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.

Nottinghill's specialty is the disciplined management of large capitalization Value equities, both hedged and unhedged, and widely diversified balanced portfolios with Value equities as the primary component. Multiple sets of buy/sell disciplines govern all portfolios, and the result is a consistent pattern of superior investment returns.

Commitment. Focus. Discipline. Multiple Processes and Consistency.

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NOTTINGHILL INVESTMENT ADVISERS, Ltd.

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An Update

SCORECARD

	2013	Three Years	Five Years	10 Years
S&P 500 Index	32.39%	16.18%	17.94%	7.40%
10-Year Treasury Note	-7.17	4.34	2.63	5.19
90-Day Treasury Bill	0.04	0.06	0.09	1.58
Gold	-28.68	-5.77	6.12	11.03

All multi-year returns are annualized, and all returns are associated with time periods ending December 31, 2013

The Economy and the Markets - Goldilocks, Where Have You Been?

The English language is living and vibrant. Each year, new words enter the lexicon, and even old words acquire new and sometimes deeper meaning. Heading the "new, deeper meaning" category in 2013 is the word "taper." Why and how did this word become so important? For the answer, we have to go back to the Great Recession, and study the Fed's efforts to get and keep the U.S. economy moving. One such effort/program is something called quantitative easing (QE), which ultimately called for the Fed to inject $85 billion into the economy each month simply by buying bonds. As the macro data improved in 2013, the key questions became: When and by how much will the Fed be able to cut back, or taper this bond buying?

The taper chatter on the business channels was endless, and much of the speculation had to do with the necessity of QE. For our part, we were encouraged by the unmistakable improvement in the macro data, and believed that the time was right to take the patient off some degree of life support. Then, the Fed announced on December 18 that the bond buying would be reduced (tapered) by $10 billion per month. Good news. The recovery has been slower than the norm, but it makes sense to see how things ultimately will shake out on their own. Our guess is that the current Goldilocks economy, i.e., not too hot, not too cold, will be the state of affairs for awhile.

Ah yes, 2013. The broadly based S&P 500 Index provided a total investment return of 32.39%, its best annual return since 1997, and this large-company barometer was more than matched by the performance of the smaller-company indexes. The other asset classes? The prospect of less Fed stimulus caused a rise in most interest rates, and the 10-year Treasury note, our proxy for the bond market, had a total investment return of -7.17%. Ninety-day Treasury bill yields were unaffected; the total investment return here was 0.04%. Last but not least, gold (Englehard industrial bullion -28.68%) and most other commodities did poorly as the currency markets were generally tranquil, the dollar was strong, and inflation was tame. But, it was U.S. equities in 2013...investors everywhere can cherish the memories.

The Portfolios - Value Plus Strength, Emerging Markets Blues, Good Bond Houses in a Bad Neighborhood

Our Value Plus equities, of course, serve in stand alone portfolios and are the largest component of our balanced TPM portfolios. In 2013, all the rowers were rowing — Value Plus had a very good year. TPM's small-company stocks? Likewise, but the prospect of Fed tapering and some old-fashioned political turmoil made things a little tougher for the emerging markets stocks. TPM's bonds? Above-benchmark results, as usual, so good houses in a bad neighborhood, i.e., 2013's rising interest rates made for a flat to slightly down bond market. All in all, however, 2013 was a very good year indeed. Large cap equities and the Value Plus strategy made it so.

Let's take a look at Value Plus and TPM.

The Value Plus Equity Strategy

The flagship Value Plus Equity Strategy, upon which Nottinghill was founded, was designed to provide benchmark-beating investment returns in all phases of the stock market cycle. A Large Capitalization Value strategy, Value Plus governs stand alone equity portfolios, or can serve at the heart of any individual or institutional investor's overall portfolio.

Investment Philosophy

The Efficient Market Hypothesis (EMH), which questions the ability of active equity management to outperform the market indexes, is largely valid. However, there are three exploitable anomalies within the EMH:

The Yield Effect - In a limited-candidate universe of large capitalization stocks, the highest yielding stocks tend to become superior performers

The Contrarian Effect - In a limited-candidate universe of large capitalization stocks, the worst multi-year performers tend to become superior performers over the subsequent multi-year period

The Momentum Effect - In a broad universe of candidates, the strongest performers tend to remain strong performers

Combining the three sets of buy/sell disciplines exploiting these anomalies produces consistently superior investment returns.

Investment Process

Consistent with the Investment Philosophy of Value Plus, portfolios typically consist of 20 stocks in three independently managed groups: Yield Group, Contrarian Group, and Momentum Group. Yield Group stocks are selected from the 75-candidate LARGCAP Universe on the basis of high dividend yield; each stock then is sold only when its yield is no longer competitive. The Contrarian Group also is selected from the LARGCAP Universe, on the basis of multi-year underperformance. The Group then is held for a multi-year period of recovery. Finally, Momentum Group stocks are selected from the S&P 500 on the basis of superior performance, held for a specific period of time, and then are sold. Each Group has a role to play. The Yield Group is the Downside Protectors, which are expected to perform well in difficult markets. The Contrarian and Momentum Groups are the Performance Drivers, and are expected to perform well in favorable markets. The result of using multiple sets of buy/sell disciplines to select portfolio equities is a consistent pattern of superior investment returns, in all phases of the stock market cycle.

Performance

	2013	**Three Years**	**Five Years**	**10 Years**	**Life of the Strategy***
Value Plus	**36.94%**	**16.10%**	**20.08%**	**8.63%**	**9.52%**
S&P 500 Index	32.39	16.18	17.94	7.40	7.47
Russell 1000 Value Index	32.53	16.06	16.67	7.58	8.28

**Strategy inception is January 1, 1997*

Nottinghill Investment Advisers, Ltd., is an independent, registered investment adviser utilizing a number of large capitalization equity and widely diversified balanced investment strategies. The above Value Plus performance data are provided net-of-the management fee. All multi-year returns have been annualized, and all returns are associated with time periods ending December 31, 2013. To receive a complete, more detailed description and presentation of the Value Plus performance data and/or a complete list and description of all Nottinghill performance composites, please contact Nottinghill Investment Advisers, Ltd. Past performance is no guarantee of future results.

Now, how about TPM?

Total Portfolio Management

Total Portfolio Management, or TPM, is our 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.

Portfolio Structure

A TPM Baseline portfolio has the following structure:

Equities		**65%**
U.S. Large Capitalization - Actively Managed*	60%	
U.S. Mid Capitalization - Indexed	10	
U.S. Small Capitalization - Indexed	10	
International Emerging Markets - Indexed	20	
U.S. Fixed Income Securities		**20**
Selected Mutual Funds, a Treasury Ladder**		
Alternatives Group		**15**
Emerging Markets Government Bonds, Gold, REITs		

*Value Plus Equity Strategy
**Select Four Bond Strategy

Performance

	2013	Three Years	Five Years	10 Years	Life of the Composite*
TPM Baseline	**15.29%**	**8.97%**	**15.28%**	**8.61%**	**8.97%**
Balanced Index **	14.48	9.16	13.57	7.80	7.73

**Composite inception for discussion purposes is January 1, 2002*

***Weighted 50% Russell 3000 Index, 15% FTSE Emerging Markets Index, 35% Barclays Capital US Aggregate Bond Index*

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 December 31, 2013. To receive details regarding the calculation and the presentation of the Total Portfolio Management 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.

Madoff Revisited. Details on the next page.

Editor's Note: Two thousand-fourteen so far has been fine. 2013? Just about as good as it gets, but unfortunately, the local Cincinnati financial scene was marred by allegations of yet another Ponzi-type scheme in our midst. We were reminded of an earlier, 2009 Update piece that we devoted to the Madoff scandal, a scandal of truly epic proportions. As we sort through this hometown situation, that earlier story and the lessons to be learned deserve a retelling, so here's an updated version.

Shenanigan (II)

"He's a well-respected man about town,
Doing the best things so conservatively."
--"A Well-Respected Man,"
The Kinks (1966)

"Trust everybody, but cut the cards."
--Finley Peter Dunne

Warren Buffett famously observed once that it's only when the tide goes out that you learn who's not wearing any trunks. Well, the tide went out during the Financial Crisis, and the System's many stresses revealed several shortcomings, as well as several outright shenanigans. Among the latter, one clearly stood out, and we have a few thoughts.

On December 11, 2008, FBI agents showed up at the Manhattan door of one Bernard Madoff, a well-respected, well-connected doer of all the best things so conservatively. Mr. Madoff, it turns out, was being charged with running (for 17 years!) a multi-billion dollar Ponzi scheme in which fictional stock market returns were being used to lure and then placate an ever-expanding group of very well-heeled, private investors. The specific strategy never was explained, so it never was "understood." Yet, no one seemed to mind since Mr. Madoff was so well-respected, since learned intermediaries supposedly had done so much due diligence, and since those miraculous investment returns supposedly had been audited.

The story is five years old by now, and, even though some measure of justice has been served (Mr. Madoff faces a life behind bars), the story still is a sad one. Right out of the Ponzi playbook, funds from Mr. Madoff's newer investors were used to pay off older investors; in fact, there was no investment strategy; the learned intermediaries as a group didn't do their homework thoroughly enough; the "auditing" was being done by a couple of people with space in a strip center. Bottom line: Five years later, almost all of the assets still are unrecovered, and the lives of many investors have been damaged severely or in fact ruined. A major tragedy for Mr. Madoff's investors to be sure, and a major tragedy for our business, a business that depends so much upon trust. Even five years later, the final chapter in the Madoff drama has yet to be written, but there are many lessons to be learned from this sad affair. For openers, let's take a look at how Mr. Madoff's relationship with his clients differed from our clients' relationship with us.

The first way involves the respective investment strategies employed. Ours are well-defined and easily explained, and involve securities known to just about everyone. Sometimes, they work out, and we're glad to tell our clients about the successes. Sometimes, the things we buy don't work out. We talk to our clients about them too, and sometimes take the heat. Comes with the territory, but what's really important is that our clients generally have a good idea of what we do and why. (And, if our clients don't have a good idea of what we do and why, that's on us, and we'll redouble our communications efforts.)

Madoff? With few questions asked, he evidently was allowed to employ a mysterious approach with the freedom to go anywhere and do anything with his investors' assets. Partnership structure or not, miraculous record or not, this kind of freedom is not warranted in a client/manager relationship.

The second way in which Mr. Madoff's relationships differed from ours involves the custodial function. We, of course, hold no client cash and no client securities, therefore, the services of a custodial bank or brokerage firm, which <u>does</u> hold client cash and securities, are required. One huge benefit: the independently generated portfolio/transaction review that third-party custodians are able to provide. Of course, we're talking about that all-important monthly statement showing the assets held and their value, the transactions completed, and the cash received and disbursed.

Madoff? Apparently, no such complete, independent review ever was provided to his clients.

So, transparency regarding the investment strategy being employed and independent verification of client assets and portfolio activity. Neither evidently existed in the relationship between Mr. Madoff and his clients; both exist in the relationship between Nottinghill Investment Advisers and its clients.

Okay, where does that leave us? We have two very important recommendations:

1) Know and understand the investment strategy being employed

We're big fans of discretionary authority. But, unsupervised discretionary authority is risky business, and a general familiarity with how your assets are being invested and why is a very good thing. Give the manager the authority to do what he/she does best, but then, make sure that you know what you bought and that what you bought in fact is what's being provided.

2) Verify, verify

Fortunately, the Madoffs and the other Ponzi schemers out there constitute a very small minority within our profession. The rest of us continually are giving it our best shot in good times and bad, routinely are reporting what we do and why, and are comfortably able to look at ourselves in the mirror. Nevertheless, when the dealer passes the deck, cut the cards anyway. Insist on independent verification of the assets being held and what's being done, and then examine those independent verifications. Any problems? Ask questions. It's just good business, even within a partnership situation.

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To repeat, the Madoff story was and remains a sad one, with (still) a lot of unanswered questions. The assets are probably gone, but everything? Have all who were complicit been caught? Why was the oversight so lax? How were so many knowledgeable people deceived to such an extent for so long? Stay tuned; but, it's been five years now, and a lot of those answers still are not known. The lessons, however, are there for all of us.