

# Nuance Concentrated Value Perspectives Discussion



February 2014

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 1,110

Ranking vs. Peers: 1<sup>st</sup> of 235

## Performance Update

We continue to be pleased with our overall performance. Since its inception on November 13, 2008, the Nuance Concentrated Value Composite (through February 28, 2014) is up 23.68 percent (annualized and net of fees) versus the Russell 3000 Value Index, up 15.95 percent, and the S&P 500 Index, up 16.96 percent.

Year-to-date through February 28, 2014, the Nuance Concentrated Value Composite is up 4.63 percent (net of fees) versus the Russell 3000 Value Index, up 0.61 percent, and the S&P 500 Index, up 0.96 percent.

	YTD 2014	1 Year	3 Years APR	5 Years APR	Since Inception APR	Since Inception TR	Since Inception Standard Deviation (A)	Since Inception Sharpe Ratio (A)
Concentrated Value Composite (Gross)	4.77	30.90	19.25	27.91	24.32	216.58	13.89	1.73
Concentrated Value Composite (Net)	4.63	30.04	18.59	27.22	23.68	208.02	13.86	1.69
Russell 3000 Value Index	0.61	23.68	13.94	23.32	15.95	118.93	17.25	0.91
S&P 500 Index	0.96	25.36	14.33	22.98	16.96	129.20	15.55	1.07

## Monthly Review and Outlook

What a pleasant start to the new year for us here at Nuance. While we don't spend much time considering short term time horizons, we are always pleased to have a quick start to a new year. With our Nuance Concentrated Value product up 4.63 percent year to date (net of fees) versus the Russell 3000 Value Index up 0.61 percent, we have gotten a few questions regarding how we did it. As we answer we remind our clients that two months has never had nor will it ever have anything to do with our time-tested Nuance Investments process and that any period of outperformance is simply a reflection of the market figuring out what we already knew. And that is that our stocks are leading business franchises with solid upside potential and less downside risk than opportunities. For these first two months the market has located and rewarded holdings in Compass Minerals International (CMP), Goldcorp Inc. (GG), Mosaic Corporation (MOS), Southwestern Energy Co. (SWN) and others. Overall, we continue to like our portfolio of stocks versus other market alternatives. While we continue to believe the market as a whole is within range of fair value and as such is in a period of time that is more normal to us relative to economic cycles and valuation, the specific opportunities in one off stocks continues to be interesting and fruitful.

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

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**Clean Harbors, Inc. (CLH):** CLH provides a variety of environmental remediation and industrial waste management services to customers across North America. Those services include treatment and disposal of hazardous and non-hazardous waste, surface ground water remediation, recycling of used oil and by-products, as well as other analytical testing and consulting. CLH offers leading market share positions with sustainable asset positions across many hazardous waste areas including landfill and incineration services. The company has recently missed numbers primarily due to integration issues in a relatively recent acquisition as well as some cyclical over capacity in its energy recycling business. In both cases, we believe the longer term market share positions are sound, and balance sheet is reasonable, and the longer term earnings potential higher than today's levels that has been reduced multiple times. This business appears ripe for restructuring and a refocus of the management team on its core businesses. At today's prices, we think the negatives are nicely discounted and the risk reward attractive.

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**Target Corp. (TGT):** We have purchased TGT for your portfolios this month as this winter's credit card breach resulted in negative same stores sales growth, lowered earnings and cash flow guidance, and a sharp re-valuation of the business. TGT operates general merchandise discount stores across the United States and into Canada. TGT had solid and stable market share positions for many years before this winter's credit card breach. Our opinion is that at today's valuation's, the potential market share loss negatives are priced in and we are of the opinion that the share loss is likely transitory, thus creating a very interesting risk reward at today's prices.

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

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**Rockwell Collins, Inc. (COL):** After years of ownership and significant outperformance, we sold the last of our position in COL this past month as it surpassed our internal view of fair value. We continue to view this top quality designer and producer of electronic communications and avionics as a very high quality company and will look to future opportunities to purchase the stock when there is a better risk reward profile.

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**

**President and Chief Investment Officer**

**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
2013	35.33	34.45	32.72	32.38	0.66	411	\$418,085,862	\$507,569,897	0.79%	12.20	13.08
YTD 2014 (02/28/2014)	4.77	4.63	0.61	0.96	N/A	449	\$594,192,756	\$761,333,618	0.30%	12.41	13.41

**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 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 12/31/2013. 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.