NOTTINGHILL INVESTMENT ADVISERS, Ltd.

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An Update

SCORECARD

	2016 QI-QII	One Year	Three Years	Five Years	10 Years
S&P 500 Index	**3.84%**	**3.99%**	**11.66%**	**12.10%**	**7.42%**
10-Year Treasury Note	**8.04**	**9.96**	**5.78**	**5.95**	**6.79**
Gold	**24.34**	**12.72**	**3.46**	**-2.59**	**7.96**

All multi-year returns are annualized, and all returns are associated with time periods ending June 30, 2016

QII 2016 - Brexit and the U.S. As Sideshow

The U.S. as a sideshow? Yes, as the second quarter came to an end, the news cycle and financial markets everywhere were dominated by overseas events, specifically those occurring in Great Britain and on the Continent. The so-called Brexit referendum was held on June 23, and, by a 52-48 margin, the citizens of the UK voted to leave the European Union. The shock was palpable. Virtually every political seer and pollster had predicted that Prime Minister David Cameron and the rest of the UK establishment would get their way, and the status quo would be maintained. In 2016, however, the established order tends to attract skeptics, and status quos frequently are upended. Ultimately, the UK and the EU will forge a new relationship, but the process will take time, even as the U.S. economy continues to trudge along. In the June 15 Perspective (“Brexit”), we referred to a U.S. economy that “may not be tearing up the track,” which continues to apply; but, slow, steady progress and a still-accommodative Fed are not all bad.

The peace and tranquility that characterized the U.S. stock market in April, May, and early-June ended abruptly on June 24, the day after the Brexit vote when equities everywhere sold off on the news. For the quarter, the broadly based S&P 500 Index provided an investment return of 2.46%, which makes the Index 3.84% for the year. Value stocks for the most part continued to outperform Growth stocks, and large company and small company performance was about even. But, as much reverence as we have for equities, the real story in the second quarter was elsewhere. Bonds, the most reviled asset class of the last seven or eight years, actually benefited from the Brexit vote. A Treasury note maturing in 10 years provided a second quarter investment return of 3.04%, which brings the six-month return to 8.04%. Gold also was a Brexit beneficiary, and therefore, continued its winning ways. In the second quarter, one troy ounce of Englehard industrial bullion appreciated 6.53%, which brings that six-month investment return to an eye-catching 24.34%. So, at the halfway mark, gold, bonds, and U.S. equities, in that order.

Focusing on our three numbers, where do things stand now?

- **The Price/Earnings Ratio of the S&P 500 Index**
  One June 30, this aggregate valuation of underlying Index earnings stood at 24.26x, which compares to the 22.72x of March 31 and the 21.54x of December 31, 2015. Valuations in general clearly are creeping up.
- **The Average Yield Within the 10-Stock Yield Group**
  The Yield Group has performed well this year; but, dividends have increased in some cases, and the Group’s June 30 current yield is a still-generous 3.80%. Bargains remain.
- **The Yield of a Treasury Note Maturing in 10 Years**
  The yield of this safe-haven security and principal stock market rival declined from 1.78% to 1.48% in the second quarter. A truly unworthy rival.

Bottom line: The U.S. equity market in general is fully valued, but Cyclical/Value (and emerging market) opportunities remain. The competition is even weaker than before.

Diversification, structure, discipline, the bottom up search for investment value. Some things never change.

* *

And now, the balanced strategies…

About the Firm

Nottinghill Investment Advisers, Ltd., is a registered investment adviser founded in May 1996.

Nottinghill is owned by the seasoned professionals serving its clients, and effectively managing the assets of those clients, taxable as well as tax-exempt, is the Firm’s only business. The twin results are commitment and focus.

Total Portfolio Management, or TPM, is Nottinghill’s largely indexed, balanced approach to the management of a client’s overall portfolio, and Indexed Total Portfolio Management, or ITPM, is the fully indexed variation. In both cases, portfolios contain three sectors: Equities, either indexed or governed by the Firm’s Value Plus Equity Strategy; U.S. Fixed Income, either indexed or governed by the Firm’s Select Four Bond Strategy; and the fully indexed Alternatives Group. TPM and ITPM are two complete, widely diversified answers to any client’s investment needs.

Seasoned investment professionals. Commitment and focus. Two complete, widely diversified answers. Nottinghill is your ideal partner.

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Total Portfolio Management

Total Portfolio Management, or TPM, is our largely indexed, balanced approach to the management of a taxable individual's or tax-exempt institution's overall portfolio. The objectives are inflation- and benchmark-beating investment returns, as well as the investment return stability that comes with a multi-asset class portfolio structure.

Investment Process - The Complete, Largely Indexed Answer

TPM portfolios consist of three sectors: Equities, U.S. Fixed Income, and the Alternatives Group. The Firm's Value Plus Equity Strategy, an active strategy, governs the U.S. large capitalization component of the Equities sector, which also includes three other, indexed Exchange-Traded Fund (ETF) components. The U.S. Fixed Income sector is governed by the Firm's Select Four Bond Strategy, a combination of three actively managed bond mutual funds and intermediate Treasuries. And finally, positions in three alternative asset classes (three ETF positions) constitute an Alternatives Group that adds yet another layer of diversification. The complete, largely indexed answer. One destination for all of the taxable individual's or tax-exempt institution's investment needs.

Second Quarter — Firing On All Cylinders (Again)

No complaints in the first quarter, and none in the second either. The Equities and U.S. Fixed Income sectors did just fine, but the Alternatives Group continued to be the story of 2016. The Brexit vote rattled the currency markets, and that benefited gold; but, the other two asset classes made healthy contributions to performance as well. So, this time, three-for-three.

Investment Returns

	2016 QI-QII	One Year	Three Years	Five Years	10 Years	Life of the Strategy**
TPM Baseline*	**7.61%**	**2.34%**	**6.20%**	**5.96%**	**6.20%**	**7.89%**

**65% equities*
*** Strategy inception for discussion purposes is January 1, 2002*

Nottinghill Investment Advisers, Ltd., is an independent, registered investment adviser utilizing a number of large capitalization equity and widely diversified balanced investment strategies. The Total Portfolio Management performance data, which are provided net-of-the management fee, are a combination of the actual investment returns associated with Nottinghill's Value Plus Equity Strategy, three equity and four fixed income mutual funds/ETFs, gold bullion/an ETF tracking the price of gold, and, after January 1, 2014, two alternatives indexes/ETFs. The investment returns are actual; however, the combination is simulated, and such simulated data have certain inherent limitations. First, unlike an actual performance record, simulated results do not reflect actual trading. Second, since trades have not actually been executed, results may contain an under- or over-compensation for the impact, if any, of certain market factors. All multi-year returns have been annualized, and all returns are associated with time periods ending June 30, 2016. To receive details regarding the calculation and the presentation of any Nottinghill performance data series and/or a complete description of all Nottinghill performance composites, please contact Nottinghill Investment Advisers, Ltd. Whether simulated or actual, past performance is no guarantee of future results.

Now, let's continue the focus on balanced portfolio investing, and talk about ITPM in 2016. Details on the next page.

Indexed Total Portfolio Management

Indexed Total Portfolio Management, or ITPM, is our fully indexed, balanced approach to the management of a taxable or tax-exempt investor's overall portfolio. Once again, the objective is inflation-beating investment returns; but this time, they are expected to be in line with the passive indexes, and expenses are expected to be ultra-low.

Investment Process - The Complete, Fully Indexed Answer

ITPM portfolios also consist of an Equities, a U.S. Fixed Income, and an Alternatives Group sector. A total of nine components, and all nine consist of Exchange-Traded Fund (ETF) positions (average expense ratio 0.24%) performing in line with an associated equity market index, bond market index, or commodity price. The result: the traditional performance advantages of indexing, along with ultra-low transaction costs and management fees. The complete, fully indexed answer. As with TPM, one destination for all of the individual or tax-exempt investor's investment needs.

Second Quarter — All the Rowers Were Rowing

All of ITPM's sectors are fully indexed, and all performed well in the second quarter. As before, however, the Alternatives Group carried a great deal of the load. Three-for-three….this time anyway.

Investment Returns

	2016 QI-QII	One Year	Three Years	Five Years	10 Years	Life of the Strategy**
ITPM Baseline*	**5.68%**	**0.33%**	**5.45%**	**5.47%**	**5.35%**	**6.86%**

**65% equities*
***Strategy inception for discussion purposes is January 1, 2002*

Nottinghill Investment Advisers, Ltd., is an independent, registered investment adviser utilizing a number of large capitalization equity and widely diversified balanced investment strategies. The Indexed Total Portfolio Management performance data, which are provided net-of-the management fee, are a combination of the actual investment returns associated with certain indexed mutual funds/ETFs or the indexes upon which those indexed mutual funds/ETFs are based and the actual investment returns associated with gold bullion or an ETF tracking the price of gold. The investment results are actual; however, the combination is simulated, and such simulated data have certain inherent limitations. First, unlike an actual performance record, simulated results do not reflect actual trading. Second, since trades have not actually been executed, results may contain an under- or over-compensation for the impact, if any, of certain market factors. All multi-year returns have been annualized, and all returns are associated with time periods ending June 30, 2016. To receive details regarding the calculation and the presentation of any Nottinghill performance data series and/or a complete list and description of all Nottinghill performance composites, please contact Nottinghill Investment Advisers, Ltd. Whether simulated or actual, past performance is no guarantee of future results.

Time for a sector-by-sector look at TPM. Check out the back page.

Editor's Note: With this Update, we begin a three-part review of a TPM portfolio's three sectors...what they are, what they hold, and what they're supposed to do. This time, the Equities sector.

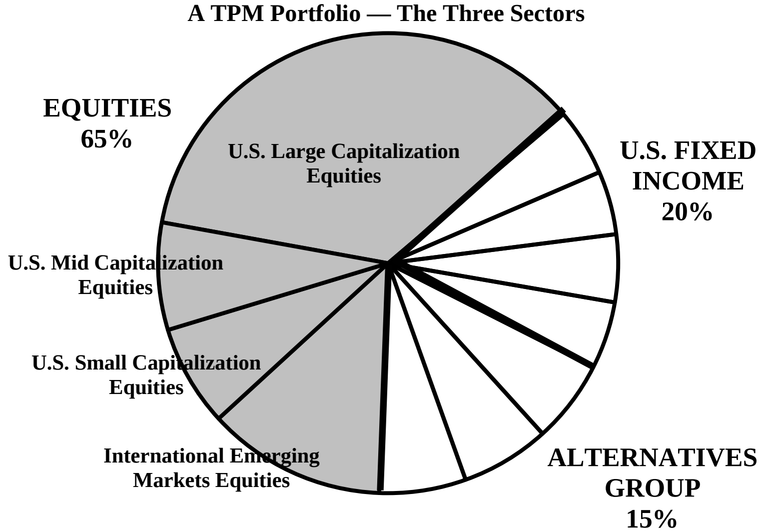
TPM's Equities Sector — Long-Term Growth of Capital

"The three scariest phrases in stock market investing:
1) They're based in Bermuda,
2) Twelve out of 13 analysts rate it a buy,
3) It's different this time."
—anonymous

Back when one of us was starting out in the business — and no, "Heartbreak Hotel" was no longer in the Top 40 — prospective clients typically came to us with a specific sum of money and a specific set of marching orders in mind. Almost always those clients wanted us to manage equities, so we'd haul out our presentation booklets and describe as simply as possible why we buy stocks, why we sell stocks, and the historical performance of those buy/sell criteria.

In the modern era, that "just-give-me-the facts" approach occasionally still happens, but it's no longer typical. What is typical is that a prospective client now has been busy raising a family, building a career, etc., and his/her asset picture has become complicated. He/she wants us to organize or reorganize a whole range of financial affairs and to talk about why and how what we do is a good fit. What that means is that, rather than a narrowly defined, usually all-equity mandate, the modern-era investment manager better be prepared to discuss well-diversified, multi-asset class portfolio structures.

Figure 1
A TPM Portfolio — The Three Sectors



Total Portfolio Management, or TPM, is our principal balanced, or multi-asset class strategy. As mentioned in this Update and elsewhere, those asset classes are contained in three portfolio sectors: Equities, U.S. Fixed Income, and the Alternatives Group. And, depending upon circumstances and objectives, he/she can select an Aggressive (80% equities), Baseline (65% equities), or Conservative (50% equities) asset allocation mix. Also—and this is very important—TPM portfolios are partially indexed. In other words, most of the Equities and U.S. Fixed Income sectors are managed actively, while the remainder of each and the entire Alternatives Group consists of indexed Exchange Traded Fund (ETF) shares. They are traded throughout the day on all of the principal stock exchanges, and the price of each ETF performs in line with the associated equity market index, bond market index, or commodity price.

The TPM-Baseline structure is shown in Figure 1, and, in this Update, we will begin a three-part, sector-by-sector review of a TPM portfolio by discussing the Equities sector. Good place to start — the Equities sector is the long-term driver of a TPM client's total portfolio performance. Why? Because the sector's four equity <u>classes</u> represent a call on the worldwide economy's growth and growth potential, and in turn are expected to provide a TPM portfolio with most of its long-term capital growth. Let's take a look at the four.

U.S. Large Capitalization Equities — The Joys of Value Plus

Sixty percent of the Equities sector consists of U.S. large caps, large-company stocks governed by our flagship Value Plus strategy. This, of course , in a 20-stock approach, with a 19-year history of index-beating investment returns. Portfolios (or TPM sub-portfolios) contain three independently managed equity groups governed by sharply contrasting value– and growth-oriented buy/sell disciplines. As a result, the Value Plus strategy, whether we're talking about a stand alone equity portfolio or a TPM portfolio's largest single component, has at least the <u>opportunity</u> to achieve market-beating investment returns <u>consistently</u>.

U.S. Smaller Capitalization and International Emerging Markets Equities — The Other Three Equity Classes

Proper diversification is the hallmark of the TPM strategy in general and the Equities sector in particular. Equity dollars are invested across the entire market capitalization range of the U.S. stock market, i.e., U.S. mid caps and U.S. small caps (along with the above large caps), and in international emerging markets equities. Why not just stick with the 20 large-company stocks? Two reasons. First, U.S. mid and small cap companies and international emerging markets companies are expected to provide much of the U.S. and world economy's growth in the years ahead; and second, the prices of these three equity classes (actually the three ETFs representing them) do not move in lock step with the Value Plus large caps. Superior underlying corporate growth <u>and</u> diversification within the Equities sector. Our TPM clients and we can live with that.

OK, where are Europe and Japan? Nowhere to be found for (again) two reasons. First, the performance of the overseas developed markets and U.S. large caps has tended to converge over the years, so we don't get the diversification that we want. And second, the TPM investor can get a lot of exposure to Europe and Japan simply by buying U.S. large caps, which derive a substantial portion of their sales from those developed overseas markets.

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So, the TPM investor benefits from a very well-diversified, multi-asset class portfolio structure consisting of three sectors. Of the three, the Equities sector, which provides the portfolio with most of its long-term growth of capital, is the largest and most important. Within that sector, the individual work horses are the four equity <u>classes</u>. Excellent prospects, and, just as important, securities that do not all move together in price. That's the right combination.

Next time...the U.S. Fixed Income sector, TPM's stabilizing factor, and much more. After that, the all-important Alternatives Group.

We would like to hear from you. Your questions, comments, and requests for information are welcome at our e-mail addresses: mcpeek@nottinghilladvisers.com, jem@nottinghilladvisers.com, and lmason@nottinghilladvisers.com.