

Nuance Concentrated Value Long-Short Fund



Second Quarter 2021

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



Chad Baumler, CFA
Vice President & Co-CIO
14 Years of Experience

Scott Moore, CFA
President & Co-CIO
30 Years of Experience

Darren Schryer, CFA, CPA
Associate Portfolio Manager
5 Years of Experience

Performance as of June 30, 2021

As of 6/30/2021 Inception Date 12/31/15	Since Inception Return	5 Year	3 Year	1 Year	YTD 2021	QTD	Gross Expense Ratio	Net Expense Ratio
Nuance Concentrated Value Long-Short Fund (NCLSX) - Institutional	4.90	4.04	3.71	-6.14	-3.54	-0.93	3.46%	3.34%
Nuance Concentrated Value Long-Short Fund (NCLIX) - Investor	4.61	3.74	3.49	-6.31	-3.59	-0.85	3.71%	3.59%
S&P 500® Index	16.72	17.65	18.67	40.79	15.25	8.55		
Morningstar Long/Short Equity	5.73	6.70	6.55	22.21	9.04	3.85		

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 **1.55%** of the average daily net assets of the Investor Class and **1.30%** of the average daily net assets of the Institutional Class through at least 08/28/2021. Net expense ratios are as of the Fund's most recent prospectus and are applicable to investors. Returns for periods greater than a year have been annualized.

General Market Commentary

	9/30/19	12/31/19	3/31/20	6/30/20	9/30/20	12/31/20	3/31/21	6/30/21
Cash	14.4%	15.0%	6.2%	10.1%	14.3%	14.2%	16.0%	15.5%
Long Equities	85.6%	85.0%	93.8%	89.9%	85.7%	85.8%	84.0%	84.5%
Short Equities	100.9%	99.7%	58.1%	85.9%	98.7%	98.9%	98.6%	99.4%
Gross Exposure	186.6%	184.7%	151.9%	175.8%	184.4%	184.8%	182.6%	183.9%
Net Exposure	-15.3%	-14.7%	35.8%	4.1%	-13.0%	-13.1%	-14.6%	-14.9%

The Investment Team believed the opportunity set continued to be skewed to the short side of the Fund's investment portfolio at the end of the second quarter of 2021. As of June 30, 2021, the median company in the Nuance proprietary long universe, which consists of companies we view as sub-industry leaders, was trading at greater than a 40 percent premium to what we would consider fair value. In other words, our long universe appeared to be overvalued by more than 40 percent on average based on our internal estimates. Furthermore, according to our company-by-company valuation work, the same universe had more than 70 percent downside potential. This implies that if our list of leading companies were all to trade down to their historic trough valuation multiples, the average stock in our long universe could decline by more than 70 percent.

As indicated in the table above, the portfolio ended the second quarter with a net -14.9 percent short equity exposure. On the long side of the portfolio, the Investment Team believed attractive long equity investments with adequate risk rewards were still available as of June 30, 2021, although we considered many of the stocks in our Nuance long universe to be overvalued. Sub-industries we believed were underearning and undervalued included Health Care Equipment, Water Utilities, Property and Casualty Insurance, and Personal Products -- all areas of the economy that have been negatively affected directly or indirectly by the Covid-19 pandemic. On the short side of the portfolio, the Investment Team thought overvaluation remained widespread and that attractive short investment opportunities could be found in many sub-industries of the economy including Railroads, Specialty Chemicals, Homebuilding, and Construction Machinery & Heavy Trucks.

Featured Investment¹

Short Union Pacific Corporation (UNP): UNP is one of two major railroads in the western United States (U.S.) and operates on more than 32,000 miles of track. With \$146.1 billion in market capitalization, UNP is the largest member of the S&P 500® Index's Railroads sub-industry and the second-largest member of the broader Transportation industry group. Historically, the Investment Team has held mixed views regarding the quality of the Transportation industry group members' competitive positions. Because of intense competition between different freight transportation options (road, rail, boat, air) and a dearth of patented intellectual property, very few members of the Transportation industry group find their way into the Nuance proprietary long universe. In UNP's case, the future of its competitive position looked worse at the end of the second quarter than it had historically, in our opinion, given the potential for autonomous trucking to take meaningful market share from intermodal rail volumes. In 2020, intermodal represented more than 40 percent of UNP's total freight carloads. Given the interchangeability of these carloads between rail and trucking, we believed UNP's volumes were at risk from the rise of autonomous long-haul trucking. According to our research, autonomous long-haul trucking technologies from industry leaders such as Embark Trucks, Inc., TuSimple Holdings Inc. (TSP), and Plus, Inc. could cut the cost of traditional long-haul truck transportation by 25 percent to 50 percent in the future, leaving the economically sensitive intermodal rail volumes at risk of moving to this lower cost option. While the adoption rate timeline of autonomous trucking is uncertain, there seemed to be clear and highly probable negative ramifications for railroad companies, in our opinion. This emerging competitive threat, combined with the company's historically commoditized business model and levered balance sheet (after a decade of aggressive buybacks, UNP's balance sheet is levered more than a full turn of earnings before interest, taxes, depreciation, and amortization (EBITDA) higher than long-term averages), led the Investment Team to conclude that UNP's overall competitive position going forward is below average.

UNP is expected to generate around \$21.2 billion of sales and earn around \$9.50 per share in 2021, and the Investment Team believed the company was overearning its long-term potential. This can be illustrated by an examination of UNP's historic return-on-capital profile. Over the last 20 years, or roughly two economic cycles, UNP's earnings before interest, taxes, depreciation, amortization, and rent (EBITDAR)/tangible assets (a pre-tax cash return on assets metric the Investment Team uses to model Industrials sector business models) had averaged around 16 percent, with peaks in the low 20 percent range and troughs in the high single-digit percentage range. The expectation that UNP would earn \$9.50 per share in 2021 represents an EBITDAR/tangible assets ratio of 20 percent, a level that had been reached only once in the previous 20 years (2014-2015) and proved to be a transitory high. The Investment Team believed this time was no different and that elevated levels of pricing power caused by a temporarily tight freight transportation market, along with elevated volume growth rates caused by stimulus-fueled consumption demand, had led to UNP's higher-than-normal returns on capital. We thought that, just as in the past, these elevated levels of returns on capital would prove transitory. If the freight transportation market were to loosen, causing UNP's pricing power to weaken, and UNP's unit growth rates were to normalize lower to near historical levels, then the company's returns on capital and earnings per share could reset lower, in our opinion.

As of June 30, 2021, UNP was trading at \$219.93 per share, which equated to an enterprise value of more than \$173.9 billion. The Investment Team believed both UNP's share price and enterprise value were elevated in comparison to the company's historical valuation multiples over the previous 20 years. Regarding its price-to-earnings (P/E) ratio, UNP was trading at 23.2x the consensus' estimate of 2021

¹The securities identified and described do not represent all of the securities purchased, sold, or recommended for the portfolio. The reader should not assume that investments in the securities identified were or will be profitable.

earnings per share. This represented an 89th percentile observation, meaning that over the past 20 years, the P/E multiple had only been higher 11 percent of the time. While this multiple was substantially greater than UNP's median P/E multiple of 17.8x, we believed it understated the true level of overvaluation, given that UNP had levered its balance sheet above its 20-year historical level, as mentioned above. A better way to illustrate the level of overvaluation, in our opinion, was to compare UNP's enterprise value to sales (EV/sales) multiple of 8.2x on June 30, 2021 to its 20-year median EV/sales multiple of 3.2x. This 8.2x reading represented a 97th percentile observation, which we believed was an extremely rich multiple for a large transportation company. Just as a side note, when one studies valuation multiples across sectors and cycles, EV/sales multiples above 5.0x have historically been reserved for high-quality, higher-growth technology companies, making the current valuation of UNP at the end of the second quarter even more of an outlier. This sample set of higher multiple companies includes Nuance long universe members Salesforce.com, Inc. (CRM) and Alphabet Inc. (GOOGL), which have EV/sales multiples of 9.7x and 7.8x, respectively, as of June 30, 2021. If UNP's earnings per share were to reset lower, as discussed above, and UNP's valuation multiples were to drift lower to their long-term median levels, we believed attractive upside could be generated by selling UNP's stock short at its share price on June 30, 2021. The combination of a company with a less certain competitive future, expectations for earnings that are higher than long-term potential, and an expensive valuation is what the Investment Team looks for in a short investment and explains why UNP was a top short position in the Fund's investment portfolio at the end of the second quarter of 2021.

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® TR Index. The S&P 500® TR 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 calculations for the Fund are provided by U.S. Bank. Return calculations for all indices are provided by FactSet. Prior to 12/31/2020, return figures for all indices were provided by US Bank. Returns for periods greater than a year have been annualized.

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.

Price-to-Earnings Ratio (P/E) = The Price to Earnings ratio measures the price of a company's stock in relation to its earnings per share.

Enterprise Value-to-Sales (EV/sales) = The ratio of a firm's Enterprise Value to its Sales. Enterprise Value is an assessment of the total operating value of a firm and Sales (or Revenue) is income a company receives during a specific period, including discounts and deductions for returned merchandise.

Portfolio holdings and sector allocations are subjected to change and are not a recommendation to buy or sell any security. As of 6/30/2021 portfolio weights of names discussed are as follows: Union Pacific Corporation (UNP) -3.97%, Alphabet Inc. (GOOGL) 0.00%, Salesforce.com, Inc. (CRM) 0.00%, and TuSimple Holdings Inc. (TSP) 0.00%.

The information presented related to the Nuance investment decision and selection process is intended to be informational in nature, speak to our process and does not represent a recommendation in any specific security or securities. Information not specific to a cited source constitutes the opinion of the Nuance investment team and should not be relied upon to make investment decisions. Investors should be aware of the risks associated with data sources including without limitation, fundamental, technical, qualitative and quantitative factors used in our investment process. Errors may exist in data acquired from third party vendors, the development of investment ideas, the analysis of data and the portfolio construction process. While Nuance takes steps to verify information so as to minimize the potential impact of potential errors, we cannot guarantee that errors will not occur.

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.

Past Performance is not a guarantee of future results.

GIPS Compliance Statement

Nuance claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. The U.S. Dollar is the currency used to express performance returns and assets. The firm maintains a complete list and description of composites and broad distribution pooled funds, which is available upon request. More information regarding Composite List and descriptions, and policies for valuing investments, calculating performance, and preparing GIPS reports 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.