

# Nuance Concentrated Value Long-Short Fund



First Quarter 2019

## 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



Scott Moore, CFA  
President & CIO  
28 Years of Experience

Chad Baumler, CFA  
Vice President  
12 Years of Experience

## Performance as of March 31, 2019

As of 3/31/2019 Inception Date 12/31/15	Since Inception Return	3 YR	1 YR	YTD	QTD	Gross Expense Ratio	Net Expense Ratio
Nuance Concentrated Value Long-Short Fund (NCLSX) - Institutional	6.36	5.35	4.31	0.85	0.85	2.82%	2.59%
Nuance Concentrated Value Long-Short Fund (NCLIX) - Investor	6.03	5.02	4.06	0.76	0.76	3.07%	2.84%
S&P 500 Index	12.88	13.51	9.50	13.65	13.65		
Morningstar Long/Short Equity	3.43	4.22	-0.48	5.84	5.84		

**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 8/28/2018. Net expense ratios are as-of the Fund's most recent prospectus and are applicable to investors.

## General Market Commentary

	6/30/17	9/30/17	12/31/17	3/31/18	6/30/18	9/30/18	12/31/18	3/31/19
Cash	24.5%	24.2%	23.7%	24.2%	24.6%	23.8%	17.7%	17.4%
Long Equities	75.5%	75.8%	76.3%	75.8%	75.4%	76.2%	82.3%	82.6%
Short Equities	74.3%	77.9%	93.9%	87.9%	86.1%	99.6%	75.9%	98.3%
Gross Exposure	149.7%	153.7%	170.2%	163.7%	161.5%	175.8%	158.2%	181.0%
Net Exposure	1.2%	-2.1%	-17.6%	-12.0%	-10.7%	-23.4%	6.3%	-15.7%

The Investment Team believes the investment opportunity set has once again become skewed to the short side of the Fund's investment portfolio. As a point of reference, as of 3/31/19, 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 25% premium to what the Investment Team would consider to be fair value. Said another way, the universe appeared to be more than 25% over-valued on average, per our internal estimates. In addition, according to our company-by-company valuation work, this same universe had roughly 65% downside potential. This implies that if our list of 250 companies were to all trade down to their historic trough valuation multiples, then the average stock could go down by around 65%.

As one can see from the table above, the Fund ended the quarter with a net -15.7% short equity exposure. On the long side of the portfolio, the Investment Team continues to find attractive investments with reasonable risk/ rewards within the Packaged Food & Meats, Healthcare Supplies, Property & Casualty Insurance, and Life & Health Insurance sub-industries, in our opinion. On the short side of the portfolio, the Investment Team believes the opportunity set has once again expanded, with attractive short investments to be found across the majority of sectors of the economy. In particular, recent outperformance in what most consider to be defensive sectors of the economy, including the Consumer Staples, Real Estate and Utilities sectors, have led to what we believe are very attractive risk/rewards from a short seller's perspective.

## Featured Investment

Short Realty Income (O)- O is one of the largest owners of single tenant, freestanding retail real estate in the US with an enterprise value of just under \$30B. Its portfolio consists of approximately 6,000 properties in 49 states. These properties are leased to over 250 different tenants, of which the vast majority lease multiple properties in multiple locations. O's largest tenants include familiar names such as Walgreens, 7-Eleven and AMC Theatres. In general, the Investment Team believes O's real estate portfolio is below average quality when compared to other types of commercial real estate for two key reasons. The first reason has to do with the limited ability to repurpose much of O's portfolio, should the existing tenant decide to leave, given the single-use nature of its real estate. For example, if one of O's movie theater tenants decided not to renew its leases upon expiration, then O could have a very challenging time re-leasing those properties to a different type of tenant at the same rental rate without incurring significant capital expenditures. The second reason for the below-average assessment has to do with the percentage of O's tenants that operate in areas of the economy that the Investment Team believes could be challenged in the coming years. Roughly 40% of O's rental revenues come from sub-industries that we believe could face structural headwinds over the next few decades due to material competitive transitions, including Convenience Stores & Gas Stations, Drug Stores, and Automotive Collision & Maintenance Centers, just to name a few. When O's below average quality real estate portfolio is combined with its financial leverage of over 5.0x net debt to EBITDA and its aggressive dividend payout ratio of near 100%, the Investment Team believes O's overall competitive position is below average.

O is expected to earn around \$3.25 per share of funds from operations (FFO) this year, and the Investment Team believes the company is over-earning its long-term potential for a couple of reasons. First, O's portfolio occupancy, which essentially represents the percentage of its buildings that are presently occupied, is currently running at 99%. This elevated level of occupancy has occurred twice in the last 20 years, in 1998 and then again in 2006, and both times it has proven transitory and eventually reverted back down to long-term averages. Second, as of the 4th quarter of 2018 O is paying just over 4% interest on its borrowings, which represents the lowest percent interest cost the company has paid in at least the last 20 years. While lower overall benchmark US Treasury rates have certainly had a dampening impact on O's borrowing costs, O has also shortened the term profile of its borrowings, and in essence has opened itself up to more interest rate risk in the future in exchange for a lower interest cost today. At the end of 2018, O had 59% of its borrowings due in six years or more. This compares to an average of 85% in borrowings due in six years or more from 2006 to 2008, or the last time economic activity was near peak levels, in our opinion. Given the financially leveraged nature of O's balance sheet and the operational leverage inherent in owning a large real estate portfolio, if either or both above-mentioned factors were to trend back to historic levels, then O's FFO per share could experience a meaningful reset lower.

As of 3/31/19 O was trading at \$74 per share or around 23x this year's expected FFO per share, a high level that has only been observed during two other periods in the last 20 years. In addition, at today's stock price O is trading at a roughly 70% premium to the value of its underlying real estate, meaning that for every \$1.00 worth of real estate that O owns, the market is ascribing a value of \$1.70. Both of these metrics appear elevated vs. history and when combined with O's below average competitive position leave limited room for material upside from here, in our opinion. From a short seller's perspective this implies limited downside. On the other hand, if O's FFO per share were to trend down for the reasons highlighted above, and its valuation metrics were to reset lower to align with long-term averages, then meaningful upside could be generated from shorting O at today's price. In our opinion, this combination of limited downside potential and meaningful upside potential in a company with a below average competitive position is exactly what the Investment Team is looking for and explains why O 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 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 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 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.

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

As of 3/31/2019 portfolio weights of names discussed are as follows: Realty Income Corp. (O) -4.31%, Walgreens Inc. (WBA) 0.00% and AMC Entertainment (AMC) 0.00%.

Earnings growth is not representative of the Fund's future performance.

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). 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.