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 passive, balanced approach to the management of a client's overall portfolio, and Indexed Total Portfolio Management, or ITPM, is the totally passive variation. In both cases, portfolios contain three sectors: Equities, either passively managed or governed by the Firm's Value Plus Equity Strategy; U.S. Fixed Income, either passively managed or governed by the Firm's Select Four Bond Strategy; and the totally passive 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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NOTTINGHILL
INVESTMENT ADVISERS, Ltd.

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An Update

SCORECARD

	2016 QI-QIII	One Year	Three Years	Five Years	10 Years
S&P 500 Index	**7.84%**	**15.44%**	**11.16%**	**16.37%**	**7.24%**
10-Year Treasury Note	**7.54**	**6.13**	**5.74**	**3.54**	**6.21**
Gold	**23.44**	**17.52**	**-0.36**	**-4.15**	**8.13**

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

QIII 2016 — "For the Time Being"

How that pendulum doth swing. Once upon a time, the Consumer Price Index increased over 13% in a single calendar-year period (1979). The consensus was that inflationary pressures were built into the System for all-time and that the consequences in both an economic and social sense were dire indeed. If only those pressures could be wrung out, the thinking went, we could put those decade-long 70s memories in the rearview mirror, and the economy could resume its growing ways, at a healthy rate. That is exactly what happened. With 0% the unofficial target, those pressures <u>were</u> wrung out, and the CPI's calendar-year advance declined to 1% or so by 1986. Now, 30 years later, central bankers everywhere would like nothing better than to see <u>some</u> inflation, <u>any</u> inflation. In fact, the Fed has an <u>official</u> target this time: 2%, and, in the absence of this kind of corporate pricing power, seven of the 10 voting Board members seemingly are in no hurry to raise interest rates...at least "for the time being," as spelled out in the September Fed statement. (In fact, December pretty much looks like a given, 2% inflation or not.) Still, the U.S. economy, burdened as it is by excessive regulation and a growth-stifling tax structure, continues to trudge along. All things considered, an impressive showing.

U.S. equities also continued to trudge along in what, so far, has been a rewarding year. The broadly based S&P 500 Index had a third quarter investment return of 3.85%, which brings the nine-month investment return to 7.84%. Among these large-company stocks, the Growth side had something of a 2016 comeback versus the Value side that we prefer, while smaller-company stocks outperformed both. All that said, equities of just about every stripe were the place to be in third quarter. Bonds and gold both were down modestly, which, nevertheless, detracted very little from nine-month performance (10-year Treasury note 7.54%; gold bullion 23.44%).

That's the 2016 background. Where do things stand? Let's take a look at our three numbers:

- **The Price/Earnings Ratio of the S&P 500 Index**
  We long have believed that relative valuation, i.e., how U.S. equities are valued <u>relative</u> to the alternatives (bonds, cash, etc.) is more important than <u>absolute</u> valuation. That said, absolute valuation does matter, and the valuation accorded Index earnings continues to move up. More specifically, on September 30 the Index sold at 25.09x the earnings of its component companies. For comparison purposes, the year-end 2015 and June 30, 2016 multiples are 21.54x and 24.26x, respectively.

- **The Average Yield Within the 10-Stock Yield Group**
  As the Index multiple has crept up in recent times, the average yield of <u>these</u> 10 stocks (3.68% on September 30) has provided a consoling counter-argument. What this yield has shown is that stocks with generous dividends still can be found, and therefore, individual bargains remain. In truly euphoric periods such as the late-90s, that is not the case.

- **The Yield of a Treasury Note Maturing in 10 Years**
  Likewise, this has been an effective counter to the expensive-market argument for some time. As we have mentioned often, a Treasury note maturing in 10 years is considered by many to be the stock market's principal rival, and this security provided a yield of only 1.58% on September 30. That is up slightly from the 1.48% of June 30, but still unattractive relative to equities. Still an unworthy rival.

Bottom line: The U.S. equity market is far from undiscovered; we're not talking 1990s-type euphoria, however. Higher-yielding U.S. and emerging markets opportunities remain, and the competition for equity dollars is weak.

Diversification, structure, discipline, the bottom up search for investment value. Music to our ears.

* *

And now, the balanced strategies…

Total Portfolio Management

Total Portfolio Management, or TPM, is our largely passive, 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 Passive 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, passively managed 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 passive answer. One destination for all of the taxable individual's or tax-exempt institution's investment needs.

Third Quarter — Equities Lead the Way

"Pedestrian" is a word we used in various reports, and that pretty much describes the performance of many asset classes in the third quarter. Equities, though, were another matter. U.S. small company and international emerging markets equities ran far ahead of the pack, but equities everywhere and of all stripes took center stage as the Fed postponed yet again the equity-unfriendly hiking of short-term interest rates. December now looks like the best bet, but we shall see. In the meantime and actually ever-after, diversification is key.

Investment Returns

	2016 QI-QIII	One Year	Three Years	Five Years	10 Years	Life of the Strategy**
TPM Baseline*	**11.03%**	**15.23%**	**5.61%**	**9.26%**	**6.31%**	**7.98%**

**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 investment returns have been annualized, and all investment returns are associated with time periods ending September 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 totally passive, 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, Totally Passive Answer

ITPM portfolios also consist of an Equities, a U.S. Fixed Income, and an Alternatives Group sector. A total of nine components within those sectors, 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 passive management, along with ultra-low transaction costs and management fees. The complete, totally passive answer. As with TPM, one destination for all of the individual or tax-exempt investor's investment needs.

Third Quarter — Equities Lead the Way (Growth This Time)

As stated (previous page), equities were the place to be in the third quarter, and U.S. small company and international emerging markets equities ran far ahead of the pack. However, U.S. large company equities also performed well; and, Growth reversed the trend of the first six months, and outperformed Value. Beginning of a longer-term trend? We'll see.

Investment Returns

	2016 QI-QIII	One Year	Three Years	Five Years	10 Years	Life of the Strategy**
ITPM Baseline*	**9.63%**	**12.42%**	**5.40%**	**9.08%**	**5.34%**	**7.01%**

**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 investment returns have been annualized, and all investment returns are associated with time periods ending September 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: This Update article is the second of 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, U.S. Fixed Income.

TPM's U.S. Fixed Income Sector—Stability, Sanctuary, and Income (Usually)

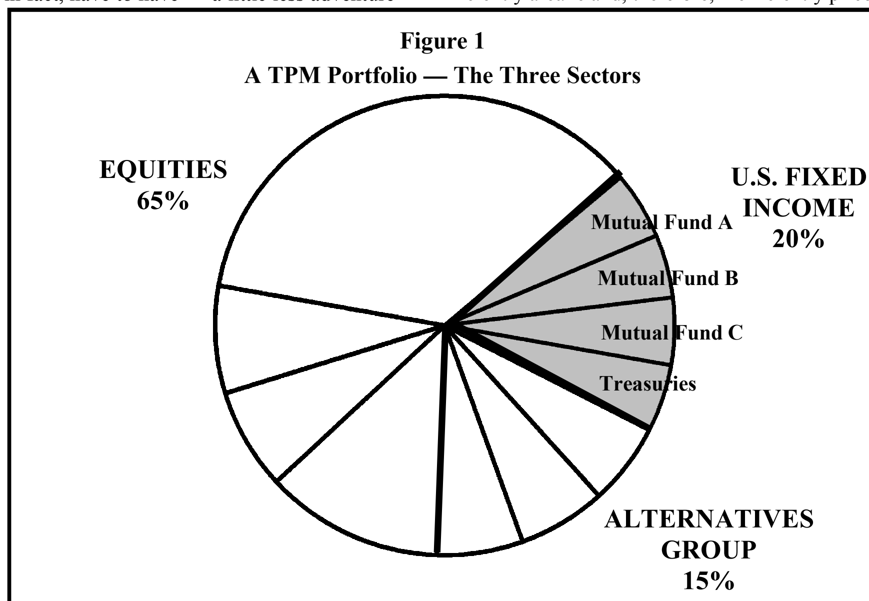
"What! You own bonds?"
— bank trust officer (who shall go nameless), 1981

"Price doesn't matter."
— anonymous central banker, 2012

Total Portfolio Management (TPM), of course, is our principal balanced, or multi-asset class strategy. Portfolios contain three sectors: Equities, U.S. Fixed Income, and the Alternatives Group, and we devoted the August Update to Equities, with the other two sectors to follow. So, this time, we'll take a look at the U.S. Fixed Income sector, and discuss both its role within the portfolio and how the sector is constituted.

Besides "do no harm," the U.S. Fixed Income sector in a TPM portfolio actually has three roles: to stabilize the pattern of investment returns, to provide sanctuary from time to time, and, traditionally anyway, to provide the portfolio with most of its income needs. Each role is important.

Focusing on the first of these roles, i.e., to stabilize the pattern of investment returns, consider the experience of an all-equity (S&P 500 Index) investor in 1980-2015 versus that of a 60% equity/40% five-year Treasury note investor. By sticking to their disciplines, both did well, but the 60/40 investor did well with 20-30% less volatility. Sure, equities are the long-term winner as we constantly preach, but some investors want — in fact, have to have — a little less adventure in their lives. Enter bonds. They typically are less volatile than equities, and therefore, provide a measure of peace-and-quiet.



The U.S. Fixed Income sector also provides a measure of sanctuary from time to time. What that means is that equity market hiccups happen, and a lot of money typically (and quickly) flows into bonds when they do. For example, over the 1980–2015 period the three worst S&P 500 Index quarters are 1987 QIV (-22.54%), 2008 QIV (-21.94%), and 2002 QIII (-17.28%). In sharp contrast, the five-year Treasury note investment returns in those three quarters are 4.81%, 7.51%, and 7.44%, respectively. Bonds in general and Treasury bonds/notes in particular are considered safe havens when all else appears to be crumbling. Sanctuary.

And finally, the U.S. Fixed Income sector traditionally has provided a TPM portfolio with most of its current income needs. "Traditionally" because fixed income yields traditionally are greater than equity yields. Of course, that hasn't been the case since 2008 as central bankers everywhere have pushed interest rates lower and lower in order to get the worldwide economy moving again. Still, we continue to regard the current post-2008 period as the anomaly, and continue to believe that the more traditional interest rate/equity yield versus bond yield/etc., relationships are out there someplace. The U.S. Fixed Income sector at that point will revert to its traditional income-providing role.

So, three roles to play in a TPM portfolio. How about growth of capital? Not the typical role, but there's no denying what's happened over the last 35+ years. With inflation running sky-high, the fight against it raging, and not a bond market friend in sight ("What! You own bonds?"), in late-1981 you could buy a five-year Treasury note yielding 15-16%. Last week, with no inflation, central bankers actually hoping for a little inflation, and bond buyers everywhere (see the August 2012 Update, "Price Doesn't Matter"), that five-year Treasury yield stood at about 1%. Go figure, but the bond market math is irrefutable. As yields made their long 35-year descent, simply by buying that Treasury in September 1981 and rolling into a new five-year Treasury note every year, your 1981-2015 annualized investment return: almost 8%. That's what we call growth of capital; but, this remarkable 35-year phenomenon isn't likely to be repeated in any of our lifetimes, and we repeat, growth of capital over the centuries has ranked fairly low as a continually achievable fixed income objective.

All that said, there are those three roles to play, and TPM's U.S. Fixed Income sector has the right tools: three actively managed bond mutual funds, each with a certain manager specialty, and a dedicated Treasury component with note maturities between three and seven years. The latter is the ultimate safe haven in the midst of just about any type of (non-inflationary) squall. How about the mutual funds?

Mutual Fund A. A very large mutual fund with an intermediate-term maturity profile and a benchmark-beating track record. All or most bond market sectors are represented, but the specialty here is mortgage-backed securities. Sufficiently arcane and, therefore, inefficiently priced, so a management team with a "certain skill set" (as Liam Neeson might say) can add value to the benchmark on a consistent basis.

Mutual Fund B. Same here in terms of size and maturity profile, but the manager specialty in this case is lower-quality corporate bonds. Of course (and again), other bond market sectors are represented, etc., etc. However, the lead manager and his team know how to separate the wheat from the chaff in the world of corporate bonds, and this is how they get their benchmark-beating edge.

Mutual Fund C. Sector rotation is a certain management style in which the seemingly expensive sectors (e.g., Treasuries, agencies, corporates, etc.) continually are pared back and the cheap sectors bought. The key to success is knowing how the various sectors are supposed to relate to one another in terms of yield, and then taking advantage of the anomalies. This management team has been successful for a long, long time.

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Three mutual funds, each with a manager specialty, and a dedicated Treasury component. We call this the Select Four approach, and the goal since Day One has been to add value to the various bond market indexes, with a safe haven and three active managers who follow different paths. So far, as they say, so very good. The Select Four approach has provided our TPM clients with a more stable overall pattern of investment returns, sanctuary during equity market squalls, and decent income during even these low-interest rate times. All with benchmark-beating investment returns. We'll take it.

Next time...the Alternatives Group, which provides one more layer of diversification, and a few final thoughts.

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