

# Nuance Concentrated Value Long-Short Fund



Second Quarter 2020

## 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



**Chad Baumler, CFA**  
Vice President & Co-CIO  
13 Years of Experience

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

**Darren Schryer, CFA, CPA**  
Associate Portfolio Manager  
4 Years of Experience

## Performance as of June 30, 2020

As of 6/30/2020 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	7.52	6.21	13.42	9.17	2.76	3.79%	3.36%
Nuance Concentrated Value Long-Short Fund (NCLIX) - Investor	7.20	5.92	13.06	9.00	2.71	4.04%	3.61%
S&P 500 Index	11.96	10.73	7.51	-3.08	20.54		
Morningstar Long/Short Equity	2.38	1.43	-2.13	-5.84	7.93		

**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 1.30% of the average daily net assets of the Institutional Class through at least 08/28/2020. Net expense ratios are as-of the Fund's most recent prospectus and are applicable to investors.

**General Market Commentary**

	9/30/18	12/31/18	3/31/19	6/30/19	9/30/19	12/31/19	3/31/20	6/30/20
Cash	23.8%	17.7%	17.4%	16.9%	14.4%	15.0%	6.2%	10.1%
Long Equities	76.2%	82.3%	82.6%	83.1%	85.6%	85.0%	93.8%	89.9%
Short Equities	99.6%	75.9%	98.3%	99.3%	100.9%	99.7%	58.1%	85.9%
Gross Exposure	175.8%	158.2%	181.0%	182.5%	186.6%	184.7%	151.9%	175.8%
Net Exposure	-23.4%	6.3%	-15.7%	-16.2%	-15.3%	-14.7%	35.8%	4.1%

The Investment Team believes the investment opportunity set has become more balanced over the 1st half of 2020 with solid risk/ rewards to be found on both sides of the Fund's investment portfolio. As a point of reference, as of 6/30/20, the median company in the proprietary Nuance long universe, which consists of approximately 250 companies we view as industry leaders, was trading at a greater than 20% premium to what the Investment Team would consider to be fair value. In other words, the universe appeared greater than 20% over-valued on average, per our internal estimates. In addition, according to our company-by-company valuation work, this same universe had around 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 in our long universe could go down by around 65%.

As one can see from the table above, the Fund ended the quarter with a net 4.1% long equity exposure. On the long side of the portfolio, the Investment Team believes attractive investments with reasonable risk/ rewards can still be found, even though our Nuance long universe as a whole is over-valued, in our opinion. Sub-industries of the economy that meet our investment criteria include Property & Casualty Insurance, Health Care Equipment, Health Care Supplies, and Packaged Foods & Meats, all sub-industries that have been disproportionately affected by the coronavirus. On the short side of the portfolio, the Investment Team believes the opportunity set has expanded with the market rebound off of the March lows. Attractive short investments are robust, in our opinion, in sub-industries such as Automotive Retail, Railroads, General Merchandise Stores, and Specialty Chemicals, to name a few.

**Featured Investment**

Long Dentsply Sirona, Inc. (XRAY)- XRAY is the leading global manufacturer of high-end dental equipment and consumables. In general, value-add dental products is a sub-industry of the economy that the Investment Team has deemed attractive due to its highly stable demand profile over cycles. XRAY sports a top-3 market share position in restoratives, preventatives, general supplies, implants, endodontic tools, dental lab supplies, chairside milling equipment, and imaging equipment; and has maintained or gained share in most of its products over this last economic cycle. Additionally, XRAY's balance sheet leverage of 2.0x net debt to our estimate of normalized EBITDAR is both rational and right in-line with its history, a positive when compared to many publicly traded companies today with all-time high leverage ratios. When XRAY's leading market share position in a sub-industry we find attractive is combined with its better-than-average balance sheet, the Investment Team has concluded that XRAY's overall competitive position is above average.

XRAY is expected to earn around \$1.50 this year and the Investment Team believes it is under-earning its long-term potential. The primary reason for this under-earnings is related to deferred dental cleanings and procedures driven by the coronavirus pandemic. As we are sure most of our readers can relate to, over the last few months consumers have been very hesitant to visit a dental office for a dental cleaning or dental procedure, creating a volatility in demand that hasn't occurred in at least the last 30 years. This demand shock has caused significant revenue declines for both dental professionals and suppliers of dental products like XRAY. However, the odds seem extremely low, in our opinion, that consumers have abandoned dental hygiene altogether and have likely instead just delayed this year's cleaning and procedures. According to the ADA, only 5% of dental practices across the United States were open the week of March 23rd. Since then, practices have begun to reopen, and the percent of dental practices open the week of June 15th had increased to around 95% with expectations that at some point in the near to medium term the ratio will increase back to 100% open. From the Investment Team's perspective, this deferral of a reasonably important consumer service is an excellent example of a transitory issue for a company like XRAY. If dental practices fully re-open and dental volumes and expenditures per capita come even remotely close to the steady levels of the last decade, then XRAY's sales and earnings power could reset higher to levels that we would consider more normal.

As of 6/30/20, XRAY was trading at around \$44 per share or around 17.0x the Investment Team's estimate of normalized or mid-cycle earnings per share. This valuation multiple compares favorably to both our entire Nuance long universe, which is currently trading at around 26.0x normalized earnings, and XRAY's historical valuation history, where its Price to Earnings Ratio (PE) has averaged over 20.0x earnings. If XRAY's earnings per share were to step-change higher, as explained above, and XRAY's earnings multiple were to expand up to its long-term average, then attractive relative and absolute upside could be generated by investing in XRAY at today's prices, in our opinion. This combination of under-earnings caused by a transitory issue and under-valuation in a company with an above average competitive position is exactly what our Investment Team is looking for in a long investment and explains why XRAY is a top holding today.

***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.

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.

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

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.

As of 6/30/2020 portfolio weights of names discussed are as follows: Dentsply Sirona, Inc. (XRAY) 7.10%.

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.