Nuance Concentrated Value Perspectives Discussion

from Montage Investments

July 31, 2013

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.

Risk-Adjusted Returns Rankings[1]

1st PERCENTILE

Morningstar
Category: Large Value
Ranking vs. Peers: 1st of 1,128

Lipper
Category: Multi-Cap Value
Ranking vs. Peers: 1st of 233

Performance Update

We continue to be pleased with our overall performance. Since its inception on November 13, 2008, the Nuance Concentrated Value Composite (through July 31, 2013) is up 22.82 percent (annualized and net of fees) versus the Russell 3000 Value Index, up 15.87 percent, and the S&P 500 Index, up 16.46 percent.

Year-to-date through July 31, 2013, the Nuance Concentrated Value Composite is up 20.30 percent (net of fees) versus the Russell 3000 Value Index, up 22.16 percent, and the S&P 500 Index, up 19.61 percent.

Stocks we recently added to your portfolio:

None.

Stocks we recently sold from your portfolio:

None

	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)	21.10	33.12	21.65	23.50	170.39	14.28	1.62
Concentrated Value Composite (Net)	20.30	32.00	20.88	22.82	163.42	14.23	1.58
Russell 3000 Value Index	22.16	31.02	17.92	15.87	100.29	17.86	0.88
S&P 500 Index	19.61	24.99	17.72	16.46	105.14	16.04	1.01

Monthly Review and Outlook

For this month, I thought we might dive into a specific name to illustrate our process and how we buy and sell stocks for our clients. Xylem Corporation (XYL) is our largest holding as I write this monthly report. A leading designer and manufacturer of equipment and a provider of services for the water and wastewater industry, XYL has been purchased by our team over the last year at an average cost of between $25-26 for our clients that have been with us during the entire period. Today the stock is selling for about $25 after falling from the upper $20's after a disappointing quarterly earnings report. This difficult report and its impact on our decision-making is what I would like to describe to our clients. XYL has been going through a difficult period over the last couple of years as some of their largest customers are United States and Europe based municipalities and governments. As these groups are facing budget deficits and debt issues, they have chosen to defer spending on basic needs like water infrastructure. Those deferrals have led XYL to disappoint the market on earnings and growth of earnings over the last few years. During this time, the question we get from our client is "if they are disappointing the market so much why own the stock?" The reason is relatively simple to the Nuance team. We are always in search of leading business franchises across all industries whose long term earnings potential is higher than today's earnings due to transitory reasons. In XYL's situation, the fact that the company's customers are deferring today's purchases due to budget issues, combined with our research which suggests that the United State and Europe have woefully old and outdated water infrastructure, leads us to believe that deferrals can only last so long. As such, these deferrals are simply adding to the potential future demand and growth potential of the company. These transitory problems create negativity in the market and inexpensive prices for the stocks we buy our clients. XYL is a classic case. Our longer view of XYL is that normal earnings can be higher than $2.00 per share versus today's guidance of closer to $1.50. With an excellent balance sheet and solid longer term growth prospects, buying a company at approximately twelve times our internal view of normal earnings suggests to us relatively limited downside risk and excellent upside potential. This is the exact recipe for outperformance with minimal risk that your team is in search of, one stock at a time. The bottom line is that we want to remind you that sometimes patience is necessary to achieve above-average risk-adjusted returns.

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@nuanceinvestmentscom 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 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 (07/31/2013)	21.10	20.30	22.16	19.61	N/A	350	$298,125,024	$372,549,109	1.00%	12.83	14.16

Important Disclaimer

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. The Price-Earnings Ratio (P/E Ratio) is a valuation ratio of a company's current share price compared to its per-share earnings as calculated by the market value per share divided by earnings per share. The Dividend Yield is calculated based on how much an investment pays in dividends each year relative to its share price. The Operating Margin is calculated by dividing operating income by net sales. The Return on Equity is calculated by dividing net income by shareholder equity. A Cash Flow is a revenue or expense stream that changes an account over a given period. The Growth of $100 chart is calculated by Zephyr Style Advisor assuming the same cash value at inception and the variance of the investment using monthly return data for each strategy. 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.

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

(1) Standard Deviation and Sharpe Ratio 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 (as selected by Morningstar) 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 present. Zephyr reports on month end returns only. For the purposes of peer group comparisons Since Inception returns are shown beginning 11/30/2008. 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.