Nuance Concentrated Value Perspectives Discussion

nuance INVESTMENTS

from Montage Investments

April 30, 2013

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

A powerful year continues as the first quarter earnings season subsides and yet another quarter of reasonable growth is behind us. But underneath the green tape lies some very interesting opportunities and risks in our team's opinion. First, as we have been suggesting for quite awhile now, the markets appetite for all things yield is creating very interesting valuations for all companies. Cash flow and earnings valuations are not being given their due in this market as the focus is dividend yield. That is a dangerous way for investors to focus their attention as dividend yield has not been a reliable indicator of the value of a business on its own. A one dimensional look at dividend yield naively focuses investor attention on a number that can easily be manipulated by a management team. A simple raise of a dividend payout ratio can cause outsized changes to price to earnings and cash flow valuation multiples. Our opinion is consistent with how we have valued companies since the inception of Nuance. First, normalized earnings and cash flows are the best fundamental factors to focus on when determining the worth of a business. With those data items at your disposal, applying a proper multiple is the next step with company specific history, comparable company analyses, private and strategic takeover multiples, and other valuations metrics being used as a group. In today's market, earnings and cash flow valuations do not appear to be the focus of attention and as such companies with high dividend payout ratios are seeing outsized valuation multiples relative to the quality of the business and their growth prospects. We are finding little value in the Utility sector, the REIT industry, and now the Consumer Staples sector – the most recent group to succumb to the chase for yield. The commonality of these groups is simple. These are the three spaces where the dividend payout ratio is the highest across the broad economy. It comes as little surprise to us that these valuations are stretched in general and that the risks certainly outweigh the potential rewards. To the contrary, we continue to find excellent opportunities in leading business franchises that we believe will be growing their dividends faster than the market over time. As such, these leading business franchises have low dividend payout ratios. These companies appear to be the sweet spot in the market today and we are excited about your portfolio as a result. As we consistently write, our focus and attention each and every day is on finding you leading business franchises trading at a discount to our internal view of fair value.

Separate Account Morningstar® Rating

★★★★★

Morningstar Rating Overall: 5 Stars
Category: Large Value
Number Rated: 407*

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

Performance Update 11/13/2008 - 04/30/2013

We continue to be pleased with our overall performance. Since its inception on November 13, 2008, the Nuance Concentrated Value Composite (through April 30, 2013) is up 22.68 percent (annualized and net of fees) versus the Russell 3000 Value Index, up 15.06 percent, and the S&P 500 Index, up 15.93 percent.

Year-to-date through April 30, 2013, the Nuance Concentrated Value Composite is up 13.64 percent (net of fees) versus the Russell 3000 Value Index, up 13.81 percent, and the S&P 500 Index, up 12.74 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)	14.15	24.40	16.66	23.34	154.87	14.32	1.61
Concentrated Value Composite (Net)	13.64	23.46	15.96	22.68	148.84	14.28	1.56
Russell 3000 Value Index	13.81	21.69	12.16	15.06	87.01	18.21	0.81
S&P 500 Index	12.74	16.89	12.79	15.93	93.41	16.33	0.96

Stocks we recently added to your portfolio:

Capitol Federal Financial Inc (CFFN): CFFN is a bank holding company with operations in the states of Missouri and Kansas. CFFN is a leading provider of mortgage products as well as traditional banking services and has one of the strongest capital positions and lowest loan loss rates in the industry. Over the next several years we believe the company will return abnormally high amounts of capital to shareholders in the form of dividends and share buybacks and that this capital allocation policy will lead to expanding returns on equity as well as a healthy dividend yield to its shareholders.

Goldcorp Inc (GG): GG explores, develops, and operates various mining operations in the pursuit of precious metals. GG is particularly focused on gold and is one of the lowest cost gold miners in the world. Further, GG has a debt free balance sheet and is now trading at approximately tangible book value. The stock has come under intense pressure the last several years as the price of gold has declined significantly. At today's prices, we think a great deal of gold related negativity is priced into the stock and we believe there is significant upside potential in the stock over the long term.

Schlumberger Ltd (SLB): SLB is the leading energy services provider in the world with leading market share positions that have been sustained and grown over decades. Further, SLB has consistently above average returns on capital versus its peers and excellent balance sheet strength. As fears of global economic slowing grew ahead of first quarter earnings and oil prices abated to a degree, SLB's stock continued what has been a multi-year period of underperformance versus the market. At today's price we are excited about the risk versus reward potential for our clients.

Stocks we recently sold from your portfolio:

Great Plains Energy Inc (GXP): We exited our position in GXP on valuation merits as the market's continued chase for yield has resulted in an excellent performing stock with a very full valuation profile.

Hillshire Brands Co (HSH): HSH has now surpassed our internal view of fair value and we are finding better opportunities elsewhere.

Johnson & Johnson (JNJ): After holding JNJ for nearly five years, we completely exited our position as the stock has had excellent performance and its valuation now reflects or surpasses our internal view of fair value.

Kellogg Co (K): The poster child for the chase for yield in the last twelve months for our portfolio as we were aggressively purchasing the stock in the high $40's less than a year ago and are now selling this low risk and relatively slow growing company well into the $60's. While we continue to like the K story over the long term, the near term is not as attractive to us as the valuation multiples are pricing in near perfect execution.

Ultra Petroleum Corp: We sold the last of our position in UPL this month as we saw opportunities to upgrade the quality of the assets we own in the energy sector without giving up the risk reward potential we see in the space. SLB – noted above as a buy this month – is one example of a name we swapped into for UPL.

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 Investments website updates and information via traditional mail, e-mail, or on Facebook.

Thank you for your continued confidence and support.

Scott A. Moore

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 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 (04/30/2013)	14.15	13.64	13.81	12.74	N/A	308	$209,044,295	$277,057,784	0.00%	13.22	15.84

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. 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 03/31/2013. 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.