# Nuance Concentrated Value Perspectives Discussion

June 30, 2012

from Montage Investments

## Commentary with President and Chief Investment Officer Scott A. Moore, CFA

The Nuance Concentrated Value Composite is a classic value investment product investing primarily in the equity or equity-linked securities of United States based companies. The product will typically maintain 15-35 positions in the securities of companies that, in the opinion of the Nuance Investments Team, have leading and sustainable market share positions, above average financial strength, and are trading at prices materially below our internally derived view of intrinsic value. The product's primary benchmark is the Russell 3000 Value Index. Clients may also compare the product to the S&P 500 Index.

## Performance Update

Since its inception on November 13, 2008, the Nuance Concentrated Value Composite (through June 30, 2012) is up 20.74 percent (annualized and net of fees) versus the Russell 3000 Value Index up 12.20 percent and the S&P 500 Index up 14.21 percent.

For the first half of 2012 (ending June 30, 2012), the Nuance Concentrated Value Composite was up 6.58 percent (net of fees) versus the Russell 3000 Value Index up 8.66 percent and the S&P 500 Index up 9.49 percent.

Comparing our product to peers also displays excellent results since our inception. On a total return basis, we now rank 12th of 1,199 members (1st percentile) in the Morningstar Large Value Peer Group. Versus the Lipper Multi-Cap Value Funds Peer Group we ranked 19th out of 249 members (8th percentile).

Comparing ourselves to these same peer groups on a risk-adjusted return basis (as measured by Sharpe Ratio), the Nuance Concentrated Value Composite also faired quite well. The product ranked 1st out of 1,199 members (1st percentile) in the Morningstar Large Value Peer Group. Versus the Lipper Multi-Cap Value Funds Peer Group we ranked 2nd out of 249 members (1st percentile). The Sharpe Ratio is calculated by subtracting the return of the risk-free index (Citigroup 3-month Treasury Bill) from the Composite return divided by the Standard Deviation of the Composite to get the risk-adjusted return.

## Separate Account Morningstar® Rating

★★★★★

Morningstar Rating Overall: 5 Stars
Category: Large Value
Number Rated: 445*

*The top 10% of separate accounts in a category earn 5 stars.

## Scott A. Moore, CFA

**President and Chief Investment Officer**

- 21+ years of investment analyst experience
- 19+ years of classic value investment experience
- 13+ years of portfolio management experience using a classic value approach
- Co-owner and founder of Nuance Investments, LLC
- Lead Portfolio manager of the Morningstar 5-Star rated Nuance Concentrated Value Separate Account product
- Lead Portfolio manager of the Morningstar 4-Star rated Nuance Mid Cap Value Separate Account product
- Former Sr. Portfolio Manager at American Century Investments managing over $10 billion

| 11/13/2008 - 06/30/2012 | YTD 2012 | 1 Year | 3 Years APR | Since Inception APR | Since Inception Return | Since Inception Standard Deviation (A) | Since Inception Sharpe Ratio (A) |
|---|---|---|---|---|---|---|---|
| Nuance Concentrated Value Composite (Gross) | 6.84 | 4.36 | 19.66 | 21.29 | 101.46 | 15.49 | 1.35 |
| Nuance Concentrated Value Composite (Net) | 6.58 | 3.89 | 19.08 | 20.74 | 98.13 | 15.45 | 1.32 |
| Russell 3000 Value Index | 8.66 | 2.69 | 15.97 | 12.20 | 51.80 | 19.90 | 0.60 |
| S&P 500 Index | 9.49 | 5.45 | 16.40 | 14.21 | 61.93 | 17.86 | 0.78 |

| | 11/13/08 - 12/31/08 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| Nuance Concentrated Value Composite (Gross) | 4.47 | 42.21 | 18.79 | 6.85 |
| Nuance Concentrated Value Composite (Net) | 4.47 | 41.72 | 18.13 | 6.29 |
| Russell 3000 Value Index | 0.38 | 19.78 | 16.26 | (0.06) |
| S&P 500 Index | (0.47) | 26.47 | 15.06 | 2.11 |

## Peer Group Analysis 11/30/2008 - 06/30/2012

| | Since Inception APR | Standard Deviation (A) | Sharpe Ratio (A) |
|---|---|---|---|
| Nuance Concentrated Value Composite (Gross) | 20.35 | 15.63 | 1.29 |
| Nuance Concentrated Value Composite (Net) | 19.77 | 15.59 | 1.26 |
| Morningstar Large Value Peer Group (median) | 12.64 | 19.07 | 0.65 |
| Peer Group Percentile | 1st | 9th | 1st |
| **Peer Group Ranking** | **12 of 1,199** | **105 of 1,199** | **1 of 1,199** |
| Lipper Multi-Cap Value Funds Peer Group (median) | 14.42 | 20.11 | 0.67 |
| Peer Group Percentile | 8th | 1st | 1st |
| **Peer Group Ranking** | **19 of 249** | **3 of 249** | **2 of 249** |

## Portfolio Attribution and Investment Strategy Review:

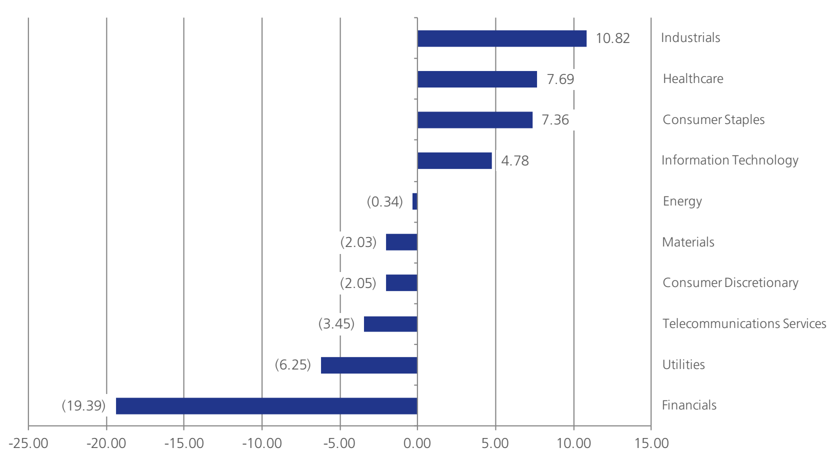
The bright spots in your portfolio for the first six months of 2012 centered on the Energy and Utility sectors. In the Energy sector, an underweight stance in an underperforming group coupled with good stock selection from Southwestern Energy Corp. added to performance. Within the Utility sector, our continued bet against these stocks due to their very high valuations versus history helped us. Further, our lone holding in the space - Great Plains Energy Inc. performed well.

The biggest detractor of performance was our holdings in the Consumer Staples sector and they were the clear reason for our underperformance versus our benchmark. Procter & Gamble Co. and Kellogg Co. both reported disappointing earnings due to Europe's economic issues as well as company specific issues. In both cases, we think their leading business franchises are undervalued and we continue to hold both.

Going forward, we are finding opportunities in the Industrial, Information Technology, and Healthcare sectors. We have also added significantly to our weight in the Energy sector. We continue to be underweight in the Utility sector and the Real Estate Investment Trust Industry. Those industries continue to appear overvalued due to the market's current appetite for companies with a historically high dividend payout ratios and their subsequently high absolute dividend yield. We believe that while yield is a very important part of the total return equation, simply looking for high yielding stocks does not lead to outperformance.

### Nuance Concentrated Value Composite vs Russell 3000 Value Index

Sector Diversification as of 06/30/2012




## Stocks added to your portfolio (during June 2012):

**Xylem Inc. (XYL):** XYL is a leading water and wastewater equipment and service firm. The water infrastructure space is well positioned to grow at an above average rate over the long term due to the aging water infrastructure in developed countries like the United States, as well as the need to enhance water infrastructure in developing countries. Due to broader debt related issues in Europe and in the United States, there are concerns that spending levels on water infrastructure will be deferred for some years. That concern has cause XYL to significantly underperform the market and we believe that underperformance is providing an excellent opportunity to begin purchasing the stock.

**Air Products and Chemical Inc. (APD):** APD is a leading provider of industrial atmospheric and special gases as well as performance materials and equipment. Continuing concerns about Europe (30% of their business) led to the lowering of long term earnings and margin targets and has caused the stock to underperform. At today's prices, we think a large part of those concerns is already discounted and we find the risk versus reward profile compelling. While we wait on these concerns to subside, the over 3% dividend yield should provide some support for the stock as well as a nice return for our clients. We think the upside potential for APD is substantial from today's price levels.

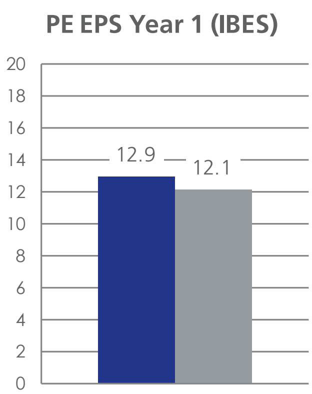
**ITT Corp. (ITT):** ITT is a leading business franchise across diverse industrial business lines. With exposure to a leading market share positioned pump and valve business (40% of business) and a leading motion technology business (30% of the business), ITT is well positioned over the long term in our view. The new ITT was created in late 2011 as the old ITT restructured and spun into three different businesses - ITT, XYL (discussed above), and Exelis (a defense company). Your team has followed ITT and its pump and valve division since the late 1990's when ITT bought a company named Gould Pumps. Recent concerns over Europe's slowdown as well as lower oil and gas prices, which hurts their pump and valve business, has caused the stock to underperform. At approximately 10x our view of normal earnings, and with the potential to materially raise its dividend over time, we think the valuation of the new ITT is very attractive for our clients.

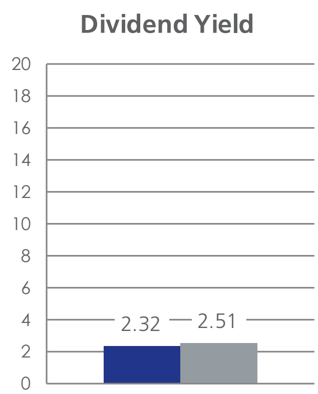
## Composition of the Portfolio

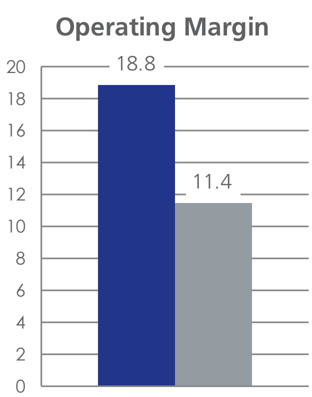
We continue to be pleased with the overall composition of the portfolio. Remember that we are seeking to find investment opportunities in leading business franchises with better than average valuation support. Using the table below, you can see that the portfolio has a Price to Earnings ratio of 12.2x versus the Russell 3000 Value Index of 12.5x. We are achieving this ratio with a portfolio of companies that have returns on equity of 16.9 percent versus the Russell 3000 Value Index of 11.3 percent. This dichotomy of above average companies selling at below average multiples is a recipe for outperformance over the long term in our opinion.

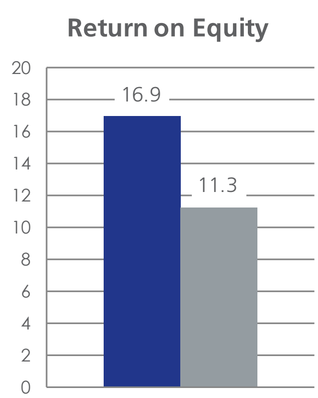
| Characteristics as of 06/30/2012 | Nuance Concentrated Value Composite | Russell 3000 Value Index |
|---|---|---|
| Weighted Average Market Cap | 29.2b | 81.2b |
| Median Market Cap | 9.8b | 0.8b |
| PE Trailing 12 Months | 12.2x | 12.5x |
| PE EPS Year 1 (IBES) | 12.9x | 12.1x |
| Dividend Yield | 2.32% | 2.51% |
| Operating Margin | 18.8% | 11.4% |
| Return on Equity | 16.9% | 11.3% |
| Number of Securities | 30 | 2,106 |

Composite & Index statistics provided by Bloomberg using holdings at market close on the date stated, including cash and cash equivalents.




Concentrated Value Composite
Russell 3000 Value Index

## Stocks added to your portfolio cont:

**Rockwell Collins Inc. (COL):** COL is a leading provider of electronic communications, avionics, and in-flight entertainment systems to the commercial, military, and government spaces. About half of the business is commercial aerospace and half defense related. With a very strong balance sheet and above-average returns on capital over time, COL is an excellent business with good long-term business prospects. Recent concerns over defense related spending as well as continued slowing in the business jet market has resulted in lower guidance and stock price underperformance. This underperformance has led to an interesting entry point.

## Stocks sold from your portfolio:

**Chubb Corp. (CB):** CB is a classic example of our team's process. We began purchasing this leading business franchise in the property and casualty insurance industry in 2008 and 2009 while it was trading at approximately 1.0x Price to Tangible Book value based on our own internal valuation study. Over the last three years, we have watched CB's tangible book value grow consistently from the high $30's in late 2008 towards the mid $50 per share today. Along the way the valuation improved from approximately 1.0 Price to Tangible Book towards today's 1.3-1.4x Price to Tangible Book. While there is still some upside to the valuation in our view, the risk versus reward versus other opportunities in the market has led us to sell the stock. By the way, we first started purchasing this stock in the high $30's and finally sold it in the low $70's.

**Lowes Cos Inc. (LOW):** After owning LOW since the inception of our firm, we finally sold the stock after nice gains. Continued internal improvements relative to Home Depot coupled with aggressive capital deployment through share buyback initiatives propelled the stock. We continue to like the firm's business prospects, but are finding better opportunities in other stocks.

**Illinois Tool Works Inc. (ITW):** ITW outperformed the market and Industrial sector significantly since our purchases and achieved valuation levels that were approaching our internal view of fair value. We will look to future opportunities to purchase this stock at better price points.

## Semi-Annual Review and Outlook

We are asked often about our view of the continuing economic issues around the world. Specifically, we get asked about 1) the U.S. budget issues, 2) the on-going debt issues in Europe and the future of the euro, and 3) the prospects for continued growth in China and other developing countries. We think investors presume that we have a crystal ball that might shed some light on short-term economic direction and government decision-making. Put quite simply, we don't. However, we do have something that we believe is even more powerful. We have list of leading business franchises around the world and year after year of studies on their fair values and potential trough values. Armed with this data, we are able to gauge how much uncertainty is priced into our stocks. This information is what brings total return potential to our clients in our opinion. The point here is to remind our clients that predicting short-term market movements and short-term economic direction is virtually impossible to do in a consistent manner. But understanding valuations and risk versus rewards is quite possible in our view and that is what we spend our time focusing on.

So what does all of this mean for our clients? First, we would like to remind you that we believe uncertainty breeds opportunity. The aforementioned economic and debt issues are providing us with the ability to purchase excellent companies at inexpensive valuations. Second, we would simply suggest that the "end of the world as we know it" rarely happens. In fact, investors often get caught up in concerns with big picture economic concerns at exactly the wrong time. Our view is that during these economically uncertain periods that many investors forget the rather simple things. One simple truth is that population growth results in overall corporate earnings growth over time. And overall corporate earnings growth results in positive total returns over time. As such, identifying leading business franchise with well financed top-tier assets will do well over time, particularly if you can buy them when they are inexpensive. We think that given today's uncertain economic environment that buying them inexpensive is exactly what we are doing.

As for the first six months of 2012 specifically, we were modestly disappointed with our underperformance. While being up over 6% was not bad, the market was up more and we frankly don't like underperforming. However, we continue to be gratified that we have delivered above-average results for our clients with below-average risk since our inception almost three and a half years ago. As we typically do, we want to remind our clients that we will not outperform our benchmark each and every year or certainly each and every quarter. That is simply not a realistic assumption over time and frankly watching indexes is not what we spend our time doing. Rather, we continue to search the world for leading business franchises selling at discounts to what they are worth. By diligently focusing on this task day in and day out, we believe that outperformance will accrue to our clients over the long term.

Please visit our website at www.nuanceinvestments.com for more information about our team, our process, and value investing. You can also get real-time access to the Nuance Investment website updates and information via traditional mail or e-mail. Simply contact us at client.services@nuanceinvestments.com or call 816-743-7080 to sign-up.

Thank you for your continued confidence and support.

Scott A. Moore, CFA

## GIPS Disclaimer

| | Gross of Fees Return | Net of Fees Return | Benchmark Return (RAV Index) | Benchmark Return (SPX Index) | Composite Dispersion (Full Period) | Number of Separate Accounts (End of Period) | Total Compos-ite 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) | 4.47 | 4.47 | 0.38 | (0.47) | N/A | 7 | $9,126,951 | $18,657,997 | 4.57% | - | - |
| 2009 | 42.21 | 41.72 | 19.78 | 26.47 | 1.34 | 79 | $87,342,803 | $137,943,058 | 0.60% | - | - |
| 2010 | 18.79 | 18.13 | 16.26 | 15.06 | 0.44 | 145 | $119,543,453 | $181,201,036 | 0.46% | - | - |
| 2011 | 6.85 | 6.29 | (0.06) | 2.11 | 0.59 | 181 | $96,831,359 | $152,976,943 | 0.85% | 16.09 | 21.31 |
| YTD 2012 (06/30/2012) | 4.64 | 4.62 | 4.96 | 4.12 | N/A | 229 | $130,675,596 | $191,393,985 | 0.83% | 14.19 | 17.12 |

## Important Disclaimer

Please note: Nuance Investments, LLC (the "Firm") is a Registered Investment Advisor. The Firm's Nuance Concentrated Value Composite (the "Composite") is a composite of actual accounts invested in the Nuance Concentrated Value investment strategy. The inception date for the Composite is 11/13/2008. The Composite includes all accounts that have invested in the strategy; including accounts no longer managed by the Firm and are presented in US Dollars. The Primary Benchmark for the Composite is the Russell 3000 Value Index. The Russell 3000 Value Index measures the performance of the broad value segment of the U.S. equity universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values. The Secondary Benchmark for the Composite is the S&P 500 Index. The S&P 500 Index is a market-value weighted index representing the performance of 500 widely held publicly traded large-capitalization stocks. Individuals cannot invest directly in any index. These indices are used for comparison purposes only and are not meant to be indicative of a portfolio's performance, asset composition, or volatility. The performance of the Composite may differ markedly from that of compared indices due to varying degrees of diversification and/or other facts. Return calculations for the Composite are provided by Advent Portfolio Exchange. Return calculations for all indices are provided by Bloomberg. Standard Deviation and Sharpe Ratio calculations for the Composite and indices provided by Zephyr Style Advisor. The Standard Deviation of a product measures the average deviations of a return series from its mean, and is often used as a measure of risk. A large standard deviation implies that there have been large swings in the return series of the manager. 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. 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.

The Composite's performance returns have been audited by Absolute Performance Verification through March 31, 2011. The verification report is available upon request by contacting Client Services at 816-743-7080 or client.services@nuanceinvestments.com. Verification assesses whether (1) The Firm has complied with all the composite requirements of the Global Investment Performance Standards (GIPS®) on a firm-wide basis and (2) The Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. Verification does not ensure the accuracy of any specific composite presentation.

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. 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 June 1, 2010 Nuance operated under the name Mariner Value Strategies, LLC.

The Morningstar® ratings (the "Rating(s)") provided are as of 3/31/2012. The Rating is a measure of a separate account's risk-adjusted return, relative to other separate accounts in the same Morningstar Category. Separate accounts are rated from 1 to 5 stars, with the best performers receiving 5 stars and the worst performers receiving 1 star. Separate accounts are rated for up to three periods (three, five, and 10 years), and ratings are recalculated each quarter. The Morningstar Rating for separate accounts uses an enhanced risk-adjusted return measure, which accounts for all variations in a separate account's monthly performance, with more emphasis on downward variation. Separate accounts are ranked against others in the same category and stars are assigned as follows: the top 10% of separate accounts in a category earn 5 stars, the next 22.5% 4 stars, the middle 35% 3 stars, the next 22.5% 2 stars, and the bottom 10% 1 star. The Morningstar Category identifies separate accounts based on their actual investment styles as measured by their underlying representative holdings (portfolio statistics and compositions). Ratings are not indicative of Nuance's future performance. For more information regarding the rating methodology, please contact client.services@nuanceinvestments.com.

American Century Mid Cap Value recieved recognition while Mr. Moore was the Lead Portfolio Manager from 4/1/2004 to 10/31/2008. American Century Equity Income received recognition while Mr. Moore was a Co-portfolio manager from 2/1/1999 to 10/31/2008. American Century Value received recognition while Mr. Moore was a Co-portfolio manager from 2/1/1999 to 10/31/2008.Mr. Moore was a consultant, rather than portfolio manager due to an employment agreement with American Century Investments.