

# Nuance Concentrated Value Composite Perspectives



December 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 249

Morningstar  
Category: Large Value  
Ranking vs. Peers: 3 of 995

Morningstar  
Category: Mid-Cap Value  
Ranking vs. Peers: 1 of 301

## Longer Term Performance Update

Since Inception Return: The return since inception (11/13/2008) through 12/31/2016 is 17.6 percent (annualized and net of fees) versus the Russell 3000 Value Index and S&P 500 Index, which have returned 13.4 percent and 14.1 percent respectively. We are pleased with this level of outperformance over time.

Risk-Adjusted Returns: Our Sharpe Ratio since inception through 12/31/2016 is 1.3 (net of fees) versus Russell 3000 Value Index at 0.9 and the S&P 500 Index at 1.0.

Peer Group Returns through 12/31/2016: Comparing our product to peers displays positive results over time. On a total return basis, since 11/30/08, we ranked 27 of 995 peer group members (3rd percentile) in the Morningstar Large Cap Value universe, 52 of 301 (17th percentile) in the Morningstar Mid-Cap Value universe, and 19 of 249 (7th percentile) in the Lipper Multi-Cap Value universe.

Peer Group Risk-Adjusted Return through 12/31/2016: On a risk-adjusted return basis, since 11/30/2008, (measured by the Sharpe Ratio) we ranked 3 of 995 peer group members (1st percentile) in the Morningstar Large Cap Value universe, 1 of 301 (1st percentile) in the Morningstar Mid-Cap Value universe, and 1 of 249 (1st percentile) in the Lipper Multi-Cap Value universe.

Peer Group Analysis 11/30/2008 - 12/31/2016	Since Inception APR <sup>1</sup>	Standard Deviation (A) <sup>1</sup>	Sharpe Ratio (A) <sup>1</sup>
Nuance Concentrated Value Composite (Gross)	17.9	13.1	1.4
Nuance Concentrated Value Composite (Net)	17.2	13.1	1.3
Lipper Multi-Cap Value Funds Peer Group (Median)	13.7	15.9	0.9
Peer Group Percentile and Ranking	7th (19 of 249)	6th (16 of 249)	1st (1 of 249)
Morningstar Large Value Peer Group (Median)	12.9	15.0	0.9
Peer Group Percentile and Ranking	3rd (27 of 995)	15th (146 of 995)	1st (3 of 995)
Morningstar Mid-Cap Value Peer Group (Median)	15.7	16.5	0.9
Peer Group Percentile and Ranking	17th (52 of 301)	1st (3 of 301)	1st (1 of 301)

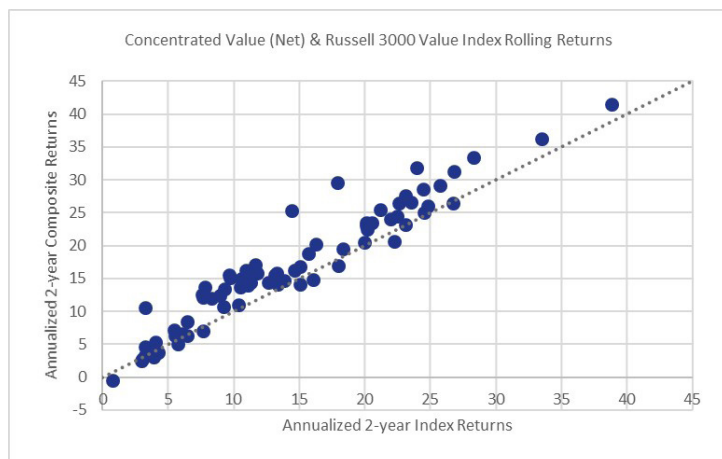
Performance 11/13/2008 - 12/31/2016	APR <sup>*</sup>	TR <sup>*</sup>	Standard Deviation <sup>*</sup>	Sharpe Ratio <sup>*</sup>	7 Years	5 Years	3 Years	1 Year	2016 YTD
Nuance Concentrated Value Composite (Gross)	18.3	291.4	13.1	1.4	14.8	15.7	9.0	20.5	20.5
Nuance Concentrated Value Composite (Net)	17.6	273.3	13.0	1.3	14.1	15.0	8.2	19.7	19.7
Russell 3000 Value Index	13.4	178.3	15.3	0.9	12.7	14.8	8.5	18.4	18.4
S&P 500 Index	14.1	192.9	14.0	1.0	12.8	14.6	8.9	12.0	12.0

<sup>\*</sup>Since Inception

Value. Delivered.

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

Rolling 2-Year Periods	Current 2-Year Period as of 12/31/2016		
	Periods Beating the Index	Composite (%) Net of Fees <sup>1</sup>	Russell 3000 Value Index (%)
11/13/2008 - 12/31/2016	59/74	79.7%	8.3
Nuance Concentrated Value Composite			6.5



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 December 31, 2016, the Nuance Concentrated Value Composite two year rolling return is 8.3 percent (net of fees) versus the Russell 3000 Value Index and S&P 500 Index which have returned 6.5 percent and 6.5 percent respectively. Overall, we have outperformed in 59 out of the available 74 two-year periods as shown in the chart labeled Rolling 2-Year Return Periods.

Year-to-date, the Nuance Concentrated Value Composite has returned 19.7 percent (net of fees) versus the Russell 3000 Value Index and the S&P 500 Index, which have returned 18.4 percent and 12.0 percent respectively.

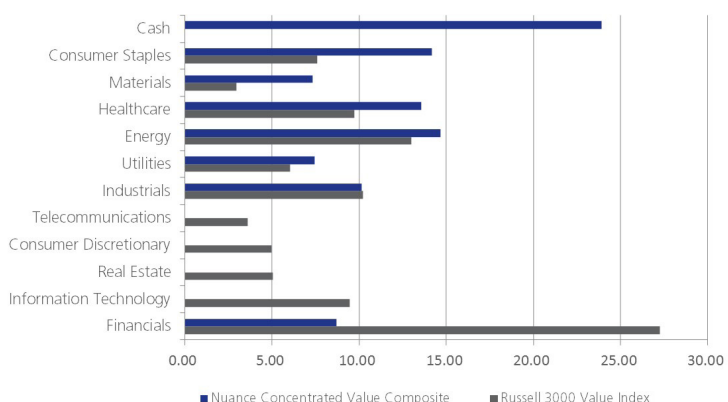
Calendar Year Performance as of	11/13/08 - 12/31/08	2009	2010	2011	2012	2013	2014	2015	2016
Nuance Concentrated Value Composite (Gross)	4.5	42.2	18.8	6.9	18.4	35.3	8.9	(1.3)	20.5
Nuance Concentrated Value Composite (Net)	4.5	41.7	18.1	6.3	17.8	34.5	8.1	(2.0)	19.7
Russell 3000 Value Index	0.4	19.8	16.3	(0.1)	17.6	32.7	12.7	(4.1)	18.4
S&P 500 Index	(0.5)	26.5	15.1	2.1	16.0	32.4	13.7	1.4	12.0

**Composition of the Portfolio** as of 12/31/2016

Portfolio Characteristics <sup>2</sup>	Nuance Concentrated Value Composite	Russell 3000 Value Index
Weighted Average Market Cap	38.8b	110.7b
Median Market Cap	18.1b	1.5b
Price to Earnings (internal and ttm)*	15.1x	20.1x
Forward Price to Earnings	23.6x	16.9x
Dividend Yield	2.3%	2.4%
Return on Equity	17.1%	11.8%
Return on Assets	4.9%	3.9%
Active Share vs Russell 3000 Value	96.8%	-
Upside/Downside Capture Ratio vs Russell 3000 Value	88.9%/60.7%	-
Number of Securities	24	2,065

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 adjacent table, you can see that the portfolio has a Price to Earnings ratio of 15.1x versus the Russell 3000 Value Index of 20.1x. We are achieving this ratio with a portfolio of companies that have a return on assets of 4.9% percent versus the Russell 3000 Value Index of 3.9% 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 12/31/2016

We have continued to reduce our exposure in both the Financial and Industrial sectors during the past month as several of our holdings have approached our internal view of fair value. While we have reduced exposure in Industrials and Financials, we have been adding to our exposure in select names in the Consumer Staples and Healthcare sectors. Broad concerns regarding political uncertainty have led to better than market risk rewards in some of our favorite Healthcare names. We remain slightly overweight in the Energy sector, specifically the energy services industry, as well as the Materials sector. We continue to be underweight the Real Estate, Consumer Discretionary, and Information Technology sectors primarily due to valuation concerns.

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

**Cerner Corp (CERN):** CERN is a leading global provider of electronic medical records software. CERN has been gaining market share consistently over the last decade. We believe this, coupled with a strong balance sheet, provides our team with excellent characteristics. Recently, a modest slowdown in the company's sales growth, coupled with overall healthcare uncertainty stemming from the potential repeal of the affordable care act has produced what we view as an attractive entry point for an investment in CERN.

**Pernod-Ricard SA (PDRDY):** PDRDY is the #2 global producer of liquor with leading brands such as Chivas Regal, Jameson, and Kahlua. We believe recent operating underperformance in emerging markets has resulted in modest under-earnings for the company and provided us with an attractive entry point and risk/reward profile.

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

**Sanderson Farms, Inc. (SAFM):** After adding SAFM to your portfolio in November of 2016, SAFM achieved our internal view of fair value after a relatively short holding period, and we exited the investment. We will continue to monitor this low-cost chicken producer for attractive entry points in the future.

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

Dear Clients,

Outperforming benchmarks and peers is never an easy task and your team was quite pleased with the results of 2016. Highlights include:

- We outperformed our primary and secondary benchmark as our Nuance Concentrated Value product was up 19.70 percent (net of fees) versus the Russell 3000 Value Index up 18.38 percent and the S&P 500 Index up 11.95 percent.
- Nuance Concentrated Value has now outperformed its primary benchmark 7 out of the 8 full years it has been in existence (and 8 out of 9 including the stub year of 2008). Clearly, we are pleased with this level of performance. There is certainly never a guarantee of outperformance year-to-year, but eight years after inception, we are pleased with these results.
- With our 2016 outperformance, we added to our strong long-term performance. Since inception on 11/13/2008, we are up 17.58 percent (annualized and net of fees) versus the Russell 3000 Value Index up 13.40 percent and our secondary benchmark, the S&P 500 Index, up 14.12 percent.
- We achieved that outperformance with less risk than our benchmarks as well. Our standard deviation since our inception on 11/13/2008 is 13.04 percent versus the Russell 3000 Value Index 15.34 percent and the S&P 500 Index 14.00 percent.
- Our best performing sector was the Financial sector, an area we have been discussing as attractive due to compressed returns on capital versus our view of normal and inexpensive valuations. Just a modest rise in interest rates, and a view that regulation might loosen, resulted in significant expectations of returns on capital and earnings expansion which lifted the space throughout the year. BOK Financial Corporation (BOKF), Commerce Bancshares (CBSH), Northern Trust Corporation (NTRS), and MetLife Inc.(MET) all provided significant performance.
- Our second best performing sector was the Utility sector. One of our largest holdings (and a significant detractor a year ago), National Fuel Gas Company (NFG) provided significant outperformance this year as rising natural gas prices helped earnings return towards more mid-cycle levels and consolidation activity in the gas distribution industry helped highlight value in the overall business.
- Other positives included the healthcare space as our significant underweight and better-than-benchmark stock picking helped us outperform. We also benefitted from outperformance from HB Fuller Co. (FUL), Deere and Co. (DE), and HUB Group Inc. (HUBG) among others.
- The most significant negative was the Energy sector and that was driven by Frank's International NV (FI). FI was one of our best performers in 2015, but a second year of trough-like market conditions hurt quarterly results more than anticipated and resulted in a poor year for the stock. We continue to like

FI as the company is gaining market share through this trough period, and we believe it continues to have a solid financial position with net cash on the balance sheet. Our clients will note that we wrote at length about the unique risk reward that exists at FI in our view. Please refer to the July 2016 issue of the Nuance Concentrated Value Manager Commentary for more detail.

- We would be remiss if we did not mention that our cash position was also a negative contributor to performance this year. Throughout the year we averaged approximately 15 percent cash in your portfolio with a low level of approximately 2 percent and a high level near 24 percent. We would note that during most market cycles our cash levels are expected to range between 2 percent and 8 percent. However, during later stages of market and valuation cycles, as valuations broadly are not resulting in broadly attractive risk rewards, we will – as we have told our clients since our inception – raise cash and be patient for what we consider to be better opportunities. We would remind our clients that even in 2016, there was much market volatility on the way to a positive end result, and we ask for a little patience as we wait for what we consider better opportunities to invest that cash.

As for our 2017 outlook, we would start by reminding our clients that this might be our least favorite topic to write about. Not because our team is less excited about our portfolio or the individual risk rewards in our portfolio today versus the market, but rather because of how the investment industry as a whole has too often pretended it can actually have a specific prediction for a quarter, semi-annual or annual period as if there is some level of certainty surrounding that outlook. We would remind our clients that at Nuance, we simply do not invest your money thinking we know what will happen over short periods of time. We have absolutely no idea what the overall market will think of various stocks or sectors during 2017. Rather, your team continues to focus on studying companies, identifying leading businesses that we believe have sustainable competitive positions, and finding the businesses that we believe have upside potential and downside support that are greater than other market alternatives. In almost all market environments, there are pockets of opportunities and companies that we believe are better investments than the market as a whole. As we approach 2017, that is once again the case in our opinion.

A year ago (early 2016) we were seeing opportunities in the Energy sector (FI and Schlumberger Ltd. - SLB/CAM), the Utility sector (NFG), the Materials sector (FUL), and the diverse Industrial sector (Deere and Co. – DE, Lindsay Corp. – LNN, and Emerson Electric Co. – EMR). We were underweight Healthcare, Technology, Real Estate Investment Trusts and Consumer Cyclical. All of these underweights were largely due to valuation concerns in these sectors or industries.

Today (early 2017), we continue to see opportunities in the Energy sector (FI and SLB) as the energy equipment and services space is one of the last broad sub industries to show cyclical under earnings across the board. Beyond that space, we believe new opportunities are being presented and many of last year's pockets of opportunity have closed or are in the process of closing. New areas of interest include some names in the Healthcare sector where our underweight has grown to an overweight as those stocks have underperformed. Broad concerns regarding political uncertainty have led to what we view as better-than-market risk rewards in names like Patterson Cos. Inc. (PDCO), Abbott Laboratories (ABT), and Smith and Nephew PLC (SNN). We also believe a nice pocket of risk reward opportunity has been created in the multi-national consumer staples industry with companies like Diageo PLC (DEO), Unilever NV (UN), and Wal-Mart Stores Inc. (WMT). We believe WMT is a positive risk reward due to a classic overspend on technology creating under-earnings and negativity. We also see an opportunity in DEO and UN due to concerns regarding the political treatment of multi-national corporations, currency issues, and one-off execution issues that mask solid long-term franchises.

Lastly, broader issues always impact the market, market opportunities, and market uncertainties. With an entirely new political regime and a new way of handling politics and political negotiations, we believe today's market is ripe with opportunity and risk, and we hope that our portfolio will bear fruit in the years to come as a result. As we remind our clients each month, your team continues to try 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 what we believe to be better than the market downside support and better than the market upside over the long-term should lead to solid risk adjusted returns versus our peers and benchmarks.

Please visit our [website](#) 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](#). Call us at 816-743-7080. Click [here](#) for historical Concentrated Value Perspectives.

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 (11/13/08-12/31/08)	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
2016	20.5	19.7	18.4	12.0	0.1	694	\$937,752,729	\$1,466,221,847	0.1%	11.1	11.1

## 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 – 03/31/2016 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 12/31/2016. 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.

Portfolio holdings and sector allocations are subjected to change and are not a recommendation to buy or sell any security. As of 12/31/2016 portfolio weights of names discussed are as follows: Cerner Corp (CERN) 1.5%, Pernod Ricard SA (PDRDY) 1.5%, Sanderson Farms (SAFM) 0.0%, BOK Financial Corporation (BOKF) 3.0%, Commerce Bancshares (CBSH) 0.0%, Northern Trust Corporation (NTRS), 4.2%, MetLife Inc.(MET) 0.0%, National Fuel Gas Company (NFG) 7.5%, HB Fuller Co. (FUL) 2.0%, Deere and Co. (DE) 1.0%, HUB Group Inc. (HUBG) 1.2%, Frank's International NV (FI) 9.6%, Schlumberger LTD (SLB) 5.0%, Lindsay Corp. (LNN) 0.0%, Emerson Electric Co. (EMR) 2.0%, Patterson Cos. Inc. (PDCO) 4.1%, Abbott Laboratories (ABT) 3.0%, Smith and Nephew PLC (SNN) 4.0%, Diageo PLC (DEO) 6.6%, Unilever NV (UN) 3.1%, and Wal-Mart Stores Inc. (WMT) 3.0%.

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.