

Nuance Concentrated Value Perspectives Discussion



October 2014

from Montage Investments

Commentary with President and Chief Investment Officer
Scott 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 October 31, 2014) is up 21.43 percent (annualized and net of fees) versus the Russell 3000 Value Index up 15.71 percent annualized and the S&P 500 Index up 16.75 percent annualized.

For the first ten months of 2014 (ending October 31, 2014), the Nuance Concentrated Value Composite was up 8.14 percent (net of fees) versus the Russell 3000 Value Index up 9.79 percent and the S&P 500 Index up 10.99 percent.

Risk-Adjusted Returns Rankings¹

1st PERCENTILE

Morningstar	Lipper
Category: Large Value	Category: Multi-Cap Value
Ranking vs. Peers: 1 st of 1,283	Ranking vs. Peers: 1 st of 213

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
- 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 - 10/31/2014					Since Inception		Since Inception	
	YTD 2014	1 Year	3 Years APR	5 Years APR	Since Inception APR	Since Inception TR	Standard Deviation (A)	Since Inception Sharpe Ratio (A)
Nuance Concentrated Value Composite (Gross)	8.85	13.17	20.96	19.23	22.09	228.90	13.48	1.62
Nuance Concentrated Value Composite (Net)	8.14	12.34	20.22	18.53	21.43	218.34	13.45	1.57
Russell 3000 Value Index	9.79	15.75	20.22	16.45	15.71	138.91	16.44	0.95
S&P 500 Index	10.99	17.26	19.74	16.68	16.75	151.98	14.79	1.12

Monthly Review and Outlook

I think it is fair to say that volatility returned to the market this month as the S&P 500 Index started the month at 1,972, dipped to as low as 1,862 by the middle of the month and then rallied back to close the month at \$2,018. Clearly, the market was concerned about oil prices retreating and mixed economic news in both Europe and Asia. In the United States, falling energy prices also concerned the market due to the overall positive effect the sector has had on jobs and GDP growth. However, within just a few weeks, and amidst earnings season, the market was apparently relieved as earnings season was reasonable and economic news continued to show modest improvement in the United States. Importantly for our clients, we continue to execute our time-tested process and focus our attention on buying leading business franchises trading at a discount to what we think they are worth. Much like we discussed last month, during times of stress and market volatility we focus our attention on re-examining the competitive positions of each stock in your portfolio. These reviews are always on-going and all company competitive positions are reviewed regardless of their performance. We also regularly re-examine our internal view of normalized earnings and cash flows and double check our internal view of fair value. Finally, we regularly re-examine our historical view of the downside potential of the stock to ensure that our previous work continues to be valid. Importantly, we are always searching for ways to upgrade your portfolio in terms of quality and risk reward.

As for our performance, we continue to be behind our primary indexes on a year-to-date basis as the market and our team do not agree on where the value lies in this market. Significant outperformance by both utilities and real estate investment trusts have hurt our performance as we do not own much in either space. That said, we have no desire to own most of those companies today on any broad level. We continue to believe that the market misunderstands the true value of high dividend yielding stocks as they focus on one valuation metric – dividend yield - that can be manipulated quite easily by management teams using leverage and payout ratios. Rather, we continue to see value in other areas of the market; namely in leading business franchises that are under earning their potential due to transitory issues.

Stocks we recently added to your portfolio (during October 2014):

Schlumberger Ltd. (SLB): SLB is the world's leading supplier of energy services and equipment including technology, project management and information solutions. Given the recent pullback in oil prices and the sharp correction in the price of SLB's shares, we have re-entered the stock at levels we believe provide our clients with an excellent risk reward. With a top-tier balance sheet and an outstanding competitive position within the energy sector, we are excited to re-enter SLB.

Stocks we recently sold from your portfolio (during October 2014):

Knowles Corporation (KN): KN is a provider of advanced acoustic components from microphones and hearings aids to electronic devices around the world. The positive case for KN centers around their current leading market share position, theoretically growing markets and the potential for margin expansion as the company becomes more focused outside of a large entity. (The company was a spin-off from Dover Corporation- DOV.) However, our recent internal research suggests that the sustainability of that leadership is in question. One of their core customers appears to have easily swapped out of KN products (implying lower switching costs that we anticipated) into a competitor product without quality or logistical issues. The apparent ease at which the customer did this was very concerning to us here at Nuance. The result was an earnings disappointment that hurt the stock. In this case, the fundamental and competitive analysis did not live up to our expectations and the competitive position does not appear to be what our original analysis believed. As such, we chose to capture a tax loss on KN and use the proceeds to purchase other situations during the recent market sell-off.

Conagra Foods Inc. (CAG): CAG is a packaged food company with leading market share positions in a wide variety of food product areas, including both branded and generic foods as well as food service items. After a sharp period of outperformance in the face of a difficult market and difficult conditions for many of its packaged food peers, we have exited our position as the stock achieved our internal view of fair value.

Exxon Mobil Corp (XOM): We exited our position in XOM and swapped the proceeds into SLB this month. While we will continue to look for future opportunities to buy XOM, we believe that SLB was a significantly better risk reward after seeing the stock fall in value as oil prices fall. XOM, as it typically does, outperformed its peer group during the market sell-off in the Energy sector.

Mosaic Corporation (MOS): We exited our position in MOS as new opportunities provided us with better risk reward in our view. The proceeds of MOS were not swapped into a single opportunity, but rather into a basket of our existing holdings that came under pressure due the recent market sell-off.

Please visit our website at 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, e-mail or on Facebook. Simply contact us at 816-743-7080 or client.services@nuanceinvestments.com to sign-up.

Thank you for your continued confidence and support.



Scott Moore, CFA
President and Chief Investment Officer

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	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
YTD 2014	8.85	8.14	9.79	10.99	N/A	564	\$887,660,357	\$1,075,421,036	0.35%	10.35	9.56

The Composite's performance returns have been audited by Absolute Performance Verification through March 31, 2013. The verification report is available upon request by contacting Client Services at 816-743-7080 or client.services@nuanceinvestments.com. Verification assesses whether (1) The Firm has complied with all the composite requirements of the Global Investment Performance Standards (GIPS®) on a firm-wide basis and (2) The Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. Verification does not ensure the accuracy of any specific composite presentation. Nuance has three composites. The Nuance Mid Cap Value Composite, the Nuance Concentrated Value Composite and the Nuance Super Concentrated Value Composite. More information regarding Composite descriptions and policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request by contacting client.services@nuanceinvestments.com or 816-743-7080.

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.

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.

The Price-Earnings Ratio (P/E Ratio) is a valuation ratio of a company's current share price compared to its per-share earnings as calculated by the market value per share divided by earnings per share. The Dividend Yield is calculated based on how much an investment pays in dividends each year relative to its share price. The Return on Equity is calculated by dividing net income by shareholder equity. The Return on Assets is calculated based on net income divided by average total assets. The Growth of \$100 chart is calculated by Zephyr Style Advisor assuming the same cash value at inception and the variance of the investment using monthly return data for each strategy.

(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 09/30/2014. 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.

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.