# VERUS EARNINGS QUALITY MODEL VERSION 2

The Verus Earnings Quality Model Version 2 (EQMv2) leverages over a decade of quantitative and qualitative research on the multitude of ways companies manipulate earnings. EQMv2 objectively assesses the quality of reported earnings, and provides reliable signals for investors to generate excess returns over medium-term timeframes.

Methodology

EQMv2 was constructed using a multiple regression approach (including regressors from academic research and our own proprietary constructs) estimated in pooled time series, cross section that incorporates important dimensions of earnings quality. When considered together, these "sub-factors" provide a means of identifying the relationship between earnings quality and expected excess returns. The product is a highly unique factor with exceptional returns and low correlation in relation to other commonly used factors.

Consistent with all other Verus models, EQMv2 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.

Nearly forty separate variables are defined, all of which are aimed at identifying whether the underlying cash flows of covered companies are supportive of the reported net income. In acknowledgement of the variability in importance of different accounting metrics across business types, the most logical variables are grouped by sector.
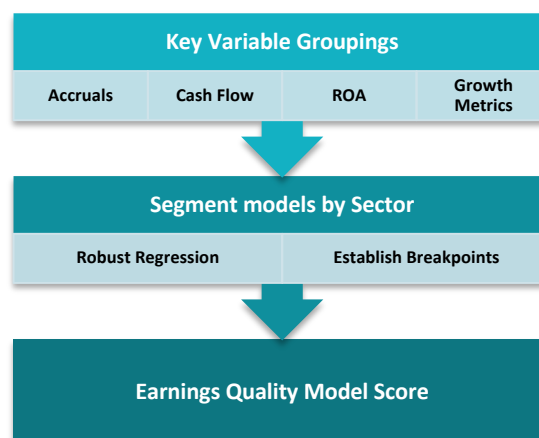
Launch Date and Coverage

EQMv2 went live in August 2005 and scores stocks on an 8 (best) to 1 (worst) scale for approximately 98% of the investable U.S. companies by market capitalization listed on NYSE and NASDAQ. Scores are generated weekly, on Friday mornings.

Out-of-Sample Performance[1]

For the period July 1998 – June 1999, July 2000 – June 2002, and July 2003 – December 2024:

Score	6 Month Raw	6 Month Excess	12 Month Raw	12 Month Excess
8	7.3%	1.7%	13.6%	2.2%
1	-0.7%	-4.8%	2.9%	-7.4%
Annualized Spread	16.0%	13.0%	10.7%	9.6%

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