

Nuance Concentrated Value Long-Short Fund



Second 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 market shares 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 June 30, 2019

As of 6/30/2019 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	5.89	4.62	4.79	0.85	0.00	2.82%	2.59%
Nuance Concentrated Value Long-Short Fund (NCLIX) - Investor	5.58	4.30	4.64	0.76	0.00	3.07%	2.84%
S&P 500 Index	13.26	14.19	10.42	18.54	4.30		
Morningstar Long/Short Equity	3.70	4.96	1.13	7.71	1.76		

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 8/28/2019. Net expense ratios are as-of the Fund's most recent prospectus and are applicable to investors.

General Market Commentary

	9/30/17	12/31/17	3/31/18	6/30/18	9/30/18	12/31/18	3/31/19	6/30/19
Cash	24.2%	23.7%	24.2%	24.6%	23.8%	17.7%	17.4%	16.9%
Long Equities	75.8%	76.3%	75.8%	75.4%	76.2%	82.3%	82.6%	83.1%
Short Equities	77.9%	93.9%	87.9%	86.1%	99.6%	75.9%	98.3%	99.3%
Gross Exposure	153.7%	170.2%	163.7%	161.5%	175.8%	158.2%	181.0%	182.5%
Net Exposure	-2.1%	-17.6%	-12.0%	-10.7%	-23.4%	6.3%	-15.7%	-16.2%

The Investment Team believes the investment opportunity set is skewed to the short side of the Fund's investment portfolio. As a point of reference, as of 6/30/19, the median company in the proprietary Nuance long universe, which consists of approximately 250 companies we view as industry leaders, was trading at a 30% premium to what the Investment Team would consider to be fair value. Said another way, the universe appeared to be around 30% over-valued on average, per our internal estimates. In addition, according to our company-by-company valuation work, this same universe had more than 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 more than 65%.

As one can see from the table above, the Fund ended the quarter with a net -16.2% short equity exposure. On the long side of the portfolio, the Investment Team continues to find attractive investments with reasonable risk/ rewards within the Industrial Conglomerates, Life & Health Insurance, and Packaged Food & Meats sub-industries, in our opinion. On the short side of the portfolio, the Investment Team believes the opportunity set is robust with attractive short investments to be found across all sectors of the economy. Specifically, sub-industries of the economy that are generally considered to be defensive, such as the Environmental & Facilities Services, Soft Drinks, and Residential REITs sub industries to name a few, have had material outperformance over the last year and are trading at what we believe to be very attractive risk/rewards from a short seller's perspective.

Featured Investment

Short Dollar General (DG)- DG is a leading dollar store and a top retailer in the US with a target market of lower income shoppers in rural areas. Its franchise consists of around 15,000 retail stores across more than 40 states with most of DG's sales made up of packaged food and other general merchandise, and a relatively small percentage contribution from fresh and frozen foods. The Investment Team believes DG's franchise is below average in terms of business quality for several reasons, the most important of which we will highlight here. The first reason centers around doubts we have regarding DG's ability to compete with other general merchandise and food retailers over the next few decades. While industry leaders, such as AMZN, TGT and WMT, are currently spending most of their capital expenditures towards online order and fulfillment-related technologies and 1-day or same-day delivery execution, DG has continued spending capital on growing its store base and has de-emphasized the importance of significant technology investment. As a matter of fact, DG believes it will be able to roughly double its store base in the coming years from today's 15,000 stores. The company intends on adding on average 1,000 stores per year for the foreseeable future. While growing the store base has worked well for DG over the last few decades, the Investment Team has serious doubts about the need for a significantly larger brick and mortar retail footprint over the next few decades and wouldn't be surprised if a portion of this growth capital is deemed impaired at some point in the future. The second reason for our unfavorable view of DG's business relates to the fact that an estimated 70% of DG's stores are in rural locations. According to US Census data, over the decade spanning from 2000 to 2010, the rural population in the US grew by 0.3% per year, providing DG a modest tailwind from which to operate its business. However, since 2010 that tailwind has turned into a headwind with rural US population growth having inflected to negative growth, and we believe there is a reasonable likelihood this trend could continue. When DG's below average business model is combined with its elevated lease-adjusted balance sheet leverage of over 3x net debt to EBITDAR (EBITDA + rental expense), the Investment Team has concluded that DG's overall competitive position appears weak and could be susceptible to a variety of risks in the years ahead.

DG is currently earning just over \$6.00 per share and the Investment Team believes the company is over-earning its long-term potential. The primary reason for the over-earnings is related to DG's revenues, which we believe are high relative to its tangible asset base. DG's current tangible asset turnover is expected to be close to 1.65x this year and approaching 1.75x next year vs. our internal estimate of a normalized, or mid-cycle, tangible asset turnover ratio of 1.55x. The likely source of these "excess" revenues is related to the current low unemployment rate in the US, in our opinion. As of 5/31/19, the unemployment rate was 3.6%, a level last observed in our country in 1969, or about 50 years ago. The median US unemployment rate since then has been 5.8%, and the Investment Team believes there is a high probability that this cyclical low in unemployment has flowed through to DG's income statement as cyclically high revenues. Given the elevated level of DG's lease-adjusted balance sheet highlighted above, small changes in DG's sales can have magnified impacts on DG's earnings per share. If DG's revenues were to reset lower due to either to a normalization of the US unemployment rate or due to other general competitive factors, then DG's earnings per share would step-change lower.

As of 6/30/19, DG was trading at \$135 per share or around 22x its current earnings. If one studies the price to earnings history for DG over the last 10 years, it would be observed that this valuation level is a 95th percentile observation, meaning that DG's stock has been at the current Price-to-Earnings of 22x only about 5% of the time. Furthermore, if one studies the Enterprise Value/EBITDA multiple history a similar story unfolds. From a short seller's perspective, these higher than average multiples imply limited downside potential. In contrast, if DG's sales and earnings per share were to reset lower as highlighted above, and the multiple investors were willing to pay for those earnings were to trend back down to longer term averages, then material upside could be produced from shorting DG at today's prices. This mix 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 DG 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. 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.

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

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

As of 6/30/2019 portfolio weights of names discussed are as follows: Dollar General Corp. (DG) -4.25%, Amazon Inc. (AMZN) 0.00%, Target Corp. (TGT) 0.00%, and Wal-mart Inc. (WMT) 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 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. 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.