

# Nuance Concentrated Value Perspectives Discussion



July 31, 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.

## 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, 2014) is up 22.46 percent (annualized and net of fees) versus the Russell 3000 Value Index, up 15.70 percent, and the S&P 500 Index, up 16.54 percent.

Year-to-date through July 31, 2014, the Nuance Concentrated Value Composite is up 8.04 percent (net of fees) versus the Russell 3000 Value Index, up 5.73 percent, and the S&P 500 Index, up 5.66 percent.

## 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 1,115 | Ranking vs. Peers: 1 <sup>st</sup> of 227 |

Scott A. Moore, CFA



President and Chief Investment Officer

- 22+ years of investment analyst experience
- 20+ years of classic value investment experience
- 14+ years of portfolio management experience using a classic value approach
- Lead Portfolio manager of the Morningstar 5-Star rated<sup>2</sup> Nuance Concentrated Value Separate Account product
- Lead Portfolio manager of the Morningstar 5-Star rated<sup>2</sup> Nuance Mid Cap Value Separate Account product
- Former Sr. Portfolio Manager at American Century Investments managing over \$10 billion

| 11/13/2008 - 07/31/2014                            | YTD         |              |              |              | Since Inception |               | Since Inception        |                                  |
|--|-------------|--------------|--------------|--------------|-----------------|---------------|------------------------|----------------------------------|
|  | 2014        | 1 Year       | 3 Years APR  | 5 Years APR  | APR             | TR            | Standard Deviation (A) | Since Inception Sharpe Ratio (A) |
| <b>Nuance Concentrated Value Composite (Gross)</b> | <b>8.54</b> | <b>21.30</b> | <b>20.45</b> | <b>20.55</b> | <b>23.12</b>    | <b>227.96</b> | <b>13.56%</b>          | <b>1.68</b>                      |
| <b>Nuance Concentrated Value Composite (Net)</b>   | <b>8.04</b> | <b>20.45</b> | <b>19.74</b> | <b>19.88</b> | <b>22.46</b>    | <b>218.07</b> | <b>13.53%</b>          | <b>1.64</b>                      |
| Russell 3000 Value Index                           | 5.73        | 14.87        | 17.23        | 16.86        | 15.70           | 130.07        | 16.68%                 | 0.93                             |
| S&P 500 Index                                      | 5.66        | 16.93        | 16.82        | 16.77        | 16.54           | 139.87        | 15.03%                 | 1.09                             |

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### Monthly Review and Outlook

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For the first time in quite a while the market took a small step backward this month. That step resulted in quite a few friends and clients asking me how my days were going at work. They were essentially suggesting that my days here at the office of Nuance, and whether I am having a good or bad day, somehow relates to the market being up or down for a day or a week or a month. After so many years of listening to my friends and clients, I thought maybe I should try and clarify. Day to day, week to week, month to month, or even quarter to quarter performance by the market indices and our products mean very little to me and to my team. Rather, here at Nuance, we stick to our process of finding leading business franchises, studying their competitive position to ensure they are sound and focusing our attention on what these businesses are worth. With that in mind, we then invest our client's money by buying stocks with the least amount of downside risk and the most amount of upside potential. Sometimes it might take a quarter or two for the investment to work out and sometimes it might take years. Either way, day to day market movements have very little to do with our product performance over time or my own day to day enjoyment of my lifelong career passion. Rather, our team enjoys the process and believes that our work will pay off for our clients over time. As of this writing, we continue to believe our portfolio is comprised of leading business franchises that are trading below our internal view of intrinsic value due to a specific transitory item.

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### Stocks we recently added to your portfolio (during July 2014):

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Cabot Microelectronics Corporation (CCMP): CCMP is a leading supplier of slurries used in chemical processes that polish integrated circuit devices. CCMP recently missed earnings expectations due to marginally weaker sales growth and higher than expected raw material costs.

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Southwestern Energy Corporation (SWN): We have added SWN back to our portfolio this month as concerns over natural gas prices (largely due to the very mild summer) have hurt the stock and provided us with yet another opportunity. SWN is a low cost provider of natural gas and has an enviable growth profile over the next five years relative to its peers. The company is clearly under earning its potential due our view that the commodity price in natural gas prices today is below normal. Further, we believe there are catalysts to restructure the company which could enhance the value of the business versus market expectations as well.

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### Stocks we recently sold from your portfolio (during July 2014):

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Cameron International Corporation (CAM): After period of sharp outperformance, CAM has achieved our internal view of fair value and our team made the decision to sell the stock and put that money into other ideas.

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 Investment website updates and information via traditional mail, e-mail or on Facebook. Simply contact us at 816-743-7080 or [client.services@nuanceinvestments.com](mailto:client.services@nuanceinvestments.com) to sign-up.

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 Gross) | 3 Year Annualized Standard Deviation (RAV Index) |
|-----------------------|----------------------|--------------------|------------------------------|------------------------------|------------------------------------|---|--|-----------------------------------|------------------------------|--|--|
| YTD 2008              | 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                        | N/A                                | 411   | \$418,085,862                          | \$507,569,897                     | 0.79%                        | 12.20  | 13.08  |
| YTD 2014 (07/31/2014) | 8.54                 | 8.04               | 5.73                         | 5.66                         | N/A                                | 538   | \$883,986,777                          | \$1,062,585,732                   | 0.37%                        | 12.10  | 13.07  |

The Composite's performance returns have been audited by Absolute Performance Verification through March 31, 2013. 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. **Nuance has three composites. The Nuance Mid Cap Value Composite, the Nuance Concentrated Value Composite and the Nuance Super Concentrated Value Composite.** More information regarding Composite descriptions and policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request by contacting [client.services@nuanceinvestments.com](mailto:client.services@nuanceinvestments.com) or 816-743-7080.

## 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.

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 Return on Equity is calculated by dividing net income by shareholder equity. The Return on Equity is calculated by taking the net income divided by shareholder equity. The Return on Assets is calculated based on net income divided by average total assets. 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.

(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 07/31/2014. 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.

(2) The Morningstar® ratings (the "Rating(s)") provided are as of 06/30/14. 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 or past ratings, please contact [client.services@nuanceinvestments.com](mailto:client.services@nuanceinvestments.com).