

# Nuance Concentrated Value Long-Short Fund



Third 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 market share 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 Bauml, 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 September 30, 2021

As of 9/30/2021 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	4.56	2.88	4.82	4.48	-4.17	-0.66	3.45%	3.43%
Nuance Concentrated Value Long-Short Fund (NCLIX) - Investor	4.26	2.58	4.57	4.24	-4.32	-0.76	3.70%	3.68%
S&P 500® Index	16.05	16.90	15.99	30.00	15.92	0.58		
Morningstar Long/Short Equity	5.23	5.93	5.13	16.01	7.63	-1.29		

**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 8/28/2022. 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**

	12/31/19	3/31/20	6/30/20	9/30/20	12/31/20	3/31/21	6/30/21	9/30/21
Cash	15.0%	6.2%	10.1%	14.3%	14.2%	16.0%	15.5%	16.6%
Long Equities	85.0%	93.8%	89.9%	85.7%	85.8%	84.0%	84.5%	83.4%
Short Equities	99.7%	58.1%	85.9%	98.7%	98.9%	98.6%	99.4%	93.7%
Gross Exposure	184.7%	151.9%	175.8%	184.4%	184.8%	182.6%	183.9%	177.1%
Net Exposure	-14.7%	35.8%	4.1%	-13.0%	-13.1%	-14.6%	-14.9%	-10.3%

The Investment Team believed the opportunity set remained skewed to the short side of the Fund's investment portfolio at the end of the third quarter of 2021. As of September 30, 2021, the median company in the Nuance proprietary long universe, which consists of companies we view as sub-industry leaders, was trading at just over a 35 percent premium to what we would consider fair value. Said another way, our long universe appeared to be overvalued by roughly 35 percent on average based on our internal estimates. Additionally, according to our company-by-company valuation work, the same universe had roughly 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 around 70 percent.

As indicated in the table above, the portfolio ended the third quarter with a net -10.3 percent short equity exposure. On the long side of the portfolio, the Investment Team believed long equity investments with sufficient risk rewards were still available as of September 30, 2021, despite our belief that many of the stocks in our Nuance long universe were overvalued. Sub-industries we believed were under-earning 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 by the Covid-19 pandemic over the last six quarters. On the short side of the portfolio, the Investment Team felt overvaluation remained widespread and that short investment opportunities were abundant and could be found in many sub-industries of the economy including Homebuilding, Railroads, Automotive Retail, and Industrial Machinery.

**Featured Investment<sup>1</sup>**

Short O'Reilly Automotive, Inc. (ORLY): ORLY is a large United States (U.S.) retailer of aftermarket automotive parts, tools, and supplies with more than 5,600 stores nationwide. In addition, with a market capitalization of more than \$40.0B, ORLY is the largest member of the S&P 500<sup>®</sup> Automotive Retail GICS sub-industry. The Investment Team has historically been skeptical of the competitive position of retailers in general, given our opinion that selling non-proprietary goods in non-proprietary locations is a low value-add business model. More recently, our concerns regarding the Automotive Retailers specifically have intensified given the potential for a transition of the U.S. automobile fleet from internal combustion engines to all electric powertrains. We estimate that between 25 and 50 percent of new vehicle sales in the U.S. could be all electric by 2030, up from 3 percent in 2020. This relatively rapid adoption rate has direct ramifications, in our opinion, for Automotive Retailers like ORLY given a sales mix that likely includes somewhere between 30 and 60 percent of SKU's that are directly or indirectly tied to the internal combustion engine. The combination of an already sub-par business model, in our opinion, with an emerging competitive transition, has led the Investment Team to conclude that ORLY's overall competitive position going forward is below average.

ORLY generated more than \$12.5B of sales and \$3.0B of earnings before interest, taxes, depreciation, and amortization (EBITDA) over the last 12 months, and the Investment Team believed the company was over-earning its long-term potential. This over-earning can be illustrated by examining two important metrics for retailers: same-store sales and earnings before interest and taxes (EBIT) margins. First, regarding same-store sales, calendar year 2020 was a notable year for ORLY with same-store sales up 10.9 percent. This impressive metric is the highest reading in at least the last 20 years and compares to a 20-year median of 5.4 percent. We believe ORLY's elevated sales performance was driven primarily by the combination of generous government stimulus payments for consumers and a shortage of new cars available to purchase. This combination resulted in above-average spending on used car maintenance, in our opinion. Both phenomena appear transitory to the Investment Team, and we believe the odds are high that both resulted in a material pull forward of demand for ORLY. Second, when examining EBIT margins for ORLY, one can see that 2020's result of 21 percent was well above historic medians and was the highest margin posted by the company in the last two decades. The excess sales that flowed through appeared to have very high incremental margins and resulted in total company margins that we believe will prove to be unsustainable over the coming years. If same-store sales were to revert to the historical average or dip below trend and margins were to reset lower to long-term median levels, then ORLY's EBITDA could step change lower, in our opinion.

As of September 30, 2021, ORLY was trading at \$611.06 per share which equated to an enterprise value (EV) of more than \$45.0B, and the Investment Team believed ORLY was over-valued as illustrated by its enterprise value to sales (EV/Sales) and enterprise value to EBITDA (EV/EBITDA) ratios. At the end of the third quarter, ORLY was trading at an EV/Sales Ratio of 3.8x and an EV/EBITDA ratio of 15.8x. This compares to ORLY's 20-year median ratios of around 1.8x and 12.5x, respectively. The most recent readings represented near all-time highs on both metrics, an impressive feat given ORLY's recent sales and margin successes highlighted above, which are included in the denominators of those metrics. If ORLY's sales growth was to slow or turn negative and its EBIT margins were to contract to longer term averages as highlighted above, and its valuation multiples were to move towards 20-year median levels, then we believe material upside could be generated by selling ORLY's stock short at \$611.06 per share. The combination of a large company with what we believe to be a below average competitive future, transitory over-earnings, and an expensive valuation is what the Investment Team looks for in a short investment and explains why ORLY was a top short position in the Fund's investment portfolio at the end of the third quarter of 2021.

<sup>1</sup>The 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.

***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](http://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 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 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.

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.

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.

Enterprise Value-to-Earnings Before Interest, Tax, Depreciation and Amortization (EV/EBITDA) = The ratio of a firm's Enterprise Value to its Earnings Before Interest, Taxes, Depreciation, and Amortization. Enterprise Value is an assessment of the total operating value of a firm and Earnings Before Interest, Taxes, Depreciation, and Amortization is a metric used in assessing the operating earnings of a company.

Portfolio holdings and sector allocations are subjected to change and are not a recommendation to buy or sell any security. As of 9/30/2021 portfolio weights of names discussed are as follows: O'Reilly Automotive, Inc. (ORLY) -3.9%

Diversification does not assure a profit or protection against a loss in a declining market.

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.**

Fund holdings and sector allocations are subjected to change and are not a recommendation to buy or sell any security.

## GIPS® 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 – 3/31/21 by Absolute Performance Verification. The verification reports are available upon request. A firm that claims compliance with the GIPS® standards must establish policies and procedures for complying with all the applicable requirements of the GIPS® standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance have been designed in compliance with the GIPS® standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. 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.

### Definition of the Firm

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.