

# Nuance Concentrated Value Long-Short Fund



Fourth 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  
15 Years of Experience

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

Darren Schryer, CFA, CPA  
Portfolio Manager  
6 Years of Experience

## Performance as of December 31, 2021

As of 12/31/2021 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	2.33	-0.44	-1.77	-14.85	-14.85	-11.14	3.45%	3.43%
Nuance Concentrated Value Long-Short Fund (NCLIX) - Investor	2.03	-0.74	-2.03	-15.07	-15.07	-11.23	3.70%	3.68%
S&P 500® Index	17.36	18.47	26.07	28.71	28.71	11.03		
Morningstar Long/Short Equity	5.79	6.54	9.96	12.53	12.53	4.60		

**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

	3/31/20	6/30/20	9/30/20	12/31/20	3/31/21	6/30/21	9/30/21	12/31/21
Cash	6.2%	10.1%	14.3%	14.2%	16.0%	15.5%	16.6%	13.6%
Long Equities	93.8%	89.9%	85.7%	85.8%	84.0%	84.5%	83.4%	86.4%
Short Equities	58.1%	85.9%	98.7%	98.9%	98.6%	99.4%	93.7%	98.5%
Gross Exposure	151.9%	175.8%	184.4%	184.8%	182.6%	183.9%	177.1%	184.9%
Net Exposure	35.8%	4.1%	-13.0%	-13.1%	-14.6%	-14.9%	-10.3%	-12.1%

The Investment Team believed the opportunity set was plentiful for both sides of the Fund's investment portfolio at the end of the fourth quarter of 2021. As of December 31, 2021, the median company in the Nuance proprietary long universe, which consists of companies we view as sub-industry leaders, was trading at over a 35 percent premium to what we would consider fair value. Said another way, our long universe appeared to be overvalued by over 35 percent on average based on our internal estimates. From a downside perspective, 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. However, even with that level of overvaluation as a backdrop, over the last few quarters there have been a variety of one-off, transitory issues that have occurred for a number of companies in our Nuance proprietary long universe. This has created some interesting investment opportunities and has resulted in what we believe is a constructive long investment backdrop for a concentrated long portfolio.

As indicated in the table above, the portfolio ended the fourth quarter with a net -12.1 percent short equity exposure. On the long side of the portfolio, the Investment Team believed the variety of transitory issues referenced above provided us with an attractive set of long equity investment ideas with desirable risk rewards as of December 31, 2021. Sub-industries we believed were under-earning and undervalued included Health Care Equipment, Household Products, Personal Products, and Property and Casualty Insurance. On the short side of the portfolio, the Investment Team thought overvaluation remained widespread and that short investment opportunities were abundant and could be found in most sub-industries of the economy including Railroads, Homebuilding, Industrial Machinery, and Specialty Chemicals.

## Featured Investment<sup>1</sup>

Long Kimberly-Clark Corporation (KMB): KMB is a leading global manufacturer of a variety of staple household products, including diapers, wipes, feminine care products, adult incontinence products, and toilet paper. KMB's portfolio includes many notable brands our readers may recognize including Huggies®, Pull-Ups®, Depends®, Cottonelle®, and Scott®. The Household Products sub-industry has long been a favorite sub-industry of the Investment Team, given its stable demand profile, steady organic revenue growth rate, and limited risk of major technological disruption given the incumbents' scale, branding, and innovation. KMB has leading market shares in the geographies where it competes and is generally ranked #1 or #2 in its product categories according to our research. Additionally, over the last few economic cycles, KMB has exhibited a high level of return on capital consistency with predictable peaks and troughs, has maintained reasonable leverage on its S&P A-rated balance sheet, and has displayed rational capital allocation policies, including its current 60 percent dividend payout ratio, which on today's stock price (as of December 31, 2021) yields over 3 percent. This combination of product leadership and consistency with regard to its returns on capital, balance sheet, and capital allocation policies have led the Investment Team to conclude that KMB has a solid competitive position and is well positioned for the future.

KMB is expected to earn around \$6.25 per share in 2021 per Wall Street consensus estimates, and the Investment Team believes the company is under-earning its long-term potential. KMB has faced numerous headwinds in 2021 including higher labor and transportation costs. However, the largest issue facing KMB's reported earnings has been rising raw material costs, in our opinion. For KMB, key raw materials for its products and packaging include pulp, which is made from timber and has been buoyed by above trend housing demand for lumber, and to a lesser extent resin, which is a hydrocarbon derivative. The price of both commodities has been increasing rapidly and has created a near-term transitory headwind for KMB and its cost of goods sold. In fact, according to KMB's third quarter 2021 regulatory filings, KMB's cost of goods sold for the nine-month period ending September 30, 2021 increased by almost 10 percent while its revenues were up low single digits, creating significant margin pressure. KMB has already implemented price increases to help offset these raw material costs increases. However, much like in previous cycles including the commodity inflation cycle that happened between 2006 and 2008, the price increases have lagged the commodity increases, and the Investment Team believes it will likely take a year or two for pricing to catch up with costs and for margins to normalize higher. If organic revenues were to continue to grow in the low single digits, commodity inflation was to stabilize lower, and KMB was able to pass along price increases similar to prior cycles, then we believe KMB's earnings per share could reset higher.

As of December 31, 2021, KMB was trading at \$142.92 per share which equated to under 19.0x the Investment Team's estimate of normalized earnings, a multiple that is below KMB's historical average and a multiple that is significantly more attractive than our Nuance proprietary long universe median multiple of more than 30.0x. If KMB's earnings per share were to reset higher and KMB's price-to-earnings multiple were to expand to levels in line with history, then meaningful absolute and relative upside could be generated, in our opinion. Additionally, we believe KMB's stable and well positioned balance sheet, when combined with its attractive dividend yield, should provide reasonable downside support for the stock in a market downturn. The combination of a company with an excellent competitive position in a desirable Household Products sub-industry, transitory under-earnings, and an inexpensive valuation is what the Investment Team looks for in a long investment and explains why KMB was a top long position in the Fund's investment portfolio at the end of the fourth 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.

Earnings per Share = The amount of Net Income, less any preferred dividends, allocated on a per share basis of common stock.

Price to Earnings Ratio = The Price to Earnings ratio measures the price of a company's stock in relation to its earnings per share.

Portfolio holdings and sector allocations are subjected to change and are not a recommendation to buy or sell any security. As of 12/31/2021 portfolio weights of names discussed are as follows: Kimberly-Clark Corporation (KMB) 7.3%

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.