

# Nuance Concentrated Value Composite Perspectives



July 31, 2016

## Description of the Product

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.

### Portfolio Managers



Scott Moore, CFA  
President & CIO

25 Years of Experience

Chad Baumler, CFA  
Vice President

9 Years of Experience

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

#### 1<sup>ST</sup> PERCENTILE

Lipper  
Category: Multi-Cap Value  
Ranking vs. Peers: 1 of 237

Morningstar  
Category: Large Value  
Ranking vs. Peers: 7 of 1,141

Morningstar  
Category: Mid-Cap Value  
Ranking vs. Peers: 1 of 373

## Longer Term Performance Update

Since Inception Return: The return since inception (11/13/2008) through 7/31/2016 is 17.6 percent (annualized and net of fees) versus the Russell 3000 Value Index and S&P 500 Index, which have returned 13.0 percent and 14.4 percent respectively. We are pleased with this level of outperformance over time.

Risk-Adjusted Returns: Our Sharpe Ratio since inception through 7/31/2016 is 1.3 (net of fees) versus Russell 3000 Value Index at 0.8 and the S&P 500 Index at 1.0.

Peer Group Returns through 6/30/2016: Comparing our product to peers displays positive results over time. On a total return basis, since 11/30/08, we ranked 30 of 1,141 (3rd percentile) peer group members in the Morningstar Large Cap Value universe, 22 of 373 (7th percentile) in the Morningstar Mid-Cap Value universe and in the Lipper Multi-Cap Value universe we ranked 9 of 237 (3rd percentile).

Peer Group Risk-Adjusted Return through 6/30/2016: On a risk-adjusted return basis, since 11/30/2008, (measured by the Sharpe Ratio) we ranked 7 of 1,141 (1st percentile) peer group members in the Morningstar Large Cap Value universe, 1 of 373 (1st percentile) in the Morningstar Mid-Cap Value universe and in the Lipper Multi-Cap Value universe we ranked 1 of 237 (1st percentile).

Peer Group Analysis 11/30/2008 - 6/30/2016	Since Inception APR <sup>1</sup>	Standard Deviation (A) <sup>1</sup>	Sharpe Ratio (A) <sup>1</sup>
Nuance Concentrated Value Composite (Gross)	17.8	13.4	1.3
Nuance Concentrated Value Composite (Net)	17.1	13.3	1.3
Lipper Multi-Cap Value Funds Peer Group (Median)	12.8	16.1	0.8
Peer Group Ranking	9 of 237 (3rd)	11 of 237 (4th)	1 of 237 (1st)
Morningstar Large Value Peer Group (Median)	12.3	15.3	0.8
Peer Group Ranking	30 of 1,141 (3rd)	167 of 1,141 (15th)	7 of 1,141 (1st)
Morningstar Mid-Cap Value Peer Group (Median)	15.0	16.7	0.9
Peer Group Ranking	22 of 373 (7th)	4 of 373 (1st)	1 of 373 (1st)

Performance 11/13/2008 - 7/31/2016	APR <sup>*</sup>	TR <sup>*</sup>	Standard Deviation <sup>*</sup>	Sharpe Ratio <sup>*</sup>	7 Years	5 Years	3 Years	1 Year	2016 YTD
Nuance Concentrated Value Composite	18.3	266.3	13.3	1.4	16.1	14.3	10.7	8.7	12.8
Nuance Concentrated Value Composite (Net)	17.6	250.1	13.2	1.3	15.4	13.6	9.9	8.0	12.3
Russell 3000 Value Index	13.0	157.5	15.6	0.8	13.6	12.5	8.7	5.4	9.6
S&P 500 Index	14.4	181.7	14.3	1.0	14.3	13.4	11.1	5.6	7.7

<sup>1</sup>Since Inception

Value. Delivered.

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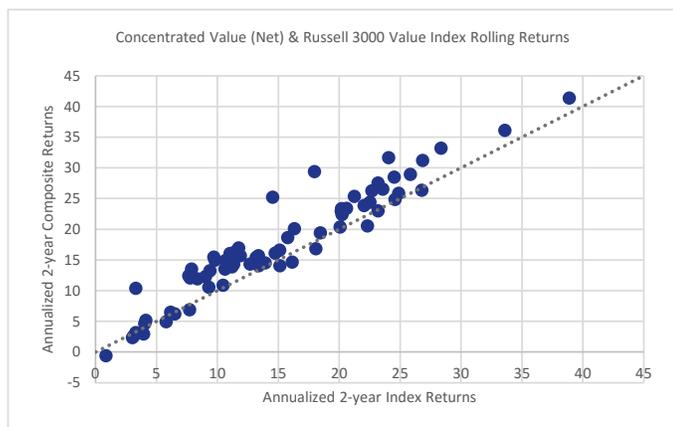
**Shorter Term Performance Update** (Two Year and Year-to-Date)

11/13/2008 - 7/31/2016	Rolling 2-Year Periods		Current 2-Year Period as of 7/31/2016	
	Periods Beating the Index	Composite (%) Net of Fees <sup>1</sup>	Russell 3000 Value Index (%)	
Nuance Concentrated Value Composite	55/69	79.7%	4.9	5.8

Your team at Nuance cautions clients regarding the use of short-term performance as a tool to make investment decisions. That said, if a client wants to consider our short-term performance we recommend emphasizing two-year rolling periods since our inception. Our normal discussion of short-term performance will center on two-year performance, but we will also note calendar year to date results as is our tradition.

For the period ending July 31, 2016, the Nuance Concentrated Value Composite two year rolling return is 4.9 percent (net of fees) versus the Russell 3000 Value Index 5.8 percent and the S&P 500 Index 8.4 percent. Overall, we have outperformed in 55 out of the available 69 two-year periods as shown in the chart labeled Rolling 2-Year Return Periods.

Year-to-date, the Nuance Concentrated Value Composite was up 12.3 percent (net of fees) versus the Russell 3000 Value Index 9.6 percent and the S&P 500 Index 7.7 percent.



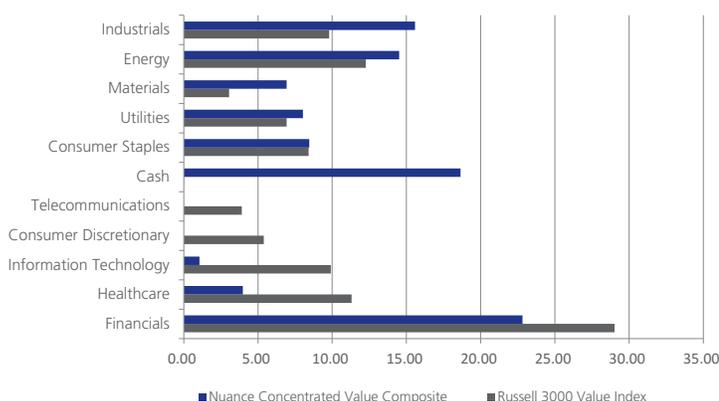
Calendar Year Performance as of 7/31/2016	11/13/08 - 12/31/08	2009	2010	2011	2012	2013	2014	2015	YTD 2016
Nuance Concentrated Value Composite (Gross)	4.5	42.2	18.8	6.9	18.4	35.3	8.9	(1.3)	12.8
Nuance Concentrated Value Composite (Net)	4.5	41.7	18.1	6.3	17.8	34.5	8.1	(2.0)	12.3
Russell 3000 Value Index	0.4	19.8	16.3	(0.1)	17.6	32.7	12.7	(4.1)	9.6
S&P 500 Index	(0.5)	26.5	15.1	2.1	16.0	32.4	13.7	1.4	7.7

**Composition of the Portfolio** as of 7/31/2016

Portfolio Characteristics <sup>2</sup>	Nuance Concentrated Value Composite	Russell 3000 Value Index
Weighted Average Market Cap	32.5b	105.3b
Median Market Cap	13.2b	1.3b
Price to Earnings (internal and ttm)*	13.4x	18.5x
Forward Price to Earnings	19.7x	15.8x
Dividend Yield	2.4%	2.6%
Return on Equity	17.5%	12.7%
Return on Assets	3.9%	4.3%
Active Share vs Russell 3000 Value	96.5%	-
Upside/Downside Capture Ratio vs Russell 3000 Value	89.3%/60.8%	-
Number of Securities	24	2,046

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 13.4x versus the Russell 3000 Value Index of 18.5x. We are achieving this ratio with a portfolio of companies that have return on assets of 3.9% percent versus the Russell 3000 Value Index of 4.3% percent. This dichotomy of above average companies selling at below average multiples has the opportunity for outperformance over the long-term, in our opinion.

<sup>1</sup>Based on Nuance internal estimates and benchmarked against the above noted Russell index.

**Sector Weights and Portfolio Positioning** as of 7/31/2016

There has been very little change in the portfolio from a sector weightings standpoint. The portfolio remains overweight in the Industrial sector as we continue to see opportunities in the transportation and agriculture industries. We are also seeing attractive opportunities in the Materials and Energy sectors and remain overweight in those sectors. While our position in the Financial sector remains underweight, we are seeing solid risk/rewards in some select Financial names. The underweight position is driven primarily by our underweight position in the Real Estate Investment Trust (REIT) industry, which appears overvalued, in our opinion. We are also underweight the Consumer Discretionary, Healthcare and Information Technology sectors primarily due to valuation concerns.

**Stocks We Added to Your Portfolio (July 2016):**

None

**Stocks We Eliminated from Your Portfolio (July 2016):**

Abbott Laboratories (ABT): We sold our position in ABT as it achieved our internal view of fair value. We continue to like the portfolio of products and market share positions of ABT and will look for better entry points for our clients going forward.

Johnson & Johnson (JNJ): We also sold our position in JNJ following solid outperformance since our purchase and the culmination of a stock price move that placed the valuation a bit past our view of fair value. We will look to re-enter the stock at better valuation levels going forward.

FMC Technologies (FTI): We sold our position in FTI following solid outperformance. FTI recently announced the acquisition of Technip SA (TEC FP) which was negative to our overall value of FTI and resulted in us lowering our post-deal fair value target. Despite that disappointing move by the company, we were still able to achieve reasonable performance from our investment.

**Nuance Perspectives from President & CIO, Scott Moore, CFA**

We continue to be pleased with the performance of your Nuance Concentrated Value Composite. Year to date (through 7/31/2016) we are up 12.28 percent (net of fees) versus the Russell 3000 Value Index up 9.56 percent and the S&P 500 Index up 7.66 percent. For the last 12 months, we are up 8.01 percent (net of fees) versus the Russell 3000 Value Index up 5.38 percent and the S&P 500 Index up 5.60 percent. Most importantly, since our inception on 11/3/2008, the Nuance Concentrated Value Composite is up 17.64 percent (annualized and net of fees) versus the Russell 3000 Value Index up 13.04 percent and the S&P 500 Index up 14.36 percent.

This month's commentary is going to center on the root of most of our client questions this month. Frank's International (FI) is one of our largest holdings and has had a difficult year thus far. Despite those difficulties, we continue to be quite positive on the prospects of the company going forward.

FI is the global leader in providing highly engineered tubular services for energy exploration and production companies around the world. The company specializes in installing engineered casing or extensive systems of customized metal piping for the most complex oil and gas wells in both onshore and offshore environments. The market for highly engineered casing systems is, for all intents and purposes, a global duopoly market share structure with FI and one other primary competitor. FI is currently, and has historically been, considered the technology and service leader within this very specialized oilfield service offering. When this market leadership position is combined with almost \$600M of net cash on the balance sheet and rational capital allocation policies stemming from decades of being run as a privately held family business, our Investment Team considers the overall competitive position of FI to be outstanding.

FI is currently generating roughly breakeven adjusted earnings per share and our Investment Team believes the company is under-earning its long term potential with normalized earnings power in the low to mid \$1's per share range. We think the company is currently facing three transitory issues. The first two are relatively straightforward, while the third requires some detail. The first transitory issue is that total company revenues are currently at a cyclical low. Since 2014, revenues have dropped around 55%, roughly in-line with FI's energy equipment & services sub-industry peers and in line with the global oil and gas rig count. When oil and gas drilling activity reverts to more normal levels (think lower than 2014 but higher than today), we believe earnings will improve by around \$.75 per share.

The second transitory issue that FI faces is their stockpile of almost \$600M in cash that is currently contributing virtually no earnings to the bottom line. Over time, we expect this cash will be deployed via reasonable acquisitions and/ or share buybacks. The end effect of simply investing this cash within their own business and taking the balance sheet to 0.0x leverage (nowhere near the customary 1.0x industry leverage level) will add roughly \$.25 per share in earnings.

The final transitory issue we believe the company faces today is bloated selling, general and administrative (SG&A) expenses. If there was an area that we miscalculated regarding FI's business this downturn, SG&A would be it. While the company has actually done a reasonable job managing cost of goods sold

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**Nuance Perspectives from President & CIO, Scott Moore, CFA**

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and working capital during this downturn, they have done a below average job managing their SG&A costs in our opinion. For perspective, while revenues have been more than cut in half this cycle, SG&A costs have barely budged, and today represent around 50% of run rate revenues. This compares unfavorably versus the company's history and versus peers. Prior to 2016, SG&A as a % of revenues averaged around 20% for FI, including 22% during the 2009 industry downturn. Additionally, compared to the entire energy equipment & service sub-industry, FI currently has the highest SG&A% by a longshot. The group's SG&A% as a whole is currently averaging in the low teens with most high quality peers in the 5% to 20% range. To say the opportunity appears significant is an understatement. Even if FI could get their current SG&A% to somewhere in the mid 30%'s, then earnings power would improve by around \$.25 per share. This, combined with the resolution of the two previously mentioned transitory issues, would take normal earnings per share to the low to mid \$1's. Needless to say, FI fits our process and strategy very well as it is characterized by a leading competitive position, an excellent balance sheet, and a business that is under-earning its mid cycle potential due to transitory issues. These are factors we search for each and every day and FI continues to fit quite nicely into our portfolio.

As we remind our clients each month, your team continues to find leading business franchises with sustainable competitive positions that are trading below our internally derived view of fair or intrinsic value. We believe that our time-tested process of finding best of breed businesses with better than the market downside support and better than the market upside over the long-term should lead to excellent risk adjusted returns versus our peers and benchmarks.

Please visit our website at [www.nuanceinvestments.com](http://www.nuanceinvestments.com) for more information about our team, our process and value investing. Follow us on LinkedIn and Twitter! You may also receive information via traditional mail or email by contacting us at [client.services@nuanceinvestments.com](mailto:client.services@nuanceinvestments.com) or call 816-743-7080.

Thank you for your continued confidence and support.



Scott A. Moore, CFA

## GIPS Disclosures

	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-	4.5	4.5	0.4	(0.5)	N/A	7	\$9,126,951	\$18,657,997	4.6%	-	-
2009	42.2	41.7	19.8	26.5	1.2	79	\$87,342,803	\$137,943,058	0.6%	-	-
2010	18.8	18.1	16.3	15.1	0.3	145	\$119,543,453	\$181,201,036	0.5%	-	-
2011	6.9	6.3	(0.1)	2.1	0.5	181	\$96,831,359	\$152,976,943	1.1%	16.1	21.3
2012	18.4	17.8	17.6	16.0	0.2	259	\$154,693,966	\$214,936,666	1.0%	13.1	16.0
2013	35.3	34.5	32.7	32.4	0.7	411	\$418,085,862	\$507,569,897	0.4%	12.2	13.1
2014	8.9	8.1	12.7	13.7	0.2	581	\$886,246,169	\$1,071,186,382	0.2%	10.4	9.5
2015	(1.3)	(2.0)	(4.1)	1.4	0.2	607	\$715,577,980	\$913,545,839	0.1%	11.4	10.9
YTD 2016 (7/31/2016)	12.8	12.3	9.6	7.7	N/A	656	\$794,003,830	\$1,138,663,326	0.1%	11.3	11.2

## Compliance Statement

Nuance claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Nuance has been independently verified for the periods 11/03/08 – 03/31/16 by Absolute Performance Verification. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards 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 is an investment adviser registered with the Securities and Exchange Commission. The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary separate accounts under management, including those accounts no longer with the firm. The U.S. Dollar is the currency used to express performance returns and assets. Performance results are presented both net and gross of management fees and include the reinvestment of income. Both gross and net of fee returns are reduced by trading expenses. Net of fee returns are reduced by Actual investment advisory fees and other expenses that may be incurred in the management of the account. The firm does not currently assess any Performance Based Fees. From the inception of each composite until 12/31/10, Time Weighted Return was compounded on a monthly basis. Beginning 01/01/11 through present, Time Weighted Return was compounded on a daily basis.

Dispersion is calculated from gross of fee returns using an asset-weighted standard deviation methodology. Only those accounts included for the full calculation period are part of the dispersion calculation. The 3-year Ex-post annualized standard deviation value is calculated using 36 consecutive monthly gross of fee returns to the end calculation period. Since Inception, Nuance has adopted the following Significant Cash Flow Policy for both composites. An account will be removed from a composite if a client has given specific instructions that prevent full investment of the cash flow(s) in a timely manner (defined as 5 business days or greater), or cumulative cash flow(s) are equal or greater than 3 percent of the total composite market value based on the end of month market value, or if cumulative cash flow(s) are equal or greater than 10 percent of the total account value based on the end of month market value. If these circumstances exist, the account will be removed from the composite and added back to the composite on the first day of the month following the date that the account is fully invested (defined as being within ten percent of the model portfolios cash target).

Our Core offerings are the Nuance Mid Cap Value Strategy, the Nuance Concentrated Value Strategy and the Nuance Concentrated Value Long-Short Strategy. 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 Disclosures

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 TR. The S&P 500 Index TR 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 September 1, 2010 Nuance operated under the name Mariner Value Strategies, LLC.

(1) Risk-Adjusted Return (Sharpe Ratio), Standard Deviation and return calculations 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 all market capitalization value investment style. The Morningstar Large Value Peer Group, Mid Cap Value Group 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 6/30/2016. 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.

(2) Index statistics are provided by Russell. Characteristics calculations use holdings at market close on the stated date, including cash & cash equivalents. The following Composite characteristics are calculated using Bloomberg: Median Market Cap (midpoint of market capitalization of the stocks in the portfolio), Dividend Yield (annual dividends relative to share price), Return on Equity (net income divided by shareholder equity), Return on Assets (net income divided by average total assets). The P/E Statistics are a Nuance internal calculation. The dollar-weighted harmonic mean of individual company P/E ratios is used. This approach first considers holdings' E/P, which are then summed on a dollar-weighted basis across the entire portfolio to achieve a portfolio E/P ratio. Finally, the inverse of this ratio is taken to arrive at the Portfolio P/E ratio. Active share, as calculated by Morningstar Direct, is a statistic that measures a strategy's holdings relative to the holdings of the appropriate benchmark. Standard deviation is a measure of volatility showing the average deviations of a return series from its mean. The upside capture ratio is an indication of a manager's ability to match returns in periods of market strength, while the downside capture ratio measures a manager's ability to curtail losses in periods of index weakness. Results are gross of fees for the period since inception through present. Both upside/downside ratios and standard deviation are calculated using Style Advisor.

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.