# Nuance Concentrated Value Composite Perspectives

November 30, 2015

from Montage Investments

## Description of the Product

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.

### Portfolio Managers

Scott Moore, CFA
President & CIO
23 Years of Experience

Chad Baumler, CFA
Vice President
8 Years of Experience

### Risk-Adjusted Returns Rankings[1]

**1ST PERCENTILE**

Lipper
Category: Multi-Cap Value
Ranking vs. Peers: 1 of 218

Morningstar
Category: Large Value
Ranking vs. Peers: 3 of 1,202

Morningstar
Category: Mid-Cap Value
Ranking vs. Peers: 1 of 408

## Longer Term Performance Update

Since Inception Return: The total return (since inception on 11/13/2008 through 11/30/2015) is 18.1 percent (annualized and net of fees) versus the Russell 3000 Value Index up 13.3 percent and the S&P 500 Index up 14.9 percent. We are pleased with this level of outperformance over time.

Risk-Adjusted Returns: Our Sharpe Ratio (since inception on 11/13/2008 through 11/30/2015) is 1.4 (net of fees) versus Russell 3000 Value Index at 0.8 and the S&P 500 Index at 1.0.

Peer Group Returns through 9/30/2015: Comparing our product to peers displays positive results over time. On a total return basis, since 11/30/08, we ranked 18 of 1,202 (2nd percentile) peer group members in the Morningstar Large Cap Value universe, 104 of 408 (26th perctile) in the Morningstar Mid-Cap Value universe and in the Lipper Multi-Cap Value universe we ranked 27 of 218 (13th percentile).

Peer Group Risk-Adjusted Return through 9/30/2015: On a risk-adjusted return basis, since 11/30/2008, (measured by the Sharpe Ratio) we ranked 3 of 1,202 (1st percentile) peer group members in the Morningstar Large Cap Vale universe, 1 of 408 (1st percentile) in the Morningstar Mid-Cap Value universe and in the Lipper Multi-Cap Value universe we ranked 1 of 218(1st percentile).

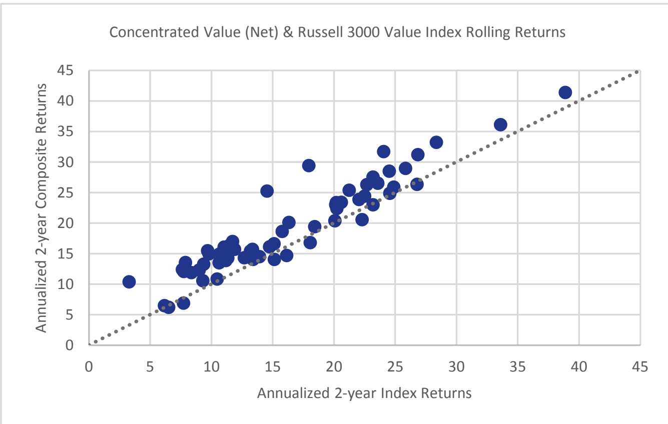
| Peer Group Analysis 11/30/2008 - 9/30/2015 | Since Inception APR[1] | Standard Deviation (A)[1] | Sharpe Ratio (A)[1] |
|---|---|---|---|
| Nuance Concentrated Value Composite (Gross) | 17.7 | 13.3 | 1.3 |
| Nuance Concentrated Value Composite (Net) | 17.0 | 13.3 | 1.3 |
| Lipper Multi-Cap Value Funds Peer Group (Median) | 13.2 | 16.0 | 0.8 |
| Peer Group Ranking | 27 of 218 (13th) | 12 of 218 (5th) | 1 of 218 (1st) |
| | | | |
| Morningstar Large Value Peer Group (Median) | 12.2 | 15.4 | 15.4 |
| Peer Group Ranking | 18 of 1,202 (2nd) | 167 of 1,202 (14th) | 3 of 1,202 (1st) |
| Morningstar Mid-Cap Value Peer Group (Median) | 15.7 | 16.8 | 0.9 |
| Peer Group Ranking | 104 of 408 (26th) | 3 of 408 (1st) | 1 of 408 (1st) |

| Performance 11/13/2008 - 11/30/2015 | APR* | TR* | Standard Deviation* | Sharpe Ratio* | 5 Years | 3 Years | 1 Year | 2015 YTD |
|---|---|---|---|---|---|---|---|---|
| Nuance Concentrated Value Composite (Gross) | 18.8 | 236.8 | 13.3 | 1.4 | 15.5 | 15.9 | 1.5 | 2.4 |
| Nuance Concentrated Value Composite (Net) | 18.1 | 223.4 | 13.2 | 1.4 | 14.7 | 15.1 | 0.7 | 1.6 |
| Russell 3000 Value Index | 13.3 | 140.9 | 15.9 | 0.8 | 13.2 | 14.5 | (1.0) | (1.8) |
| S&P 500 Index | 14.9 | 165.8 | 14.5 | 1.0 | 14.4 | 16.1 | 2.7 | 3.0 |

*Since Inception

## Shorter Term Performance Update (Two Year and Year-to-Date)

| Rolling 2-Year Periods | | | Current 2-Year Period as of 11/30/2015 | |
|---|---|---|---|---|
| 11/13/2008 - 11/30/2015 | Periods Beating the Index | | Composite Avg (%) Net of Fees[1] | Russell 3000 Value Index Avg (%) |
| Nuance Concentrated Value Composite | 53/61 | 86.9% | 6.2 | 6.5 |




Your team at Nuance cautions clients regarding the use of short-term performance as a tool to make investment decisions. That said, if a client wants to consider our short-term performance we recommend emphasizing two-year rolling periods since our inception. Our normal discussion of short-term performance will center on two-year performance, but we will also note calendar year to date results as is our tradition.

For the period ending November 30, 2015, the Nuance Concentrated Value Composite two year rolling return is up 6.2 percent (net of fees) versus the Russell 3000 Value Index up 6.5 percent and the S&P 500 Index up 9.6 percent. Overall, we have outperformed in 53 out of the available 61 two-year periods as shown in the chart labeled Rolling 2-Year Return Periods.

Year-to-date, the Nuance Concentrated Value Composite was up 1.6 percent (net of fees) versus the Russell 3000 Value Index down (1.8) percent and the S&P 500 Index up 3.0 percent.

[1]Average return shown is the average of all month end rolling two year periods.

| Calendar Year Performance as of 11/30/2015 | 11/13/08 - 12/31/08 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | YTD 2015 |
|---|---|---|---|---|---|---|---|---|
| Nuance Concentrated Value Composite (Gross) | 4.4 | 42.2 | 18.8 | 6.8 | 18.4 | 35.3 | 8.9 | 2.4 |
| Nuance Concentrated Value Composite (Net) | 4.4 | 41.7 | 18.1 | 6.2 | 17.7 | 34.4 | 8.0 | 1.6 |
| Russell 3000 Value Index | 0.3 | 19.7 | 16.2 | (0.0) | 17.6 | 32.7 | 12.6 | (1.8) |
| S&P 500 Index | (0.4) | 26.4 | 15.0 | 2.1 | 16.0 | 32.3 | 13.6 | 3.0 |

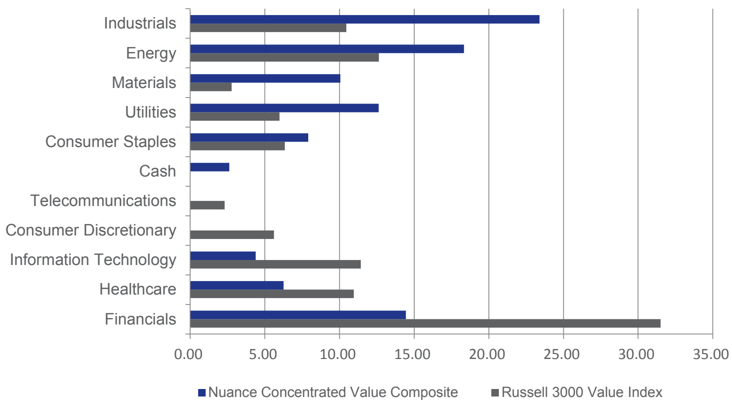
## Composition of the Portfolio as of 11/30/2015

| Portfolio Characteristics[2] | Nuance Concentrated Value Composite | Russell 3000 Value Index |
|---|---|---|
| Weighted Average Market Cap | 36.2b | 99.9b |
| Median Market Cap | 4.5b | 1.4b |
| Price to Earnings (internal and ttm)* | 12.7x | 17.5x |
| Forward Price to Earnings | 17.3x | 15.6x |
| Dividend Yield | 2.9% | 2.5% |
| Return on Equity | 24.8% | 13.1% |
| Return on Assets | 6.3% | 4.5% |
| Active Share vs Russell 3000 Value | 95.5% | - |
| Upside/Downside Capture Ratio vs Russell 3000 Value | 88.9%/59.8% | - |
| Number of Securities | 23 | 2,029 |

We continue to be pleased with the overall composition of the portfolio. Remember that we are seeking investment opportunities in leading business franchises with better than average valuation support. Using the table below, you can see that the portfolio has a Price to Earnings ratio of 12.7x versus the Russell 3000 Value Index of 17.5x. We are achieving this ratio with a portfolio of companies that have return on assets of 6.3% percent versus the Russell 3000 Value Index of 4.5% percent. This dichotomy of above average companies selling at below average multiples has the opportunity for outperformance over the long-term, in our opinion.

*Based on Nuance internal estimates and benchmarked against the above noted Russell index.

## Sector Weights and Portfolio Positioning as of 11/30/2015




Overall, our portfolio has been relatively stable from a sector weighting perspective following our weighting additions in the Energy, Finance and Industrial sectors on underperformance that occurred in the last several months of 2014 and very early in 2015. We are now clearly overweight the Energy, Industrial sectors and Materials. Our underweights include the Consumer Discretionary sector as the combination of fully valued to overvalued stocks and evolving competitive positions make it difficult to find ideas that fit our process. We are also underweight the Real Estate Investment Trust (REIT) industry, the Information Technology sector, the Healthcare sector and the Telecommunication sector as those spaces continue to appear fully valued or overvalued driven broadly by what we have termed the chase for yield or recent market momentum particularly in Technology.

## Stocks We Added to Your Portfolio (November 2015):

None.

## Stocks We Eliminated from Your Portfolio (November 2015):

LPL Financial Holdings Inc. (LPLA): We eliminated LPL from your portfolio in the mid $40's following the announcement of a major change in its capital allocation and balance sheet targets. Historically targeting 2-3x debt to EBITDA, the company announced they would change that target to 4x debt to EBITDA going forward. The company decided to do this using accelerated share repurchases. This announcement resulted in two things. First, the stock went up due to the large nature of the share buyback, which helped our clients as the stock achieved within a range of what we believed it to be worth. But most importantly, and concerning, was that the downside potential of the stock was significantly magnified due to the increased debt leverage. This combination resulted in us selling the stock and moving on to what we consider better risk rewards.

## Nuance Perspectives from President & CIO, Scott Moore, CFA

Earlier this year I wrote about a company we own for our clients - National Fuel Gas Co (NFG). Given that the stock has not been cooperative with us this year, I thought some further discussion would be warranted, as well as instructive, about our process and how we build weightings over time.

NFG is a diversified natural gas company with three primary businesses: a natural gas utility company, a regulated natural gas pipeline business and a natural gas and oil exploration and production company. NFG is not new to our clients as we owned the stock previously and our team has been covering the stock for well over a decade.

First, a company breakdown by business segments ranked by order of stability and simplicity. NFG's natural gas utility business has EBITDA (cash flow) of about $170 million. This is about 20% of our estimated normal firm wide EBITDA of between $900 million to $1 billion dollars. After studying utility companies since the early 1990's, our team has a strong history of understanding these businesses and their value. In this case, we believe the value is approximately 9x EBITDA or $1.53 billion. With estimated utility debt of $700 million (estimated by taking 4x with utility EBITDA) and shares outstanding of 84.6 million, the value of the natural gas distribution business of NFG is about $10-$11 per share. We would note however that the natural gas distribution industry is consolidating and that two recent strategic deals have valued similar businesses at 12-13x EBITDA. At 12x, the value of the utility is $16 per share. Thus, the first segment, and most stable part of the business, is worth $10 to $16 per share, in our opinion. Also note that the cash flow of this stable utility pays for most of the current $.395 per quarter dividend ($1.58 annually or $133 million annually) and helps us understand the safety of the current dividend.

The second segment to discuss is the natural gas pipeline business. This business generates about $270 million of EBITDA today and has been growing reasonably well. NFG's pipeline business is strategically well placed to take advantage of the long term structural growth in natural gas that is occurring due to the market share shift from coal to natural gas for electricity needs in our country. This is a structural and significant shift that is positive for this business over the long-term. As such, this regulated pipeline business, in our opinion, is also relatively stable and likely to grow at reasonable rates over time. Further, most regulated pipelines have transitioned to a Master Limited Partnership (MLP) structure which results in advantaged tax treatment as well as higher potential dividends for investors post conversion. NFG has not done this yet, but we would expect them to over the next few years. Given this information, we believe using the $270 million of EBITDA is worth about 9x in its current structure, but we believe that management understands that the goal for investors is to maximize after-tax cash flow per share for its investors and that the more tax advantaged structure of the MLP is inevitable. Applying the tax benefits for the same level of EBITDA would enhance our EBITDA multiple from the utility multiple of 9x to about 13x as fair value. At 13x EBITDA and allocating the remaining $1.2 billion of debt (about 4.4x debt to EBITDA on the pipeline business) on the balance sheet that is left after allocating $700 million of it to the utility business, we get a fair value of $27 per share.

Adding the utility and pipeline segment values together brings our stock value of NFG to $37-$43 per share before we even discuss the exploration and production segment. As I type this note, the stock is trading at $38 per share with a 4.1% dividend yield. Quite interesting, in our opinion.

With that backdrop, we now come to the most difficult portion of the business to value – the natural gas and oil exploration and production business. However, we believe, given today's stock price of NFG – we are literally paying nothing for it. That is a strong statement for sure, but, based on our earlier commentary, it is our opinion.

So, what is the NFG natural gas exploration and production business worth? First – as is core to our Nuance process – we study the business through a strict competitive review. For any commodity business, we want the commodity itself to be holding or gaining market share versus other commodities and growing from a demand perspective. In the case of natural gas, we believe the commodity will be gaining market share for years while taking share from coal and other forms of power. This is a significant positive for NFG and its business. Secondly, the company's assets within that advantaged commodity must be top-tier. At Nuance, we define that top-tier as low cost and long reserve lived assets. In NFG's case, we believe its natural gas assets fit the bill. So how much EBITDA can we expect? Based on our internal work, we would suggest that trough could be as low of $100 million of EBITDA and normal could be as much as $400-$500 million. Also note that peak could be as much as $1 billion of EBITDA. This wide range of outcomes is due to the volatility of natural gas prices, as we know our clients who monitor their winter heating bills can attest. As such, our clients can see the more difficult job we have of estimating the value of the natural gas production segment. How do we do it? Based on decades of study of the multiples of the production business and its peers, we believe that fair value is between 7-8x normal EBITDA. We also believe that trough value is about 4-5x normal EBITDA. Again, these are estimates based on historical studies going back to the 1990's. As such, the key variable is our choice of normal EBITDA. Clearly, we do not think $100 million is normal, nor $1 billion. We use an estimate of about $400 million for our purposes. At 7.5x, the value of the production business would be $3 billion or $35 per share. Note that there is zero debt to allocate here and represents yet another positive for the company. This is a production business that could be bought or spun-off with zero debt. That is rare in today's energy landscape.

Adding together our $37-$43 value of the utility and pipeline businesses with the $35 of estimated value in the gas production gets us $72-78 of value in the stock. But that is not all, believe it or not. There is actually a smaller 4th piece of NFG - a west coast oil business generating close to $100 million of EBITDA. At 5x EBITDA that business could be worth another $7 per share.

That was a lot of information and I apologize if the detail was too much for some of our readers. But in this case, I felt it important to go through this detail and show just how interesting and, in our view, positively skewed the risk reward is for our clients. The stock is $38 as I type. The value of the stable utility and pipeline businesses are $37-43 per share. There is the low cost natural gas production business and the oil business as well. And don't forget while we wait on the market to realize the value, we are collecting a 4.1% dividend yield.

So, why do we have NFG as our largest holding today? We hope after that review you understand just how compelling we believe the risk reward is given today's market. Please remember that nothing is ever guaranteed and that all stocks have risks. Our discussion here is intended to discuss the stock broadly, but there are risks that we did not discuss and there always will be for every stock we own for our clients.

Lastly, your team continues to find leading business franchises with sustainable competitive positions that are trading below our internally derived view of fair or intrinsic value. We believe in our time tested process of finding best of breed businesses with better than the market downside support and better than the market upside over the long term.

Please visit our website at www.nuanceinvestments.com for more information about our team, our process and value investing. You may also receive information via traditional mail or email by contacting us at client.services@nuanceinvestments.com or call 816-743-7080.

Thank you for your continued confidence and support.

Scott A. Moore, CFA

## GIPS Disclosures

| | 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 (11/13/08-12/31/08) | 4.5 | 4.5 | 0.4 | (0.5) | N/A | 7 | $9,126,951 | $18,657,997 | 4.6% | - | - |
| 2009 | 42.2 | 41.7 | 19.8 | 26.5 | 1.2 | 79 | $87,342,803 | $137,943,058 | 0.6% | - | - |
| 2010 | 18.8 | 18.1 | 16.3 | 15.1 | 0.3 | 145 | $119,543,453 | $181,201,036 | 0.5% | - | - |
| 2011 | 6.9 | 6.3 | (0.1) | 2.1 | 0.5 | 181 | $96,831,359 | $152,976,943 | 1.1% | 16.1 | 21.3 |
| 2012 | 18.4 | 17.8 | 17.6 | 16.0 | 0.2 | 259 | $154,693,966 | $214,936,666 | 1.0% | 13.1 | 16.0 |
| 2013 | 35.3 | 34.5 | 32.7 | 32.4 | 0.7 | 411 | $418,085,862 | $507,569,897 | 0.4% | 12.2 | 13.1 |
| 2014 | 8.9 | 8.1 | 12.7 | 13.7 | 0.2 | 581 | $886,246,169 | $1,071,186,382 | 0.2% | 10.4 | 9.5 |
| YTD 2015 (11/30/2015) | 2.4 | 1.6 | (1.8) | 3.0 | N/A | 613 | $790,909,943 | $999,375,546 | 0.2% | 11.1 | 10.7 |

### Compliance Statement

Nuance claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Nuance has been independently verified for the periods 11/03/08 – 03/31/15 by Absolute Performance Verification. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards 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 is an investment adviser registered with the Securities and Exchange Commission. The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary separate accounts under management, including those accounts no longer with the firm. The U.S. Dollar is the currency used to express performance returns and assets. Performance results are presented both net and gross of management fees and include the reinvestment of income. Both gross and net of fee returns are reduced by trading expenses. Net of fee returns are reduced by Actual investment advisory fees and other expenses that may be incurred in the management of the account. The firm does not currently assess any Performace Based Fees. From the inception of each composite until 12/31/10, Time Weighted Return was compounded on a monthly basis. Beginning 01/01/11 through present, Time Weighted Return was compounded on a daily basis.

Dispersion is calculated from gross of fee returns using an asset-weighted standard deviation methodology. Only those accounts included for the full calculation period are part of the dispersion calculation. The 3-year Ex-post annualized standard deviation value is calculated using 36 consecutive monthly gross of fee returns to the end calculation period. Since Inception, Nuance has adopted the following Significant Cash Flow Policy for both composites. An account will be removed from a composite if a client has given specific instructions that prevent full investment of the cash flow(s) in a timely manner (defined as 5 business days or greater), or cumulative cash flow(s) are equal or greater than 3 percent of the total composite market value based on the end of month market value, or if cumulative cash flow(s) are equal or greater than 20 percent of the total account value based on the end of month market value. If these circumstances exist, the account will be removed from the composite and added back to the composite on the first day of the month following the date that the account is fully invested (defined as being within ten percent of the model portfolios cash target).

Our Core offerings are the Nuance Mid Cap Value Strategy and the Nuance Concentrated Value Strategy Nuance. 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 or 816-743-7080.

## Important Disclosures

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 TR. The S&P 500 Index TR 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.

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

(1) Risk-Adjusted Return (Sharpe Ratio), Standard Deviation and return 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, Mid Cap Value Group 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 9/30/2015. 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) Index statistics are provided by Russell. Characteristics calculations use holdings at market close on the stated date, including cash & cash equivalents. The following Composite characteristics are calculated using Bloomberg: Median Market Cap (midpoint of market capitalization of the stocks in the portfolio), Dividend Yield (annual dividends relative to share price), Return on Equity (net income divided by shareholder equity), Return on Assets (net income divided by average total assets). The P/E Statistics are a Nuance internal calculation. The dollar-weighted harmonic mean of individual company P/E ratios is used. This approach first considers holdings' E/P, which are then summed on a dollar-weighted basis across the entire portfolio to achieve a portfolio E/P ratio. Finally, the inverse of this ratio is taken to arrive at the Portfolio P/E ratio. Active share, as calculated by Morningstar Direct, is a statistic the measures a strategy's holdings relative to the holdings of the appropriate benchmark. Standard deviation is a measure of volatility showing the average deviations of a return series from its mean. The upside capture ratio is an indication of a manager's ability to match returns in periods of market strength, while the downside capture ratio measures a manager's ability to curtail losses in periods of index weakness. Results are gross of fees for the period since inception through present. Both upside/downside ratios and standard deviation are calculated using Style Advisor.

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.