Nuance Mid Cap Value Composite Perspectives

September 30, 2018

Description of the Product

The Nuance Mid Cap 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 50-90 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 Midcap® Value Index. Clients may also compare the product to the S&P MidCap 400 Value Index and 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[1]

1ST PERCENTILE

Lipper
Category: Mid-Cap Value
SI Rank in Cat: 1 of 103

Morningstar
Category: Mid-Cap Value
SI Rank in Cat: 1 of 312

Longer Term Performance Update (through September 30, 2018)

Since Inception Return: The return since inception (on 11/03/2008 through 9/30/2018) is 15.6 percent (annualized and net of fees) versus the Russell Mid Cap Value Index and S&P MidCap 400 Value Index which have returned 14.3 percent and 14.6 percent respectively. We are pleased with this level of outperformance over time.

Risk-Adjusted Returns: Our Sharpe Ratio since inception through 9/30/2018 is 1.2 (net of fees) versus Russell Midcap Value Index at 0.9, the S&P MidCap 400 Value Index at 0.9 and the S&P 500 Index at 1.1.

Peer Group Returns through 9/30/2018: Comparing our product to peers displays positive results over time. On a total return basis, since 11/30/2008, we ranked 19 out of 312 (6th percentile) peer group members in the Morningstar Mid Cap Value universe. Versus the Lipper Mid Cap Value universe we ranked 9 out of 103 (8th percentile).

Peer Group Risk-Adjusted Return through 9/30/2018: On a risk-adjusted return basis, since 11/30/2008, (as measured by the Sharpe Ratio) we ranked 1 out of 312 (1st percentile) peer group members in the Morningstar Mid Cap Value universe. Versus the Lipper Mid Cap Value universe we ranked 1 out of 103 (1st percentile).

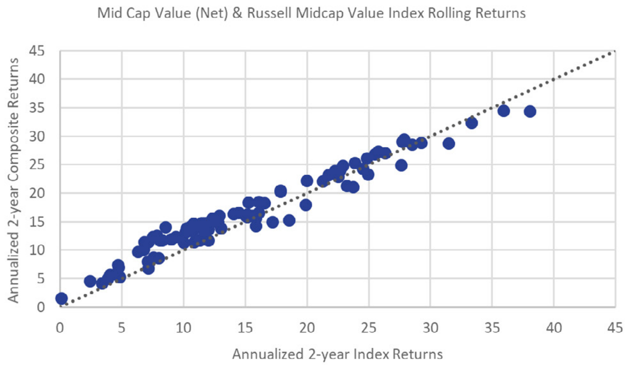
Peer Group Analysis 11/30/2008 - 9/30/2018	Since Inception APR[1]	Standard Deviation (A)[1]	Sharpe Ratio (A)[1]
Nuance Mid Cap Value Composite (Gross)	17.3	13.1	1.3
Nuance Mid Cap Value Composite (Net)	16.5	13.1	1.2
Lipper Mid-Cap Value Funds Peer Group (Median)	14.8	15.0	0.9
Peer Group Percentile and Ranking	8th (9 of 103)	1st (1 of 103)	1st (1 of 103)
Morningstar Mid-Cap Value Peer Group (Median)	14.4	15.2	0.9
Peer Group Percentile and Ranking	6th (19 of 312)	7th (24 of 312)	1st (1 of 312)

Performance 11/03/2008 - 9/30/2018	APR*	TR*	Standard Deviation*	Sharpe Ratio*	7 Years	5 Years	3 Years	1 Year	2018 YTD
Nuance Mid Cap Value Composite (Gross)	16.4	352.7	13.2	1.2	17.1	12.4	15.1	7.5	2.2
Nuance Mid Cap Value Composite (Net)	15.6	322.0	13.3	1.2	16.2	11.6	14.3	6.8	1.6
Russell Midcap Value Index	14.3	277.4	15.5	0.9	15.5	10.7	13.1	8.8	3.1
S&P Midcap 400 Value Index	14.6	285.0	16.2	0.9	16.4	11.3	15.5	11.7	6.0
S&P 500 Index	14.2	272.8	13.3	1.1	16.9	13.9	17.3	17.9	10.6

*Since Inception

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

11/30/2008 - 9/30/2018	Rolling 2-Year Periods: Periods Beating the Index		Current 2-Year Period as of 9/30/2018: Composite (%) Net of Fees[1]	Russell Midcap Value Index (%)
Nuance Mid Cap Value Composite	75/95	78.9%	13.2	11.0



Your team at Nuance cautions our clients regarding the use of short-term performance as a tool to make manager or 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 September 30, 2018, the Nuance Mid Cap Value Composite two year rolling return is 13.2 percent (net of fees) versus the Russell Midcap Value Index and S&P 500 Index which have returned 11.0 percent and 18.3 percent respectively. Overall, we have outperformed in 75 out of the available 95 two-year periods as shown in the chart labeled Annual 2-Year Rolling Return.

Year-to-date, the Nuance Mid Cap Value Composite has returned 1.6 percent (net of fees) versus the Russell Mid Cap Value Index and the S&P 500 Index which have returned 3.1 percent and 10.6 percent respectively.

Calendar Year Performance as of 9/30/2018	11/03/08 - 12/31/08	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 YTD
Nuance Mid Cap Value Composite (Gross)	(4.1)	38.7	21.1	4.0	22.0	35.5	9.8	3.0	21.9	16.2	2.2
Nuance MId Cap Value Composite (Net)	(4.1)	38.2	20.0	3.4	20.6	34.2	9.1	2.3	21.1	15.4	1.6
Russell Midcap Value Index	(5.6)	34.2	24.8	(1.4)	18.5	33.6	14.7	(4.8)	20.0	13.3	3.1
S&P MidCap 400 Value Index	(3.9)	33.8	22.8	(2.4)	19.1	34.3	12.0	(6.7)	26.5	12.3	6.0
S&P 500 Index	(6.0)	26.5	15.1	2.1	16.0	32.4	13.7	1.4	12.0	21.8	10.6

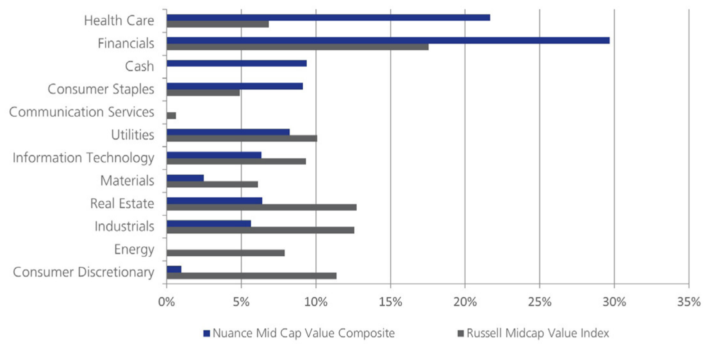
Composition of the Portfolio as of 9/30/2018

Portfolio Characteristics[2]	Nuance Mid Cap Value Composite	Russell Midcap Value Index
Weighted Average Market Cap	15.2b	15.1b
Median Market Cap	9.7b	8.2b
Price to Earnings (internal and ttm)*	18.8x	23.8x
Dividend Yield	1.7%	2.1%
Return on Equity	13.0%	12.1%
Return on Assets	5.0%	4.3%
Active Share vs Russell Midcap Value	96.5%	-
Upside/Downside Capture Ratio vs Russell Midcap Value	90.3% / 75.6%	-
Number of Securities	54	594

*Based on Nuance internal estimates and benchmarked against the above noted Russell index.

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 18.8x versus the Russell Midcap Value Index of 23.8x. We are achieving this ratio with a portfolio of companies that have a return on assets of 5.0% percent versus the Russell Midcap 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.

Sector Weights and Portfolio Positioning as of 9/30/2018



The portfolio was stable from a sector weighting standpoint during the quarter, and we continue to believe the opportunity set remains limited. Our largest overweight remains the Healthcare sector as we continue to find select leaders that we believe have better risk rewards profiles versus other market opportunities. Our second largest overweight is still in the Financial sector. Within the Financial sector, the overweight is not in the classic Bank industry but rather is focused on the Insurance industry. We are seeing attractive opportunities in the Insurance industry in both the Property & Casualty sub-industry due to under-earnings stemming from the relatively recent catastrophe impacts and the Life and Health sub-industry largely due to continued low long-term interest rates coupled with some recent mortality issues. We continue to have an overweight position in the Consumer Staples sector where we see select opportunities. Our underweight position in the Energy sector remains unchanged as we believe that crude oil related companies are likely facing a multi-year period of competitive transition. We continue to be underweight in the Real Estate, Industrials, and Consumer Discretionary sectors due to valuation concerns.

Nuance Perspectives from President & CIO, Scott Moore, CFA

Dear Clients,

At the end of the third quarter of 2018, your Nuance Mid Cap Value Composite was up 1.62 percent (through 9/30/2018 and net of fees) versus the Russell Midcap Value Index up 3.13 percent and the S&P 500 Index up 10.56 percent. Most importantly to us, since our inception on 11/03/2008, the Nuance Mid Cap Value Composite is up 15.62 percent annualized and net of fees (322.02 percent total return net of fees) versus the Russell Midcap Value Index up 14.34 (277.43) percent and the S&P 500 Index up 14.20 (272.77) percent.

For this month's commentary, we want to focus our attention on interesting late cycle investing opportunities we are seeing within the Financial sector as well as an individual stock discussion. We will start with the Finance sector and then conclude with a discussion of Dentsply Sirona Inc. (XRAY).

Within the Finance sector, we have a significant overweight position today. However, the overweight is not in the classic Bank industry but rather is focused on the Insurance industry in general. Within the Insurance industry, our topic today is the Life & Health Insurance sub-industry and why we are overweight this space while being underweight the banking space. On the Bank industry, we believe the stocks – in general – have gone from inexpensive to expensive over the last few years as our favorite commercial banks have transitioned from under-earning their long-term potential to over-earning that potential. This change in earnings power has primarily resulted from a commercial bank's leverage to a rise in short-term interest rates as the Fed Funds rate has risen almost 200 bps from 0.10% to nearly 2% over the last several years. This increase has driven the earnings power improvement and valuation improvement in the space. Today, the risk rewards of most banks we like are less than ideal candidates for inclusion in the portfolio. We believe the majority of the high quality commercial banks that we study are over-earning their long-term potential, hence the underweight position. We are pleased to have made solid investments in companies like Commerce Bancshares Inc. (CBSH) and BOK Financial Corp. (BOKF) as these trends have occurred, but note, we have eliminated both of those stocks from your portfolio as the valuations became full in our view. Now on to one of the highlights of this month's writing – the Life & Health Insurance sub industry. While short term rates have moved meaningfully higher (nearly 200 bps over the last three years), long-term rates have been slower to move. Over the last three years, the United States Government 10 YR treasury yield has risen from the mid to high 1%'s to about 2.7-2.9% as of this writing. While certainly higher, long term rates have not risen as much as short term rates, and the result is a flattening yield curve. The other result is a continuation of under-earnings in the Life & Health insurance space in general. Much like banks' earnings power is largely levered to short-term interest rates, Life & Health insurers' earnings power is largely levered to long-term interest rates. The primary reason for this is that the duration of their investment books tends to be around 15 years. As such, they are investing their securities book in long-dated fixed income securities.

Reinsurance Group of America, Inc. (RGA), is a great example of one of our holdings today. RGA is a leading life & health reinsurer with a dominant market share position in this space and a solid balance sheet. RGA has experienced modest benefits thus far from rising long term interest rates but has also had transitorily high US group mortality hurt near term earnings. As such, we believe the company is under-earning its potential due to both near term mortality issues which we believe are transitory, as well as what believe to be long term interest rates that continue to be below our long term normal assumptions. In more detail, RGA is earning about $11.40 today versus our internal normal earnings per share estimate of $13.50. This under-earning has caused poor stock price performance recently, and we think is leading to a positive risk reward in RGA at $143 per share or 10.5x our normalized earnings power. This 10.5x price to normalized earnings compares particularly well versus an internally derived normalized price to earnings of our entire group of leading business franchises (our Nuance Master List) of closer to 24-25x. We would note that we also own Metlife Inc. (MET) and Unum Group (UNM) based on a similar thesis.

Lastly for this quarter, we want to discuss a one-off stock, Dentsply Sirona Inc. (XRAY). 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 what we believe is 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 Inc. (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 Mid Cap 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 (RMV Index)	Benchmark Return (MIDV 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 (RMV Index)
YTD 2008 (11/03/08-12/31/08)	(4.1)	(4.1)	(5.6)	(3.92)	N/A	1	$9,531,045	$18,657,997	0.0%	-	-
2009	38.7	38.2	34.2	33.77	-	4	$50,600,141	$137,943,058	1.1%	-	-
2010	21.1	20.0	24.8	22.79	0.1	4	$60,702,099	$181,201,036	1.1%	-	-
2011	4.0	3.4	(1.4)	(2.39)	0.1	4	$55,186,800	$152,976,943	0.9%	18.2	23.1
2012	22.0	20.6	18.5	19.10	0.1	4	$58,463,905	$214,936,666	1.0%	14.6	17.0
2013	35.5	34.2	33.6	34.25	0.1	8.	$80,358,264	$507,569,897	1.0%	13.1	13.9
2014	9.8	9.1	14.7	12.04	0.1	13	$130,238,086	$1,071,186,382	0.7%	10.7	9.9
2015	3.0	2.3	(4.8)	(6.66)	0.1	17	$145,638,450	$913,545,839	0.6%	11.2	10.9
2016	21.9	21.1	20.0	26.5	0.1	17	$416,346,621	$1,466,221,847	0.0%	11.5	11.5
2017	16.2	15.4	13.3	12.3	0.0	23	$586,931,538	$1,784,338,191	0.0%	10.5	10.5
YTD 2018 (9/30/2018)	2.2	1.6	3.1	6.0	N/A	26	$140,233,124	$2,010,328,476	0.2%	9.7	9.8

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 Performace 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 Fund. 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 Mid Cap Value Composite (the "Composite") is a composite of actual accounts invested in the Nuance Mid Cap Value investment strategy. The inception date for the Composite is 11/03/2008. 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 Midcap Value Index. The Russell Midcap Value Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values. The Secondary Benchmarks for the Composite are the S&P MidCap 400 Value Index and the S&P 500 Index TR. The S&P MidCap 400 Value Index measures value in separate dimensions across six risk factors. The value factors include book value to price ratio, sales to price ratio, and dividend yield. 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 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 a mid market capitalization value investment style. The Morningstar Mid-Cap Value Peer Group and the Lipper Mid-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 9/30/2018. 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 the 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.

EBITDAR (Earnings Before Interest, Taxes, Depreciation, Amortization, and Rent Costs) is an expansion of EBITDA, the measure allows for comparing firms with different asset structures. Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) is a metric used in assessing the operating earnings of a company.

Portfolio holdings and sector allocations are subjected to change and are not a recommendation to buy or sell any security. Holdings identified do not represent all of the securities purchased, sold or recommended by the adviser. As of 9/30/2018 portfolio weights of names discussed are as follows: Dentsply Sirona Inc. (XRAY) 5.84%, Unum Group (UNM) 3.80%, Reinsurance Group of America, Inc. (RGA) 3.54%, Metlife Inc. (MET) 1.53%, Metlife Inc. (MET Float Perp Pfd) 1.00%, BOK Financial Corp. (BOKF) 0.00%, Commerce Bancshares Inc. (CBSH) 0.00% and Patterson Companies Inc. (PDCO) 0.00%.

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.