

# Nuance Concentrated Value Long-Short Fund



Fourth Quarter 2016

## 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:	\$1,000,000	\$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 (the 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  
25 Years of Experience

Chad Baumler, CFA  
Vice President  
9 Years of Experience

## Performance as of December 31, 2016

As of 12/31/2016 Inception Date 12/31/15	Since Inception Return	1 YR	YTD	QTD	Gross Expense Ratio	Net Expense Ratio	Net Expense Ratio (Ex. Short Divs)
Nuance Concentrated Value Long-Short Fund (NCLSX) - Institutional	17.41	17.41	17.41	4.73	3.88%	2.18%	1.55%
Nuance Concentrated Value Long-Short Fund (NCLIX) - Investor	17.11	17.11	17.11	4.65	4.13%	2.43%	1.30%
S&P 500 Index	11.96	11.96	11.96	3.82			
Morningstar Long/Short Equity	2.13	2.13	2.13	2.25			

**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 08/27/2017. Net expense ratios are as-of the Fund's most recent prospectus and are applicable to investors.

**General Market Commentary**

	3/31/16	6/30/16	9/30/16	12/31/16	3/31/17	6/30/17	9/30/17	12/31/17
Cash	12.4%	13.2%	24.1%	24.6%	-	-	-	-
Long Equities	87.6%	86.8%	75.9%	75.4%	-	-	-	-
Short Equities	30.7%	61.9%	61.6%	65.1%	-	-	-	-
Gross Exposure	118.3%	148.8%	137.6%	140.5%	-	-	-	-
Net Exposure	56.9%	24.9%	14.3%	10.4%	-	-	-	-

The Investment Team continues to find attractive investment opportunities on both sides of the Fund's investment portfolio. As a point of reference, as of 12/31/16, the median company in the proprietary Nuance long universe, which consists of approximately 250 companies we view as industry leaders, was trading at roughly a 15% premium to what the Investment Team would consider to be fair value. In other words, the universe appears to be approximately 15% overvalued on average according to our internal estimates.

As one can see from the table above, the Fund ended the quarter with a net 10% long equity exposure. On the long side, the Investment Team believes the opportunity set has narrowed somewhat, as the stock prices of our 250 industry leaders have, on average, appreciated faster than our internal view of fair value during this calendar year. That being said, we believe investments with attractive risk/reward ratios can still be found within the Healthcare Equipment, and Oil & Gas Equipment & Services sub-industries, and within multi-national Consumer Staples. On the short side, the Investment Team believes the opportunity set has expanded with attractive short investments to be found within the Consumer Discretionary, Industrials, Consumer Staples and Real Estate sectors.

**Featured Investment**

Short Ross Stores (ROST) – ROST is the #2 off-price retailer in the US with approximately 30% market share and 1,500 stores nationwide. The ROST business model consists of buying surplus apparel and other merchandise, that couldn't sell in traditional retail venues, and then re-selling that merchandise "off-price" to consumers in ROST's physical retail locations. In general, the Investment Team believes retailing business models, such as ROST's, have average competitive positions due to relatively low barriers to entry and little value-add to the end product. Additionally, on a prospective basis we believe ROST could face a structural headwind as their business model does not adapt well to an online environment, a fact that even their CEO frequently admits. With apparel sales slowly migrating online (it is believed Amazon online apparel sales now represent 7% of all apparel sales in the US, for example), we believe this lack of transferability of the ROST business model could end up being a critical issue. All things considered, these business model dynamics combined with a history of aggressive capital spending (CapEx/DDA has averaged 1.9x over the last 20 years) have led the Investment Team to conclude that ROST has an average competitive position.

ROST is expected to earn around \$2.80 per share this fiscal year, and the Investment Team believes they are over-earning their long term potential for two key reasons. The first reason is that gross profit margins at ROST have been elevated the last few years due to a surplus of merchandise available for off-price retailers to purchase at a greater than normal discount. This surplus has been driven by traditional retailers (Macy's and JC Penney's, for instance) re-calibrating their business models to a changing retail landscape. One might surmise that when this period of "re-calibration" is over, the excess level of off-price inventory in the system will revert to normal levels and ROST's gross profit margin could do the same as the discounts at which they purchase merchandise become less accommodating. The second reason for the over-earnings is that SGA as a percent of sales has recently been at an all-time low for ROST, as wage inflation has been relatively subdued for hourly retail workers over the last decade. Pressures on wage inflation appear to be building, and as higher wages get passed on to hourly workers at ROST, the Investment Team expects SG&A as a percent of sales to revert back to longer-term average levels. If either or both of the above-mentioned events were to occur, then we believe ROST's earnings per share could reset materially lower.

As of 12/31/2016 ROST was trading at \$66 per share, representing a price to earnings multiple of around 24x, near an all-time high for the company. The Investment Team believes this high valuation multiple leaves limited room for meaningful upside from here. From a short seller's perspective, this would imply limited room for downside potential. On the other hand, if the earnings per share of the company were to revert lower due to the two reasons highlighted above, and the price to earnings multiple were to revert back to the 20-year average of 17.5x, then we believe an attractive profit could be gained from shorting ROST at these levels. This combination of what we view as limited downside potential and attractive upside potential in an average business is exactly what the Investment Team is looking for in a short candidate and explains why ROST is a top short holding for the investment portfolio.

**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 Fund is new with no 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, LLC is majority owned by Montage Investments, LLC.

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.

CapEx = Capital Expenditures

DDA = Depreciation, Depletion, and Amortization

SGA = Selling, General & Administrative Expense

Ross Stores (ROST), Amazon.com Inc. (AMZN), J.C. Penney Co. Inc. (JCP), and Macy's Inc. (M) represented -3.75%, 0.00%, 0.00%, and 0.00% of the assets in the portfolio as-of 12/31/2016 respectively.

Earnings per share (EPS)-portion of a company's profit allocated to each outstanding share of common stock.

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](mailto: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), a majority owned subsidiary of Montage Investments, LLC ("Montage"). Montage is a wholly owned subsidiary of Mariner Holdings, LLC. 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. 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. 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.