

Nuance Concentrated Value Long-Short Fund



Third Quarter 2019

Investment Objective

The Nuance Concentrated Value Long-Short Fund seeks long-term capital appreciation by taking long positions in securities priced below, and short positions in securities priced above, our internal view of their estimated intrinsic value.

Portfolio Constraints

- # of Long Holdings: 15 to 35
- # of Short Holdings: 0 to 50
- Long Exposure: 75% to 100%
- Short Exposure: 0% to 100%
- Max Gross Exposure: 200%

Fund Details

Class:	Institutional	Investor
Ticker:	NCLSX	NCLIX
Inception:	12/31/15	12/31/15
Cusip:	56166Y255	56166Y263
Min Invest:	\$10,000	\$2,500
Invest Mgmt Fee:	1.00%	1.00%

Process Overview

On the long side of the Nuance Concentrated Value Long-Short Fund (the Fund) investment portfolio, the Nuance Investment Team is looking for industry leading businesses with strong and stable competitive positions. Generally, these businesses have leading marketshares within their various areas of expertise, have strong balance sheets and exhibit rational capital allocation policies. The Investment Team is seeking to buy these businesses when they are under-earning their long-term potential due to cyclical and/ or transitory issues, and when security valuations offer what we believe to be meaningful upside potential and reasonable support on the downside.

On the short side of the Fund investment portfolio, the Investment Team is looking for large businesses with more commoditized or structurally challenged competitive positions. These businesses may or may not be industry leaders. The Investment Team is seeking to sell these businesses when they are over-earning their long-term potential due to cyclical and/ or transitory issues, and when security valuations offer what we believe to be reasonable support on the upside and meaningful downside potential.

Portfolio Managers



Scott Moore, CFA
President & CIO
28 Years of Experience

Chad Baumler, CFA
Vice President
12 Years of Experience

Performance as of September 30, 2019

As of 9/30/2019 Inception Date 12/31/15	Since Inception Return	3 YR	1 YR	YTD	QTD	Gross Expense Ratio	Net Expense Ratio
Nuance Concentrated Value Long-Short Fund (NCLSX) - Institutional	5.06	2.40	7.25	(0.66)	(1.50)	3.79%	3.36%
Nuance Concentrated Value Long-Short Fund (NCLIX) - Investor	4.74	2.07	7.02	(0.86)	(1.61)	4.04%	3.61%
S&P 500 Index	12.82	13.39	4.25	20.55	1.70		
Morningstar Long/Short Equity	3.45	4.16	(1.60)	7.70	0.00		

Performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 1-855-682-6233.

The Fund has contractually agreed to reduce its management fees, and may reimburse the Fund for its operating expenses, in order to ensure that Total Annual Fund Operating Expenses (Excluding acquired fund fees and expenses, leverage, interest, dividend and interest expense on short sales, taxes, brokerage commissions, and extraordinary expenses) do not exceed 1.30% of the average daily net assets of the Institutional Class through at least 08/28/2020. Net expense ratios are as-of the Fund's most recent prospectus and are applicable to investors.

General Market Commentary

	12/31/17	3/31/18	6/30/18	9/30/18	12/31/18	3/31/19	6/30/19	9/30/19
Cash	23.7%	24.2%	24.6%	23.8%	17.7%	17.4%	16.9%	14.4%
Long Equities	76.3%	75.8%	75.4%	76.2%	82.3%	82.6%	83.1%	85.6%
Short Equities	93.9%	87.9%	86.1%	99.6%	75.9%	98.3%	99.3%	100.9%
Gross Exposure	170.2%	163.7%	161.5%	175.8%	158.2%	181.0%	182.5%	186.6%
Net Exposure	-17.6%	-12.0%	-10.7%	-23.4%	6.3%	-15.7%	-16.2%	-15.3%

The Investment Team believes the investment opportunity set continues to be skewed to the short side of the Fund's investment portfolio. As a point of reference, as of 9/30/19, the median company in the proprietary Nuance long universe, which consists of approximately 250 companies we view as industry leaders, was trading at a greater than 30% premium to what the Investment Team would consider to be fair value. Said another way, the universe appeared to be more than 30% over-valued on average, per our internal estimates. In addition, according to our company-by-company valuation work, this same universe had more than 65% downside potential. This implies that if our list of 250 companies were to all trade down to their historic trough valuation multiples, then the average stock in our long universe could go down by more than 65%.

As one can see from the table above, the Fund ended the quarter with a net -15.3% short equity exposure. On the long side of the portfolio, the Investment Team believes attractive investments with reasonable risk/ rewards can be found within the Industrial Conglomerates, Health Care Supplies, Packaged Food & Meats and Life & Health Insurance sub-industries. On the short side of the portfolio, the Investment Team believes the opportunity set is robust with attractive short investments to be found across all sectors of the economy, with many sub-industries currently both over-earning their long-term potential and over-valued, in our opinion. Specifically, we believe attractive short risk/ rewards can be found within the Specialty Chemicals, Industrial Machinery, Apparel Retail and Environmental & Facilities Services sub-industries.

Featured Investment

Short Sherwin Williams (SHW)- SHW is a leading global architectural paint and industrial coatings manufacturer that more than likely our readers are familiar with. SHW has had stable market share with scale, brand, and its retail network of paint stores as core competitive advantages. With a reasonable 20-year median leverage level of just over 2.0x Net Debt/ EBITDAR (EBITDA + rental expense), historically the Investment Team has considered SHW's overall competitive position to be above average. However, in 2017 SHW completed its largest acquisition ever, Valspar, using 100% debt financing. This transaction caused our internal estimate of SHW's Net Debt/ EBITDAR to balloon to over 4.5x, which is roughly where it sits today. S&P and the other rating agencies downgraded SHW's credit rating by only a single notch post the transaction and still consider the company to be investment grade. Nevertheless, the Investment Team believes there is a high likelihood the 100% debt financing and resulting high leverage levels will prove problematic to the value of SHW's equity at some point in the future, which has forced us to downgrade our assessment of SHW's overall competitive position to average.

SHW is expected to earn around \$3.1B of EBITDA this year and the Investment Team believes the company is over-earning its long-term potential, which can be illustrated by studying SHW's historic return on capital profile. Over the last 20 years, or roughly two economic cycles, SHW's EBITDAR/ Tangible Assets (a pre-tax cash return on assets (ROA) metric that we use to model SHW's business) has averaged around 23% with peaks in the low 30%'s and troughs in the mid-teens %. The expectations that SHW will earn \$3.1B of EBITDA this year represents an EBITDAR/ Tangible Assets ratio of 31%, a level that has only occurred one other time in the last 20 years and was proven to be a transitory high. The Investment Team believes this time will be no different and can point to both SHW's current tangible asset turnover levels above 1.5x and its EBITDAR margins of greater than 20%, which are both at or near multi-cycle peaks, as the source of the over-earnings. If either or both of these metrics were to revert to levels more consistent with both SHW's history and the entire architectural coatings sub-industry's history, then SHW's EBITDA would step-change lower.

As of 9/30/19 SHW was trading at \$550 per share. When this share price is multiplied by SHW's shares outstanding and added to its large net debt load, one can calculate an Enterprise Value (EV) that equates to over 19x this year's expected EBITDA cited above. Over the last 20 years SHW has traded at a median EV/ EBITDA multiple of closer to 10x, with a few instances of as low as 5x and only recently as high as 19x. From a short seller's perspective, this much higher than average multiple implies limited downside potential. However, if SHW's EBITDA were to reset lower as highlighted above, and the multiple investors were willing to pay were to retreat down to longer term averages, then material upside could be produced from shorting SHW at today's prices. This mix of limited downside potential and meaningful upside potential in a company with an unsustainably high debt load, that is likely over-earning its long term potential, is exactly what the Investment Team is looking for and explains why SHW is a top short investment idea.

You should consider the fund's investment objectives, risks, charges and expenses carefully before investing. For a statutory or summary prospectus, that contains this and other information about the Funds, call 1-855-NUANCE3 (855-682-6233) or visit our website at www.nuanceinvestments.com. Please read the prospectus carefully before investing.

Mutual fund investing involves risk. Principal loss is possible. Investments in small and mid-capitalization companies involve additional risk such as limited liquidity and greater volatility than larger capitalization companies. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. The Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the Fund is more exposed to individual stock volatility than a diversified fund. Short sale of securities involves unlimited risk including the possibility that losses may exceed the original amount invested. However, a mutual fund investor's risk is limited to one's amount of investment in a mutual fund. The Fund is newer with limited operating history and there can be no assurance that the Fund will grow to or maintain an economically viable size, in which case the Trust's Board of Trustees ("Board of Trustees") may determine to liquidate the Fund.

The Primary Benchmark for the Fund 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 Fund may differ markedly from that of compared indices due to varying degrees of diversification and/or other facts. Return figures for all performance shown provided by US Bank.

Nuance Investments is the advisor to the Nuance Mid Cap Value Fund, the Nuance Concentrated Value Fund and the Nuance Concentrated Value Long-Short fund which are distributed by Quasar Distributors, LLC.

EBITDA = Earnings Before Interest, Tax, Depreciation and Amortization is a metric used in assessing the operating earnings of a company.

Enterprise Value = Enterprise Value is a measure of a firm's value that incorporates the value of its common stock, preferred stock, debt, minority interests, and cash and equivalents.

As of 9/30/2019 portfolio weights of names discussed are as follows: Sherwin Williams (SHW) -4.37%.

Earnings growth is not representative of the Fund's future performance.

Morningstar Long-Short Equity - The Fund has been compared to various peer groups defined by investment style. The Fund is an all market capitalization value investment style. The Morningstar Long/Short Equity Peer Group (as selected by Morningstar) has been presented as an investment strategy with a similar investment style.

GIPS Compliance Statement

Nuance claims compliance with the Global Investment Performance Standards (GIPS®). The firm maintains a complete list and description of composites, which is available upon request. More information regarding Composite descriptions and policies for valuing portfolios, calculating performance, and compliant presentations are available upon request by contacting client.services@nuanceinvestments.com or 816-743-7080.

The definition of the firm is the foundation for firm-wide compliance and creates defined boundaries for determining the assets of the firm. In this instance, the firm is defined as Nuance Investments, LLC (Nuance). Nuance founded on November 1, 2008, was formed on the belief that the ability to outperform the broad stock market is predicated on a consistent and disciplined value investing approach. The Investment Management Team selects securities for the Nuance investment portfolios by using an extensive quantitative screening and fundamental research process that identifies leading businesses selling at a discount to fair value and that have the potential to generate above-average rates of returns over time. The Investment Management Team seeks to identify companies across a range of industries and market sectors that have leading and sustainable market share positions, above-average financial strength, and are trading at a discount to their internal view of intrinsic value. The Investment Management Team may sell an investment when it believes it has surpassed its intrinsic value by applying the screening process described above, for purposes of portfolio construction or risk management, or when a more attractive investment opportunity becomes available. For the short side, the Investment Management team seeks to identify companies across a range of industries and market sectors that have average to below average competitive positions and unattractive risk reward profiles. The total firm assets will be defined as all discretionary and non-discretionary assets under management within Nuance. This includes primary investment management accounts, sub-advisory investment management accounts and wrap accounts as well as both fee-paying and non-fee paying assets. This includes primary investment management accounts, sub-advisory investment management accounts and wrap accounts as well as both fee-paying and non-fee paying assets.