacement of funds when we believe such action is warranted.

#### *Employee Communications*

We may provide educational support and investment workshops designed for the plan participants. The nature of the topics to be covered will be determined by us and the client under the guidelines established in ERISA Section 404(c).

#### *Model Portfolios*

If this feature is selected by the plan sponsor, our firm will provide one or more of our Tactical Asset Allocation Models (described above) as investment options for plan participants. If a participant selects one of our models, we will manage the assets for the participant on a discretionary basis according to the specific strategy of that model.

#### *Other Fiduciary Services*

We may accept written designation as a Fiduciary to the plan under either ERISA Section 3(21) or ERISA Section 3(38).

### **ALLOCATION ALERT SERVICE**

We provide a portfolio monitoring and allocation alert service to participants in certain defined contribution retirement plans, such as 401(k)s, on a non-discretionary basis. The allocation alert service provides specific recommendations to clients regarding the allocation of investments in their retirement accounts. Recommendations are provided via email, and the client is responsible for implementing the recommended investment allocations. The account monitoring and recommendations are based on each client's personal risk profile, financial circumstances, and objectives.

Strategies offered fall into three categories, each with a different degree of market risk:

- Moderate - The objective is moderate growth, but with an equal and sometimes greater focus on
- Core - The primary objective is growth, with a secondary focus on controlling risk.

- Aggressive - The objective is maximum longer term growth. Greater potential for loss and more significant fluctuations in value are to be expected.

There can be no guarantee that the strategies will be successful. As with all investments, there is a risk of loss.

### **NON-DISCRETIONARY ADVICE TO MANAGED ACCOUNT PLATFORMS**

We may provide recommendations and investment advice regarding the construction and maintenance of model allocations to the manager of a managed account platform. For each model provided, our services will include recommended securities, weightings of each security, and changes to the weightings. We will not have discretion over client accounts or access to individual client information. When we recommend or trade a model containing exchange traded securities on more than one platform, we will systematically rotate the order of the trades among platforms in a manner designed to treat all clients fairly.

### **FINANCIAL PLANNING**

On a limited basis, we may provide financial planning and consulting services for a fee. Clients using this service will typically receive a written report focusing in the areas of retirement planning, survivorship planning, education planning, investment allocation, and long-term care planning. Alternatively, a client may elect consultation services in one or more specific areas.

We gather the necessary information through in-depth personal interviews and from financial documents provided by the client. Typically the financial plan is presented to the client within six months of the contract date, provided that all information needed to prepare the financial plan has been promptly provided.

Implementation of financial plan recommendations is entirely at the client's discretion. Should we offer our investment management or financial products in addition to financial planning services, there is a potential conflict of interest since there is an incentive for us to recommend products or services for which we may receive additional fees or commissions. However, financial planning clients are under no obligation to act upon any of our recommendations or to purchase any other products or services offered by our firm.

### **ADVISORY REFERRAL SERVICES**

In very limited instances, our firm may act as a solicitor for another registered investment adviser which offers services different from our own. Based on a client's individual circumstances and objectives, we may recommend the other investment adviser's services and assist the client in completing the other investment adviser's account paperwork. At the time of conducting the advisory solicitation, we will ensure that all federal and/or state requirements governing solicitation activities are met.

## Item 5 Fees and Compensation

### DISCRETIONARY INVESTMENT ADVISORY SERVICES FALL INTO SEVERAL CATEGORIES

Investment advisory fees are paid quarterly in arrears. Fees are due on the first day of the calendar quarter and are based on each account's average daily balance during the prior calendar quarter. Fees are prorated for accounts opened during the quarter.

#### **(1) Comprehensive Investment Advisory Services for Individual Accounts at Trust Company of America**

Our firm provides comprehensive investment management services for accounts held in custody at Trust Company of America.

Annualized Fees:

	<u>Assets Under Management</u>	<u>Per Year</u>
First	\$100,000	1.50%
Next	\$ 50,000	1.20%
Next	\$100,000	1.15%
Next	\$250,000	0.95%
Next	\$250,000	0.75%
Next	\$250,000	0.60%
Next	\$1.5 million	0.50%
Above	\$2.5 million	0.45%

Rates are non-negotiable. We may group certain related accounts for the purpose of determining fees. Accounts holding unmanaged individual securities only will not be charged an investment advisory fee.

#### **(2) Investment Advisory Services for Defined Contribution Plan Participants and Fidelity NTF Fund Platform Accounts**

Our firm provides ongoing account management to individual participants in defined contribution retirement plans and certain mutual fund custody platforms. To qualify, investment options on custody platforms must be restricted to open-end mutual funds, with the possible exception of a limited number of exchange traded funds.

Annualized Fees:

	<u>Assets Under Management</u>	<u>Per Year</u>
First	\$250,000	1.25%
Next	\$250,000	1.10%
Next	\$250,000	0.95%
Above	\$750,000	0.80%

Rates are non-negotiable. We may group certain related accounts for the purpose of determining fees. Fees for accounts established prior to 10/1/2009 and accounts established between 10/1/2009 and 12/31/2011 will not be subject to change.

### **(3) Investment Advisory Services for Specialty Models**

Our firm provides investment management for certain specialized strategies, each further described in Item 4 above. Each Specialty Model will have additional management fees over and above the basic investment advisory fee applied to your account.

Annualized Fees for Each Model Managed by Verity. (Fees for accounts established prior to July 1, 2012 will not be subject to change):

	Assets Under <u>Management</u>	Per <u>Year</u>
First	\$ 50,000	0.45%
Next	\$ 50,000	0.40%
Above	\$100,000	0.35%

Annualized Fees for Models Managed by Outside Third Party Managers:

	Per <u>Year</u>
CMG Global Equity	0.00%
CMG / Scotia Partners Dynamic Momentum	1.00%
CMG Opportunistic All Asset	1.00%

Rates are non-negotiable. We may group certain related accounts for the purpose of determining fees. Fees for anyone holding a Specialty Model prior to May 30, 2012 will not be subject to change for assets invested in that specific model.

### **(4) Investment Advisory Services for Institutional Accounts**

Our firm offers comprehensive investment management services for institutions such as defined benefit pension plans, foundations, endowments, and family offices. Rates are negotiable.

### **(5) Sub-Advisory and Third Party Manager Services**

Our firm may enter into agreements to serve as a sub-advisor or third party manager for outside Investment Advisers. Under these agreements, we will provide discretionary account management and/or related administrative services. Rates payable for this service are negotiable.

### **INVESTMENT ADVISORY SERVICES TO RETIREMENT PLAN SPONSORS**

Our firm provides services to retirement plans that include selection of investment options, monitoring of investment options, and other fiduciary and non-fiduciary services. Investment advisory fees are paid quarterly in arrears. Fees are due on the first day of the calendar quarter. Rates are negotiable. Fees may be payable based on the average daily balance, the balance at the mid-point of the quarter, the end of quarter balance, or some other appropriate basis agreed upon in writing between the parties. Alternatively, the fee may be stated as a flat rate agreed upon between the parties.

## General Information

***Termination of the Advisory Relationship:*** A client will have a period of five (5) business days from the date of signing an investment advisory agreement to unconditionally rescind the agreement and receive a full waiver of all fees. Thereafter, an investment advisory agreement may be canceled at any time, by either party, upon receipt of thirty (30) days written notice. Upon termination of any account, fees will be prorated to the date of termination, and any prepaid, unearned fees will be promptly refunded.

***Third Party Manager Fees:*** In certain instances, we may select third party managers to manage parts of a client's account. These third party managers will charge investment advisory fees for their services. Their fees are separate from Verity's investment advisory fees, and will be separately itemized on the client's account statement. In some cases, a client may have the option of investing directly with the third party manager for a lower fee, without our services. In that case, the client would not receive the services provided by our firm which are designed, in part, to assist the client in allocating their investments in a diversified manner and seeking appropriate points at which to enter and exit various strategies. The client should review both the fees charged by the third party managers and our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

***Mutual Fund and Exchange Traded Fund (ETF) Fees:*** Client accounts with our firm will typically contain mutual funds and/or ETFs, each of which charges certain fees and expenses to their shareholders. All fees paid to our firm for investment advisory services are separate and distinct from the mutual fund and ETF fees and expenses. These fees and expenses are described in each fund's prospectus and will generally include a management fee, other fund expenses, and, possibly, a distribution fee. If a mutual fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a fund directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, in part, to assist the client in allocating their investments in a diversified manner and seeking appropriate points at which to enter and exit various funds. The client should review both the fees charged by the funds and our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

***Additional Fees and Expenses:*** In addition to our advisory fees and any fees associated with mutual funds, ETFs, or third party managers, clients are also responsible for the fees and expenses charged by custodians and any transaction fees imposed by broker dealers. Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.

***ERISA Accounts:*** Verity Asset Management, Inc. is deemed to be a fiduciary to advisory clients that are employee benefit plans or individual retirement accounts (IRAs) pursuant to the Employee Retirement Income and Securities Act ("ERISA"), and regulations under the Internal Revenue Code of 1986 (the "Code"), respectively. As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, we may only charge fees for investment advice about products for which our firm and/or our related persons do not receive any commissions or 12b-1 fees. Commissions or 12b-1 fees that may be payable to Verity Asset Management, Inc. will be used to offset our advisory fees.

***Fee Deduction and Billing:*** Wherever available, advisory fees will be deducted directly from the client's account. Where fee deduction is not available, the client may pay fees via direct billing or ACH.

***Advisory Fees in General:*** Clients should note that similar advisory services may be available from other registered (or unregistered) investment advisers for similar or lower fees.



**Limited Prepayment of Fees:** Under no circumstances do we require or solicit payment of fees in excess of \$1200 more than six months in advance of services rendered.

### **ALLOCATION ALERT SERVICE**

The annual fee for this service is 1.00% of the first \$250,000 of applicable retirement plan assets, 0.85% of the next \$250,000, 0.70% of any plan assets above \$500,000. These fees are paid quarterly in arrears based on the account's average daily balance during the prior calendar quarter. Rates are non-negotiable. Fees are due on the first day of the calendar quarter and will be prorated for accounts opened during the quarter.

The minimum account size for this service at the time of application will be \$100,000. Our firm's Compliance Officer may make limited exceptions based upon facts and circumstances.

An independent data aggregation service we have selected to provide daily account information for account monitoring purposes will charge a separate fee.

A client will have a period of five (5) business days from the date of signing the Allocation Alert agreement to unconditionally rescind the agreement and receive a full waiver of all fees. Thereafter, either party may terminate the agreement with 30 days written notice. Upon termination, fees will be prorated to the date of termination, and any unearned portion of the fee will be refunded to the client.

Clients should also note that lower fees for comparable services may be available from other sources.

### **NON-DISCRETIONARY ADVICE TO MANAGED ACCOUNT PLATFORMS**

Our firm may provide recommendations and investment advice regarding the construction and maintenance of model portfolios to the manager of a managed account platform. Rates payable to our firm by the managed account platform are negotiable.

### **FINANCIAL PLANNING**

Our Financial Planning fees may be either hourly or fixed. They are based on the nature of the services being provided and the complexity of each client's circumstances. Fees are negotiable and are agreed upon prior to entering into a contract with any client.

Hourly fees will typically range from \$100 to \$250 per hour. Although the length of time it will take to provide a Financial Plan will depend on each client's personal situation, we will provide an estimate for the total hours at the start of the advisory relationship. Hourly fees are due upon completion of consulting services.

Fixed fees will typically range from \$500 to \$10,000, depending on the specific arrangement reached with the client. The lesser of \$500 or one-half of any fixed fee is due as an initial deposit upon completion of our initial fact-finding session with the client. The balance is due upon completion of the plan.

The client will have a period of five (5) business days from date of execution to unconditionally rescind the Agreement and receive a full refund. Thereafter, the client may terminate the Agreement by providing us with written notice prior to delivery of the plan or completion of services. Upon termination, the client will be responsible for time expended at the stated hourly rate as earned compensation, and the unearned portion of any deposit will be refunded.

**Financial Planning Fee Offset:** We reserves the discretion to reduce or waive the hourly fee and/or the minimum fixed fee if a financial planning client chooses to engage us for our investment supervisory services.

The client is billed quarterly in arrears based on actual hours accrued.

## **ADVISORY REFERRAL SERVICES**

Our fees for referrals to another investment adviser are paid by the referred adviser, who shares with our firm a percentage of the fees received from the client. Client advisory fees may be increased by up to 0.50% as a result of our referral of any clients to another adviser. We typically receive an annual fee of 0.50% of the asset value of the account.

Clients will receive a separate disclosure document describing the fee paid to us by such adviser(s). Clients should refer to that adviser's' disclosure document for information regarding its fees, billing practices, minimum required investments and termination of advisory agreements.

## Item 6 Performance-Based Fees and Side-By-Side Management

Verity Asset Management, Inc. does not charge performance-based fees.

## Item 7 Types of Clients

Verity Asset Management, Inc. provides advisory services to the following types of clients:

- Individuals (both high net worth and other than high net worth individuals)
- Pension and profit sharing plans
- Institutional clients (including endowments and foundations)
- Corporations or other businesses not listed above
- Other registered investment advisers

## Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

### INVESTMENT STRATEGIES

We use the following strategies in managing client accounts, provided that such strategies are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

**Asset Allocation.** Asset allocation is an investment strategy that seeks to balance risk and reward by diversifying a portfolio across multiple asset classes, such as stocks, bonds, and cash, rather than focusing primarily on individual security selection. It focuses on general movements in complete markets or market sectors rather than on performance of individual securities.

**Tactical Asset Allocation.** Tactical asset allocation is an active version of the strategy that seeks to improve risk adjusted returns by modifying the allocation mix to benefit from market pricing anomalies and/or market trends.

Although this strategy is used with the intent of managing overall market risk, the risk of loss inherent in securities markets remains. One risk of asset allocation is that the client may not participate in sharp increases in a particular security, market sector, or overall market. Another risk of tactical asset allocation is that the strategy may underperform if our assessment of market conditions and choice of securities prove incorrect. Among the additional factors, the specific market anomalies on which the strategy is based may change or disappear in the future, or the timing of our adjustments to the portfolio may be inappropriate.

**Value Strategies.** A value strategy will use one or more methods of screening a group of stocks to identify those stocks that may be underpriced relative to other stocks within the same group or classification. The strategy is based on the belief that the prices of the underpriced stocks will ultimately increase relative to other stocks, closing this value gap and causing these stocks to outperform. Risks of this strategy include (1) incorrect price analysis and (2) the potential for selected companies to experience problems in sales, operations, management,

or other areas that cause their prices to fall further relative to other stocks.

## METHODS OF ANALYSIS

In an effort to enhance our asset allocation strategies, we use the following methods of analysis in setting allocation target percentages and in decisions of which asset classes to own and when to buy or sell:

**Fundamental Analysis.** We attempt to understand the intrinsic value of securities by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition of companies themselves) to determine whether companies or markets are underpriced or overpriced. We also examine these factors to try to evaluate whether current financial trends, such as profit growth, are sustainable.

Fundamental analysis does not attempt to anticipate market movements. This presents a risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the security.

**Technical Analysis.** We analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior that may predict future price movement. One element of technical analysis is charting. In this type of technical analysis, we review charts of market activity in an attempt to identify important support and resistance levels and to identify major and minor trends. (Levels of support are prices below which a security is less likely to fall; levels of resistance are prices above which a security is less likely to rise.)

Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that poorly managed or financially unsound companies may underperform regardless of our analysis.

**Qualitative Analysis.** We may subjectively evaluate non-quantifiable factors such as quality of management, potential shifts in demand, strength of research and development, and various other factors not readily subject to measurement, and predict changes to share price based on that analysis.

A risk in using qualitative analysis is that our subjective judgment may prove incorrect.

**Cyclical Analysis.** We do not directly use cyclical analysis in strategies which we manage, but our outside third party managers sometimes use cyclical analysis. Cyclical analysis examines the historical relationships between price and market trends, to forecast the direction of prices.

Market cycles may fail to materialize as anticipated, or may not follow their typical course; in addition, the timing and duration of cycles can vary widely. As a consequence of these and other factors, there is a risk that cyclical analysis may result in unanticipated losses or underperformance.

**Mutual Fund and/or ETF Analysis.** When we use mutual funds, we carefully consider investment style, and we look at the experience and track record of the manager in an attempt to assess the effectiveness of that manager over a meaningful period of time. For both mutual funds and exchange traded funds (ETFs), we conduct a review of historical risk measurements, average valuations of portfolio securities, sector weightings, country or regional weightings, and the primary holdings of each fund.

A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A mutual fund manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, different funds held by the client may purchase the same security, increasing the risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF, which could make the holding(s) less suitable for the client's portfolio.

**Risks for all forms of analysis.** Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

## HOLDING PERIODS

In responding to the various methods of analysis and executing our investment strategies, we may use a variety of holding periods for the securities making up a client's portfolio:

**Long-term purchases.** We purchase certain securities with the idea of holding them in the client's account for a year or longer. Typically we employ this strategy when:

- we believe the securities to be currently undervalued, and/or
- we believe conditions are favorable for a particular asset class to trend higher in price over time, regardless of the potential shorter-term projections for this class.

One risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantage of short-term gains that could be profitable to a client. Another is that, if our expectations prove incorrect, a security may decline sharply in value before we make the decision to sell.

**Short-term purchases.** We purchase certain securities with the idea of selling them within a relatively shorter time (typically less than a year). We do this in an attempt to take advantage of conditions that we believe may result in a shorter-term swing in the price of the securities.

One risk is that the price may weaken sooner than we anticipate, leaving us with a potential loss. In addition, this strategy will result in some increase in transaction costs as well as the less favorable tax treatment of short-term capital gains for securities held in taxable accounts.

**Trading.** In a limited number of models or accounts, we may purchase securities with the idea of selling them very quickly (typically within 30 days or less). We do this in an attempt to take advantage brief price swings.

Trading presents a much greater timing risk than other strategies; selling at an inopportune time may result in a reduced gain or an increased loss. In addition, this strategy will result in some increase in transaction costs as well as the less favorable tax treatment of short-term capital gains for securities held in taxable accounts.

## RISK OF LOSS

Regardless of investment strategy, methods of analysis, or holding periods, securities investments are not guaranteed. You may lose money on your investments.

## **Item 9     Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. Our firm and our management personnel have no reportable disciplinary events to disclose.

## **Item 10    Other Financial Industry Activities and Affiliations**

### **AFFILIATIONS**

Verity Financial Group, the parent company of Verity Asset Management, Inc. is an affiliated firm which offers access to banking products, serves on a limited basis as a third party administrator and pension consultant, and is engaged in sales of selected life insurance products.

Verity Investments, Inc., an affiliated company that is also a wholly owned subsidiary of Verity Financial Group, Inc., is a FINRA member broker-dealer.

Verity Asset Management Inc. also has an affiliation with another registered investment adviser, Chatham Advisors, LLC, which offers portfolio management and financial planning services for individual investors. Our firm holds a 5% ownership interest in Chatham.

### **MANAGEMENT PERSONNEL REGISTRATIONS**

In addition to their primary role as investment adviser representatives of our firm, certain management and other personnel of our firm are licensed registered representatives of Verity Investments, Inc., our affiliated broker-dealer, and are also licensed as agents for various insurance companies. In addition to providing investment advice on a fee basis, such persons may recommend and sell securities, insurance, or other products on a commission basis through associated companies. Clients are, of course, not under any obligation to purchase any financial product. The implementation of any or all recommendations is solely at the discretion of the client.

Certain management and other personnel of our firm also provide pension consulting and third party administrator services to retirement plan sponsors. In addition to providing investment advisory services to retirement plan sponsors on a fee basis, such persons may, in their roles with our parent, Verity Financial Group, Inc., recommend pension consulting and/or third party administrator services for additional fees. Clients are not under any obligation to select these services.

As previously disclosed, we may in isolated instances recommend the services of another registered investment adviser to our clients. In exchange, we receive a referral fee from the selected investment adviser. The fee received by us is a percentage of the fee charged by that investment adviser to the client.

Clients should be aware that the receipt of additional compensation by Verity Asset Management, Inc. and/or its management persons or employees creates a conflict of interest that could impair the objectivity of our firm and these individuals when making advisory recommendations. Our firm endeavors at all times to put the interest of our clients first as part of our fiduciary duty as a registered investment adviser. In addition, we take the following steps to address this conflict:

- we disclose to clients the existence of all material conflicts of interest, including the potential for our firm and our employees to earn other compensation from advisory clients in addition to our firm's advisory fees;
- we disclose to clients that they are not obligated to purchase products or services we recommend;
- we collect, maintain and document relevant client background information, including the client's financial goals, objectives and risk tolerance to properly assess the suitability of various products and services;

- we conduct reviews of each client account at appropriate intervals to carefully verify that all recommendations made to a client are suitable to the client's needs and circumstances;
- we require that our employees seek prior approval of any outside employment activity so that we may ensure that any conflicts of interests in such activities are properly addressed;
- we periodically review these outside employment activities to verify that any conflicts of interest continue to be properly addressed by our firm; and
- we educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

### **INVESTMENT COMMITTEE PERSONNEL REGISTRATIONS**

A member of our firm's investment committee, Malcolm Trevillian, is the principal and an advisory representative of Chatham Advisors, LLC (Chatham). In that capacity, Mr. Trevillian provides advisory services through Chatham. The advisory services delivered by Chatham are distinct from those provided by our firm and are provided for separate compensation. There are no referral fee arrangements between our firm and Chatham.

We may occasionally trade the same or similar securities in client portfolios that are traded by Chatham in its client portfolios. When this occurs, our clients may receive a better or worse price or execution than Chatham depending on the order of trade execution, the type of security traded and the broker-dealer used. In order to minimize the potential for any systematic disadvantage to clients, when trades are placed in the same security on the same day for both our clients and Chatham's clients (whose portfolios are under Malcolm Trevillian's control), Mr. Trevillian will notify us of his intent and will coordinate with our portfolio manager to rotate the order of execution as may be appropriate to avoid systemic advantage to either group of clients. Our firm's Chief Compliance Officer periodically monitors Chatham's trading activity to verify that these procedures are followed.

As this affiliation with Chatham may present potential conflicts of interest, we have established written policies and procedures for insider trading that prohibit our portfolio managers, and any other member, officer or employee of our firm, from buying, selling or recommending the securities of companies bought, sold or recommended by Chatham, where the decision is substantially derived, in whole or in part, by reason of access to the recommendations of Chatham to its clients. This prohibition does not apply in the event Mr. Trevillian has communicated his investment ideas in his role on our investment committee, so long as he and our portfolio manager coordinate their trading activities in a manner that minimizes the potential for systematic disadvantage to clients.

As required when there is an affiliated investment adviser, our affiliation with Chatham is specifically disclosed in Section 7.A. on Schedule D of Form ADV, Part 1. (Part 1 of our Form ADV can be accessed by following the directions provided on the Cover Page of this Firm Brochure.)

### **MANAGEMENT OF PRIVATE FUNDS**

Certain officers and employees of our firm also serve as managers and/or managing members of a limited liability corporation (LLC) in which clients have invested. To limit potential conflict of interest between our associated persons and clients that could otherwise arise from these dual responsibilities, neither our firm nor our associated persons will receive any compensation for management of any LLC formed by the firm. Further, any of our associated persons who hold personal membership interests in an LLC will not hold management positions or other positions of responsibility within the LLC unless we disclose their role to investors.

The one LLC currently managed by associated persons of our firm is Ventana, LLC, which was formed in 2005 to acquire an interest in Phoenix Realty Fund Investors I, LLC. Brian Kurtzer, an employee of our firm who owns a membership interest in Ventana, also serves on the Board of Managers of the LLC.

### **THIRD PARTY MANAGER / SUB-ADVISOR BUSINESS RELATIONSHIPS**

In certain instances, our business relationships with advisory firms we use as third party managers or sub-advisors for certain model portfolios may extend more widely to the exchange of other products, services, referrals, or joint marketing opportunities. Any opportunity to profit from a relationship creates a conflict of interest that could impair the objectivity of our firm when selecting or retaining third party managers or sub-advisors. As noted above, our firm endeavors at all times to put the interest of our clients first as part of our fiduciary duty as a registered investment adviser, and we take the steps outlined, among others.

We examine potential conflicts of interest when we enter into each relationship, and continue to evaluate them over time. When considering the multiple factors which enter into a manager selection, determination of the "best" manager for a given objective is far from an exact science, and results will vary significantly over time. However, with appropriate due diligence, we select managers which offer a desirable combination of characteristics, including: the unique value of their strategy, the conceptual soundness of their process, the effectiveness of their performance, the manner in which they manage risk, and the reasonableness of their fees. Some managers also provide resources which may enhance the value we bring to our clients, such as access to additional investment thought processes and/or extensive due diligence analysis of other investment managers.

### **TIAA-CREF ADVISOR NETWORK PROGRAM**

TIAA-CREF maintains an Advisor Network which may accept qualified firms and certain of their investment advisor representatives who complete a careful screening process. Verity Asset Management participates in the TIAA-CREF Advisor Network program. Our firm and certain of our investment advisor representatives provide investment advisory services to participants in retirement plans offered through TIAA-CREF. In order to participate in this program, we agree to limit investment advisory fees to no more than 1.25% annually on assets maintained on the TIAA-CREF retirement platform.

In addition, Verity and each of our participating investment advisor representatives must meet minimum due diligence standards set by the program. Participating investment advisor representatives are responsible for paying annual fees to Fiduciary Risk Assessment, LLC to cover the cost of due diligence screening, background checks, and maintenance of profile information for each advisor. We do not increase any fees charged to plan sponsors or to plan participants in order to recover the cost associated with Network participation.

Verity and TIAA-CREF are independent entities that are unaffiliated with one another.

## **Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

Verity Asset Management, Inc. and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any purchase of securities in a limited offering (e.g., private placement) or an initial public offering. Our code also provides for oversight, enforcement and recordkeeping provisions.

Verity Asset Management, Inc.'s Code of Ethics does not permit insider trading. It includes policies and procedures designed to prevent the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by email sent to [asimonson@verityinvest.com](mailto:asimonson@verityinvest.com), or by calling us at 919-490-6717 (Ext. 100).



## **PRIVATE FUNDS**

Certain principals of Verity Asset Management, Inc. are also the officers and manager of a private investment fund, Ventana, LLC (the Fund). The principals of Verity Asset Management, Inc. and certain of our employees will devote to the Fund as much time as we deem necessary and appropriate to manage the Fund's business. Our firm is not restricted from forming additional investment funds, entering into other investment advisory relationships or engaging in other business activities, even though such activities may be in competition with the Fund and/or may involve a substantial amount of our time and resources. Potentially, such activities could be viewed as creating a conflict of interest in that the time and effort of our management personnel and employees will not be devoted exclusively to the business of the Fund, but could be allocated between the business of the Fund and other of our business activities. We do not currently anticipate forming additional such investment funds.

Investments in the Fund have been recommended to advisory clients for whom such an investment may be suitable as a complement to a separate advisory account managed by our firm. Clients who invest in the Fund are charged advisory fees at the same rate as the advisory fees we charge to other advisory accounts maintained at the same custodian.

The Fund is not required to register as an investment company under the Investment Company Act of 1940. It relies upon an exemption available to funds whose securities are not publicly offered. Principals of Verity Asset Management, Inc., manage the Fund in accordance with the terms and conditions of the Fund's offering and organizational documents.

If we should decide to form additional Funds of this type in the future, the following procedures will be followed: Whenever a client's assets are invested in the Funds, a disclosure letter will be furnished to each client prior to investing. This practice will be followed even in cases where our firm has investment discretion over the client's assets. Along with the disclosure letter, clients will be provided with copies of all documents which must be reviewed and/or completed in order to purchase an investment interest in the appropriate Fund. If a Fund owns an interest in other, underlying investments, copies of the appropriate documents for those underlying investments will be included also. These documents may be delivered either physically or electronically. Confirmation from clients that they have received and read the disclosure letter and any related documents will be required prior to completing the investing of client assets. Clients will also be required to acknowledge in writing that they accept our firm's election to invest on their behalf in the amount specified in the letter prior to execution of any application document on their behalf.

Securities of this type, which are not freely marketable, will be valued at their cost to the client unless Verity Asset Management, in consultation with the Fund's Board of Directors or management, determines that the value of the securities is more accurately reflected by a different method of valuation (which could result in a mark-up or mark-down of the securities.) If it is decided that the cost of the investment no longer reflects an appropriate current value, our firm will consider asset, income, and market based factors in arriving at a sound and reasonable assessment of current value. To accomplish this, we will rely on data provided by representatives of the respective Fund and/or data compiled by our firm. A conflict of interest may exist when our firm participates in valuing securities upon which we receive a management fee. We maintain a pricing policy which is intended to ensure that valuations are fairly represented. A full accounting of any such alternate valuation and the rationale for the valuation will be made available to clients upon request.

Associated persons of our firm may also be permitted to invest as members of private investment funds that are recommended to clients. It is our intent that the interests of clients and our firm's associated persons be aligned in these instances. Should any conflict of interest arise, the interests of clients will be placed first. See Item 10 for further information.

## **PERSONAL SECURITIES TRANSACTIONS**

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Our firm and/or individuals associated with our firm may buy or sell for their personal accounts securities identical to or different from those recommended to our clients. In addition, any associated person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client. Associated persons may buy or sell securities per their personal accounts based on investment considerations which our firm may

not deem appropriate for clients.

In all cases, client orders are given priority. In no case will an associated person receive a better price or more favorable circumstances than a client. Personal transactions of associated persons are regularly monitored to ensure that client interests are put first in all relevant circumstances.

We may aggregate our employee trades with client transactions where possible and when compliant with our duty to seek best execution for our clients. In these instances, participating clients will receive an average share price, and transaction costs will be shared equally and on a pro-rata basis. In the instances where there is a partial fill of a particular batched order, we will allocate all purchases pro-rata, with each account paying the average price. Our employee accounts will be included in the pro-rata allocation. See Item 12 for further information.

As these situations represent actual or potential conflicts of interest to our clients, we have established the following policies and procedures for implementing our firm's Code of Ethics, to ensure our firm complies with its regulatory obligations and provides our clients and potential clients with full and fair disclosure of such conflicts of interest:

1. No principal or employee of our firm may put his or her own interest above the interest of an advisory client.
2. No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is a result of information received as a result of his or her employment unless the information is also available to the investing public.
3. No person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account. This prevents such employees from benefiting from transactions placed on behalf of advisory accounts.
4. We require prior approval for any IPO or private placement investments by related persons of the firm.
5. We maintain a list of anyone associated with our firm that has access to advisory recommendations ("access person").
6. We have established procedures for the maintenance of all required books and records.
7. All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
8. We require delivery and acknowledgment of the Code of Ethics by each supervised person of our firm.
9. We have established policies requiring the reporting of Code of Ethics violations to our senior management.
10. Any individual who violates any of the above restrictions may be subject to termination.

As disclosed in the preceding section of this Brochure (Item 10), related persons of our firm are separately registered as securities representatives of a broker-dealer, investment adviser representatives of another registered investment adviser, and/or appointed as an insurance agent of various insurance companies. Please refer to Item 10 for a detailed explanation of these relationships and important conflict of interest disclosures.

### **ACCOUNT TRANSFERS**

Our firm has different fee schedules for Comprehensive Investment Advisory Services and Investment Advisory Services for Defined Contribution Retirement Plan Participants (as noted in Item 5).

Retirement or other termination of employment, along with certain other circumstances, may provide a Defined Contribution Retirement Plan Participant with an opportunity to transfer their assets to a different plan or custodian. In addition, certain account holders on the Fidelity NTF Fund Platform may transfer their assets at any time. Whenever our firm and/or any of our personnel would receive a higher fee or other incentive for recommending such a transfer, this would create a conflict of interest that could impair the objectivity of our firm and these individuals when making advisory recommendations. Our firm endeavors at all times to put the interest of our clients first as part of our fiduciary duty as a registered investment adviser. In such a situation, we would inform the client of the transfer option only if we believe there is strong reason to believe the transfer is suitable and may be in the client's best interest. We would disclose to the client the existence of all material conflicts of interest, including the difference in fees between the two plans and the potential for our firm and our employees to earn greater compensation as a result of such a transfer. We would disclose to the client that he or she is not obligated to purchase products or services we recommend, and that he or she should calmly and

prudently consider the pros and cons before making any decision to implement a transfer.

## **Item 12 Brokerage Practices**

Generally, our firm will not select the broker-dealer to be used in executing transactions placed through the investment advisory platforms of our custodians. However, in certain limited circumstances, we may direct the custodian to place transactions through a specific broker or dealer if we have determined that, by doing so, we may obtain for the client a more favorable commission, exchange rate, or trade execution. We do not receive any added value, including research or services, for directing transactions to any broker or dealer.

### **BLOCK TRADING**

Client accounts are generally associated with one or more model portfolios. Our custodians' proprietary model processing software aggregates individual orders from accounts in the various models into block orders to purchase or sell specific securities. Among other factors, this permits us to execute trades in a timelier, more equitable, and less expensive manner. Each client's personal account records will illustrate the securities held by, and bought and sold for, that account.

In executing block transactions, no client will be favored over any other client; each client that participates in an aggregated order will participate at the average share price for all transactions made to fill the order. Transaction costs will be charged to clients on a pro-rata basis in proportion to each client's participation. Our firm will receive no additional compensation of any kind as a result of aggregation of orders.

If we are buying or selling a given security in accounts at more than one custodian, we will typically aggregate trades only among those clients whose accounts can be traded at a single custodian. Where applicable, we will rotate or vary the order of custodians through which we place trades on any particular day.

If block orders cannot be completely filled, we may be forced to allocate the partially filled orders among the accounts participating in the order. The methodology to be used, which is implemented by the custodian's software, is based upon the general principle that securities being purchased are allocated based upon the relative size of each account and securities being sold are allocated in proportion to the size of each account's position in that security after first selling all positions for accounts that may be terminating and transferring. Partially filled orders will be allocated pro-rata based upon these principles. We will maintain separate records of all partially filled orders reflecting review by a compliance officer of the securities bought and sold by each account.

The order may be allocated on a basis different from these stated policies if all client accounts receive fair and equitable treatment and the reason for the different allocation is explained and approved in writing by our compliance officer no later than one hour after the opening of the markets on the trading day following the day the order was executed.

Trades for persons associated with our firm are included in these policies. Thus, in the event of a partially filled order, accounts for associated persons will participate in the pro rata allocation along with all other participating accounts.

### **CUSTODY RELATIONSHIPS**

Verity Asset Management, Inc. has arrangements with Trust Company of America ("TCA") and Fidelity Brokerage Services / National Financial Services LLC (together, "Fidelity") through which each custodian provides our firm with their "platform" services. The platform services include, among others, brokerage, custodial, administrative support, record keeping and related services. These services are intended to support intermediaries like Verity Asset Management, Inc. in conducting business. They are designed to serve the best interests of our clients, but they may also benefit us.

TCA and Fidelity (the "Custodians") each charge brokerage commissions and may charge other transaction fees for effecting certain securities transactions. The commissions and transaction fees charged by each Custodian may vary and may also be higher or lower than those charged by other custodians and broker-dealers.

Our firm may also receive additional services from certain of the Custodians, which may include portfolio management technology and performance accounting services, among other things. Without these arrangements, we might be compelled to purchase the same or similar services at our own expense.

As a result of receiving such services for no additional cost, we may have an incentive to continue to use or expand the use of one or the other Custodian's services. We examined this potential conflict of interest when we chose to enter into each of these relationships and have determined that the relationships are each, in the appropriate situations, in the best interests of our clients and that they satisfy our client obligations, including our duty to seek best execution. A client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where we determine in good faith that the commission is reasonable in relation to the value of the overall services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a custodian or broker-dealer's services, including the value of execution capability, commission rates, responsiveness, and related services. Accordingly, while Verity Asset Management, Inc. will seek competitive rates, to the benefit of all clients, we may not necessarily obtain the lowest possible commission rates for specific client account transactions. We are not affiliated with either Custodian.

## **Item 13    Review of Accounts**

### **INVESTMENT ADVISORY SERVICES: MODEL PORTFOLIO MANAGEMENT**

**Reviews:** Our firm places accounts into one or more model portfolios except in limited cases where clients elect to hold assets in a non-modeled status. Model portfolios are designed and managed under the supervision of members of the Investment Committee and/or the Chief Investment Officer to conform to defined investment objectives. New account paperwork submitted by clients is reviewed by a compliance principal to verify suitability of the model or other investment selection(s) prior to acceptance of the account, and client requests for model portfolio changes, which must be in writing, are also reviewed for suitability. Models are monitored regularly by the respective portfolio manager for consistency with their investment objectives, and trades for each day are reviewed by the Chief Investment Officer using a Daily Trade Blotter. Electronic systems at the custodian or third party software provider identify any accounts within a model that have become imbalanced beyond defined parameters. Trades may be processed at the discretion of the portfolio manager to bring those accounts back into appropriate balance.

Using these systems, there is currently no practical limit on the number of modeled accounts that may be reviewed by an associate. Distributions and terminations are monitored for unusual account activity.

All of the above systems are under the direct supervision of Gordon T. Wegwart, Compliance Officer and Chief Investment Officer. Suitability reviews are conducted by William R. Hopwood, Director of Workplace Savings, or a backup compliance principal. Monitoring and management of model portfolios are carried out by Brian R. Kurtzer, Portfolio Manager; Gordon Wegwart, Chief Investment Officer; William C. Robbins; and Steven J. Lewis. Monitoring of distributions and terminations is conducted by William Hopwood.

Investment advisory representatives of the firm seek to conduct reviews with clients on a periodic basis, with a goal of communication no less than annually either in person, by phone, or by mail to monitor their personal, tax, and financial status along with any other circumstances that may warrant a change in investment objectives. As a further step, a profile mailing is sent to each client on a 3 year cycle requesting written updates to account objectives and other account related information.

**Reports:** Account statements are generated quarterly by the account custodian. The statements are sent directly to clients by the account custodians. These statements list the account positions, activity in the account during the prior quarter, and other related information. Additionally, clients are able to access their account activity at all times via the respective custodian's website.

### **INVESTMENT ADVISORY SERVICES: INDIVIDUAL PORTFOLIO MANAGEMENT**

**Reviews:** Accounts that are managed on a non-modeled basis are reviewed at least monthly. Accounts are reviewed in the context of each client's stated investment objectives and guidelines. More frequent reviews may

be triggered by material changes in variables such as the client's individual circumstances or objectives.

These accounts are reviewed by: William Hopwood, Director of Workplace Savings.

**Reports:** Account statements are generated quarterly by the account custodian. The statements are sent directly to clients by the account custodians. These statements list the account positions, activity in the account during the prior quarter, and other related information. Additionally, clients are able to access their account activity at all times via the custodian's website.

#### **INVESTMENT ADVISORY SERVICES TO RETIREMENT PLAN SPONSORS**

**Reviews:** Our firm will review each plan sponsor's Investment Policy Statement (IPS) whenever the plan sponsor advises us of a change in circumstances. We will review the investment options of the plan according to the agreed upon time intervals established in the IPS. Such reviews will generally occur quarterly.

These accounts are reviewed by: Gordon T. Wegwart, Chief Investment Officer.

**Reports:** Our firm will provide reports to Pension Consulting Services clients based on the terms set forth in the client's Investment Policy Statement (IPS).

#### **FINANCIAL PLANNING SERVICES**

**Reviews:** While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Financial Planning clients unless otherwise contracted for.

**Reports:** Financial Planning clients will receive a completed financial plan. Additional reports will not typically be provided unless otherwise contracted for.

### **Item 14 Client Referrals and Other Compensation**

#### **CLIENT REFERRALS**

Our firm may pay referral fees to independent persons or firms ("Solicitors") for introducing clients to us. Whenever we pay a referral fee, we require the Solicitor to provide the prospective client with a copy of this document (our *Firm Brochure*) and a separate Solicitor Disclosure statement that includes the following information:

- the Solicitor's name and relationship with our firm;
- the fact that the Solicitor is being paid a referral fee;
- the amount of the fee; and
- whether the fee paid to us by the client will be increased above our normal fees in order to compensate the Solicitor.

Client fees may be increased as a result of this arrangement. Any increase will be specifically disclosed on the Solicitor Disclosure statement signed by the clients.

#### **OTHER COMPENSATION**

It is the policy of Verity Asset Management, Inc. not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

### **Item 15 Custody**

We previously disclosed in the "Fees and Compensation" section (Item 5) of this Brochure that our firm directly debits advisory fees from client accounts.

As part of this billing process, the client's custodian is advised, where applicable, of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send directly to the

client an account statement showing all transactions within the account during the reporting period.

Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in their statement.

## **Item 16 Investment Discretion**

Clients may hire us to provide discretionary asset management services, in which case we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

Our discretionary authority includes the ability to do the following without contacting the client:

- determine the security to buy or sell; and/or
- determine the amount of the security to buy or sell

Clients give us discretionary authority when they sign a discretionary investment advisory agreement with our firm, providing us with limited power of attorney, and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by once again providing us with written instructions.

## **Item 17 Voting Client Securities**

As a matter of firm policy, we do not vote proxies on behalf of clients. Therefore, although our firm may provide investment advisory services relative to client investment assets, clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets. Clients are responsible for instructing each custodian of the assets, to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets. We do not offer any consulting assistance regarding proxy issues to clients.

## **Item 18 Financial Information**

Under no circumstances do we require or solicit payment of fees in excess of \$1200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

As an advisory firm that maintains discretionary authority for client accounts, we are required to disclose any financial condition that is reasonable likely to impair our ability to meet our contractual obligations. Verity Asset Management, Inc. has no additional financial circumstances to report. Verity Asset Management, Inc. has never been the subject of a bankruptcy petition.

**Part 2B of Form ADV: *Brochure Supplement***

**Investment Committee**

Gordon Wegwart, Chief Investment Officer  
Brian R. Kurtzer, Portfolio Manager  
Malcolm M. Trevillian  
Steven J. Lewis  
Allen Neal Huggins  
Peter G. Klas

**Verity Asset Management, Inc.**

280 S. Mangum Street  
Suite 550  
Durham, NC 27701

Telephone: 919-490-6717 (Ext. 105)  
Email: [compliance@verityinvest.com](mailto:compliance@verityinvest.com)  
Web Address: [www.verityinvest.com](http://www.verityinvest.com)

07/31/2011

This brochure supplement provides information about the individual(s) listed above that supplements the Verity Asset Management, Inc. brochure. You should have received a copy of that brochure. Please contact Verity's Chief Compliance Officer if you did not receive Verity's brochure or if you have any questions about the contents of this supplement.

Additional information about the individual(s) listed above is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 Educational, Background and Business Experience

**Name:** Gordon T. Wegwart      **Born:** 1954

**Education:** Duke University; B.A., History / Religion - Summa Cum Laude; 1976

### Business Experience

- Verity Asset Management, Inc.; President, Chief Investment Officer; from 9/1996 to Present
- Verity Investments, Inc.; President; from 6/2011 to Present
- Verity Financial Group, Inc.; President; from 8/1996 to Present
- Verity Lending Services; Vice President; from 9/1996 to 10/2008
- Primerica Financial Services; Senior Vice President; from 7/1981 to 9/1996

## Item 3 Disciplinary Information

No reportable disciplinary history

## Item 4 Other Business Activities

### A. Investment-Related Activities

Verity Investments, Inc., an affiliate of Verity Asset Management, Inc., is registered as a broker-dealer member of FINRA. Verity Financial Group, the parent company of both firms, also provides services as a third party administrator and pension consultant, and is engaged in sales of life insurance products. Mr. Wegwart is a registered representative of the broker-dealer and also a licensed insurance agent. Therefore, in addition to providing investment advisory services on a fee basis, he may recommend and sell securities or insurance on a commission basis, or he may recommend pension consulting and/or third party administrator services on a fee basis, through our firm or its associated companies.

Clients should be aware that the receipt of such additional compensation by Verity Asset Management's associated companies may give principals of the firm such as Mr. Wegwart an incentive to recommend products based on the compensation received, rather than on the client's needs. This creates a conflict of interest that could impair the objectivity of these individuals when making recommendations. Our firm endeavors at all times to put the interest of our clients first as part of our fiduciary duty as a registered investment adviser. In addition, we take the following steps to address this conflict:

- we disclose to clients the existence of all material conflicts of interest;
- we disclose to clients that they are not obligated to purchase products or services we recommend;
- we collect, maintain and document relevant client background information in order to properly assess the suitability of various products and services;
- we conduct reviews of each client account at appropriate intervals to verify that recommendations are suitable;
- we require that our employees seek prior approval of any outside employment activity.

Please see Item 10 of our firm's Form ADV Part 2 for more details.

### B. Non Investment-Related Activities

No other business or occupation provides substantial compensation or involves a substantial amount of his time.

## Item 5 Additional Compensation

He does not receive any economic benefit from a non-advisory client for the provision of advisory services.

## Item 6 Supervision

**Supervisor:** Board of Directors, Contact - Amy L. Simonson, Vice President (919-490-6717)

Our firm places all accounts into one or more model portfolios except in limited cases where clients elect to hold assets in a non-modeled status. Model portfolios are designed and managed under the supervision of members of the Investment Committee and the Chief Investment Officer to conform to defined investment objectives. New account paperwork submitted by clients is reviewed by a compliance principal to verify suitability of the model or other investment selection(s) prior to acceptance of the account, and client requests for model portfolio changes, which must be in writing, are also reviewed for suitability. Models are monitored daily by the respective portfolio manager for consistency with their investment objectives, and non-modeled accounts are reviewed at least monthly. All trades are reviewed daily by the Chief Investment Officer using a Daily Trade Blotter. Distributions and terminations are itemized in a daily report which is monitored for unusual account activity.



## Item 2 Educational, Background and Business Experience

**Name:** Brian R. Kurtzer      **Born:** 1957

### Education

- State University of New York at Albany; BS, Business Administration; 1979
- Fordham University School of Law; JD, Law; 1996

### Business Experience

- Verity Asset Management, Inc.; Portfolio Manager; from 10/2004 to Present
- Verity Investments, Inc.; Registered Representative; from 6/2011 to Present
- Verity Financial Group; Financial Advisor; from 10/2004 to Present
- Self-Employed; Independent Equity Trader; from 8/2000 to 10/2004
- Tri-Com Commodities, Inc.; Co-Owner and Trader; from 1/1989 to 7/2000

## Item 3 Disciplinary Information

No reportable disciplinary history.

## Item 4 Other Business Activities

### A. Investment-Related Activities

Verity Investments, Inc., an affiliate of Verity Asset Management, Inc., is registered as a broker-dealer member of FINRA. Verity Financial Group, the parent company of both firms, also provides services as a third party administrator and pension consultant, and is engaged in sales of life insurance products. Mr. Kurtzer is a registered representative of the broker-dealer. Therefore, in addition to providing investment advisory services on a fee basis, he may recommend and sell securities on a commission basis, or he may recommend pension consulting and/or third party administrator services on a fee basis, through our firm or its associated companies.

Clients should be aware that the opportunity for such additional compensation may give individuals such as Mr. Kurtzer an incentive to recommend products based on the compensation received, rather than on the client's needs. This creates a conflict of interest that could impair the objectivity of these individuals when making recommendations. Our firm endeavors at all times to put the interest of our clients first as part of our fiduciary duty as a registered investment adviser. In addition, we take the following steps to address this conflict:

- we disclose to clients the existence of all material conflicts of interest;
- we disclose to clients that they are not obligated to purchase products or services we recommend;
- we collect, maintain and document relevant client background information in order to properly assess the suitability of various products and services;
- we conduct reviews of each client account at appropriate intervals to verify that recommendations are suitable;
- we require that our employees seek prior approval of any outside employment activity.

Please see Item 10 of our firm's Form ADV Part 2 for more details.

### B. Non Investment-Related Activities

No other business or occupation provides substantial compensation or involves a substantial amount of his time.

## Item 5 Additional Compensation

He does not receive any economic benefit from a non-advisory client for the provision of advisory services.

## Item 6 Supervision

**Supervisor:** Gordon T. Wegwart, President / Chief Investment Officer (919-490-6717)

Our firm places all accounts into one or more model portfolios except in limited cases where clients elect to hold assets in a non-modeled status. Model portfolios are designed and managed under the supervision of members of the Investment Committee and the Chief Investment Officer to conform to defined investment objectives. New account paperwork submitted by clients is reviewed by a compliance principal to verify suitability of the model or other investment selection(s) prior to acceptance of the account, and client requests for model portfolio changes, which must be in writing, are also reviewed for suitability. Models are monitored daily by the respective portfolio manager for consistency with their investment objectives, and non-modeled accounts are reviewed at least monthly. All trades are reviewed daily by the Chief Investment Officer using a Daily Trade Blotter. Distributions and terminations are itemized in a daily report which is monitored for unusual account activity.

## Item 2 Educational, Background and Business Experience

**Name:** Malcolm M. Trevillian      **Born:** 1956

**Education:** Furman University; BA, Economics; 1978

### Business Experience

- Verity Asset Management, Inc.; CFA, CFP, CMA; from 1/2009 to Present
- Chatham Advisors, LLC; President; from 7/2008 to 12/2013
- Chapel Hill Investment Advisors; President / Portfolio Manager; from 1/2004 to 6/2008
- Franklin Street Partners; Vice President / Senior Portfolio Manager; from 1994 to 2003
- First Union National Bank; Vice President / Senior Portfolio Manager; from 1986 to 1994

### Designations

Chartered Financial Analyst (CFA) is a globally respected, graduate level investment credential awarded by the CFA Institute. The three levels of the CFA Program test a proficiency with a wide range of fundamental and advanced investment topics, including ethical standards, fixed income and equity analysis, economics, portfolio management, among others.

Certified Financial Planner (CFP) designees have completed studies in retirement, estate, employee benefits, and insurance planning. The certification examination places emphasis on critical thinking and problem solving.

Chartered Market Technician (CMT) is a professional designation that demonstrates proficiency in technical analysis of the financial markets. Technical analysis involves forecasting prices of securities based on the study of past data such as volume and price changes. Candidates must successfully complete a three-level professional examination.

## Item 3 Disciplinary Information

No reportable disciplinary history.

## Item 4 Other Business Activities

### A. Investment-Related Activities

In addition to his role with Verity Investments, Inc., Mr. Trevillian is also the principal and an advisory representative of Chatham Advisors, LLC (Chatham). In that capacity, Mr. Trevillian provides investment advisory services through Chatham. The advisory services delivered by Chatham are distinct from those provided by Verity and are provided for separate compensation. There are no referral fee arrangements between Verity and Chatham.

We may occasionally trade the same or similar securities in client portfolios that are traded by Chatham in its client portfolios. When this occurs, our clients may receive a better or worse price or execution than Chatham depending on the order of trade execution, the type of security traded and the broker-dealer used. In order to minimize the potential for any systematic disadvantage to clients, when trades are placed in the same security on the same day for both our clients and Chatham's clients (whose portfolios are under Malcolm Trevillian's control), Mr. Trevillian will notify us of his intent and will coordinate with our portfolio manager to rotate the order of execution as may be appropriate to avoid systemic advantage to either group of clients. Verity's Chief Compliance Officer periodically monitors Chatham's trading activity to verify that these procedures are followed.

As this affiliation with Chatham may present potential conflicts of interest, we have established written policies and procedures for insider trading that prohibit our portfolio managers, and any other member, officer or employee of our firm, from buying, selling or recommending the securities of companies bought, sold or recommended by Chatham, where the decision is substantially derived, in whole or in part, by reason of access to the recommendations of Chatham to its clients. This prohibition does not apply in the event Mr. Trevillian has communicated his investment ideas in his role on our investment committee, so long as he and our portfolio manager coordinate their trading activities in a manner that minimizes the potential for systematic disadvantage to clients.

As required when there is an affiliated investment adviser, our affiliation with Chatham is specifically disclosed in Section 7.A. on Schedule D of Form ADV, Part 1. (Part 1 of our Form ADV can be accessed by following the directions provided on the Cover Page of this Firm Brochure.)

### B. Non Investment-Related Activities

No other business or occupation provides substantial compensation or involves a substantial amount of his time.

## Item 5 Additional Compensation

He does not receive any economic benefit from a non-advisory client for the provision of advisory services.

## Item 6 Supervision

**Supervisor:** Gordon T. Wegwart, President / Chief Investment Officer (919-490-6717)

Our firm places all accounts into one or more model portfolios except in limited cases where clients elect to hold assets in a non-modeled status. Model portfolios are designed and managed under the supervision of members of the Investment Committee and the Chief Investment Officer to conform to defined investment objectives. New account paperwork submitted by clients is reviewed by a compliance principal to verify suitability of the model or other investment selection(s) prior to acceptance of the account, and client requests for model portfolio changes, which must be in writing, are also reviewed for suitability. Models are monitored daily by the respective portfolio manager for consistency with their investment objectives, and non-modeled accounts are reviewed at least monthly. All trades are reviewed daily by the Chief Investment Officer using a Daily Trade Blotter. Distributions and terminations are itemized in a daily report which is monitored for unusual account activity.

## Item 2 Educational, Background and Business Experience

**Name:** Steven J. Lewis      **Born:** 1960

**Education:** Hofstra University; Pre-Law

### Business Experience

- Verity Asset Management, Inc.; Portfolio Mgr., Small-MidCap Value; from 10/2006 to Present
- Verity Investments, Inc.; Registered Representative; from 6/2011 to Present
- Verity Financial Group; Financial Advisor; from 10/2006 to Present
- Verity Lending Services; Mortgage Loan Officer; from 10/2006 to 10/2008
- AIG Financial Advisors; Financial Advisor; from 1/2006 to 8/2006
- SunTrust Investment Services, Inc.; Investment Consultant; from 1/2005 to 9/2005
- J.P. Morgan Chase; Vice President; from 4/2001 to 12/2004
- Global Navigator Fund, LP; General Partner / Portfolio Manager; from 6/1999 to 3/2001
- Dreyfus Service Corp.; Personal Advisor / Managed Portfolio Consultant; from 1/1990 to 5/1999

## Item 3 Disciplinary Information

No reportable disciplinary history.

## Item 4 Other Business Activities

### A. Investment-Related Activities

Verity Investments, Inc., an affiliate of Verity Asset Management, Inc., is registered as a broker-dealer member of FINRA. Verity Financial Group, the parent company of both firms, also provides services as a third party administrator and pension consultant, and is engaged in sales of life insurance products. Mr. Lewis is a registered representative of the broker-dealer and also a licensed insurance agent. Therefore, in addition to providing investment advisory services on a fee basis, he may recommend and sell securities or insurance on a commission basis, or he may recommend pension consulting and/or third party administrator services on a fee basis, through our firm or its associated companies.

Clients should be aware that the opportunity for such additional compensation may give individuals such as Mr. Lewis an incentive to recommend products based on the compensation received, rather than on the client's needs. This creates a conflict of interest that could impair the objectivity of these individuals when making recommendations. Our firm endeavors at all times to put the interest of our clients first as part of our fiduciary duty as a registered investment adviser. In addition, we take the following steps to address this conflict:

- we disclose to clients the existence of all material conflicts of interest;
- we disclose to clients that they are not obligated to purchase products or services we recommend;
- we collect, maintain and document relevant client background information in order to properly assess the suitability of various products and services;
- we conduct reviews of each client account at appropriate intervals to verify that recommendations are suitable;
- we require that our employees seek prior approval of any outside employment activity.

Please see Item 10 of our firm's Form ADV Part 2 for more details.

### B. Non Investment-Related Activities

No other business or occupation provides substantial compensation or involves a substantial amount of his time.

## Item 5 Additional Compensation

He does not receive any economic benefit from a non-advisory client for the provision of advisory services.

## Item 6 Supervision

**Supervisor:** Gordon T. Wegwart, President / Chief Investment Officer (919-490-6717)

Our firm places all accounts into one or more model portfolios except in limited cases where clients elect to hold assets in a non-modeled status. Model portfolios are designed and managed under the supervision of members of the Investment Committee and the Chief Investment Officer to conform to defined investment objectives. New account paperwork submitted by clients is reviewed by a compliance principal to verify suitability of the model or other investment selection(s) prior to acceptance of the account, and client requests for model portfolio changes, which must be in writing, are also reviewed for suitability. Models are monitored daily by the respective portfolio manager for consistency with their investment objectives, and non-modeled accounts are reviewed at least monthly. All trades are reviewed daily by the Chief Investment Officer using a Daily Trade Blotter. Distributions and terminations are itemized in a daily report which is monitored for unusual account activity.

## Item 2 Educational, Background and Business Experience

**Name:** Allen Neal Huggins      **Born:** 1975

**Education:** North Carolina State University; BA, Political Science; 1997

### Business Experience

- Verity Asset Management, Inc.; Senior Financial Advisor, from 8/1997 to Present
- Verity Investments, Inc.; Registered Representative; from 6/2011 to Present
- Verity Financial Group; Senior Financial Advisor; from 8/1997 to Present
- Verity Lending Services; Mortgage Loan Officer; from 8/1997 to 10/2008

## Item 3 Disciplinary Information

No reportable disciplinary history.

## Item 4 Other Business Activities

### A. Investment-Related Activities

Verity Investments, Inc., an affiliate of Verity Asset Management, Inc., is registered as a broker-dealer member of FINRA. Verity Financial Group, the parent company of both firms., also provides services as a third party administrator and pension consultant, and is engaged in sales of life insurance products. Mr. Huggins is a registered representative of the broker-dealer and also a licensed insurance agent. Therefore, in addition to providing investment advisory services on a fee basis, he may recommend and sell securities or insurance on a commission basis, or he may recommend pension consulting and/or third party administrator services on a fee basis, through our firm or its associated companies.

Clients should be aware that the opportunity for such additional compensation may give individuals such as Mr. Huggins an incentive to recommend products based on the compensation received, rather than on the client's needs. This creates a conflict of interest that could impair the objectivity of these individuals when making recommendations. Our firm endeavors at all times to put the interest of our clients first as part of our fiduciary duty as a registered investment adviser. In addition, we take the following steps to address this conflict:

- we disclose to clients the existence of all material conflicts of interest;
- we disclose to clients that they are not obligated to purchase products or services we recommend;
- we collect, maintain and document relevant client background information in order to properly assess the suitability of various products and services;
- we conduct reviews of each client account at appropriate intervals to verify that recommendations are suitable;
- we require that our employees seek prior approval of any outside employment activity.

Please see Item 10 of our firm's Form ADV Part 2 for more details.

### B. Non Investment-Related Activities

No other business or occupation provides substantial compensation or involves a substantial amount of his time.

## Item 5 Additional Compensation

He does not receive any economic benefit from a non-advisory client for the provision of advisory services.

## Item 6 Supervision

**Supervisor:** Sean J. McGill, Vice President / Director of Advisor Services (919-490-6717)

Our firm places all accounts into one or more model portfolios except in limited cases where clients elect to hold assets in a non-modeled status. Model portfolios are designed and managed under the supervision of members of the Investment Committee and the Chief Investment Officer to conform to defined investment objectives. New account paperwork submitted by clients is reviewed by a compliance principal to verify suitability of the model or other investment selection(s) prior to acceptance of the account, and client requests for model portfolio changes, which must be in writing, are also reviewed for suitability. Models are monitored daily by the respective portfolio manager for consistency with their investment objectives, and non-modeled accounts are reviewed at least monthly. All trades are reviewed daily by the Chief Investment Officer using a Daily Trade Blotter. Distributions and terminations are itemized in a daily report which is monitored for unusual account activity.

## Item 2 Educational, Background and Business Experience

**Name:** Peter G. Klas      **Born:** 1966

**Education:** North Carolina State University; Textile Management

### Business Experience

- Verity Asset Management, Inc.; Financial Advisor, RF; from 1/2010 to Present
- Verity Investments, Inc.; Registered Representative; from 6/2011 to Present
- Verity Financial Group; Financial Advisor; from 1/2010 to Present
- HCW Retirement & Financial Services; Asset Allocation Specialist / Investment Manager; from 6/2006 to 1/2010
- AXA Advisors; Investment Adviser Representative; from 8/2000 to 1/2010

### Designations

Registered Fiduciary (RF) is a certification issued by DALBAR identifying financial professionals that have achieved pertinent academic qualifications, learned required practices, and passed a background check. The certification prepares a candidate to comply with the regulatory requirements of acting as a fiduciary under current laws. DALBAR is a leading national financial services market research firm which develops standards and measurement systems designed to improve the quality of products, service, and compliance for various parts of the financial services industry.

## Item 3 Disciplinary Information

No reportable disciplinary history.

## Item 4 Other Business Activities

### A. Investment-Related Activities

Verity Investments, Inc., an affiliate of Verity Asset Management, Inc., is registered as a broker-dealer member of FINRA. Verity Financial Group, the parent company of both firms., also provides services as a third party administrator and pension consultant, and is engaged in sales of life insurance products. Mr. Klas is a registered representative of the broker-dealer and also a licensed insurance agent. Therefore, in addition to providing investment advisory services on a fee basis, he may recommend and sell securities or insurance on a commission basis, or he may recommend pension consulting and/or third party administrator services on a fee basis, through our firm or its associated companies.

Clients should be aware that the opportunity for such additional compensation may give individuals such as Mr. Klas an incentive to recommend products based on the compensation received, rather than on the client's needs. This creates a conflict of interest that could impair the objectivity of these individuals when making recommendations. Our firm endeavors at all times to put the interest of our clients first as part of our fiduciary duty as a registered investment adviser. In addition, we take the following steps to address this conflict:

- we disclose to clients the existence of all material conflicts of interest;
- we disclose to clients that they are not obligated to purchase products or services we recommend;
- we collect, maintain and document relevant client background information in order to properly assess the suitability of various products and services;
- we conduct reviews of each client account at appropriate intervals to verify that recommendations are suitable;
- we require that our employees seek prior approval of any outside employment activity.

Please see Item 10 of our firm's Form ADV Part 2 for more details.

### B. Insurance Sales

Mr. Klas engages in the sale of certain insurance products through companies which have no relationship with Verity Asset Management. Clients should be aware that commission compensation for such product sales may provide an incentive to recommend products based on the compensation received, rather than on the client's needs.

### C. Non Investment-Related Activities

No other business or occupation provides substantial compensation or involves a substantial amount of his time.

## Item 5 Additional Compensation

He does not receive any economic benefit from a non-advisory client for the provision of advisory services.

## Item 6 Supervision

**Supervisor:** Sean J. McGill, Vice President / Director of Advisor Services (919-490-6717)

Our firm places all accounts into one or more model portfolios except in limited cases where clients elect to hold assets in a non-modeled status. Model portfolios are designed and managed under the supervision of members of the Investment Committee and the Chief

Investment Officer to conform to defined investment objectives. New account paperwork submitted by clients is reviewed by a compliance principal to verify suitability of the model or other investment selection(s) prior to acceptance of the account, and client requests for model portfolio changes, which must be in writing, are also reviewed for suitability. Models are monitored daily by the respective portfolio manager for consistency with their investment objectives, and non-modeled accounts are reviewed at least monthly. All trades are reviewed daily by the Chief Investment Officer using a Daily Trade Blotter. Distributions and terminations are itemized in a daily report which is monitored for unusual account activity.