

# Nuance Concentrated Value Composite Perspectives



July 31, 2018

## 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

27 Years of Experience

Chad Baumler, CFA  
Vice President

11 Years of Experience

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

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

Lipper  
Category: Multi-Cap Value  
SI Rank in Cat: 3 of 213

Morningstar  
Category: Large Value  
SI Rank in Cat: 6 of 950

Morningstar  
Category: Mid-Cap Value  
SI Rank in Cat: 2 of 308

## Longer Term Performance Update

**Since Inception Return:** The return since inception (11/13/2008) through 7/31/2018 is 15.8 percent (annualized and net of fees) versus the Russell 3000 Value Index and S&P 500 Index, which have returned 12.8 percent and 14.7 percent respectively. We are pleased with this level of outperformance over time.

**Risk-Adjusted Returns:** Our Sharpe Ratio since inception through 7/31/2018 is 1.3 (net of fees) versus Russell 3000 Value Index at 0.9 and the S&P 500 Index at 1.1.

**Peer Group Returns through 6/30/2018:** Comparing our product to peers displays positive results over time. On a total return basis, since 11/30/08, we ranked 47 out of 950 peer group members (5th percentile) in the Morningstar Large Cap Value universe, 94 out of 308 (30th percentile) in the Morningstar Mid-Cap Value universe, and 32 out of 213 (15th percentile) in the Lipper Multi-Cap Value universe.

**Peer Group Risk-Adjusted Return through 6/30/2018:** On a risk-adjusted return basis, since 11/30/2008, (measured by the Sharpe Ratio) we ranked 6 out of 950 peer group members (1st percentile) in the Morningstar Large Cap Value universe, 2 out of 308 (1st percentile) in the Morningstar Mid-Cap Value universe, and 3 out of 213 (1st percentile) in the Lipper Multi-Cap Value universe.

Peer Group Analysis 11/30/2008 - 6/30/2018	Since Inception APR <sup>1</sup>	Standard Deviation (A) <sup>1</sup>	Sharpe Ratio (A) <sup>1</sup>
Nuance Concentrated Value Composite (Gross)	15.9	12.3	1.3
Nuance Concentrated Value Composite (Net)	15.2	12.2	1.2
Lipper Multi-Cap Value Funds Peer Group (Median)	12.8	14.9	0.8
Peer Group Percentile and Ranking	15th (32 of 213)	6th (13 of 213)	1st (3 of 213)
Morningstar Large Value Peer Group (Median)	12.4	14.0	0.9
Peer Group Percentile and Ranking	5th (47 of 950)	13th (129 of 950)	1st (6 of 950)
Morningstar Mid-Cap Value Peer Group (Median)	14.4	15.4	0.9
Peer Group Percentile and Ranking	30th (94 of 308)	1st (2 of 308)	1st (2 of 308)

Performance 11/13/2008 - 7/31/2018	APR <sup>*</sup>	TR <sup>*</sup>	Standard Deviation <sup>*</sup>	Sharpe Ratio <sup>*</sup>	7 Years	5 Years	3 Years	1 Year	2018 YTD
Nuance Concentrated Value Composite (Gross)	16.5	340.9	12.2	1.3	13.0	10.3	9.4	7.0	0.5
Nuance Concentrated Value Composite (Net)	15.8	315.5	12.2	1.3	12.2	9.5	8.6	6.2	0.0
Russell 3000 Value Index	12.8	223.1	14.3	0.9	12.4	10.0	9.7	9.9	2.6
S&P 500 Index	14.7	279.9	13.1	1.1	14.1	13.1	12.5	16.2	6.5

<sup>\*</sup>Since Inception

Value. Delivered.

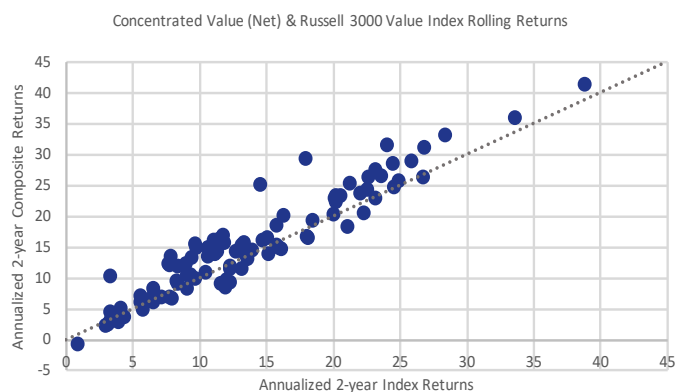
**Shorter Term Performance Update** (Two Year and Year-to-Date)

Rolling 2-Year Periods	Current 2-Year Period as of 7/31/2018		
11/30/2008 - 7/31/2018	Periods Beating the Index	Composite (%) Net of Fees <sup>1</sup>	Russell 3000 Value Index (%)
Nuance Concentrated Value Composite	63 / 93	67.7%	8.9
			12.0

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, 2018, the Nuance Concentrated Value Composite two year rolling return is 8.9 percent (net of fees) versus the Russell 3000 Value Index and S&P 500 Index which have returned 12.0 percent and 16.1 percent respectively. Overall, we have outperformed in 63 out of the available 93 two-year periods as shown in the chart labeled Rolling 2-Year Return Periods.

Year-to-date, the Nuance Concentrated Value Composite has returned 0.0 percent (net of fees) versus the Russell 3000 Value Index and the S&P 500 Index, which have returned 2.6 percent and 6.5 percent respectively.



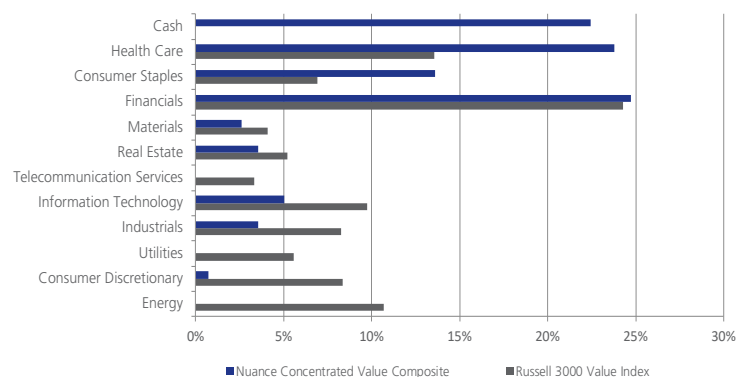
Calendar Year Performance as of 7/31/2018	11/13/08 - 12/31/08	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 YTD
Nuance Concentrated Value Composite (Gross)	4.5	42.2	18.8	6.9	18.4	35.3	8.9	(1.3)	20.5	12.1	0.5
Nuance Concentrated Value Composite (Net)	4.5	41.7	18.1	6.3	17.8	34.5	8.1	(2.0)	19.7	11.3	0.0
Russell 3000 Value Index	0.4	19.8	16.3	(0.1)	17.6	32.7	12.7	(4.1)	18.4	13.2	2.6
S&P 500 Index	(0.5)	26.5	15.1	2.1	16.0	32.4	13.7	1.4	12.0	21.8	6.5

**Composition of the Portfolio** as of 7/31/2018

Portfolio Characteristics <sup>2</sup>	Nuance Concentrated Value Composite	Russell 3000 Value Index
Weighted Average Market Cap	54.0b	113.7b
Median Market Cap	22.5b	1.8b
Price to Earnings (internal and ttm)*	15.4x	16.3x
Forward Price to Earnings	15.3x	14.1x
Dividend Yield	1.8%	2.4%
Return on Equity	19.2%	13.4%
Return on Assets	6.3%	5.1%
Active Share vs Russell 3000 Value	91.9%	-
Upside/Downside Capture Ratio vs Russell 3000 Value	86.4% / 59.6%	-
Number of Securities	34	2,085

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 15.4x versus the Russell 3000 Value Index of 16.3x. We are achieving this ratio with a portfolio of companies that have a return on assets of 6.3 percent versus the Russell 3000 Value Index of 5.1 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 7/31/2018

The portfolio was stable from a sector weighting standpoint, and we continue to believe the opportunity set remains limited. We remain overweight the Healthcare and Consumer Staples sectors as we continue to find select leaders with what we believe are better risk-rewards than other market opportunities. We are slightly overweight the Financial sector where a combination of low interest rates and a higher than average catastrophe year has created some significant opportunities, in our view. We remain underweight the Energy sector where we believe the sector is facing a multi-year period of competitive transition. Lastly, we remain underweight the Industrial, Utility, Consumer Discretionary and Information Technology sectors primarily due to valuation concerns.

**Stocks We Added to Your Portfolio (July 2018):**

**Medtronic (MDT):** Medtronic is a diversified medical device company with a leading position in the areas of spine, brain, heart and minimally invasive surgery. We like their broad portfolio and exposure to differentiated and complex treatment categories. The company has prudently de-levered following a large acquisition in 2015, and they're now under 2x net debt to EBITDA, which is appropriate for a company with a stable return profile like Medtronic. After several years of relative underperformance, we were able to add the stock at a favorable risk reward as compared to our other preferred medical device companies.

**Stocks We Eliminated from Your Portfolio (July 2018):**

None.

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

Dear Clients,

Through 7/31/2018, your Nuance Concentrated Value Composite was up 0.04 percent (net of fees) versus the Russell 3000 Value Index up 2.59 percent and the S&P 500 Index up 6.47 percent. Most importantly to us, since our inception on 11/13/2008, the Nuance Concentrated Value Composite is up 15.78 percent (annualized and net of fees) versus the Russell 3000 Value Index up 12.83 percent and the S&P 500 Index up 14.72 percent.

For this month's commentary, we will focus on one of our top holdings. Dentsply Sirona (XRAY) is the leading global manufacturer of dental equipment and supplies. We believe they have the most breadth in the industry with a top-3 market position in restoratives, preventatives, general supplies, implants, endodontic tools, lab supplies, chairside milling equipment, imaging equipment, instruments and chairs. They're currently lagging in orthodontics but their recent acquisition of OraMetrix will allow them to launch a competitive clear aligner system to fill the only significant hole in their product portfolio.

XRAY has recently traded down sharply on cuts to guidance which afforded us the opportunity to build a large position in the stock. The company has guided to earnings of \$2.00 - \$2.15 per share for 2018 as compared to our calculation of approximately \$2.70 in normal earnings power. They've faced several issues that we believe are transitory and are causing them to under-earn their normalized mid-cycle returns. First, one of the company's primary distributors, Patterson Companies (PDCO), found themselves significantly over-stocked in XRAY equipment at the end of last year after they laid off a portion of their salesforce, struggled to implement a new ERP system, and faced expiration of an exclusive contract to sell XRAY chairside milling units in the US. These factors have led to an estimated \$100M in net distributor destocking by the end of 2018. Second, XRAY sells 2/3 of their product outside the US and the rapid strengthening of the dollar during the 2nd quarter created an unexpected currency translation headwind. Finally, the company has seen an increase in competitive pressure in imaging equipment from value manufacturers, which they've addressed by adding reps, increasing promotional activity and un-bundling some of their imaging and chairside milling equipment to help serve the value segment of the market with a more affordable standalone scanner.

XRAY has adjusted net debt of 2x our normal EBITDAR, which is acceptable leverage for a leading dental manufacturer. They pay only a modest dividend, but they're taking advantage of the share price dislocation to ramp up repurchase activity, buying back \$250M in the second quarter which would allow them to reduce their share count by 11% if they complete their full \$1B authorization at these prices. The stock is currently trading at 14.5x our normal earnings as compared to a historical range of 17-19x and a trough of 10x and our group of approximately 250 Nuance Approved List members at 24-25x. XRAY's upside to fair value is approximately 30-35% and downside to trough value also at approximately 30-35%. While it has a solid risk reward on an absolute basis, on a relative basis this appears to be an even better opportunity versus a broadly expensive stock market where our entire list of leading businesses is around 25% overvalued with as much as 65% downside.

As we remind our clients quite often, our team studies each company that we own in the portfolio using a bottom-up, one stock at a time Nuance approach. During that process, we place a strong emphasis on ensuring that the company has leading and sustainable market share positions across the vast majority of its businesses, can deliver above-average returns on capital versus peers over a business cycle, and has a strong financial position versus its peers. With those characteristics studied and understood, we then prepare our own proprietary financial statements for each company that attempts to normalize the financial statement to a state of normalcy or to what we think of as a mid-business cycle state. With those financial statements created, we then study historical valuation data to ascertain a fair value and downside value for each of the leading businesses that we believe have the traits of a successful investment. At that stage, we then only invest in the companies on our list that, in our opinion, have significantly better risk rewards than the market set of opportunities.

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
2017	12.1	11.3	13.2	21.8	0.1	726	\$1,011,853,027	\$1,784,338,191	0.0%	10.1	10.5
YTD 2018 (7/31/2018)	0.5	0.0	2.6	6.5	N/A	599	\$880,962,976	\$1,868,025,110	0.0%	9.5	10.4

## 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 – 3/31/2018 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 equal-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. Prior to January 1, 2017 dispersion was calculated using an asset-weighted methodology. The calculation methodology was updated based on a new performance system dispersion calculation. Nuance has adopted the following Significant Cash Flow Policy. 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 if a single cash flow is equal or greater than 10 percent of the total account value based on the beginning 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 following month.

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 factors. Return calculations for the Composite are provided by Clearwater Analytics. 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 6/30/2018. 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 7/31/2018 portfolio weights of names discussed are as follows: Dentsply Sirona (XRAY) 5.26%, and Medtronic (MDT) 1.01%.

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.