

# Nuance Concentrated Value Long-Short Fund



Third Quarter 2017

## 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 (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  
26 Years of Experience

Chad Baumler, CFA  
Vice President  
10 Years of Experience

## Performance as of September 30, 2017

As of 9/30/2017 Inception Date 12/31/15	Since Inception Return	1 YR	YTD	QTD	Gross Expense Ratio	Net Expense Ratio
Nuance Concentrated Value Long-Short Fund (NCLSX) - Institutional	9.38	4.37	-0.35	1.15	3.34%	2.79%
Nuance Concentrated Value Long-Short Fund (NCLIX) - Investor	9.00	3.92	-0.70	1.07	3.59%	3.04%
S&P 500 Index	15.09	18.61	14.24	4.48		
Morningstar Long/Short Equity	5.18	8.69	6.95	2.56		

**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 8/27/2018. 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%	25.1%	24.5%	24.2%	-
Long Equities	87.6%	86.8%	75.9%	75.4%	74.9%	75.5%	75.8%	-
Short Equities	30.7%	61.9%	61.6%	65.1%	67.7%	74.3%	77.9%	-
Gross Exposure	118.3%	148.8%	137.6%	140.5%	142.7%	149.7%	153.7%	-
Net Exposure	56.9%	24.9%	14.3%	10.4%	7.2%	1.2%	-2.1%	-

The Investment Team believes the opportunity set is beginning to be skewed to the short side of the Fund's investment portfolio. As a point of reference, as of 09/30/17, the median company in the proprietary Nuance long universe, which consists of approximately 250 companies we view as industry leaders, was trading at over a 20% premium to what the Investment Team would consider to be fair value. In other words, the universe appears to be more than 20% overvalued, on average, per our internal estimates.

As one can see from the table above, the Fund ended the quarter with a net 2.1% short equity exposure. On the long side of the portfolio, the Investment Team believes the opportunity set continues to narrow, as the stock prices of our 250 industry leaders have, on average, appreciated faster than our internal view of fair value over the last few years. However, investments with attractive risk/reward ratios can still be found within the Healthcare Equipment, Distillers & Vintners, and Regional Banks sub-industries, in our opinion. On the short side of the portfolio, the Investment Team believes the opportunity set continues to expand, with attractive short investments now to be found within nine of the eleven GICS sectors of the economy.

**Featured Investment**

Short Prologis (PLD) - PLD is the largest US industrial real estate investment trust (REIT) with over 675M square feet of industrial real estate on four continents. The Investment Team, in general, considers industrial real estate to be a more commoditized asset class. While individual assets may have the potential for outsized returns on capital, it is very challenging for a large, diversified portfolio consisting of thousands of buildings to generate meaningful excess returns over an entire economic cycle. As an illustration, even though PLD is considered to have the highest quality industrial real estate in the market, their returns on capital (as measured by a variety of different ROC metrics) are roughly in line with their industrial peers and, in fact, are slightly lower than the broad REIT universe over the last two cycles. Additionally, PLD's balance sheet appears too levered for our liking. Many will cite PLD's current net debt to market capitalization (net debt divided by net debt plus market value of equity) of roughly 25% as actually under-levered and a major investment positive. However, we see flaws in this stock price-based leverage metric. The primary reason is that as a company's stock price appreciates the balance sheet appears less levered and as it falls the balance sheet appears more levered, even though the actual financial leverage of the business vs. its cash flows hasn't changed. We instead prefer to use net debt to EBITDA for REITs, where PLD's ratio of just under 7.0x appears somewhat aggressive. When the more commoditized nature of the asset base is combined with the aggressive balance sheet, the Investment Team believes PLD's overall competitive position is average at best.

PLD is expected to earn around \$1.7B of EBITDA this year, and the Investment Team believes the company is over-earning its long-term potential primarily due to PLD's occupancy rate. Over the last four quarters, PLD's occupancy has averaged just under 97%. This is a pretty heroic feat given the challenging dynamics of keeping over 3,000 buildings, some having multiple tenant spaces, consistently leased at those extremely high levels. Upon further review of the company's occupancy history, one can see that an occupancy rate above 96% only occurred two other times in the last two decades: first for a few years in the late 1990's and then again in 2006 & 2007. The CEO of PLD recently confirmed this observation at an investor conference where he said that the 97% occupancy was a historic high for the company and that the current market environment is the best he's seen in his career. The reason these periods of high occupancy are transitory in nature is because high occupancy rates, combined with the strong pricing power associated with them and low barriers to entry for industrial real estate, generally incent new supply to be constructed rather quickly. This new supply then pressures overall occupancy rates back towards long-term averages. In PLD's case, if occupancy rates were to normalize lower, then one could expect its EBITDA to follow suit in a somewhat magnified manner given the high decremental margins inherent to real estate assets.

As of 9/30/17, PLD is trading at \$63 per share or roughly 24x this year's consensus EBITDA, adjusted for investments in joint ventures and minority interests. This is a very expensive multiple relative to not only the long-term average EBITDA multiples of Industrial REITs but also compared to the multiples of REITs in general, which have averaged between 16x and 19x over the last few decades, depending on the property type. The Investment Team believes this high multiple, when combined with the large asset base and average competitive position of PLD leave limited room for material upside from here. From a short seller's perspective, this implies the potential for limited downside. On the other hand, if PLD's EBITDA were to reset lower as highlighted above, and the EBITDA multiple were to reset lower towards longer term averages, then meaningful upside could be generated from shorting PLD at these levels. This combination of limited downside potential and meaningful upside potential in a large and average competitive position is exactly what the Investment Team is looking for and explains why PLD 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](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.

EBITDAR = Earnings Before Interest, Taxes, Depreciation, Amortization, and Rent Costs. An expansion of EBITDA, the measure allows for comparing firms with different asset structures.

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

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

Prologis (PLD) represents -3.9% of the assets in the portfolio as-of 9/30/2017.

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. 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.