NOTTINGHILL INVESTMENT ADVISERS, Ltd.

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An Update

SCORECARD

	2015 QI-QIII	One Year	Three Years	Five Years	10 Years
S&P 500 Index	-5.29%	-0.61%	12.40%	13.34%	6.80%
10-Year Treasury Note	2.89	6.37	1.80	4.37	5.83
Gold	-6.85	-8.15	-14.37	-3.13	9.17

All multi-year returns are annualized, and all returns are associated with time periods ending September 30, 2015

2015 QIII - At Long Last? No.

One headline in our September 23 Perspective was "The Fed—At Long Last? No," which referred to the previous Thursday's Fed decision not to raise interest rates. We were surprised. After all, this highly anticipated decision long had been described as data-dependent, and most U.S. macro economic data have been more than decent. The culprit, of course was the international arena, where an even-stronger dollar would have caused more problems for Corporate America. So, the Fed passed this time, and frankly, left the stock and bond markets a bit confused. They clearly would have preferred the vote of confidence that a modest hike in the fed funds rate (from 0% to 0.25%) would have provided.

The confusion engendered by the Fed in late-September did nothing to make an already-difficult quarter for U.S. and overseas equities any better. The broadly-based S&P 500 Index provided a total investment return of –6.44%, which snapped a string of 10 straight positive quarters and was the Index's worst quarter since 2011. Also worth noting, the performance gap between the more growth-oriented S&P 500 Index and our own Russell 1000 Value Index (-8.40%) continued to widen. Longer-term, as we continually preach, the Value style of investing is the clear winner; but, the Growth style does have periods of outperformance, and the last year or so has been one of them. Bonds? Our proxy is the Treasury note maturing in 10 years. That rate of return was 3.13% in the third quarter, with gold (Engelhard industrial buillion) coming in at –4.78%.

So, QIII was one of those annoying and occasionally nerve-wracking rough patches for the stock market. Unfortunately, they are inevitable, and attempts to avoid them with large-scale asset allocation shifts almost always are counter-productive. Still, having some sense of overall market valuation is helpful, and our focus in recent times has been on three numbers:

- **The Price/Earnings Ratio of the S&P 500 Index**
  On September 30, the Index sold at 19.35x the earnings of its underlying companies. That is slightly below the 20.17x of June 30, so this valuation metric has ticked down somewhat. But, this growth-oriented P/E ratio overstates the case. The valuation metrics in the Value arena that we prefer paint a more attractive picture. Not 2009-type attractive, but attractive nonetheless.
- **The Current Yield of the 10-Stock Yield Group**
  The cyclical equities that make up a large part of our 10-stock Yield Group had a difficult quarter, and the average current yield within the Group was a very generous 4.32% on September 30. That compares to the 3.75% of June 30, so there is no shortage of high-yielding bargains in the world of large capitalization equities.
- **The Yield of a 10-Year Treasury Note**
  A 10-year Treasury is widely viewed as the stock market's main competitor, and, for quite some time, that main competitor has provided little in the way of competition. That is still the case. On September 30, the 10-year Treasury yield was a meager 2.02%, somewhat below the 2.32% of June 30. Advantage equities, particularly high-yielding equities, once again.

The equity outlook, therefore, is generally positive. Aggregate valuations in the U.S. are generally positive, and valuations in the emerging markets for that matter are even better. At the same time, individual bargains clearly remain, and the competition for equity dollars is weak.

Bonds? "Shock absorber" is the phrase we often use, and that is the role of this portfolio sector. As the Fed hikes interest rates, that should continue to be the case. Long-term, the Equities sector drives total portfolio performance, but stability is a worthwhile objective.

Diversify, diversify, diversify in accordance with a well-considered plan, and then stay the course.

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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 balanced 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 <u>all</u> of the taxable individual's or tax-exempt institution's investment needs.

2015 QIII - Seasonal Headwinds, the Virtues of Diversification

Equity markets everywhere have a tendency to misbehave in each year's June-October period, and this years' third quarter certainly fit the mold. TPM's equity classes for the most part had their worst quarter since 2011. Much of the damage, however, was offset by the U.S. Fixed Income sector, and the Alternatives' contribution also was a net positive, at least in a relative sense versus equities. The virtues of diversification in a difficult stock market environment.

Performance — Value-Added Stability

	2015 QI-QIII	One Year	Three Years	Five Years	10 Years	Life of the Strategy*
TPM Baseline**	**-8.44%**	**-8.34%**	**4.45%**	**5.69%**	**5.81%**	**7.48%**

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

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 fixed income mutual funds/ETFs, a Treasury ladder, 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 September 30, 2015. 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 <u>ITPM</u> in 2015. 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 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.

2015 QIII - Seasonal Headwinds, Growth Ascendant, Those Virtues Again

As stated, equity markets everywhere have a tendency to misbehave in each year's June-October period. That indeed did happen in the third quarter, but equally noteworthy was the relative outperformance of the Growth style of investing in the case of ITPM's large-company stocks. Regardless, the Equities sector was not immune to the market's third quarter difficulties, which (again) were offset to some extent by the performance of the U.S. Fixed Income and Alternatives sectors. The virtues of diversification, this time the indexed kind.

Performance — Indexed Stability

	2015 QI-QIII	One Year	Three Years	Five Years	10 Years	Life of the Strategy*
ITPM Baseline**	**-6.84%**	**-3.63%**	**4.23%**	**6.21%**	**5.20%**	**6.63%**

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

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 September 30, 2015. 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.

Warts and all? Check out the back page.

Warts and All

"However beautiful the strategy, you should occasionally look at the results."
— Winston Churchill

"In God we trust, others have to have data."
— Dr. Bernard Fisher

Investment advisers have several important responsibilities, of which properly investing client assets is the most important. Properly reporting on the investment of those assets also is important, and over the years we have devoted countless hours to achieving accuracy, balance, and clarity within the reporting function. That not only goes for the presentation of the data themselves, but also for the interpretation of that data. Here is an example of what we mean.

In face-to-face meetings, our reports have a standard format based upon the four Ps: People (who are we?), Philosophy (what do we believe?), Process (how are decisions made?), and Performance (how have we done?). We don't' kid ourselves, though. The first three Ps are the background; while, the fourth is the star of the show, and that section almost always contains (at least) two charts. The first is the client's complete, unfiltered since-inception track record, both gross– and net-of-the management fee. The second is a brief and balanced (warts and all) summary of what we call the performance HIGHS and LOWS of the relationship. Interesting, and, since we recently reported to a long-time (1997) client, we'll show you what we mean. Let's start with the (that client's) HIGHS:

- **2003-2004, 2009, 2013 — all the stars were in line**
  The investment strategy in this case has been the all-equity Value Plus strategy since Day One. As most friends of the Firm know, Value Plus portfolios contain three equity groups governed by three contrasting sets of buy/sell disciplines. The odds of all three being either effective or ineffective at the same time are low, but all the stars were in line during the above periods. This client's portfolio could do no wrong.

- **Bristol-Myers Squibb (2002-2013) — the gold standard of taxable client investing**
  A lot of the stocks we bought for this client have done better than BMY, but no other experience was more gratifying in so many respects. In 2002, everybody knew that Big Pharma's patents were running out and their pipelines were fallow. And yet, the companies — BMY in particular — still were very profitable, and had generous, well-covered dividends. We bought the stock, and held it for 11 years. That's 11 years of pipeline rejuvenation, dividend increases, etc. BMY kept re-qualifying for the client's portfolio until 2013 when the stock had a great year, the yield went down and the stock no longer qualified. We reluctantly took profits, but steady gains over a very long holding period are really what it's all about.

- **The Yield Group (1997-2015) — Downside Protectors and much more**
  The heart of a Value Plus portfolio is this 10-stock Group selected on the basis of high dividend yield (Bristol-Myers). We refer to them as Downside Protectors because their role is to do relatively well during the market's various rough patches. In that role, the Yield Group has succeeded admirably, but in fact, the Group also has been a significant contributor during most of the favorable periods. That's because, as we reported to our client, high dividend yield is the clearest definition of investment value, in tough times as well as good.

OK, those were the reported HIGHS—can't we stop there? Not a chance.

There are performance ebbs and flows in the most solid of long-term relationships, and we spelled out these "ebbs" for our client. Here are those LOWS:

- **2006-2007, 2014 — perfect storms**
  The long-term success of the Value Plus strategy does not depend upon all three groups performing well at the same time. In fact, we don't expect them to. Likewise, we don't expect all three to perform poorly at the same time; but, history shows that that can happen, and it did in 2006-2007 and 2014. Some sort of fatal flaw, or simply the law of averages? Clearly the latter. We have been all over these and other such periods (in the supporting 1980-1996 database), and have yet to find a common thread or unearth a "fatal flaw." As reported to our client, the work never stops, and we certainly are not cavalier about things not working out; but, at this point, we bow to the statistical inevitability of perfect storms.

- **Nabors Industries (2014) — the oil price shot from left field**
  If they all were like Bristol, we'd be managing most of the money between New York and St. Louis. They aren't, and Nabors is one that wasn't. Proud and well-regarded member of the Momentum Group, the stock was bought on the basis of accelerating earnings growth and superior price momentum. Then came the Saudi Surprise, i.e., the 2014 Saudi decision to throw open the spigots and drive the price of oil down by 50%. Nabors among other petroleum service stocks was punished severely as investors concluded that the major oil companies, first and foremost, would slash their exploration and drilling budgets. Still, there were reasons to believe that this would not be a long-term phenomenon, so we stuck to our disciplines and held on as the Saudi Surprise turned into a longer-term Saudi strategy. As we told our client, we're only too happy to accept the applause (BMY), but we're also willing to take the heat (NBR). Comes with the territory.

- **The Momentum Group (2006-2011) — back to the drawing board**
  For as long as we can remember, the Group has been the Performance Driver, the upside champ and, in fact, best long-term performer point-to-point. But, 2006 was the first of several years in which things just didn't seem right. The aggregate Momentum numbers themselves were proof enough, but we also were disappointed with too many individual stock experiences. We spent nine months taking everything apart, and went searching for the problem. Instead, we found three, and officially began implementing a new Momentum Process in 2012. So far, so very good, but the Momentum Group in 2006-2011 clearly was not all it should have been.

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So, reporting is a function that we take seriously, and the reporting of performance is a huge part of that function. In face-to-face meetings, we always present the point-to-point unvarnished truth, both gross– and net-of-the management fee, and then show how that performance was achieved, warts and all. That's an important part of the total product we provide, and that's exactly what we did with our 1997-2015 client several weeks ago.