

# Nuance Concentrated Value Perspectives Discussion



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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.

### Risk-Adjusted Returns Rankings<sup>1</sup>

**1<sup>st</sup> PERCENTILE**

**Morningstar**

**Lipper**

Category: Large Value

Category: Multi-Cap Value

Ranking vs. Peers: 1<sup>st</sup> of 1,103 Ranking vs. Peers: 1<sup>st</sup> of 234

## Performance Update

We continue to be pleased with our overall performance. Since its inception on November 13, 2008, the Nuance Concentrated Value Composite (through October 31, 2013) is up 23.27 percent (annualized and net of fees) versus the Russell 3000 Value Index, up 15.71 percent, and the S&P 500 Index, up 16.65 percent.

Year-to-date through October 31, 2013, the Nuance Concentrated Value Composite is up 29.01 percent (net of fees) versus the Russell 3000 Value Index, up 25.88 percent, and the S&P 500 Index, up 25.30 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)	30.17	37.37	21.61	23.98	190.64	14.20	1.67
Concentrated Value Composite (Net)	29.01	36.09	20.83	23.27	182.49	14.15	1.62
Russell 3000 Value Index	25.88	28.67	16.72	15.71	106.40	17.62	0.88
S&P 500 Index	25.30	27.17	16.54	16.65	114.89	15.83	1.04

## Monthly Review and Outlook

What a busy month. As the market continues to march upward, the risk reward profile of the stocks in your portfolio are clearly changing. As such we made some significant changes this month. As you can see in the table above, your portfolio was up 36.09 percent (net of fees) over the last year versus the Russell 3000 Value Index up 28.67 percent and the S&P 500 Index up 27.17 percent. Some might ask, "how does a portfolio with lower than average risk characteristics (typically) achieve outsized returns in the middle of a significantly up market?" We would answer by emphasizing that we continue to do what we always do: study one company at a time and ensure there are minimal competitive related risks, understand the normal earnings power of the company, and buy companies when there is significant valuation support. More specifically, over the last eighteen months or so, we have warned our clients that high dividend yielding stocks were overvalued and that lower dividend yielding stocks with excellent dividend growth prospects appeared significantly undervalued and were providing opportunity. Clearly, the market finally agreed with us. Companies like TE Connectivity Ltd., ITT Corporation, Texas Instruments Inc., and others have all outperformed the market significantly over the last twelve to eighteen months as investors realized just how inexpensive these high quality companies were. Importantly, your team is always looking forward to the next opportunity. To allow for new opportunities we have raised cash to approximately ten percent of your portfolio. New names in the last couple of months have focused on the Basic Materials, Energy, and the Utility space as these are areas of the market that have underperformed the last couple of years and we believe they are starting to provide fresh new opportunities. That is the key point of our discussion this month. Outperformance is not a given nor perpetual in the companies we invest for you. Attractive valuations of attractive companies result in opportunities and therefore results in outperformance down the line. But once that outperformance has accrued to you – our clients – we must find new opportunities each and every day. That is what this month is all about and that is what is happening with your portfolio – one stock at a time. Thank you for your continued interest and support.

**Stocks we recently added to your portfolio:**

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**Cameron International Group (CAM):** We have recently purchased CAM – a leading supplier of oil and gas equipment and services including valves, wellheads, chokes, and assembled systems. CAM recently guided down Wall Street expectations for the third consecutive quarter and that has caused the stock to finally get to levels that we think are attractive from a risk reward perspective. We not only think the earnings power is transitorily under-earning, but we think the valuation on those under-earnings is attractive as well.

**Exelon Corp (EXC):** EXC is a vertically integrated electric utility with transmission and distribution assets in Illinois and Pennsylvania. The company also operates a fleet of natural gas fired and nuclear power plants in the upper Midwest. The continued pressure on natural gas prices has resulted in spot and forward electricity prices declining which is resulting in the unregulated power plant business struggling to achieve its normal earnings. At today's prices we think most of the downside risk is priced into the stock and the dividend and stable utility business provides downside protection for our clients.

**Stocks we recently sold from your portfolio:**

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**Air Prods & Chems Inc (APD):** We have eliminated this position as the stock is now discounting what we expect to be expanding earnings power as management restructures the business. If this restructuring results in disappointment along the way, we will certainly consider buying the stock back at better valuation levels.

**ITT Corp (ITT):** We captured significant outperformance in ITT since our first purchase and have now exited the position as we believe the company has surpassed its fair value.

**Rexnord Corp (RXN):** We purchased this stock just a few months ago as a large private equity owner liquidated part of its position in the company causing undue pressure on the stock and presenting a nice opportunity. At today's prices – and considering the company has significant debt leverage – we believe there are better risk rewards in other places.

**Te Connectivity Ltd Red (TEL):** This leading electronic component company has seen improved earnings throughout the year which resulted in the company surpassing our internal view of fair value. We will look for more attractive valuations to buy back the company in the future.

**Texas Instruments (TXN):** After raising their dividend significantly in the last year while also raising earnings the stock outperformed the market significantly and has led to a very full valuation.

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**

**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 (10/31/2013)	30.17	29.01	25.88	25.30	N/A	377	\$377,173,080	\$457,753,682	0.85%	12.66	13.62

**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. 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) Risk-Adjusted Return (Sharpe Ratio) calculations and Standard Deviation 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 mid 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 09/30/2013. 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.