

# Nuance Concentrated Value Perspectives Discussion



December 31, 2013

from

Montage Investments

## Commentary with President and Chief Investment Officer Scott A. Moore, CFA

The Nuance Concentrated Value Composite is a classic value investment product investing primarily in the equity or equity-linked securities of United States based companies. The product will typically maintain 15-35 positions in the securities of companies that, in the opinion of the Nuance Investments Team, have leading and sustainable market share positions, above average financial strength, and are trading at prices materially below our internally derived view of intrinsic value. The product's primary benchmark is the Russell 3000 Value Index. Clients may also compare the product to the S&P 500 Index.

### Performance Update

Since its inception on November 13, 2008, the Nuance Concentrated Value Composite (through December 31, 2013) is up 23.42 percent (annualized and net of fees) versus the Russell 3000 Value Index up 16.35 percent and the S&P 500 Index up 17.32 percent.

For the first twelve months of 2013 (ending December 31, 2013), the Nuance Concentrated Value Composite was up 34.45 percent (net of fees) versus the Russell 3000 Value Index up 32.72 percent and the S&P 500 Index up 32.38 percent.

Comparing our product to peers displays excellent results over time. On a total return basis, we ranked 12th of 1,110 (1st percentile) peer group members in the Morningstar Large Cap Value universe. Versus the Lipper Multi-Cap Value Funds Peer Group we ranked 27th of 235 (11th percentile).

As compared to these same peer groups on a risk-adjusted return basis (as measured by the Sharpe Ratio statistic), the Nuance Concentrated Value Composite also fared quite well. The product ranked 1st out of 1,110 (1st percentile) peers in the Morningstar Large Cap Value universe. Versus the Lipper Multi-Cap Value Funds Peer Group, we ranked 1st out of 235 (1st percentile). The Sharpe Ratio is calculated by subtracting the return of the risk-free index (Citigroup 3-month Treasury Bill) from the Composite return divided by the Standard Deviation of the Composite to get risk-adjusted return.

## Risk-Adjusted Returns Rankings<sup>1</sup>

### 1<sup>st</sup> PERCENTILE

#### Morningstar

Category: Large Value

Ranking vs. Peers: 1<sup>st</sup> of 1,110

#### Lipper

Category: Multi-Cap Value

Ranking vs. Peers: 1<sup>st</sup> of 235

## Scott A. Moore, CFA



### President and Chief Investment Officer

- 22+ years of investment analyst experience
- 20+ years of classic value investment experience
- 14+ years of portfolio management experience using a classic value approach
- Co-owner and founder of Nuance Investments, LLC
- Lead Portfolio manager of the Nuance Concentrated Value Separate Account product
- Lead Portfolio manager of the Nuance Mid Cap Value Separate Account product
- Former Sr. Portfolio Manager at American Century Investments managing over \$10 billion

11/13/2008 - 12/31/2013	YTD	1 Year	3 Years	5 Years	Since Inception	Since Inception	Since Inception	Since Inception
	2013		APR	APR	APR	TR	Standard Deviation (A)	Sharpe Ratio (A)
Nuance Concentrated Value Composite (Gross)	35.33	35.33	19.63	19.63	24.05	202.16	13.97	1.70
Nuance Concentrated Value Composite (Net)	34.45	34.45	18.95	18.95	23.42	194.39	13.93	1.66
Russell 3000 Value Index	32.72	32.72	15.93	15.93	16.35	117.61	17.34	0.93
S&P 500 Index	32.38	32.38	16.16	16.16	17.32	127.03	15.59	1.10
	11/13/08 - 12/31/08		2009		2010	2011	2012	
Nuance Concentrated Value Composite (Gross)	4.47		42.21		18.79	6.85	18.41	
Nuance Concentrated Value Composite (Net)	4.47		41.72		18.13	6.29	17.79	
Russell 3000 Value Index	0.38		19.78		16.26	(0.06)	17.62	
S&P 500 Index	(0.47)		26.47		15.06	2.11	16.00	

**Peer Group Analysis 11/30/2008 - 12/31/2013**

	Since Inception APR	Standard Deviation (A)	Sharpe Ratio (A)
Nuance Concentrated Value Composite (Gross)	23.41	14.06	1.66
Nuance Concentrated Value Composite (Net)	22.76	14.02	1.62
Morningstar Large Value Peer Group (median)	16.32	16.54	1.01
Peer Group Percentile	1st	12th	1st
<b>Peer Group Ranking</b>	<b>12 of 1,110</b>	<b>132 of 1,110</b>	<b>1 of 1,110</b>
Lipper Multi-Cap Value Funds Peer Group (median)	18.70	17.67	1.03
Peer Group Percentile	11th	3rd	1st
<b>Peer Group Ranking</b>	<b>27 of 235</b>	<b>7 of 235</b>	<b>1 of 235</b>

**Portfolio Attribution and Investment Strategy Review:**

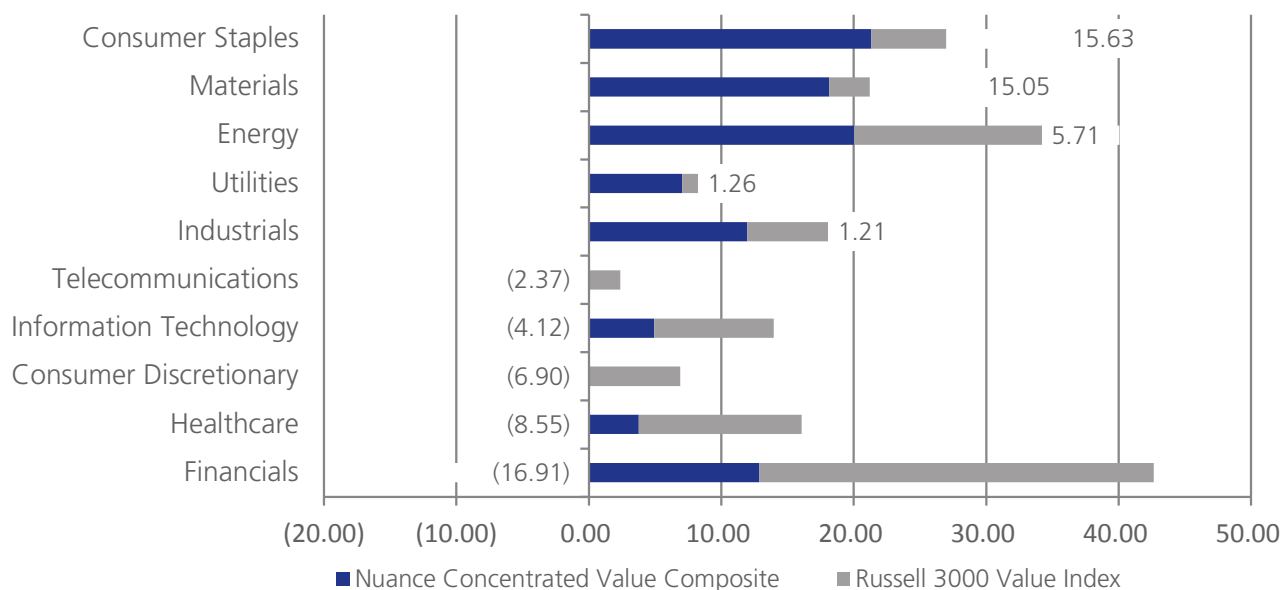
The bright spots in your portfolio for 2013 included the Industrial, Financial, Utility, and Telecommunications sectors. ITT Corp., MetLife Inc., Southwest Airlines Co., and TE Connectivity Ltd. were significant outperformers. Also, our underweight stance in the Utility and Telecommunications sectors, as well as the Real Estate Investment Trust industry significantly impacted our results in a positive way.

The biggest detractors to performance were our cash position in such a large up market and the Consumer Discretionary and Energy sectors. Imperial Oil Ltd. and our underweight in the Consumer Cyclical sector were our biggest non-cash related detractors.

Going forward, we are finding interesting opportunities in the Basic Materials and Consumer Staples sectors. We continue to be underweight in the Consumer Discretionary sector and the Real Estate Investment Trust industry. Those two spaces are not showing opportunities and continue to appear fully valued or overvalued in our opinion.

**Nuance Concentrated Value Composite vs Russell 3000 Value Index**

Sector Diversification as of 12/31/2013

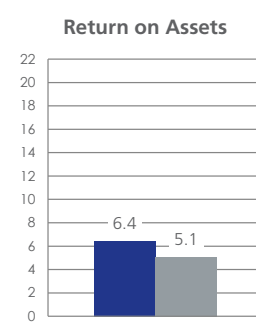
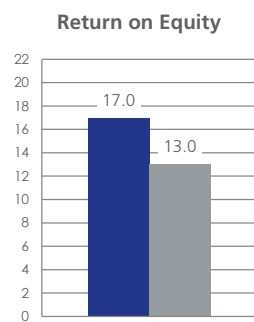
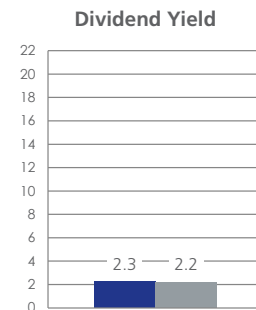
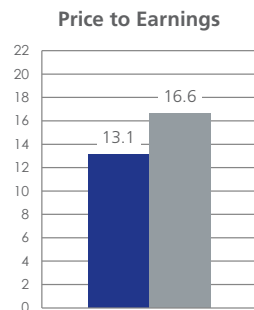


**Composition of the Portfolio**

We continue to be pleased with the overall composition of the portfolio. Remember that we are seeking investment opportunities in leading business franchises with better than average valuation support. Using the table below, you can see that the portfolio has a Price to Earnings ratio of 13.1x versus the Russell 3000 Value Index of 16.6x. We are achieving this ratio with a portfolio of companies that have returns on assets of 6.4 percent versus the Russell 3000 Value Index of 5.1 percent. This dichotomy of above average companies selling at below average multiples is a recipe for outperformance over the long term in our opinion.

**Characteristics as of 12/31/2013**

	Nuance Concentrated Value Composite	Russell 3000 Value Index
Weighted Average Market Cap	36.7b	106.2b
Median Market Cap	14.6b	1.2b
Price to Earnings	13.1x	16.6x
Dividend Yield	2.3%	2.2%
Return on Equity	17.0%	13.0%
Return on Assets	6.4%	5.1%
Number of Securities	23	2,056



■ Concentrated Value Composite  
■ Russell 3000 Value Index

Composite & Index statistics provided by Bloomberg & Russell, respectively: Weighted Average Market Cap, Median Market Cap, Dividend Yield & Number of Securities. Return on Equity & Return on Asset statistics are internally calculated using Bloomberg data. The P/E statistics are a Nuance internal calculation. Characteristics calculations use holdings at market close on the stated date, including cash and cash equivalents.

**Stocks we recently added to your portfolio (during December 2013):**

There were no stocks added to your portfolio this month

**Stocks we recently sold from your portfolio (during December 2013):**

**Cabot Microelectronics Corp. (CCMP):** We sold our position in CCMP after a period of significant outperformance. We continue to like CCMP and will look for future opportunities to buy the stock when the risk reward is more attractive once again.

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## 2013 Review and 2014 Outlook

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Certainly 2013 will be a year to remember for our clients and for our firm and its employees. First we want to thank our clients for their continued confidence and support. We started the year with a little over \$200 million under management and today we stand right on \$500 million. 2013 will also be a year that should remind all of us that broad market generalizations that we all read, hear, and sometimes even write, are typically difficult to decipher with any depth and frankly often provide little to zero value to our clients. Phrases such as “low quality is winning”, “volatility is low”, “the market is overbought”, “the market likes momentum”, “this is a stock pickers market”, and oh so many more provide readers and listeners with very little investable information. The phrases just leave us wanting more information. In our opinion, the key to investing is leaving these tidbits and phrases out of the investment decision making process. Rather, having a consistent team, operating a consistent and time-tested investment process, and ensuring a day to day commitment and focus on our process and research is the key to long term success. Almost two years ago our process began showing us that higher dividend yielding stocks like utilities and real estate investment trusts were overvalued and that lower dividend-yielding stocks were undervalued, under researched, and completely under appreciated. As a direct result of our process and research we bought companies like ITT Corp., Xylem Corporation, Texas Instruments Inc., Stryker Corporation, Southwest Airlines Company, TE Connectivity Ltd., and many other companies that we view as leading business franchises with excellent competitive positions and characteristics that exude higher quality. As we progressed into 2013 it became clear to us that the broader market was beginning to find this 2013 “sweet spot” and began buying our stocks with vigor. As such, this very impressive market with the S&P 500 Index up 32.38 percent and the Russell 3000 Value Index up 32.72 percent was something we were able to beat. This despite the so many market pundits suggesting that lower quality stocks and speculative stocks were the “place to be in 2013.” We would simply disagree with those broad-based assertions.

As for 2014, we are excited as always. We have shared with our clients that we research, study, and value nearly 300 companies that fit our definition of leading business franchises. These are companies that we want to own when there is less than typical downside risk and significant upside potential. For our entire group, which we think is a nice barometer of the market, we think valuations suggest a broader market that is on the higher side of a fairly valued range. Some clients have asked us if that concerns us and we answer that it does not – over the long term. During fairly valued markets it is typical for us to be able to find leading business franchises with transitorily negative events that have hurt their earnings and cash flows temporarily. These leads to negative sentiment and the inevitable inexpensive valuations that we seek. Examples today would include Sysco Corp., Mosaic Corp., and Compass Minerals International to name but a few. We will close this letter stating that we continue to be pleased with our long term performance, but as always, we remind our readers that outperformance versus our primary and secondary benchmarks is not a given nor should it be your expectation for any single year or quarter. There will be times that the market and our team will simply disagree and the result will be underperformance.

Please visit our website at [www.nuanceinvestments.com](http://www.nuanceinvestments.com) for more information about our team, our process, and value investing. You can also get real-time access to the Nuance Investment website updates and information via traditional mail or e-mail. Simply contact us at [client.services@nuanceinvestments.com](mailto:client.services@nuanceinvestments.com) or call 816-743-7080 to sign-up.

Thank you for your continued confidence and support.



Scott A. Moore, CFA

**GIPS Disclaimer**

	Gross of Fees Return	Net of Fees Return	Benchmark Return (RAV Index)	Benchmark Return (SPX Index)	Composite Dispersion (Full Period)	Number of Separate Accounts (End of Period)	Total Composite Assets (End of Period)	Total Firm Assets (End of Period)	% of Non-Fee paying accounts	3 Year Annualized Standard Deviation (Composite Gross)	3 Year Annualized Standard Deviation (RAV Index)
YTD 2008 (11/13/08-12/31/08)	4.47	4.47	0.38	(0.47)	N/A	7	\$9,126,951	\$18,657,997	4.57%	-	-
2009	42.21	41.72	19.78	26.47	1.17	79	\$87,342,803	\$137,943,058	0.60%	-	-
2010	18.79	18.13	16.26	15.06	0.25	145	\$119,543,453	\$181,201,036	0.46%	-	-
2011	6.85	6.29	(0.06)	2.11	0.48	181	\$96,831,359	\$152,976,943	0.85%	16.13	21.31
2012	18.41	17.79	17.62	16.00	0.19	259	\$154,693,966	\$214,936,666	0.77%	13.05	16.02
2013	35.33	34.45	32.72	32.38	N/A	411	\$418,085,862	\$507,569,897	0.79%	12.20	13.08

**Important Disclaimer**

Nuance Investments, LLC (the "Firm") is a Registered Investment Advisor. The Firm's Nuance Concentrated Value Composite (the "Composite") is a composite of actual accounts invested in the Nuance Concentrated Value investment strategy. The inception date for the Composite is 11/13/2008. The Composite includes all accounts that have invested in the strategy; including accounts no longer managed by the Firm and are presented in US Dollars. The Primary Benchmark for the Composite is the Russell 3000 Value Index. The Russell 3000 Value Index measures the performance of the broad value segment of the U.S. equity universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values. The Secondary Benchmark for the Composite is the S&P 500 Index. The S&P 500 Index is a market-value weighted index representing the performance of 500 widely held publicly traded large-capitalization stocks. Individuals cannot invest directly in any index. These indices are used for comparison purposes only and are not meant to be indicative of a portfolio's performance, asset composition, or volatility. The performance of the Composite may differ markedly from that of compared indices due to varying degrees of diversification and/or other facts. Return calculations for the Composite are provided by Advent Portfolio Exchange. Return calculations for all indices are provided by Bloomberg. A full schedule of fees for all Firm products is available upon request. The collection of fees has a compounding effect on the total rate of return net of investment management fees. Net of fee performance is presented after all actual investment management fees and trading expenses.

Past Performance is not a guarantee of future results. Any investment contains risk including the risk of total loss. There is no guarantee that an investment with the strategy will meet its investment objectives. Please request a copy of the Firm's Full General Disclosures for more information. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. The information contained herein should not be construed as personalized investment advice and should not be considered as a solicitation to buy or sell any security or engage in a particular investment strategy. Investing involves risk, including the possible loss of principal. Nuance Investments, LLC is majority owned by Montage Investments, LLC. Prior to August 1, 2010 Nuance operated under the name Mariner Value Strategies, LLC.

(1) Risk-Adjusted Return (Sharpe Ratio) calculations and Standard Deviation for the Composite and indices provided by Zephyr Style Advisor. The Composite has been compared to various peer groups defined by investment style. The Composite is an mid market capitalization value investment style. The Morningstar Large Value Peer Group (as selected by Morningstar) and the Lipper Multi-Cap Value Funds Peer Group have been presented as investment strategies with similar investment styles. For peer group comparisons all Returns, Standard Deviation and Sharpe Ratio calculations, including those of the Composite were calculated by Zephyr Style Advisor based upon strategies with monthly return data from December 2008 to 12/31/2013. Zephyr reports on month end returns only. For the purposes of peer group comparisons Since Inception returns are shown beginning 11/30/2008. The Sharpe Ratio is a calculation of a product's risk-adjusted performance over time. The Ratio is calculated by taking a product's annualized excess return over a risk-free rate (The Firm uses the Citigroup 3-Month Treasury Bill as the risk-free rate) and dividing by its annualized standard deviation calculated using monthly returns.