

Part 2A of Form ADV: *Firm Brochure*

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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. 112) or 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. 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

This brochure contains no material changes since the filing of our annual amendment dated 3/30/2016.

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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 3/22/2016, we were actively managing \$417,300,000 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. Many of the models are based on a broad tactical asset allocation approach to investment management. Certain 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, market sectors, or 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. Models may be invested at various times with direct 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; 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 securities.

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 strategies 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 strategies are based may change or disappear in the future, and the timing of our adjustments to portfolios 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.

Conservative Total Return Model (formerly called the “Moderate Model”)

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

Tactical All Asset Model (formerly called the “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.

Aggressive All Asset Model (formerly called the “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 Conservative Total Return and Tactical All Asset 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.

403(b) Retirement Plan Models

The Conservative Total Return, Tactical All Asset, and Aggressive All Asset 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, including those of TIAA-CREF, Fidelity Investments, and Charles Schwab. These accounts are managed using model portfolios. We base our management of these models on the tactical asset allocation strategies 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.

Workplace Conservative Model (formerly called the “Workplace Moderate”)

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

Workplace Balanced Growth Model (formerly called the “Workplace Core”)

The objective is growth of capital at a rate comparable to yet less erratic than broad U.S. equity markets, seeking to balance opportunity for growth with management of downside risk. The model seeks to achieve

outperformance, not on a year to year basis, but over multi-year cycles of market ups and downs. The Balanced Growth Model is more aggressive than the Conservative Model.

Workplace Dynamic Growth Model (formerly called the “Workplace Aggressive”)

The objective is to seek returns that exceed broad U.S. stock market returns over the long term. It will, assume greater volatility and risk of loss than the Balanced Growth Model, but will seek to achieve a comparable or lower level of risk than the U.S. equity market.

Workplace Focused Growth Model

The objective is very aggressive growth of capital. It may assume greater risk than the U.S. equity market and is expected to remain fully invested or close to fully invested at all times.

Some retirement plans offer Self Directed Brokerage Account options, which provide access to a much larger universe of mutual funds. We offer versions of the models above designed specifically for these Self Directed Brokerage Accounts.

Note: TIAA-CREF accounts under \$20,000 may be managed in simplified versions of the above models, including a Conservative/Balanced Growth Model for less aggressive account objectives and a Dynamic/Focused Growth Model for more aggressive account objectives. When an account passes the \$20,000 threshold, the timing of a transition to the standard version of the designated model will be at the discretion of the portfolio manager.

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

Specialty Models - Managed by Verity

We also offer Specialty Models managed by Verity portfolio managers. These specialized strategies may be more targeted 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.

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.

There is a variation of this model, called the MultiCap Value Model. The MultiCap Value Model uses the identical stock selection process. However, it does not use a hedge position to reduce risk; it is thus fully exposed to market risk at all times.

Domestic Equity Opportunity Model

The objective is growth of capital at a rate which exceeds the S&P 500. The model is expected to consist of ETFs which track various sectors of the U.S. equity market along with individual stocks. In an effort to enhance potential return and reduce risk, the model may be concentrated in sectors displaying more favorable fundamentals and/or trends, in the judgment of the manager; however, at least 3 of the 10 S&P 500 sectors must be represented in the portfolio at all times. The model may hold cash and cash equivalents, but does not intend to hold more than 25% in cash at any time.

In considering risk, an investor should expect to be fully exposed to the risk of declines in the broad U.S. equity market. In addition, since the model will selectively invest in specific market sectors and in certain individual

securities, it could potentially experience greater volatility and declines in value than the overall market if its selection of sectors and securities proves unfavorable.

International Equity and Income Model

The objective is long-term capital appreciation along with income, with lower volatility than international stock indices.

Under most conditions, the portfolio will remain 80% to 100% invested in 20-30 international equity and income producing securities, with a primary focus on international common stock, dividend-paying common stock, preferred stock and other equity securities. In addition to equity securities, the portfolio may hold positions from across the spectrum of income producing securities, including primarily international and emerging market debt securities. By owning a mixture of equities and income producing securities, the strategy seeks to offer investors a means of participating in international growth prospects that is less volatile in comparison to a portfolio that invests solely in international common stocks. Investments will typically be heavily weighted to developed market companies in Europe, Australia, and the Far East, but may include selected investments in other developed as well as emerging markets worldwide. The strategy may hold cash or cash equivalents, but does not expect to hold more than 20% in cash under most conditions. The security selection process places a high priority on fundamental analysis of individual companies, although exchange-traded funds (ETFs) or mutual funds may be used for exposure to certain regions and sectors

Investments in the securities of companies located in Europe, Australia, and the Far East may involve risks such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation. In addition, investing in emerging markets involves greater risks, as these countries are often much smaller and their securities can be less liquid and more volatile than securities from more developed markets. Debt securities are also subject to the potential negative effect of rising interest rates, along with varying degrees of credit and liquidity risk.

Opportunistic Income Model

The objective is to provide an unconstrained income strategy, allowing the portfolio manager to seek the most attractive total return opportunities – including both income and capital gains - based on prevailing market conditions, with a strong focus on managing downside risks.

The portfolio may invest in diversified sectors in the fixed income markets (including government securities, corporate bonds, high yield bonds, and mortgage and asset-backed securities), income producing stocks, and other publicly traded securities, including convertible bonds, REITs, commodities, and preferred securities. Exposures to these asset classes may be acquired using any combination of individual securities, exchange-traded funds (ETFs), or mutual funds. Additionally, the portfolio manager has discretion to use funds that short the markets, primarily for the purpose of attempting to protect the portfolio against the potential negative impact of rising interest rates.

The goal of the portfolio's risk management process is to achieve a level of risk comparable to a diversified bond fund, but, given the range of securities which may be used, there is no guarantee this will be achieved. As mentioned previously, a primary portfolio risk is the potential negative effect of rising interest rates on bonds and other income producing securities. Bonds are also subject to varying degrees of credit and liquidity risk. In addition, equity securities, REITs, and commodities, though limited as a percentage of the portfolio, may be very volatile.

Multiple versions of this model may be implemented over time in an effort to improve client results. These variations may be the result of account size, liquidity of certain income securities, or maturities of certain fixed

income securities.

Enhanced Income Model

The objective is to provide an enhanced yield as compared to cash and money market type instruments by accepting a limited degree of fluctuation of principal. To achieve this objective, the strategy will (a) invest primarily in short-term securities that are slightly beyond the duration of traditional money market funds, and (b) also invest to a limited degree in a broader mix of securities.

The portfolio may invest in diversified sectors in the fixed income markets (including government securities, corporate bonds, high yield bonds, and mortgage and asset-backed securities), income producing stocks, and other publicly traded securities, including convertible bonds, REITs, commodities, and preferred securities.

The goal of the portfolio's risk management process is to achieve a lower level of sensitivity to interest rates than typical intermediate bond portfolios; however, even short-term income securities are exposed to risk from rising interest rates. Bonds are also subject to varying degrees of credit and liquidity risk. In addition, any equities, REITs, high yield bonds, convertible bonds, or other securities, though limited as a percentage of the portfolio, can be expected to experience a higher degree of individual volatility as compared to short-term bonds.

Multiple versions of this model may be implemented over time in an effort to improve client results. These variations may be the result of account size, liquidity of certain income securities, or maturities of certain fixed income securities.

Tax-Exempt Income Models

The objective is to provide income exempt from federal income tax, with a secondary objective of capital appreciation. As a result, the strategy may be particularly well-suited for income-oriented investors in higher tax brackets. Income may be subject to federal alternative minimum tax (AMT) as well as state and local taxes. State-specific variations of the strategy, such as Verity North Carolina Tax-Exempt Income, will focus on municipal bonds which can be exempt from both federal and state income tax in the respective state(s).

The strategy will invest primarily in investment-grade municipal bonds which are exempt from federal income tax (and, where appropriate, state income tax). Under normal circumstances, the average maturity of the bonds is expected to fall between 12 and 15 years. Municipal instruments in the portfolio may include general obligation, revenue obligation, industrial development, and moral obligation bonds, along with tax-exempt derivative instruments, stand-by commitments, and municipal instruments backed by forms of credit enhancement issued by domestic or foreign banks.

Bonds will be subject to risk to principal in the event of rising interest rates. In addition, they are subject to credit and liquidity risk. Municipal bonds are also subject to risk associated with changes in federal income tax rates or rules. State-specific versions of the strategy will by definition be less geographically diversified, which may as a result subject them to greater risk than a portfolio with greater geographic diversity.

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 sometimes be more targeted than our tactical asset allocation 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. 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 portfolio 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 Opportunistic All Asset Models

The objective is to generate positive returns over varying market cycles and varying market conditions. The strategy is implemented in two ways, one using a broad universe of mutual funds and the other using a broad universe of exchange traded funds (ETFs). In either approach, funds 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.

Hurley Capital Core Equity Model

The objective is positive risk adjusted returns as compared to the S&P 500 index, with an emphasis on protection of principal. Hurley employs fundamental analysis to identify value opportunities across a wide range of sectors and publicly traded securities. The portfolio's primary focus is U.S. equities, but it may include master limited partnerships, corporate debt, convertible bonds, preferred stock, and cash. The portfolio is concentrated, with typically no more than 15-20 positions. Investments are focused on business models with high cash flow, low valuations and exposure to growth opportunities. The manager's goal is to provide downside protection by investing predominantly in companies that generate high internal cash flow and strong returns on incremental investment. The primary risk of the strategy is the potential that the securities purchased do not perform according to the manager's assessments of value.

In addition, the portfolio manager has at times taken short positions in individual securities or debt, and has used options for protection purposes in some of the accounts using this model. These are sophisticated strategies which have both potential benefits and risks. However, short positions and options will not be available to accounts at Trust Company of America; therefore, those accounts will not have either the benefits or the risks associated with these particular strategies.

Franklin Street Strategic Large Cap Growth

The objective is growth of capital at a rate greater than Russell 1000 Growth Index over a normal business cycle (typically 3+ years). The Russell 1000 Growth Index is an unmanaged index of U.S. large cap growth stocks.

Franklin Street measures the attractiveness of a business by evaluating its operating margins, returns on capital, and reinvestment opportunities. They believe that duration of growth is the most important factor in valuing a growth company, so particular focus is placed upon an assessment of a company's sustainable advantages within its marketplace. A valuation model is prepared for each company based upon return on invested capital, cost of capital, earnings growth rate, and expected duration of growth. Buy and sell decisions are based primarily upon the "warranted price/earnings ratio" established by this valuation model.

The portfolio is designed to consist primarily of high quality large cap growth companies, but it may also invest in smaller companies when opportunities warrant. The portfolio typically holds 35-40 individual stocks. Growth equities are typically subject to greater risk than the broad equity market. In addition, there is a risk that the portfolio manager's assessments of value prove incorrect, causing the portfolio to underperform its index.

Franklin Street Dynamic Focus Growth

The objective is growth of capital at a rate greater than Russell 2000 Growth Index over a normal business cycle (typically 3+ years). The Russell 2000 Growth Index is an unmanaged index of U.S. small cap growth stocks.

Franklin Street measures the attractiveness of a business by evaluating its operating margins, returns on capital, and reinvestment opportunities. They believe that duration of growth is the most important factor in valuing a growth company, so particular focus is placed upon an assessment of a company's sustainable advantages in its marketplace. A valuation model is prepared for each company based upon return on invested capital, cost of capital, earnings growth rate, and expected duration of growth. Buy and sell decisions are based primarily upon the "warranted price/earnings ratio" established by this valuation model.

To focus the portfolio on Franklin Street's best ideas, it typically holds no more than 20-25 individual stocks. One risk, particularly given the limited number of positions, is that the portfolio manager's assessments of value prove incorrect, causing the portfolio to underperform the index. In addition, share prices of smaller growth companies are typically more volatile than those of larger companies.

Smith Group Global Large Cap Model

The objectives are to outperform the Russell Global Large Cap Index and the MSCI All Country World Index (ACWI) over a full market cycle, to consistently rank in the top quartile of global large cap managers over three and five year time frames, and to maintain a moderate risk profile as measured by volatility of returns relative to those indices. The Russell Global Large Cap and MSCI ACWI are market capitalization weighted indices designed to measure the equity market performance of developed and emerging markets worldwide.

The Smith Group's process uses a combination of quantitative and qualitative analysis designed to identify high quality, reasonably valued companies that the investment team believes are poised to deliver an earnings growth rate in excess of investor expectations. The initial quantitative ranking evaluates growth outlook, earnings quality, and valuation measures. Companies identified in this process are then subjected to a qualitative

fundamental review which seeks to exclude companies with inferior fundamentals or risk characteristics which may not be identified by a purely quantitative ranking. The strategy will typically hold 60-80 stocks. It does not seek to concentrate holdings in any market sector(s) or geographic regions(s).

The Smith Group's process is designed specifically to identify companies positioned to deliver positive earnings surprises. However, there is no assurance that the historically positive relationship between earnings surprises and relative performance will exist in the future, nor is there any assurance that the Smith Group will successfully identify such companies. Global stocks and growth stocks are generally expected to be more volatile than the broad U.S. equity market.

Other Models

In some 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. Allocation strategy is monitored by the Chief Investment Officer. All trading is conducted by one of our firm's portfolio managers.

Managed Composites

For added diversification, some clients may elect to use more than one model in a given account. Working with their personal advisor, clients may select individual models themselves, or they may elect to use one of our Managed Composites. The Managed Composites are groups of models selected and monitored by Verity's Chief Investment Officer. Each Managed Composite has a specific overall objective, as noted below, listed in order from most conservative to most aggressive:

Yield-Focused Composite - The objective is to provide interest and dividend income along with opportunity for modest capital appreciation in a portfolio designed for very limited portfolio volatility.

Risk-Averse Growth Composite - The objective is a conservative total rate of return in a portfolio designed to achieve a low level of volatility and overall risk to capital.

Moderate Growth Composite - The objective is to provide the opportunity for a moderate rate of growth of capital while maintaining significant attention to management of risk.

Managed Growth Composite - The objective is to provide the opportunity for strong growth of capital in a portfolio designed to temper volatility and overall risk relative to the broad U.S. equity market.

Concentrated Growth Composite - The objective is to bring together multiple strategies with a strong focus on growth of capital and a limited overall attention to management of risk.

Aggressive Growth Composite - The objective is to seek very aggressive growth of capital by assembling a diverse group of strategies which are each aggressive in seeking capital appreciation. This composite accepts significant downside risk.

For each Managed Composite, we will select the models and set the target percentages for each. We may change the models and/or change the target percentage allocations at our discretion, with a goal of best achieving the objective of the respective Managed Composite. There is always a risk that a Managed Composite will fail to achieve its objective.

Since the various models have different fees, the average fee for each account will vary, and the overall rate may increase or decrease as changes are made to the selected models and the percentage allocations. Specific fees for all models are illustrated in Item 5, Sections (1). For the Verity models with added fees, most or all of the additional fee goes directly or indirectly to pay the managers of those models. However, we have the potential to receive higher net revenue on those models, and thus we have a conflict of interest in the selection and weighting of certain models. Regardless of this conflict of interest, we endeavor at all times to put the interest of our clients first, as is our duty as a registered investment advisor. Clients are of course under no obligation to use our Managed Composites. They are offered purely as a convenience. The Managed Composite minimum account size (which may be waived at the discretion of the Chief Investment Officer) is \$100,000.

Investment Risk

It is important to note that there is no guarantee the investment objective of any model or Managed Composite 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 suitable model portfolios or Managed Composites. Each model or composite is managed based on the portfolio objective of the model or composite, rather than on each client's individual objectives. The Chief Investment Officer is responsible for monitoring all models and composites for adherence to their stated strategies. To ensure continued suitability of the model or composite 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 or composite 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 or Managed Composite changes, with suitability of the change approved by one of our firm's compliance principals. (Note that model changes within Managed Composites are made at our discretion and do not require client approval.)

INVESTMENT ADVISORY SERVICES: INDIVIDUAL PORTFOLIO MANAGEMENT

Dividend Growth Strategy

For accounts with a minimum of \$250,000 in assets, we offer to provide management of an individual portfolio of dividend paying securities. The primary goal of this strategy is to produce a relatively stable and growing stream of dividends; growth of capital is a secondary objective. Companies will be selected in part based on an established record of earnings and dividend growth. They will also be screened with an objective of purchasing at attractive fundamental values, among other factors. The intent is to hold these securities through market ups and downs for the primary purpose of receiving the dividend income; however, companies are continually monitored and may be sold and replaced in the portfolio if they are considered to be significantly overvalued, among other considerations. Portfolios using the strategy will typically consist of 20 – 25 securities.

Clients may impose reasonable restrictions on securities to be held in their account and may in certain instances broaden the goals of the portfolio in consultation with the portfolio manager. Any such modifications to the strategy will be reflected in the account application paperwork.

The portfolios will generally consist of individual stocks, although they may also hold a limited number of exchanged-traded REITs and/or master limited partnerships. Portfolio values can be expected to fluctuate with the equity markets, and there is always the potential to suffer significant loss of value in any individual security. As such, account holders should be prepared to weather sometimes significant fluctuations in value, despite the overall goal of maintaining a relatively consistent and growing dividend stream. In addition, dividend payments are not guaranteed to grow over time and may be discontinued by companies at any time.

In other limited instances, a client may request that some or all the account assets be held outside of any model or strategy. 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
- Exchange Traded Notes (ETNs)
- 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 model portfolios (described above), depending on the entity's risk tolerance profile, liquidity considerations, and time horizons.

To enhance our potential to uncover investment 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 frequently 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 strategies 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 strategies are 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, AND THIRD PARTY MANAGER SERVICES

Our firm may offer certain of the above services through sub-advisory or third party manager agreements with outside Investment Advisers. 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. In some cases, the investment advisory services may be provided in conjunction with various administrative and operational services, including fee calculation and trade management, as part of a turnkey asset management platform. Administrative and operational services may also be offered independent of investment management services. 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:

- Conservative (formerly "Moderate") – The objective is moderate growth, but with an equal and sometimes greater focus on controlling risk.
- Balanced Growth (formerly "Core") – The primary objective is growth, with a secondary focus on controlling risk.
- Dynamic Growth (formerly "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 RETIREMENT AND MANAGED ACCOUNT PLATFORMS

Acting as a strategist, we may provide recommendations and investment advice regarding the construction and maintenance of model allocations to retirement platforms and /or managed account platforms. 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.

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 unless indicated otherwise. Fees are prorated for accounts opened during the quarter.

(1) Comprehensive Investment Advisory Services for Individual Accounts at Trust Company of America and Charles Schwab Institutional

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

Basic Advisory Fees

Annualized Fees:

| | <u>Assets Under Management</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% |

Exceptions are the Enhanced Income Model and the Tax-Exempt Income Model. Both of these models are not subject to the basic investment advisory fee. The Enhanced Income Model is only subject to a flat 0.60% annual advisory fee, and the Tax-Exempt Income Model is only subject to a flat 0.90% annual advisory fee.

Rates are non-negotiable for the first \$3 million in account values; rates for amounts in excess of \$3 million may be negotiated. 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. Employees of Verity Asset Management will not be charged an investment advisory fee for their Verity SIMPLE IRA plan accounts.

Model Specific Investment Management Fees

In addition to the Basic Advisory Fee, there are specific investment management fees for certain models.

Annualized Fees for Verity Small/MidCap Value, Sector 2, Tactical MultiCap Value, MultiCap Value, and International Equity and Income:

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

Annualized Fees for Verity Opportunistic Income Model:

| | <u>Assets Under Management</u> | |
|-------|------------------------------------|-------|
| First | \$100,000 | 0.35% |
| Above | \$100,000 | 0.30% |

Annualized Fees for Verity Domestic Equity Opportunity:

0.00%

Annualized Fees for Verity Conservative Total Return:

0.15%

Annualized Fees for Models Managed by Outside Third Party Managers:

| | |
|--|-------|
| CMG Global Equity | 0.00% |
| CMG Opportunistic All Asset | 0.85% |
| Hurley Capital Core Equity | 0.60% |
| Franklin Street Strategic Large Cap Growth | 0.60% |

| | |
|--------------------------------------|-------|
| Franklin Street Dynamic Focus Growth | 0.60% |
| Smith Group Global Large Cap | 0.50% |

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. Fees for anyone holding Tactical MultiCap Value prior to July 1, 2013 will not be subject to change.

(2) Investment Advisory Services for Certain 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. Investment options are typically 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>Standard Fees</u> | <u>North Carolina K-12 403(b) Fees</u> |
|-------|--------------------------------|----------------------|--|
| First | \$250,000 | 1.25% | 1.00% |
| Next | \$250,000 | 1.10% | 1.00% |
| Next | \$250,000 | 0.95% | 0.95% |
| Above | \$750,000 | 0.80% | 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. In certain instances where no fee collect provision is incorporated into an employer plan, Verity will have discretion to temporarily waive management fees for participants of the plan.

(3) 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.

(4) Sub-Advisor, Third Party Manager, Investment Strategist, and Solicitor Arrangements

Our firm may enter into agreements to serve as a sub-advisor, third party manager, or investment strategist for outside Investment Advisers or investment platforms. We may also enter into solicitor agreements with outside Investment Advisers. Under these agreements, we may provide discretionary account management, non-discretionary asset allocation advice, and/or related administrative services. Rates payable for these services are negotiable.

[Exception to section (1) Comprehensive Investment Advisory Services for Individual Accounts, above]

On January 1, 2014 Verity Asset Management accepted client assignment of certain Investment Advisory accounts from Chatham Advisors, LLC. Investment Advisory accounts that were assigned and accepted from Chatham Advisor, LLC are "grandfathered" for purposes of fee billing. These accounts continue to be billed quarterly in advance based on the market value of the assets under management at the end of the previous calendar quarter. If such a Client Agreement is terminated, a pro-rata portion of any advisory fees that were paid but not yet earned as of the date of termination will be refunded to the client promptly.

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, Exchange Traded Fund (ETF), and Exchange Traded Note (ETN) Fees: Client accounts with our firm will often contain mutual funds, ETFs and/or ETNs, 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, ETN 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, ETNs or third party managers, clients are also responsible for any fees and expenses charged by custodians and any transaction fees imposed by custodians or broker dealers. Certain clients may have requested of their brokerage custodians that they be permitted to maintain borrowing capability (margin) within their accounts. Clients are responsible for any fees or expenses charged by their custodian for these borrowing arrangements. Borrowing capability may only be accessed by the client and under no circumstances will be utilized by Verity to purchase additional securities for the client. Clients understand that the proceeds of any securities liquidation will first reduce any current margin debit balances. Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV Part 2 for additional information.

ERISA Accounts: In providing discretionary account management services to clients with certain qualified retirement plan accounts, the Firm is acting as a fiduciary under the Investment Advisers Act of 1940, and to the extent applicable, a fiduciary under the Employee Retirement Income Security Act of 1974 ("ERISA"). Neither the Firm, nor any affiliate, reasonably expects to receive any compensation, direct or indirect, for its services other than those advisory fees specified within the governing advisory agreement with the client. If the Firm receives any other compensation for such services the Firm will (i) offset that compensation against its stated fees, and (ii) will disclose the amount of such compensation and the payer of such compensation.

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.

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.

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, and 0.70% of any plan assets above \$500,000. These fees are paid quarterly in arrears based on the account's value on the last day of the prior calendar year. 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 or Chief Investment Officer may make limited exceptions based upon facts and circumstances.

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 reserve 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 will be 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.

Income Strategies. Our income strategies are designed to invest flexibly across a broad range of income-generating securities in an ongoing search for the more favorable opportunities in the current market environment. The primary strategies are generally constructed to invest across two underlying core sub-strategies: (1) traditional income securities, and (2) non-traditional income securities. Each of these sub-strategies is designed to provide unique sources of return and diversification for the portfolio. Risks to individual securities in the portfolios include but are not limited to credit risk, liquidity risk and interest rate risk; in addition, performance may suffer relative to less dynamic income strategies if the analysis of market conditions and/or the timing of allocation changes prove unfavorable.

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 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.

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.

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.

MANAGEMENT OF PRIVATE FUNDS

Certain officers and employees of our firm have served 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 that was recently 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 owned a membership interest in Ventana, also served on the Board of Managers of the LLC. Ventana, LLC was dissolved by disposition of all fund assets effective 12/31/2015.

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 sbutz@verityinvest.com, or by calling us at 919-490-6717 (Ext. 112).

PRIVATE FUNDS

Certain principals of Verity Asset Management, Inc. have been officers and manager of a private investment fund, Ventana, LLC (the Fund). Ventana, LLC was dissolved by disposition of all fund assets effective 12/31/2015. Our firm is not restricted from forming additional investment funds, entering into other investment advisory relationships or engaging in other business activities. We do not currently anticipate forming additional such investment funds.

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 either the Chief Investment Officer or the Chief 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 Chief 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"), Fidelity Brokerage Services / National Financial Services LLC ("Fidelity"), TIAA-CREF and Charles Schwab and Company, Inc. ("Schwab") 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, Fidelity, TIAA-CREF and Schwab (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 any of these Custodians.

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, Chief Investment Officer. Suitability reviews are conducted by Steven Craig Butz, Chief Compliance Officer, William R. Hopwood, Director of Workplace Savings, or a backup compliance principal. Monitoring and management of models is carried out by Gordon Wegwart, Chief Investment Officer, and the following Portfolio Managers: Brian R. Kurtzer, William C. Robbins, Steven J. Lewis, Brad N. Corbett, Peter G. Klas and Malcolm M. Trevillian. Monitoring of distributions and terminations is conducted by either Steven Craig Butz or William R. 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: either Steven Craig Butz, Chief Compliance Officer or 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: either Gordon T. Wegwart, Chief Investment Officer or Peter G. Klas, Portfolio Manager.

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 T. Wegwart, Chief Investment Officer
Brian R. Kurtzer, Senior Portfolio Manager
Brad N. Corbett, Director of Fixed Income and Alternative Investing
Malcolm M. Trevillian, Portfolio Manager
Steven J. Lewis, Portfolio Manager

Verity Asset Management, Inc.

280 S. Mangum Street
Suite 550
Durham, NC 27701

Telephone: 919-490-6717 (Ext. 112)
Email: compliance@verityinvest.com
Web Address: www.verityinvest.com

07/01/2016

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.

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, 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. 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

Full Legal Name: **Brad N. Corbett** Born: 1974

Education

- University of North Carolina-Chapel Hill – Kenan Flagler School of Business; MBA; 2002
- Gettysburg College; Gettysburg, Pa; BA; Finance & Accounting; 1997

Business Experience

- Verity Asset Management, Inc.; Investment Advisor Representative; From 09/2014 to Present.
- Verity Asset Management, Inc.; Director, Fixed Income and Alternative Investing; From 06/2014 to Present.
- Whiteley Capital Advisors, LLC; Managing Member; From 07/2012 to 06/2014.
- Franklin Street Securities, Inc.; Analyst; From 07/2002 to 02/2012.

Item 3. Disciplinary Information

No reportable disciplinary history.

Item 4. Other Business Activities

A. Investment-Related Activities

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

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 Manager; 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, 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: Malcolm M. Trevillian **Born:** 1956

Education: Furman University; BA, Economics; 1978

Business Experience

- Verity Asset Management, Inc.; CFA, 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.

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

B. Non Investment-Related Activities

Mr. Trevillian offers expert opinion and testimony services for civil legal matters. This service is not related or affiliated with Verity Asset Management in any way.

Item 5 Additional Compensation

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

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