

Nuance Mid Cap Value Composite Perspectives



September 30, 2019

Description of the Product

The Nuance Mid Cap Value Composite is a classic value investment product investing primarily in the equity or equity-linked securities of United States based companies. The product will typically maintain 50-90 positions in the securities of companies that, in the opinion of the Nuance Investments Team, have leading and sustainable market share positions, above average financial strength, and are trading at prices materially below our internally derived view of intrinsic value. The product's primary benchmark is the Russell Midcap® Value Index. Clients may also compare the product to the S&P MidCap 400 Value Index and the S&P 500 Index.

Portfolio Managers



Scott Moore, CFA
President & CIO
28 Years of Experience

Chad Baumler, CFA
Vice President
12 Years of Experience

Risk-Adjusted Returns Rankings¹

1ST PERCENTILE

Lipper
Category: Mid-Cap Value
SI Rank in Cat: 1 of 103

Morningstar
Category: Mid-Cap Value
SI Rank in Cat: 1 of 306

Longer Term Performance Update (through September 30, 2019)

Since Inception Return: The return since inception (on 11/03/2008 through 9/30/2019) is 15.5 percent (annualized and net of fees) versus the Russell Mid Cap Value Index and S&P MidCap 400 Value Index which have returned 13.1 percent and 12.9 percent respectively. We are pleased with this level of outperformance over time.

Risk-Adjusted Returns: Our Sharpe Ratio since inception through 9/30/2019 is 1.1 (net of fees) versus Russell Midcap Value Index at 0.8, the S&P MidCap 400 Value Index at 0.7 and the S&P 500 Index at 0.9.

Peer Group Returns through 9/30/2019: Comparing our product to peers displays positive results over time. On a total return basis, since 11/30/2008, we ranked 1 out of 306 (1st percentile) peer group members in the Morningstar Mid Cap Value universe. Versus the Lipper Mid Cap Value universe we ranked 1 out of 103 (1st percentile).

Peer Group Risk-Adjusted Return through 9/30/2019: On a risk-adjusted return basis, since 11/30/2008, (as measured by the Sharpe Ratio) we ranked 1 out of 306 (1st percentile) peer group members in the Morningstar Mid Cap Value universe. Versus the Lipper Mid Cap Value universe we ranked 1 out of 103 (1st percentile).

Peer Group Analysis 11/30/2008 - 9/30/2019	Since Inception APR ¹	Standard Deviation (A) ¹	Sharpe Ratio (A) ¹
Nuance Mid Cap Value Composite (Gross)	17.1	13.2	1.3
Nuance Mid Cap Value Composite (Net)	16.3	13.2	1.2
Lipper Mid-Cap Value Funds Peer Group (Median)	12.9	16.1	0.7
Peer Group Percentile and Ranking	1st (1 of 103)	1st (1 of 103)	1st (1 of 103)
Morningstar Mid-Cap Value Peer Group (Median)	13.1	15.9	0.8
Peer Group Percentile and Ranking	1st (1 of 306)	1st (4 of 306)	1st (1 of 306)

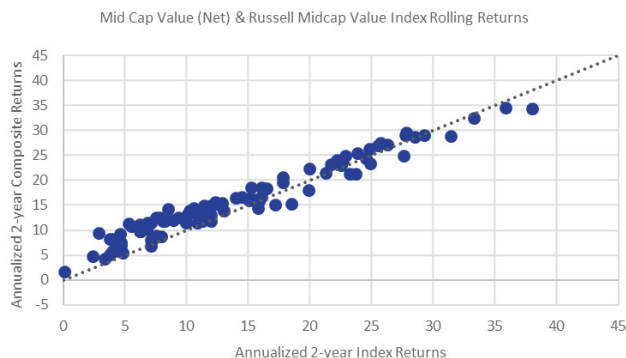
Performance 11/03/2008 - 9/30/2019	APR [*]	TR [*]	Standard Deviation [*]	Sharpe Ratio [*]	10 Years	7 Years	5 Years	3 Years	1 Year	2019 YTD
Nuance Mid Cap Value Composite (Gross)	16.4	422.9	13.3	1.2	15.6	15.3	12.1	14.5	15.5	23.2
Nuance Mid Cap Value Composite (Net)	15.5	384.0	13.3	1.1	14.8	14.5	11.3	13.7	14.7	22.5
Russell Midcap Value Index	13.1	283.4	16.1	0.8	12.3	11.6	7.5	7.8	1.6	19.5
S&P Midcap 400 Value Index	12.9	275.4	17.2	0.7	11.9	11.6	7.9	8.4	(2.5)	17.4
S&P 500 Index	13.3	288.6	13.8	0.9	13.2	13.2	10.8	13.4	4.3	20.6

^{*}Since Inception

Shorter Term Performance Update (Two Year and Year-to-Date)

Rolling 2-Year Periods	Current 2-Year Period as of 9/30/2019		
	Periods Beating the Index	Composite (%) Net of Fees ¹	Russell Midcap Value Index (%)
11/30/2008 - 9/30/2019	86/107	80.4%	10.7
Nuance Mid Cap Value Composite			5.1

Your team at Nuance cautions our clients regarding the use of short-term performance as a tool to make manager or investment decisions. That said, if a client wants to consider our short-term performance we recommend emphasizing two-year rolling periods since our inception. Our normal discussion of short-term performance will center on two-year performance, but we will also note calendar year to date results as is our tradition.



For the period ending September 30, 2019, the Nuance Mid Cap Value Composite two year rolling return is 10.7 percent (net of fees) versus the Russell Midcap Value Index and S&P 500 Index which have returned 5.1 percent and 10.9 percent respectively. Overall, we have outperformed in 86 out of the available 107 two-year periods as shown in the chart labeled Annual 2-Year Rolling Return.

Year-to-date, the Nuance Mid Cap Value Composite has returned 22.5 percent (net of fees) versus the Russell Mid Cap Value Index and the S&P 500 Index which have returned 19.5 percent and 20.6 percent respectively.

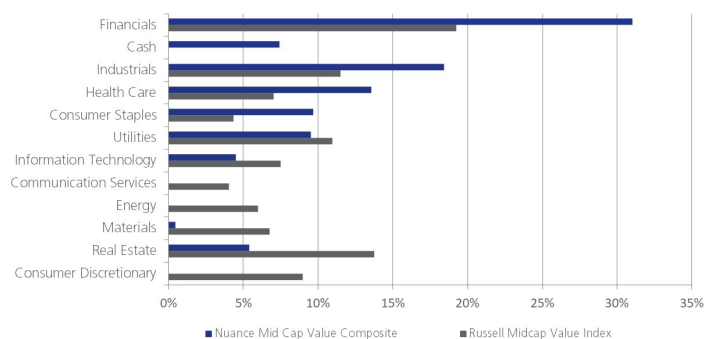
Calendar Year Performance as of 9/30/2019	11/03/08 - 12/31/08	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 YTD
Nuance Mid Cap Value Composite (Gross)	(4.1)	38.7	21.1	4.0	22.0	35.5	9.8	3.0	21.9	16.2	(4.2)	23.2
Nuance Mid Cap Value Composite (Net)	(4.1)	38.2	20.0	3.4	20.6	34.2	9.1	2.3	21.1	15.4	(4.9)	22.5
Russell Midcap Value Index	(5.6)	34.2	24.8	(1.4)	18.5	33.6	14.7	(4.8)	20.0	13.3	(12.3)	19.5
S&P MidCap 400 Value Index	(3.9)	33.8	22.8	(2.4)	19.1	34.3	12.0	(6.7)	26.5	12.3	(11.9)	17.4
S&P 500 Index	(6.0)	26.5	15.1	2.1	16.0	32.4	13.7	1.4	12.0	21.8	(4.4)	20.6

Composition of the Portfolio as of 9/30/2019

Portfolio Characteristics ²	Nuance Mid Cap Value Composite	Russell Midcap Value Index
Weighted Average Market Cap	16.8b	15.3b
Median Market Cap	11.8b	7.6b
Price to Earnings (internal and ttm)*	17.4x	22.6x
Dividend Yield	1.8%	2.4%
Return on Equity	13.6%	14.3%
Return on Assets	4.9%	4.5%
Active Share vs Russell Midcap Value	97.2%	-
Upside/Downside Capture Ratio vs Russell Midcap Value	90.9% / 73.1%	-
Number of Securities	61	632

²Based on Nuance internal estimates and benchmarked against the above noted Russell index.

We continue to be pleased with the overall composition of the portfolio. Remember that we are seeking investment opportunities in leading business franchises with better than average valuation support. Using the table below, you can see that the portfolio has a Price to Earnings ratio of 17.4x versus the Russell Midcap Value Index of 22.6x. We are achieving this ratio with a portfolio of companies that have a return on assets of 4.9% versus the Russell Midcap Value Index of 4.5%. This dichotomy of above average companies selling at below average multiples has the opportunity for outperformance over the long-term, in our opinion.

Sector Weights and Portfolio Positioning as of 9/30/2019

The portfolio was mostly unchanged during the quarter from a sector weight standpoint. Our largest overweight versus the benchmark remains the Financial sector. Within the Financial sector, the largest overweight is in the insurance industry where a combination of low interest rates and a higher than average catastrophe year has created some significant opportunities, in our view. We also continue to be overweight in the Healthcare sector where we are seeing opportunities in the equipment & supplies industry. We are overweight in the Industrial sector as we are seeing what we believe to be attractive risk-rewards across a diverse group of leaders. We continue to have an overweight position in the Consumer Staples sector and are finding select opportunities, primarily in the packaged foods & meats sub-industry. We remain underweight the Energy sector where we believe the sector is facing a multi-year period of competitive transition. Lastly, we remain underweight the Consumer Discretionary, Communication Services, Utilities, Real Estate, and Materials sectors primarily due to valuation concerns.

Nuance Perspectives from President & CIO, Scott Moore, CFA

Dear Clients,

At the end of the third quarter of 2019, your Nuance Mid Cap Value Composite was up 22.53 percent (through 9/30/2019 and net of fees) versus the Russell Midcap Value Index up 19.46 percent and the S&P 500 Index up 20.55 percent. Most importantly to us, since our inception on 11/03/2008, the Nuance Mid Cap Value Composite is up 15.54 percent (annualized and net of fees) versus the Russell Midcap Value Index up 13.11 percent and the S&P 500 Index up 13.25 percent.

For this quarter's commentary, we wanted to delve into a critical and underappreciated part of our investment process. The portion of our process that could either prevent or result in a value trap and/or capital loss potential, as well as the part that legitimizes to us that the historical financial statements are a valid data source to assist the investments team in forecasting the future. This part of our process is our competitive position study - the overall review of the competitive position of the company we are investing in for our clients, and the competitive dynamics of the sub-industry or industry in which the business is operating. As a refresher to our readers, our goal is to find leading business franchises with sustainable competitive positions well into the future. We do this by studying the historical market share positions of each competitive business segment versus that competitive business segment's peers. We not only study the market share history, to avoid perpetual market share losers, but we also spend a great deal of research time considering any and all competitive disruptions that might impact that market share history more broadly. These disruptions can be from technological advances, governments' policy shifts, or other more ancillary change, but the vast majority of identified competitive disruptions are due to technological advancements which make old sub-industry business practices obsolete over time. I have shared with our clients that my first identified technological disruption was in the late 1990s when Eastman Kodak Co.'s (KODK) classic imaging and film business was at the early stages of being disrupted by digital photography. This early example of identifying a potential capital loss or so-called "value trap" was a serious eye-opener for a young investment analyst.

Today, our team is focused on—and aims to be experts at—identifying these competitive transitions. From digital photography to newspapers, to ATM machines, to dental distribution companies, the list of identified transitions is long and valued. As I think back through my investment career and its own cycles, it is apparent that the number of technological advancements and competitive disruptions are accelerating, and your team sees them as opportunities to avoid disruptions that our benchmarks cannot. Further, we see significant opportunities to delve into the positive side of these disruptions for long term investment opportunities and ideas. We believe this focus on competitive change is so critical to generating alpha for our clients over the long term. One example is the disruption that we first noted in 2017 regarding our belief that over the next 5-20 years, we will see market share losses for oil and natural gas exploration companies to what we would describe as solar power electricity infrastructure shifts. These shifts are multi-faceted but have led us to avoid traditional fossil fuel companies for the foreseeable future as we expect demand for oil and natural gas to flatten and eventually decline as the combination of conservation, technological advancements, the migration to electric cars, and the migration to more solar rooftop technology eventually take significant market share from gasoline combustion engines and coal and natural gas sources of electricity. This solar-related infrastructure shift also suggests to us positive market share shifts towards electrical equipment companies and others who will benefit from changes in the energy infrastructure build. Companies like Schneider Electric SE (SBGSY), ABB Ltd. (ABB), and Legrand SA (LGRDY) are good examples of how your team will be playing the broad energy space over time.

For perspective, we went back to 12/31/2002 and reviewed the Russell Midcap Value Index (RMV) and the S&P 500 Index (SPX) and estimated what percentage of the index we believed was in the midst of a competitive transition at that time. We realize that these are best guess estimates but still interesting data. At that time, we believed a portion of the Paper and Forest Products industry (1.15 percent of the RMV and 0.48 percent of the SPX), a portion of the old Telecommunication Services sector (1.08 percent of the RMV and 4.19 percent of the SPX), a portion of the Specialty Retail industry (1.72 percent of the RMV and 2.08 percent of the SPX), and a portion of the Multi-line Retail industry (2.05 percent of the RMV and 3.98 percent of the SPX) were being disrupted, in our opinion. There were others, but this gives our readers an idea. Just taking those disruptions suggests approximately 6-7 percent of the RMV and 10-11 percent of the SPX had some form of competitive disruption occurring at year-end 2002. Today there is undoubtedly acceleration.

Currently, we would estimate that the following parts of the economy are in the middle of disruption:

1. A large portion of the Diversified Telecommunication Services industry (0.43 percent of the RMV and 2.18 percent of the SPX) is being disrupted, and please note the significant reduction in index weight as the space had struggled through the disruption since 2002 as new technologies in both fiber and wireless as well as content disruption from the likes of Netflix, Inc. (NFLX) and Amazon.com, Inc. (AMZN) and many others impact the space.
2. A large portion of the Energy sector is being disrupted in our view (5.50 percent of the RMV and 4.52 percent of the SPX) by two issues. The transition from electricity production away from coal and natural gas towards renewables like solar electricity along with the transition towards electric transportation options away from combustion engines which will impact oil and gas demand.
3. A large portion of the Paper and Forest Products industry (0.05 percent of the RMV and 0.00 percent of the SPX), and again, please note the significant reduction in index weight as the space has struggled through the disruption since 2002 due to technology replacing the need for actual paper.
4. A large portion of the Specialty Retail industry (1.42 percent of the RMV and 2.39 percent of the SPX), and a large portion of the Multi-line Retail industry (0.60 percent of the RMV and 0.56 percent of the SPX) is still being disrupted by the transition to online retail options.
5. A significant portion of the Banks industry (particularly consumer banking) is being disrupted (6.29 percent of the RMV and 5.46 percent of the SPX) by new non-branch banking and transaction options.

There are more, including the Auto Components industry, the Food Products industry, and portions of the Electric Utility industry and Containers and Packaging industries. Adding them up is not an exact science, but we would estimate that up to 20-25 percent of the RMV, and 15-20 percent of the SPX is being disrupted.

Why is this competitive disruption a positive for Nuance's clients? Because for every negative transition, we believe there is generally a positive transition, and that is why active investing has the potential to lead to above-average risk-adjusted and absolute returns over time. The avoidance of the negative transitions, and the awareness of the positives, allow us to invest when the market share gaining businesses are facing a transitorily negative period, that awareness is critically important to outperformance potential over the long term. What are the competitively advantaged spaces, in our opinion? Much of the change is technological, so we would expect market share gainers overall in the Semiconductor and Semiconductor Equipment industry. Other positives include the Electronic Equipment, Instruments, & Components industry, the Software industry, and the Electrical Equipment industry. There are more, but these give you an idea.

In conclusion, we often get asked by clients what part or parts of our process we believe create our own Nuance competitive advantage as it relates to performance versus peers and benchmarks. While we would suggest there are multiple of those performance-enhancing process-related advantages, we believe the complete and thorough review of the going forward stability of a company or sub-industry's competitive position is without a doubt at or near the top of those critical advantages.

Please visit our website for more information about our team, our process, and value investing. Follow us on LinkedIn and Twitter! You may also receive information via traditional mail or email. Call us at 816-743-7080. [Click here for historical Concentrated Value Perspectives.](#)

Thank you for your continued confidence and support.



Scott A. Moore, CFA

GIPS Disclosures

	Gross of Fees Return	Net of Fees Return	Benchmark Return (RMV Index)	Benchmark Return (MIDV Index)	Composite Dispersion (Full Period)	Number of Separate Accounts (End of Period)	Total Composite Assets (End of Period)	Total Firm Assets (End of Period)	% of Non-Fee paying accounts	3 Year Annualized Standard Deviation (Composite)	3 Year Annualized Standard Deviation (RMV Index)
YTD 2008 (11/03/08-12/31/08)	(4.1)	(4.1)	(5.6)	(3.9)	N/A	1	\$9,531,045	\$18,657,997	0.0%	-	-
2009	38.7	38.2	34.2	33.8	-	4	\$50,600,141	\$137,943,058	1.1%	-	-
2010	21.1	20.0	24.8	22.8	0.1	4	\$60,702,099	\$181,201,036	1.1%	-	-
2011	4.0	3.4	(1.4)	(2.4)	0.1	4	\$55,186,800	\$152,976,943	0.9%	18.2	23.1
2012	22.0	20.6	18.5	19.1	0.1	4	\$58,463,905	\$214,936,666	1.0%	14.6	17.0
2013	35.5	34.2	33.6	34.3	0.1	8	\$80,358,264	\$507,569,897	1.0%	13.1	13.9
2014	9.8	9.1	14.7	12.0	0.1	13	\$130,238,086	\$1,071,186,382	0.7%	10.7	9.9
2015	3.0	2.3	(4.8)	(6.7)	0.1	17	\$145,638,450	\$913,545,839	0.6%	11.2	10.9
2016	21.9	21.1	20.0	26.5	0.1	17	\$416,346,621	\$1,466,221,847	0.0%	11.5	11.5
2017	16.2	15.4	13.3	12.3	0.0	23	\$586,931,538	\$1,784,338,191	0.0%	10.5	10.5
2018	(4.2)	(4.9)	(12.3)	(11.9)	0.1	21	\$852,510,018	\$1,724,795,756	0.0%	10.2	12.1
YTD 2019 (9/30/2019)	23.2	22.5	19.5	17.4	N/A	24	\$1,896,008,950	\$3,018,527,865	0.0%	10.4	13.4

Compliance Statement

Nuance claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Nuance has been independently verified for the periods 11/03/08 – 3/31/19 by Absolute Performance Verification. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. Nuance is an investment adviser registered with the Securities and Exchange Commission. The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary separate accounts under management, including those accounts no longer with the firm. The U.S. Dollar is the currency used to express performance returns and assets. Performance results are presented both net and gross of management fees and include the reinvestment of income. Both gross and net of fee returns are reduced by trading expenses. Net of fee returns are reduced by Actual investment advisory fees and other expenses that may be incurred in the management of the account. Incentive fee structures and performance-based fee structures are available for qualified clients and are negotiated individually. From the inception of each composite until 12/31/10, Time Weighted Return was compounded on a monthly basis. Beginning 01/01/11 through present, Time Weighted Return was compounded on a daily basis.

Dispersion is calculated from gross of fee returns using an equal-weighted standard deviation methodology. Only those accounts included for the full calculation period are part of the dispersion calculation. The 3-year Ex-post annualized standard deviation value is calculated using 36 consecutive monthly gross of fee returns to the end calculation period. Prior to January 1, 2017 dispersion was calculated using an asset-weighted methodology. The calculation methodology was updated based on a new performance system dispersion calculation. Nuance has adopted the following Significant Cash Flow Policy. An account will be removed from a composite if a client has given specific instructions that prevent full investment of the cash flow(s) in a timely manner (defined as 5 business days or greater), or if a single cash flow is equal or greater than 10 percent of the total account value based on the beginning of the month market value. If these circumstances exist, the account will be removed from the composite and added back to the composite on the first day of the following month.

Our Core offerings are the Nuance Mid Cap Value Strategy, the Nuance Concentrated Value Strategy and the Nuance Concentrated Value Long-Short Fund. More information regarding Composite descriptions and policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request by contacting client.services@nuanceinvestments.com or 816-743-7080.

Important Disclosures

Nuance Investments, LLC (the "Firm") is a Registered Investment Advisor. The Firm's Nuance Mid Cap Value Composite (the "Composite") is a composite of actual accounts invested in the Nuance Mid Cap Value investment strategy. The inception date for the Composite is 11/03/2008. The Composite includes all accounts that have invested in the strategy; including accounts no longer managed by the Firm and are presented in US Dollars. The Primary Benchmark for the Composite is the Russell Midcap Value Index. The Russell Midcap Value Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values. The Secondary Benchmarks for the Composite are the S&P MidCap 400 Value Index and the S&P 500 Index TR. The S&P MidCap 400 Value Index measures value in separate dimensions across six risk factors. The value factors include book value to price ratio, sales to price ratio, and dividend yield. The S&P 500 Index TR 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 Composite may differ markedly from that of compared indices due to varying degrees of diversification and/or other facts. Return calculations for the Composite are provided by Clearwater Analytics. Return calculations for all indices are provided by Bloomberg. A full schedule of fees for all Firm products is available upon request. The collection of fees has a compounding effect on the total rate of return net of investment management fees. Net of fee performance is presented after all actual investment management fees and trading expenses.

All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. The information contained herein should not be construed as personalized investment advice and should not be considered as a solicitation to buy or sell any security or engage in a particular investment strategy. Investing involves risk, including the possible loss of principal.

(1) Rankings and peer groups created internally using data from Zephyr Style Advisor. Risk-Adjusted Return (Sharpe Ratio), Standard Deviation and return calculations for the Composite and indices provided by Zephyr Style Advisor. The Composites have been compared to various peer groups defined by investment style. Subsets of the Morningstar Large Value Peer Group, the Morningstar Mid Cap Value Peer Group and the Lipper Multi-Cap Value Funds Peer Group with performance history since inception have been presented as investment strategies with similar investment styles for the Nuance Concentrated Value Composite. Subsets of the Morningstar Mid Cap Value Peer Group and the Lipper Mid-Cap Value Peer Group with performance history since inception have been presented as investment strategies with similar investment styles for the Nuance Mid Cap Value Composite. For peer group comparisons all Returns, Standard Deviation and Sharpe Ratio calculations, including those of the Composite were calculated by Zephyr Style Advisor based upon strategies with monthly return data from December 2008 to present. Zephyr reports on month end returns only. For the purposes of peer group comparisons Since Inception returns are shown beginning 11/30/2008. The Sharpe Ratio is a calculation of a product's risk-adjusted performance over time. The Ratio is calculated by taking a product's annualized excess return over a risk-free rate (The Firm uses the Citigroup 3-Month Treasury Bill as the risk-free rate) and dividing by its annualized standard deviation calculated using monthly returns.

(2) Index statistics are provided by Russell. Characteristics calculations use holdings at market close on the stated date, including cash & cash equivalents. The following Composite characteristics are calculated using Bloomberg: Median Market Cap (midpoint of market capitalization of the stocks in the portfolio), Dividend Yield (annual dividends relative to share price), Return on Equity (net income divided by shareholder equity), Return on Assets (net income divided by average total assets). The P/E statistics are a Nuance internal calculation. Portfolio and Index P/E are calculated as the weighted average of individual company P/E ratios. Active share, as calculated by Morningstar Direct, is a statistic that measures a strategy's holdings relative to the holdings of the appropriate benchmark. Standard deviation is a measure of volatility showing the average deviations of a return series from its mean. The upside capture ratio is an indication of a manager's ability to match returns in periods of market strength, while the downside capture ratio measures a manager's ability to curtail losses in periods of index weakness. Results are gross of fees for the period since inception through present. Both upside/downside ratios and standard deviation are calculated using Style Advisor.

From the period 6/30/2017 to 7/31/2019, our internal Price to Earnings calculation was understated based on an inaccurate calculation of preferred securities. Those numbers have been restated and are accurately reflected in all of our materials on the website.

Portfolio holdings and sector allocations are subjected to change and are not a recommendation to buy or sell any security. As of 9/30/2019 portfolio weights of names discussed are as follows: ABB Ltd. (ABB) 1.47%, Schneider Electric ADR (SBGSY) 1.45%, and Legrand SA (LGRDY) 0.00%.

Past Performance is not a guarantee of future results. Any investment contains risk including the risk of total loss. There is no guarantee that an investment with the strategy will meet its investment objectives. Please request a copy of the Firm's Full General Disclosures for more information.