

# Nuance Concentrated Value Perspectives Discussion



November 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 November 30, 2014) is up 21.28 percent (annualized and net of fees) versus the Russell 3000 Value Index up 15.84 percent annualized and the S&P 500 Index up 17.02 percent annualized.

For the first eleven months of 2014 (ending November 30, 2014), the Nuance Concentrated Value Composite was up 9.09 percent (net of fees) versus the Russell 3000 Value Index up 11.82 percent and the S&P 500 Index up 13.97 percent.

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

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

Morningstar	Lipper
Category: Large Value	Category: Multi-Cap Value
Ranking vs. Peers: 1 <sup>st</sup> of 1,283	Ranking vs. Peers: 1 <sup>st</sup> 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 - 11/30/2014	YTD				Since Inception		Since Inception	
	2014	1 Year	3 Years APR	5 Years APR	APR	TR	Standard Deviation (A)	Sharpe Ratio (A)
<b>Nuance Concentrated Value Composite (Gross)</b>	<b>9.86</b>	<b>12.82</b>	<b>21.17</b>	<b>18.29</b>	<b>21.95</b>	<b>231.96</b>	<b>13.39</b>	<b>1.62</b>
<b>Nuance Concentrated Value Composite (Net)</b>	<b>9.09</b>	<b>11.99</b>	<b>20.41</b>	<b>17.60</b>	<b>21.28</b>	<b>221.15</b>	<b>13.36</b>	<b>1.57</b>
Russell 3000 Value Index	11.82	14.60	21.15	15.66	15.84	143.33	16.32	0.96
S&P 500 Index	13.97	16.85	20.90	15.94	17.02	158.75	14.70	1.14

---

## Monthly Review and Outlook

---

Performance first and then taxes. Those are our two topics this month. We continue to be behind our primary indices on a year-to-date basis as the market and our team do not agree on where the value lies in this market. The Black Friday collapse in oil prices hurt the near term performance of several of our holdings including Frank's International NV, our largest position. We continue to like that company, find the valuation compelling and are adding on weakness. Further, this year has shown significant outperformance by both utilities and real estate investment trusts and that has hurt our performance as we do not own much in either space. We continue to believe that the market misunderstands the true value of high dividend yielding stocks as it focuses on one valuation metric - dividend yield - that can be manipulated quite easily by management teams using leverage and payout ratios. As opposed to focusing on those areas, 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.

It is almost tax time and we always like to remind our clients of our view on taxes and how our time tested process deals with taxes. First and foremost, we are aware of taxes and the implications of taxes to total return. We use multiple techniques to minimize tax burden, including tax loss swaps and being very aware of the time horizon where investments change from short-term to long-term capital gains. We have executed a couple of tax loss swaps for our clients this year as an example. In my opinion, this year is not as significant as last year's tax burden. While the exact number varies by account, we believe that the realized capital gains for this year will likely range from 5-10 percent of the value of the account. This is not a guaranteed number of course as we still have a month left in the investment year, but it should be a reasonable approximation. We get asked a great deal about taxes and turnover and our strategy as it relates to both. What we explain is that buying into weakness and selling stocks into strength (after achieving significant outperformance) is a natural part of our process. If a stock goes up 30-40 percent, for example, in a flat or up 10 percent market, then rest assured that the risk versus reward profile of that investment has changed significantly and the risk potential in particular has gone up by about 30-40 percent. As such, we start capturing profits for our clients to ensure the portfolio continues its long term strategy of owning leading business franchises with sound competitive positions that have significant upside potential coupled with significant downside protection. This strategy does lead to some tax burden over time. But, ultimately, it also protects capital by ensuring we have investments with less than average downside potential. As always, our portfolio of companies is comprised of excellent and mature businesses that do not have unlimited upside potential, but certainly significant upside potential. As the businesses achieve or surpass our view of fair value, we move on to better opportunities. This year the robust nature of the returns has led to taxes. We hope the longer term returns makes you feel a bit better about your visit to your tax consultant.

---

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

---

We did not add any new names to your portfolio this month.

---

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

---

We did not remove any names from your portfolio this month.

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, e-mail or on Facebook. Simply contact us at 816-743-7080 or [client.services@nuanceinvestments.com](mailto: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	0.66	411	\$418,085,862	\$507,569,897	0.79%	12.20	13.08
YTD 2014 (11/30/2014)	9.86	9.09	11.82	13.97	N/A	576	\$904,008,711	\$1,095,074,183	0.35%	10.34	9.48

The Composite's performance returns have been verified by Absolute Performance Verification through March 31, 2014. The verification report is available upon request by contacting Client Services at 816-743-7080 or [client.services@nuanceinvestments.com](mailto: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. **Our Core offerings are the Nuance Mid Cap Value Strategy and the Nuance Concentrated Value Strategy Nuance.** 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](mailto: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