

# Nuance Mid Cap Value Composite Perspectives



September 30, 2017

## Description of the Product

The Nuance Mid Cap 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 50-90 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 Midcap® Value Index. Clients may also compare the product to the S&P MidCap 400 Value Index and the S&P 500 Index.

### Portfolio Managers



Scott Moore, CFA  
President & CIO  
26 Years of Experience

Chad Baumler, CFA  
Vice President  
10 Years of Experience

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

#### 1<sup>ST</sup> PERCENTILE

Lipper  
Category: Mid-Cap Value  
SI Rank in Cat: 1 of 111

Morningstar  
Category: Mid-Cap Value  
SI Rank in Cat: 2 of 322

## Longer Term Performance Update (through September 30, 2017)

Since Inception Return: The return since inception (on 11/03/2008 through 9/30/2017) is 16.7 percent (annualized and net of fees) versus the Russell Mid Cap Value Index and S&P MidCap 400 Value Index which have returned 15.0 percent and 14.9 percent respectively. We are pleased with this level of outperformance over time.

Risk-Adjusted Returns: Our Sharpe Ratio since inception through 9/30/2017 is 1.2 (net of fees) versus Russell Midcap Value Index at 0.9, the S&P MidCap 400 Value Index at 0.9 and the S&P 500 Index at 1.0.

Peer Group Returns through 9/30/2017: Comparing our product to peers displays positive results over time. On a total return basis, since 11/30/2008, we ranked 18 out of 322 peer group members (5th percentile) in the Morningstar Mid Cap Value universe. Versus the Lipper Mid Cap Value universe we ranked 9 (7th percentile).

Peer Group Risk-Adjusted Return through 9/30/2017: On a risk-adjusted return basis, since 11/30/2008, (as measured by the Sharpe Ratio) we ranked 2 out of 322 peer group members (1st percentile) in the Morningstar Mid Cap Value universe. Versus the Lipper Mid Cap Value universe we ranked 1 (1st percentile).

Peer Group Analysis 11/30/2008 - 9/30/2017	Since Inception APR <sup>1</sup>	Standard Deviation (A) <sup>1</sup>	Sharpe Ratio (A) <sup>1</sup>
Nuance Mid Cap Value Composite (Gross)	18.5	13.6	1.3
Nuance Mid Cap Value Composite (Net)	17.6	13.7	1.3
Lipper Mid-Cap Value Funds Peer Group (Median)	15.3	15.6	0.9
Peer Group Percentile and Ranking	7th (9 of 111)	1st (2 of 111)	1st (1 of 111)
Morningstar Mid-Cap Value Peer Group (Median)	15.2	15.9	0.9
Peer Group Percentile and Ranking	5th (18 of 322)	8th (26 of 322)	1st (2 of 322)

Performance 11/03/2008 - 9/30/2017	APR <sup>*</sup>	TR <sup>*</sup>	Standard Deviation <sup>*</sup>	Sharpe Ratio <sup>*</sup>	7 Years	5 Years	3 Years	1 Year	2017 YTD
Nuance Mid Cap Value Composite (Gross)	17.5	321.0	13.8	1.3	16.7	16.9	12.5	20.8	10.4
Nuance Mid Cap Value Composite (Net)	16.7	295.3	13.8	1.2	15.8	16.1	11.8	20.1	9.9
Russell Midcap Value Index	15.0	247.0	16.2	0.9	13.8	14.3	9.2	13.4	7.4
S&P Midcap 400 Value Index	14.9	244.6	16.9	0.9	13.7	14.6	10.4	17.0	6.6
S&P 500 Index	13.8	216.2	13.7	1.0	14.4	14.2	10.8	18.6	14.2

<sup>\*</sup>Since Inception

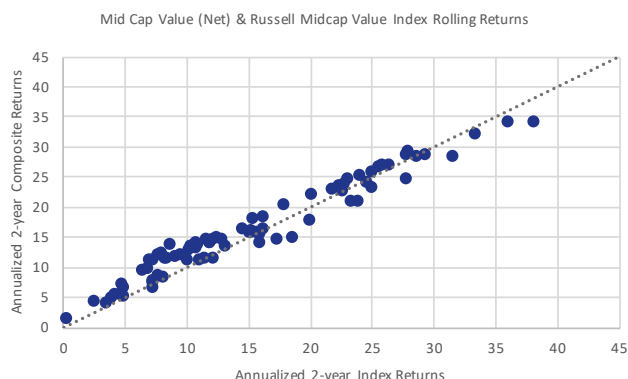
**Shorter Term Performance Update** (Two Year and Year-to-Date)

Rolling 2-Year Periods	Current 2-Year Period as of 9/30/2017		
	Periods Beating the Index	Composite (%) Net of Fees <sup>1</sup>	Russell Midcap Value Index (%)
11/30/2008 - 9/30/2017	63/83	75.9	18.3
Nuance Mid Cap Value Composite			15.3

Your team at Nuance cautions our clients regarding the use of short-term performance as a tool to make manager or 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 September 30, 2017, the Nuance Mid Cap Value Composite two year rolling return is 18.3 percent (net of fees) versus the Russell Midcap Value Index and S&P 500 Index which have returned 15.3 percent and 17.0 percent respectively. Overall, we have outperformed in 63 out of the available 83 two-year periods as shown in the chart labeled Annual 2-Year Rolling Return.

Year-to-date, the Nuance Mid Cap Value Composite has returned 9.9 percent (net of fees) versus the Russell Mid Cap Value Index and the S&P 500 Index which have returned 7.4 percent and 14.2 percent respectively.



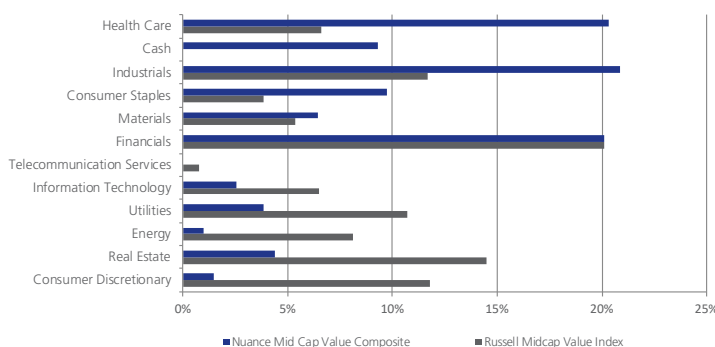
Calendar Year Performance as of 9/30/2017	11/03/08 - 12/31/08	2009	2010	2011	2012	2013	2014	2015	2016	2017 YTD
Nuance Mid Cap Value Composite (Gross)	(4.1)	38.7	21.1	4.0	22.0	35.5	9.8	3.0	21.9	10.4
Nuance Mid Cap Value Composite (Net)	(4.1)	38.2	20.0	3.4	20.6	34.2	9.1	2.3	21.1	9.9
Russell Midcap Value Index	(5.6)	34.2	24.8	(1.4)	18.5	33.6	14.7	(4.8)	20.0	7.4
S&P MidCap 400 Value Index	(3.9)	33.8	22.8	(2.4)	19.1	34.3	12.0	(6.7)	26.5	6.6
S&P 500 Index	(6.0)	26.5	15.1	2.1	16.0	32.4	13.7	1.4	12.0	14.2

**Composition of the Portfolio as of 9/30/2017**

Portfolio Characteristics <sup>2</sup>	Nuance Mid Cap Value Composite	Russell Midcap Value Index
Weighted Average Market Cap	21.8b	13.5b
Median Market Cap	14.3b	7.2b
Price to Earnings (internal and ttm)*	19.7x	19.9x
Forward Price to Earnings	20.1x	17.4x
Dividend Yield	1.9%	2.2%
Return on Equity	30.3%	10.1%
Return on Assets	6.5%	3.7%
Active Share vs Russell Midcap Value	94.5%	-
Upside/Downside Capture Ratio vs Russell Midcap Value	90.9% / 75.7%	-
Number of Securities	73	587

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 19.7x versus the Russell Midcap Value Index of 19.9x. We are achieving this ratio with a portfolio of companies that have a return on assets of 6.5 percent versus the Russell Midcap Value Index of 3.7 percent. This dichotomy of above average companies selling at below average multiples has the opportunity for outperformance over the long-term, in our opinion.

<sup>1</sup>Based on Nuance internal estimates and benchmarked against the above noted Russell index.

**Sector Weights and Portfolio Positioning** as of 9/30/2017

During the quarter, we added to our weight in the Financial sector as just a small reset in future interest rate expectations created an opportunity in what we view as select high quality financial institutions. We also increased our holdings in the Industrial sector as we continue to see attractive arbitrage opportunities which we believe have little downside risk (due to our belief that the odds of the deal getting done are very high) and modest upside potential. We remain overweight the Healthcare and Consumer Staples sectors as well. Our weight in the Materials sector has moved from an overweight to a roughly in-line weighting as some of our select names are approaching our internal view of fair value. We are now underweight the Energy sector as we believe the sector is facing a multi-year period of competitive transition. We continue to be underweight in the Utilities, Information Technology, Real Estate and Consumer Discretionary sectors due to valuation concerns.

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

Dear Clients,

We continue to be pleased with the performance of your Nuance Mid Cap Value Composite. Year to date (through 9/30/2017), we are up 9.86 percent (net of fees) versus the Russell Mid Cap Value Index up 7.43 percent and the S&P 500 Index up 14.24 percent. For the last 12 months, we are up 20.11 percent (net of fees) versus the Russell Mid Cap Value Index up 13.35 percent and the S&P 500 Index up 18.60 percent. Most importantly to us, since our inception on 11/03/2008, the Nuance Mid Cap Value Composite is up 16.66 percent (annualized and net of fees) versus the Russell Mid Cap Value Index up 14.98 percent and the S&P 500 Index up 13.79 percent.

**Competitive Transitions**

For our long-time readers and clients, the phrase “potential competitive transition” is used quite a bit around Nuance Investments. Specifically, we want to avoid “competitive transitions” as a key part of our long-standing investment process. Having sound and stable historical and going forward competitive position is critical to our work as competitive disruptions suggest that historical financial statements and historical valuation metrics are largely irrelevant as the history no longer can be used to guide the future. With those two key items deemed irrelevant due to a pending competitive transition, the task of calculating a fair value or trough value for a company becomes akin to a trip to Las Vegas for a long weekend. Examples of our investment process identifying competitive transitions are abundant, and we have shared many of these over time. The newspaper industry of the early to mid-2000’s is an example. What was once a stable and high return on capital business that operated in an oligopoly market structure became an incredibly diverse and competitive marketplace due to the advent of the internet. Many investors and analysts thought this competitive transition would be a positive for the newspaper business at the time. Lowering fixed costs (printing presses and paper) while expanding distribution potential sounds pretty good on the surface. However, negatives abounded as well including advertising rates that were plummeting and the number of viable (and some not so viable) news sources growing exponentially due to low barriers to entry in the business. As an analyst at the time, the decision was relatively straightforward. There was no financial nor valuation history that we could study that could help us understand this new newspaper and media environment. As such, we put our old favorite newspaper companies on a watch list and monitored the situation until it would become clear. We are still waiting for that clarity. One only needs to look at the stock price of The New York Times Company (NYT) from the early to mid-2000’s through today to understand how a competitive transition can be very difficult on shareholders if you owned them. Put another way, competitive transitions also create a good way to beat benchmarks and indexes because indexes cannot avoid them nor overweight (over time) the beneficiaries of the transition. Other examples of transitions our team identified over the years include the pulp and paper industry, the telecommunications sector, the ATM manufacturer sub-industry, the coal industry, and of course many one-off stocks. Identifying companies, sub-industries, industries, and sometimes sectors that should be placed on a watch list and monitored but not owned due to a potential competitive transition is a key part of our process, and one of the reasons we believe we have outperformed our peers and benchmarks since our inception with less risk.

Several common threads have provided strong evidence of a potential transition over time. Companies facing structural change often increase their acquisition activity outside of their core businesses. This is common, rarely works, and is typically dilutive to firm value. Leveraging the balance sheet to try and maintain earnings flat or create modest growth through financial engineering is another common reaction. Softer management decisions like re-branding to suggest you are something you are not is third. When we begin to detect a potential competitive transition, we begin looking for these common threads as well as fact based data that leads to a logical conclusion that there is likely a transition ahead.

### The Energy sector and crude oil

That backdrop brings us to the Energy sector and crude oil related business specifically. As most of our clients know, we went quiet on the Energy sector as of 6/30/2017 due to a complete re-review of the sector. That review is complete and based on our analysis we now believe that crude oil and the companies that search for it, drill it, make equipment to produce it, and companies that refine it, are all likely facing a multi-year period of competitive transition. The summary of our findings follows.

#### Historical demand consistency for oil is largely driven by road transportation

It is estimated that over 50% of crude oil consumed globally is used for road transportation. Therefore, it makes sense that one of the primary drivers of crude oil demand growth has been growth in the global automobile fleet, offset partially by increasing fuel efficiency standards. Automobile units sold globally have increased from a roughly 60 million units per year cadence in 2004 to over 90 million units per year in 2016. This has proven to be a sizable tailwind to global crude oil demand, which has grown on average 1.5% per year over the last two decades.

#### Electric vehicles will likely take significant market share from combustion engines

Even though electric vehicles have been around for many years, only recently have they entered the spotlight. Global electric vehicle purchases have grown over 500% over the last five years. However, even with that tremendous growth, the absolute number in the global fleet is still relatively small today. In the year 2016, electric vehicles represented under 1.0% of global autos purchased and an even smaller percentage of the total global fleet. Because of this small percentage, electric vehicles have not had a material effect on crude oil demand growth and therefore have historically been largely a non-event to the energy sector's investment case. However, we believe two things are converging to change that stability. First and most important to us, the cost of ownership of an electric vehicle is rapidly approaching parity with combustion engines. Bloomberg analysts and our own internal work suggest that by early to mid-2020's (as early as 4-7 years from today) the price of an electric vehicle will be at parity with a combustion engine vehicle. Based on recent trends, we would suggest that parity might just happen even faster. A recent *Economist* article<sup>3</sup> suggests that total cost of ownership could actually be cheaper as soon as the next 1-3 years. Further, battery prices have been cut in half since 2012, a trend that is expected to continue and the distance an electric car can travel on a charge has quadrupled since 2013. Combine that with various auto reviews suggesting the performance of electric cars rivals that of the most elite combustion engine vehicles and remembering that there are no oil changes nor engine maintenance, and the facts are getting quite interesting. The primary reason for a potential acceleration relates to the other item that suggests a major change in the electric vehicle adoption rate – government mandates due to climate issues. Almost 80 percent of the global auto market is pushing towards phase-out of petroleum cars and the adoption of electric vehicles (per Bloomberg Intelligence, Gadfly calculations<sup>4</sup>) with China, India, the U.K., France, and Norway among those with a phase out plan. Cities like Paris, Mexico City, Athens, and Madrid are saying they will not allow diesel cars in their cities after 2025. According to our research the countries which have already banned or are seriously considering banning the sale of internal combustion engines within their countries with implementation dates between the years of 2019 and 2040 alone represent an eye-popping 25% of global crude oil demand. What makes this high percentage of demand even more significant is that these announcements have generally come over the last 12 to 18 months and we believe may only represent the first wave.

#### Timing

Our readers and clients know quite well that Nuance doesn't believe in crystal balls. Prior competitive transitions are illustrative. It was anticipated there would be a transition in newspapers but was not known when the transition would take hold or financial performance suffer. The same can be said regarding the adoption of broadband cable as it took market share from second landline connectivity in the home for internet access at telecommunication service companies. We also did not know the speed at which cashless transactions would take hold enough to disrupt the ATM manufacturing business. Regarding electric vehicles and their impact on crude oil demand, while the exact dates of implementation may move around as time progresses, even partial execution of the aforementioned bans over the next decade could result in flat to negative demand growth globally. Additionally, electric vehicle purchase options are set to dramatically expand over the next five years as car manufactures recognize the mandates (particularly in China and India) and the preference for electric vehicles over the medium to longer term. It is estimated globally that the number of electric vehicles will more than double between 2016 and 2020. So even if a country has not instituted a ban, the likelihood that over the next 10 years electric vehicle penetration rates move up in general seems reasonably high. When you combine the potential for government mandated bans with internal combustion engines organically losing market share due to consumer shifts based on preference and overall cost of ownership, we believe the future looks far from certain for crude oil demand growth.

#### Recent company behavior is providing evidence

Independent oil and gas exploration companies continue to spend capital at well above maintenance levels despite historically low returns capital. This is not rationale in our view and is a red flag related to a potential transition. Large integrated oil companies are investing in solar electricity and other renewable energy sources at an alarming rate. Apparently, they think competing with an electric utility is a good idea. While it might be, it is potentially a signal that the future will no longer mirror the past and gives us further conviction to place the crude oil related companies on our watch list going forward. Lastly, we are indeed seeing leverage creep up across the entire sector which is never a good sign as these companies need financial flexibility to face the potential uncertainty.

#### There is good news for Nuance clients

We believe classic competitive transitions create opportunities for your team to outperform indexes and benchmarks over time. Frankly, volatility, uncertainty, and change create the opportunity for our research and skill to manifest through performance. Clearly, benchmarks cannot avoid competitive transitions while we can and have for years. Of course, there is never certainty that our avoidance will pay off in the short term or long term, but we like our odds. Furthermore, positive opportunities are created from transitions.

Offsetting any negative investment implications for crude oil-related companies are the winners from a risk reward perspective and what should be solid investment opportunities for your team over time. Our focus is clearly not on Tesla, Inc. (TSLA) as there is no history of returns on capital cycles, and no way it fits our process regardless of valuation. Rather, our focus is on companies that will prosper if the environment stays the same (meaning no adoption of electric vehicles) or if the environment does indeed transition as we believe it will. These are the companies we want to focus on for the next decade as the transition occurs. Spaces that will benefit and which we have good company exposure (and are adding a few new names) on our Nuance Master List include: electrical equipment companies, auto parts manufacturers that have content for both combustion engines and electric vehicles (safety equipment for example), fuse and electronic component companies, and semi-conductor and semi-conductor capital equipment companies. We believe leading business franchises across all of these spaces will have solid opportunities for our clients going forward and will be natural offsets to our underweight in crude oil related stocks.

#### Changes to the portfolio due to this research

Only one of our over 70 stocks was directly impacted based on this research, and two were indirectly impacted. Our already underweight position in the Energy sector became a bigger underweight as we sold the portfolio's last oil related stock: Frank's International (FI). FI was clearly a disappointing stock for us as often happens when a favorite company gets caught up in a competitive transition. FI still has many of the traits we like in a Nuance Master List company except for the potential for the crude oil demand competitive transition that swamps the other characteristics. Indirect exposure also resulted in the sale of our position in Genuine Parts Inc. (GPC) – our former favorite auto distributor – at a modest loss due to its significant exposure to engine related parts as well as increasing competition from Amazon.com, Inc. (AMZN). Lastly, we sold our position in National Fuel Gas Co. (NFG) which was a valuation-based decision as our view of the value of their relatively small oil exploration and production business as well as a modest reduction in our going forward view of their natural gas pipeline business resulted in what we view as a fully valued stock.

#### Speaking of natural gas...

As of today, your portfolio has zero exposure to companies with a majority of their business that is direct natural gas or related. Historically, our clients will recall that we have been positive overall on natural gas and related companies due to market share gains within the electricity production sphere as well as our general positive bent towards natural gas distributors. As of this writing, we are void all natural gas and related companies primarily due to valuation. That is particularly the case with natural gas distribution companies that are trading at historically high multiples due to the continued chase for yield. That said, the continued market share growth of renewable power sources – solar and wind primarily – has us re-reviewing our longer-term thesis regarding the future of this fossil fuel as well. That work is on-going, but with valuations at levels that reflect a very solid future, we are quite comfortable with our current weight.


#### Opportunities as we approach year-end 2017

The last topic for this quarter, and we think the most important topic for this quarterly commentary, is what we are seeing in your portfolio today. As we have been indicating, valuations across the market are stretched, and as such, we are focusing on limiting downside as the best way to optimize your portfolio's risk reward. Classic Nuance process ideas, where we see a leading business franchise that is under-earning its mid cycle earnings and cash flow levels due to transitory reasons and is thus undervalued and has a positive risk reward versus the market, do exist, but they are rare. Hub Group, Inc. (HUBG) is one example of a one-off positive risk reward. HUBG is a leading trucking, intermodal, and transportation logistics company that we believe is under-earning its normal potential due to cyclically low trucking rates and intermodal pricing due to low utilization levels. The under-earnings have led to poor stock performance over the recent year, and we view the risk reward as attractive. We are also seeing a few select merger arbitrage opportunities which we believe have little downside risk (due to our belief that the odds of the deal getting done are very high) and modest upside potential. As such, we believe they have risk rewards that are significantly better than the opportunity set today. This is a tool our team has used for years, but until recently we have not needed to pull it out of the toolbox. Example of those holdings include Rockwell Collins, Inc. (COL) which we added to the portfolio recently. COL designs and produces electronic communications, avionics, and in-flight entertainment systems used by commercial, military, and government customers globally. During the early part of September, COL and United Technologies Corp. (UTX) reached an agreement where UTX would acquire COL for \$140 in cash and stock (\$93.33 per share in cash and approximately \$46.67 in UTX's stock, with a collar). After reviewing the potential transaction and after having studied both companies for a very long time, we believe the transaction will very likely be approved and that there are minimal financing concerns. Based on the terms of the deal today versus the price we paid for COL, we believe the risk reward is better than that of most other market opportunities. We also continue to hold a substantial position in C. R. Bard, Inc. (BCR). BCR is a leader in single-use medical supplies with primary indications to support treatments in oncology, urology, vascular and general surgery. The company is pending acquisition by Becton, Dickinson and Company (BDX), a leader in medication delivery, in a 70/30 cash & stock deal. We believe the combined company will have a dominant position in vascular access and medication delivery, and we like the position of the combined company's suite of products. Our investment hinges largely on the ability of the deal to close from a competitive, regulatory, and financing perspective, and based on our analysis, we believe the odds are high. Financing is in place, and we believe the acquisition will be completed in late 2017. Our estimate of the combined company's earnings power suggests that the company's normal earnings power is approximately \$11.00 per share versus today's BDX of \$9.00-9.50. The under-earnings are a reflection of cost savings from the deal as well as the clear path of debt reduction from this above-average return on capital company. With 30 percent of the investment hinging on the combined company BDX stock price, we are using the value of the combined entity for that portion of the investment. At 17-18x our normal earnings, we believe there is modest upside potential in the BDX stock, but that the risk reward is better than that of the most market alternatives. We will collect two to three dividends while we wait on the closing as well as shares of BCR (total consideration paid by BDX is \$222.93 in cash and 0.5077 shares of BDX per share of BCR). Our clients should expect to see more of these if we believe a deal has very high odds of completion from a regulatory perspective and if the acquirer is an stable company with a solid financial profile to allow for funding of the deal with minimal issues even if the market corrects or sells-off. BDX recently received conditional EU approval for the BCR deal, and we continue to expect closing by year-end.

In summary, while the absolute return potential of your portfolio today is not exactly stellar given the valuation levels of the market set of opportunities, we are quite pleased with the risk reward of our portfolio versus the market as a whole. Further, the quality of companies in your portfolio continues to be a focus of our team, and our latest energy research work suggests opportunities to beat peers and benchmarks going forward. After all, that is our goal each and every day.

Please visit our [website](#) for more information about our team, our process and value investing. Follow us on [LinkedIn](#) and [Twitter](#)! You may also receive information via traditional mail or [email](#). Call us at 816-743-7080. Click [here](#) for historical Mid Cap Value Perspectives.

Thank you for your continued confidence and support.



Scott A. Moore, CFA

## GIPS Disclosures

	Gross of Fees Return	Net of Fees Return	Benchmark Return (RMV Index)	Benchmark Return (MIDV 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 (RMV Index)
YTD 2008 (11/03/08-12/31/08)	(4.1)	(4.1)	(5.6)	(3.92)	N/A	1	\$9,531,045	\$18,657,997	0.0%	-	-
2009	38.7	38.2	34.2	33.77	-	4	\$50,600,141	\$137,943,058	1.1%	-	-
2010	21.1	20.0	24.8	22.79	0.1	4	\$60,702,099	\$181,201,036	1.1%	-	-
2011	4.0	3.4	(1.4)	(2.39)	0.1	4	\$55,186,800	\$152,976,943	0.9%	18.2	23.1
2012	22.0	20.6	18.5	19.10	0.1	4	\$58,463,905	\$214,936,666	1.0%	14.6	17.0
2013	35.5	34.2	33.6	34.25	0.1	8	\$80,358,264	\$507,569,897	1.0%	13.1	13.9
2014	9.8	9.1	14.7	12.04	0.1	13	\$130,238,086	\$1,071,186,382	0.7%	10.7	9.9
2015	3.0	2.3	(4.8)	(6.66)	0.1	17	\$145,638,450	\$913,545,839	0.6%	11.2	10.9
2016	21.9	21.1	20.0	26.5	0.1	17	\$416,346,621	\$1,466,221,847	0.0%	11.5	11.5
YTD 2017 (9/30/2017)	10.4	9.9	7.4	6.6	N/A	24	\$554,644,202	\$1,738,132,527	0.0%	10.5	10.5

## 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 – 03/31/2017 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 Performance 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. Nuance has adopted the following Significant Cash Flow Policy. 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 if a single cash flow is equal or greater than 10 percent of the total account value based on the beginning 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 following month.

Our Core offerings are the Nuance Mid Cap Value Strategy, the Nuance Concentrated Value Strategy and the Nuance Concentrated Value Long-Short Fund. 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 Mid Cap Value Composite (the "Composite") is a composite of actual accounts invested in the Nuance Mid Cap Value investment strategy. The inception date for the Composite is 11/03/2008. 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 Midcap Value Index. The Russell Midcap Value Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values. The Secondary Benchmarks for the Composite are the S&P MidCap 400 Value Index and the S&P 500 Index TR. The S&P MidCap 400 Value Index measures value in separate dimensions across six risk factors. The value factors include book value to price ratio, sales to price ratio, and dividend yield. 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 Clearwater Analytics. 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 a mid market capitalization value investment style. The Morningstar Mid-Cap Value Peer Group and the Lipper Mid-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 9/30/2017. 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 that 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.

(3) <https://twitter.com/TheEconomist/status/921647667125645312>

(4) <https://www.bloomberg.com/gadfly/articles/2017-09-11/electric-cars-reach-a-tipping-point>

Portfolio holdings and sector allocations are subjected to change and are not a recommendation to buy or sell any security. As of 9/30/2017 portfolio weights of names discussed are as follows: Hub Group Inc (HUBG) 4.00%, Becton Dickinson & Co. (BDX) 6.99%, C.R. Bard (BCR) 6.91%, Rockwell Collins (COL) 3.94%, Natl Fuel Gas Co. (NFG) 0.00%, Franks Intl NV (FI) 1.00%, Genuine Parts Co. (GPC) 0.00%

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.