

# Nuance Concentrated Value Perspectives Discussion



January 31, 2013

from Montage Investments

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

The most often asked question to our team within the last month or so centers on the issue of whether the market can continue to rise. Certainly a timely and quite fair question given the market was up strongly again this month and has been up significantly since our inception in 2008. After hearing the drum roll in the background, the answer is the same one I always give. I have no idea what the market as a whole will do. Our team simply does not think about "the market." Rather, we think about buying companies and buying them when the risk versus reward profile suggests significant upside potential and relatively modest downside risk versus other market opportunities. As of today we continue to find those opportunities. To emphasize where we are finding opportunities we are going to repeat ourselves from last month and the prior month. Stocks with high dividend payout ratios and thus high absolute dividend yields are overvalued in our opinion. The market's appetite for higher yielding stocks appears to be coming at the peril of earnings and cash flow valuations and is leading to a wonderful investing opportunity in our view. While our team history suggests that we would have a large bias towards dividend paying stocks with healthy yields, in today's marketplace, those stocks appear seriously overvalued to us. The real value in the market appears to be in companies that can raise their dividend payout ratios over time and thus are more dividend growers rather than simple high dividend yielding stocks.

## Performance Update 11/13/2008 - 01/31/2013

We continue to be pleased with our overall performance. Since its inception on November 13, 2008, the Nuance Concentrated Value Composite (through January 31, 2013) is up 22.39 percent (annualized and net of fees) versus the Russell 3000 Value Index, up 14.17 percent, and the S&P 500 Index, up 15.02 percent.

Year-to-date through January 31, 2013, the Nuance Concentrated Value Composite is up 7.04 percent (net of fees) versus the Russell 3000 Value Index, up 6.46 percent, and the S&P 500 Index, up 5.18 percent.

	YTD 2013	1 Year	3 Years APR	Since Inception APR	Since Inception Return	Since Inception Standard Deviation (A)	Since Inception Sharpe Ratio (A)
Concentrated Value Composite (Gross)	7.25	21.00	18.25	23.02	139.48	14.68	1.55
Concentrated Value Composite (Net)	7.04	20.25	17.60	22.39	134.39	14.63	1.51
Russell 3000 Value Index	6.46	20.39	14.38	14.17	74.92	18.70	0.74
S&P 500 Index	5.18	16.78	14.13	15.02	80.44	16.77	0.88

Please visit our website at [www.nuanceinvestments.com](http://www.nuanceinvestments.com) for more information about our team, our process, and value investing. You can also get real-time access to the Nuance Investments website updates and information via traditional mail, e-mail, or on Facebook.

Thank you for your continued confidence and support.

Scott A. Moore, CFA

## Separate Account Morningstar® Rating



Morningstar Rating Overall: 5 Stars  
Category: Large Value  
Number Rated: 451\*

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

## Stocks we recently added to your portfolio:

**Great Plains Energy Inc (GXP):** GXP is an electric utility company providing electricity in the midwestern portion of the United States. We are re-entering GXP after having exited the stock in the middle of 2012 as the stock has significantly underperformed. GXP is the lone electric utility we own as we are not finding value in this industry these days. However, GXP appears undervalued in our view. Due to an aggressive capital spending plan over the last several years, the company's returns on capital and thus their earnings power are below their true potential. We think over the next few years, this potential can be realized and the market will reward the higher level of earnings with a higher valuation multiple.

**National Fuel Gas Co NJ (NFG):** NFG is an integrated natural gas company with operations in the exploration and production of natural gas, the natural gas pipeline and storage business, as well as a relatively small natural gas utility. As many have read here before, we are finding some interesting opportunities in the natural gas industry and NFG fits that mold. Multiple catalysts exist to improve the company's earnings power as well as the valuation multiple applied to those earnings. Increasing natural gas prices and the potential to spin off the pipeline business are examples.

## Stocks we recently sold from your portfolio:

**Republic Services Inc (RSG):** We sold our position in RSG as the company reached our internal view of fair value. While we still like the company over the long term, the current valuation levels appear full.

**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 Composite Assets (End of Period)	Total Firm Assets (End of Period)	% of Non-Fee Paying Accounts	3 Year Annualized Standard Deviation (Composite Net)	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	1.17	79	\$87,342,803	\$137,943,058	0.60%	-	-
2010	18.79	18.13	16.26	15.06	0.25	145	\$119,543,453	\$181,201,036	0.46%	-	-
2011	6.85	6.29	(0.06)	2.11	0.48	181	\$96,831,359	\$152,976,943	0.85%	16.13	21.31
2012	18.41	17.79	17.62	16.00	0.19	259	\$154,693,966	\$214,936,666	0.77%	13.05	16.02
YTD 2013 (01/31/2013)	7.25	7.04	6.46	5.18	N/A	264	\$171,482,227	\$236,740,108	0.19%	13.31	16.17

**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, 2012. The verification report is available upon request by contacting Client Services at 816-743-7080 or [client.services@nuanceinvestments.com](mailto: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.

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