

VERUS INTERNATIONAL EARNINGS QUALITY MODEL

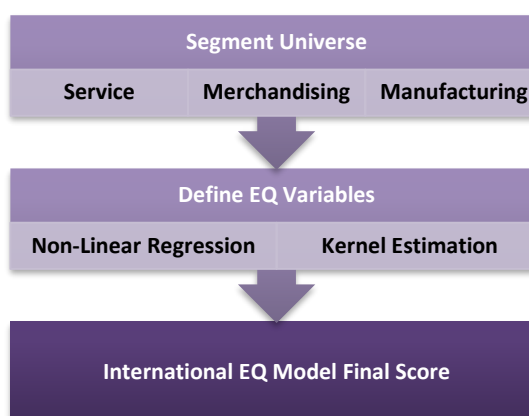
The Verus International Earnings Quality Model (EQMI) is framed by more than a decade of research experience modeling the relationship between earnings-quality metrics and stock returns using non-linear, statistically-based approaches, EQMI provides a platform to yield profitable investment and trading strategies on a global scale.

Methodology

EQMI is the first quantitative factor that uses kernel estimation and smoothing techniques to model the relationship between earnings quality and returns. In addition to having proven variables used in Verus' U.S. models, it also deploys variables identified in recent academic work and includes new accrual and tax variables new research has shown to be effective in predicting future returns.

Consistent with all other Verus models, EQMI was developed using a scientific approach characterized by proper variable specification and scaling, linear and non-linear regression, sensitivity analysis, statistical model validation and control for common threats to validity.

The model defines broad sectors via accounting similarities, resulting in three different accounting sectors: service, merchandising, and manufacturing, which allows for companies to be compared on a relatively level field in terms of accounting.



Universe of Coverage

EQMI scores stocks on a 10 (best) to 1 (worst) scale for over 4,300 international companies, across 25 developed countries spanning four continents. Scores are generated weekly, on Friday mornings.

Australia	Finland	Ireland	Netherlands	Spain
Austria	France	Italy	Norway	Sweden
Belgium	Germany	Japan	New Zealand	Switzerland
Canada	Greece	Korea	Portugal	Taiwan
Denmark	Hong Kong	Luxembourg	Singapore	UK

Out of Sample Performance¹

For the period January 2005 – December 2018:

Score	6 Month Raw	6 Month Excess	12 Month Raw	12 Month Excess
10	6.30%	1.78%	12.58%	2.82%
1	0.43%	-2.32%	2.88%	-3.78%
Annualized Spread	11.74%	8.20%	9.70%	6.60%

¹ Raw returns are computed using compounded, dividend-inclusive returns. Excess returns are calculated for each score by subtracting the equally weighted mean sector and size category from the raw return for the related security.