



## REPORT CARD 2010

### The Year in a Nutshell

▪ A Very Good Start. Despite all the dire warnings, 2010 turned out to be another year of double-digit equity returns, and a very good start to a brand new decade. Once again and no matter how shrill, dire warnings in the absence of hard-edged investment processes and facts aren't worth the broadcast time.

▪ The Value Plus Approach. A very good start, and we suspect that even better times lie ahead. Full participation in those better times requires a highly disciplined investment approach with Value investing at the heart of the matter. That's exactly where our line up of quantitative Value strategies, re-configured, re-benchmarked and even re-named in 2010, serves and serves very well. Right place at the right time.

▪ Verified and Audited. Once again, our overall compliance with the Global Investment Performance Standards (GIPS<sup>®</sup>) was verified by BKD, LLP, Certified Public Accountants. BKD also audited the completed 14-year record of our flagship **Value Plus** strategy. Details available by request.

▪ Website. Better than ever in 2010, [www.nottinghilladvisers.com](http://www.nottinghilladvisers.com), is the right destination for a good look at all the good work we do. One and all are welcome.

"The Grant's credo is that markets are cyclical, central bankers are fallible, and 100-year floods have a disconcerting way of making unscripted appearances."

--James Grant

"There's something happening here. What it is ain't exactly clear."

--"For What It's Worth,"  
Buffalo Springfield (1967)

Two years after the fact, did the 100-year flood of 2007-2008 finally recede in 2010? Probably, and, if 2008 seemed like economic and financial Armageddon and 2009 was the Great Snapback, just maybe we can call 2010 a sustainable Return to Normality. Of course, there were problems - there always are - some lingering from the bad old days, and Europe's sovereign debt problems come immediately to mind. But somehow, those problems did not have the shock-and-awe of, say, a Lehman Brothers collapse or the rescue of an entire industry. Does that mean we're all out of the woods? Hardly, but at long last, slowly but surely, the wheels of progress seem to be moving in the right direction. Something definitely is happening here, and, while the outlook never is exactly clear, many economic trends indeed have become our friends.

So, maybe a Return to Normality in 2010, and the stock market took note. U.S. equities in the form of the S&P 500 Index provided a total investment return of 15.06%, not quite the 26% of 2009 or the 26.06% provided by gold, yet again our winning asset category. Nonetheless, 2010's S&P 500 return did make for a rewarding year and a fine way to start a new decade. Bonds? Our proxy, the 10-year Treasury, rode the backs of an accommodative Fed and periodic bouts of safe-haven buying to a total return of 9.74%, also a good outcome. Last and certainly least, rolling 90-day Treasury bills produced a return of 0.13%, clearly the dark side of policies favoring borrowers over savers.

An interesting year. But, aren't they all?

How'd we do? Well, we couldn't duplicate the remarkable 2009 experience, but we did take (almost) full advantage of another good year for equities. Good, but in one big way, a little unusual. Why? Because the three equity groups in our flagship **Value Plus** and other portfolios have certain roles to play, and things were a little backward in 2010. The Yield Group, consummate Downside Protector when times are tough, actually was the contributor in the healthy 2010 market. The Contrarian and Momentum Groups, on the other hand, typically are the Performance Drivers in such markets, and they brought up the 2010 rear.

Putting some numbers on all of this, our flagship **Value Plus** strategy had a double-digit year, but couldn't quite catch the benchmark Russell 1000 Value Index. The good news: Combining **Value Plus'** 2010 return with that of 2009, all of the ground lost in the severe 2008 bear market now has been made up.

A valiant and largely successful effort on the part of **Value Plus**, but our **Concentrated Value Plus** and **Enhanced Index** strategies had a little tougher time versus their benchmarks in 2010. No Yield Group in either case, and these strategies are more heavily impacted by the five-stock Contrarian Group, the clear last-place finisher among the three. We hasten to point out, however, that the Contrarian Group's 2009 contribution to our portfolios was about 71%, so we're inclined to give these stocks another chance. In fact, we expect good things from the Contrarian stocks in 2011.

What else is on the horizon?

Improving corporate profitability. Low-inflation and interest rates. Even progress on the employment front. Everything that produced the stock market rebound of 2009-2010 remains with us. Of course, there's always left field, but our unemotional analysis of the here-and-now is cause for optimism. Specifically,

- 1) *Not too cold, not too hot*  
Where the generals go, the troops usually follow, and the market leaders, its best performers over the immediate past, are marching ahead at a healthy clip. At the same time, they're not the only game in town, far outpacing everything else. In other words, the leaders are technically healthy (not too cold), yet are showing no signs of the leader euphoria that often characterizes high-risk markets (not too hot).
- 2) *The interest rate trend is still (mostly) our friend*  
Rising interest rates are one of the market's principal enemies. In early-2011, we note that long-term Treasury yields have drifted up in recent weeks. A bit of a headwind, but the Fed has been very accommodative at the yield curve's short end where it (the Fed) has all the power.
- 3) *There is no competition*  
Fixed income securities compete with stocks for investor funds, so we pay a lot of attention to the relationship between Treasury yields and what Corporate America has to offer, i.e., its earnings and dividends. Treasury bills yielding a paltry 0.12% are no match for equities at just about any valuation level.

Bottom line: The unemotional verdict of our market analysis work remains positive. Value prevailed in 2009 and 2010, and should continue to prevail in 2011. How best to participate? We're not shy. **Value Plus** has delivered for 14 years now, and **Value Plus'** brethren also have produced benchmark-beating returns over their shorter lives. But, it's **Value Plus** with the 14-year record. Significant? You bet. Let's turn the page and see what makes **Value Plus** tick...in both good times and bad.

# Value Plus - Upside Sprinter or Master of Defense?

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

--Winston Churchill

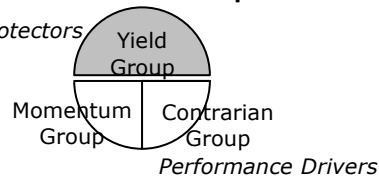
Capture analysis! Doesn't the mere mention of the phrase make the heart beat just a little faster? Just kidding, but this particular performance analysis technique does answer an important question: How has a certain strategy performed, versus its benchmark, when that benchmark has done well, and how has the strategy performed when the benchmark has done poorly? The math is pretty straightforward. If the benchmark's average quarterly return (all positive quarters) is, say, 5% and the strategy's is 6%, we say that the strategy's Upside Capture Ratio is 120%. Same process with the benchmark average for all negative quarters, and we arrive at a Downside Capture Ratio. Obviously, some variability around these averages, but the longer the data series, the more meaningful the calculations. **Value Plus** and 14 years of data? Meaningful.

**Value Plus** does have a couple of impressive Capture Ratios. Specifically, over the Strategy's life, its Upside Capture Ratio (versus the Russell 1000 Value Index) is 107.97%, while its Downside Capture Ratio is only 92.71%. That's right, **Value Plus** portfolios typically earned more than the Russell when the Index did well (making the Strategy an Upside Sprinter) and gave back less on the downside (making **Value Plus** a Master of Defense as well).

Not at all the norm. Most strategies routinely either sprint to the upside and then pay the price when times are tough, or protect capital on the downside but then play too much defense when there's money to be made. Not **Value Plus**, and the reason is the portfolio's three independently managed equity groups and the role each plays. Let's take a look.

**Figure 1  
The Value Plus Portfolio  
and Portfolio Groups**

The largest portfolio is the Yield Group. We Downside Protectors, these stocks and their returns typically do just Group's 1997-2010 Ratio: only about 90%



group, of course, is call the Group the primarily because very large divi- that. The Yield Downside Capture or so.

How about the other two groups, the five-stock Contrarian and Momentum Groups? Together, they're what we call Performance Drivers, and their job is to deliver on the upside when the skies are blue. How well have the Performance Drivers succeeded? Very well indeed. As a team, the Groups' Upside Capture Ratio has been about 138%. Admittedly, not much help on the downside, but again, these Groups are expected to deliver when times are good. We'll let the Downside Protectors (Yield Group) hold things together when times are tough.

Figure 1 shows how the pieces fit. As you examine them, please remember that **Value Plus'** Capture Ratios are based upon actual investment returns (gross-of-fee in this case; details available by request), whereas all Group data are the product of Nottingham research (not actual performance), i.e., the Group's indicated stocks are there all right, but the data assume fully invested portfolios at all times, a monthly rebalancing of all positions, and transaction costs of 0.50% per quarter. Not exactly apples-to-apples, but useful comparisons nonetheless. The Downside Protectors protect; the Performance Drivers deliver when times are good. As a result, **Value Plus** portfolios, among a very select few mutual funds and separately managed accounts, have outperformed their benchmark on both the upside and the downside. That's what we call the right combination.

\* \* \* \* \*

Some nameless, faceless stock-picker - probably someone badly in need of a hobby - once said that happiness is a 20% year. Well, we didn't quite make it, but we're reasonably happy anyway. Problems may remain; but worldwide, the mending continued, and the year turned out to be a solid one. May the trend continue in 2011. Now, let's take a look at last year's and all the rest of the numbers...

# The Value Plus Equity Strategy

Our flagship Large Capitalization Value approach. Three independent buy/sell processes govern the portfolio's three groups of stocks: the Yield Group, the Contrarian Group, the Momentum Group. Each has a role to play. Yield Group stocks with their generous dividends protect asset values on the downside, while the Contrarian and Momentum Groups, together, are the performance drivers during the favorable part of the stock market cycle. Strategy objectives: performance superior to that of the benchmark Russell 1000 Value Index over the life of the Strategy, performance superior to that of the Index over a significant majority of all rolling three-year periods, performance superior to that of the Index in both rising and falling equity markets.

## Performance Summary

	End of the Period						
	Value Plus (%)	Russell 1000 Value Index (%)	Firm Assets (\$/mm)	Composite Portfolios (#)	Composite Assets (\$/mm)	% of Firm Assets (%)	Annual Composite Dispersion (%)
1997	<b>26.03</b>	35.18	15.1	8	5.2	34	0.32
1998	<b>18.26</b>	15.63	23.4	9	6.8	29	1.42
1999	<b>14.97</b>	7.35	31.7	10	9.8	31	0.53
2000	<b>5.09</b>	7.02	27.0	12	12.5	46	1.02
2001	<b>0.29</b>	-5.60	31.5	13	13.5	43	0.75
2002	<b>-17.17</b>	-15.52	36.1	15	17.9	50	0.46
2003	<b>37.22</b>	30.03	57.7	16	22.5	39	1.03
2004	<b>18.44</b>	16.50	70.8	20	26.7	38	0.62
2005	<b>11.10</b>	7.05	123.1	37	72.1	59	0.88
2006	<b>18.23</b>	22.23	162.3	40	97.8	60	0.79
2007	<b>-6.38</b>	-0.17	162.5	64	103.3	64	0.48
2008	<b>-37.10</b>	-36.86	88.0	59	63.0	72	0.99
2009	<b>40.66</b>	19.70	107.6	53	77.4	72	1.36
2010	<b>13.44</b>	15.51	80.5	50	50.4	63	1.76

### Annualized

Life of the Strategy	<b>8.17</b>	6.68
10 Years	<b>5.24</b>	3.26
Five Years	<b>2.13</b>	1.27
Three Years	<b>0.12</b>	-4.43

*Nottingham results are presented net-of-the management fee; all annualized returns are associated with periods ending December 31, 2010*

### PERFORMANCE DISCLOSURE STATEMENT

Nottingham Investment Advisers, Ltd., has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS<sup>SM</sup>) for the period from July 1, 1996 to December 31, 2005 and the Global Investment Performance Standards (GIPS<sup>SM</sup>) beginning in 2006. No regulatory or governing body has been involved in the preparation or review of this report.

1. Nottingham Investment Advisers, Ltd., ("Firm") is an independent, SEC-registered investment adviser utilizing a number of primarily large capitalization equity investment strategies. Berge & Company, Ltd. and BKD, LLP, Certified Public Accountants in each case, completed Firm-wide Verifications of Nottingham's compliance with the AIMR-PPS<sup>SM</sup> for, respectively, the 1996-2001 and 2002-2005 periods. The Verifications associated with years after 2005 also were completed by BKD, LLP, and tested Nottingham's compliance with the aforementioned Global Investment Performance Standards (GIPS<sup>SM</sup>). Verifications are conducted annually; a copy of the most recent report is available by request.

2. The Value Plus performance composite (Composite A: all non-wrap fee accounts and those with a fixed annual broker charge less than 0.25% of assets), formerly Growth & Value 20 Composite A, officially was created on January 1, 2002; however, the composite as currently defined has an effective date of compliance with the AIMR-PPS<sup>SM</sup> of January 1, 1997. Berge & Company, Ltd. and BKD, LLP, Certified Public Accountants in each case, completed Performance Examinations of the investment results presented for, respectively, the 1997-2001 and 2002-2009 periods.

3. No segments of other portfolio composites and no accounts with a fixed annual broker charge are included in the Value Plus composite.

4. The most appropriate benchmarks for the Value Plus strategy are the style-specific Russell 1000 Value Index and the more broadly representative S&P 500 Index. Both are unmanaged, capitalization-weighted, and consist of primarily U.S. corporations. Index performance in both cases includes price change and income, however, neither index has any expenses. The S&P 500 Index was the sole benchmark prior to January 1, 2010.

5. Investment results have been calculated net-of-the management fee, which was deducted from the results achieved by every account in the composite. The annual fee schedule is 1.0% of the first \$1 million, 0.75% of the next \$4 million, and 0.50% of remaining assets.

6. Investment results calculated net-of-the management fee are appropriate for presentation or redistribution in all settings, but must be accompanied by this disclosure language.

7. All performance calculations are based upon trade-date accounting, and, except where otherwise noted, are associated with time periods ending December 31.

8. Performance is expressed in U.S. Dollars.

9. Annual composite dispersion is the asset-weighted standard deviation of gross investment returns.

10. Exchange-Traded Fund shares may be utilized in this strategy from time to time. No other derivatives and no leverage are employed.

11. Past performance is no guarantee of future results.

12. A complete list of Nottingham performance composites and additional information regarding the calculation and reporting of Nottingham performance are available upon request.

# The Concentrated Value Plus Equity Strategy

A 10-stock Concentrated Value approach. Two independent buy/sell processes govern the portfolio's two groups of stocks: the Contrarian Group and the Momentum Group. Together, they are performance drivers during the favorable part of the stock market cycle. Strategy objectives: performance superior to that of the benchmark Russell 1000 Value Index over the life of the Strategy, maximum participation during periods of stock market opportunity.

## Performance Summary

	End of the Period						
	Concentrated Value Plus (%)	Russell 1000 Value Index (%)	Firm Assets (\$/mm)	Composite Portfolios (#)	Composite Assets (\$/mm)	% of Firm Assets (%)	Annual Composite Dispersion (%)
2008	<b>-41.70</b>	-36.86	88.0	1	0.2	1	--
2009	<b>54.14</b>	19.70	107.6	1	0.4	1	--
2010	<b>5.73</b>	15.51	80.5	10	1.8	2	0.73
<b>Annualized</b>							
Life of the Strategy	<b>-1.69</b>	-4.43					

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2. The Concentrated Value Plus performance composite (Composite A: all non-wrap fee accounts and those with a fixed annual brokerage charge less than 0.25% of assets) was created on January 1, 2008.

3. No segments of other portfolio composites and no accounts with a fixed annual broker charge are included in the Concentrated Value Plus composite.

4. The most appropriate benchmarks for the Concentrated Value Plus strategy are the style-specific Russell 1000 Value Index and the more broadly representative S&P 500 Index. Both are unmanaged, capitalization-weighted, and consist of primarily U.S. corporations. Index performance in both cases includes price change and income, however, neither Index has any expenses. The S&P 500 Index was the sole benchmark prior to January 1, 2010.

5. Investment results have been calculated net-of-the management fee, which was deducted from the results achieved by every account in the composite. The annual fee schedule is 1.0% of the first \$1 million, 0.75% of the next \$4 million, and 0.50% of remaining assets.

6. Investment results calculated net-of-the management fee are appropriate for presentation or redistribution in all settings, but must be accompanied by this disclosure language.

7. All performance calculations are based upon trade-date accounting, and, except where otherwise noted, are associated with time periods ending December 31.

8. Performance is expressed in U.S. Dollars.

9. Annual composite dispersion is the asset-weighted standard deviation of gross investment returns.

10. Exchange-Traded Fund shares may be utilized in this strategy from time to time. No other derivatives and no leverage are employed.

11. Past performance is no guarantee of future results.

12. A complete list of Nottingham performance composites and additional information regarding the calculation and reporting of Nottingham performance are available upon request.

# The Enhanced Index Equity Strategy

A Core-Satellite approach in which the Satellite (25% of total assets) is governed by our Concentrated Value Plus Equity Strategy and the Core (75% of total assets) consists of an S&P 500 index fund. Strategy objectives: performance superior to that of the benchmark S&P 500 Index over the life of the Strategy, performance superior to that of the Index over a significant majority of all rolling three-year periods, performance that is highly correlated with that of the Index, low transaction costs and management fees.

## Performance Summary

	End of the Period						
	Enhanced Index (%)	S&P 500 Index (%)	Firm Assets (\$/mm)	Composite Portfolios (#)	Composite Assets (\$/mm)	% of Firm Assets (%)	Annual Composite Dispersion (%)
2009	<b>33.08</b>	26.46	107.6	1	0.2	1	--
2010	<b>12.70</b>	15.06	80.5	1	0.3	1	--
<b>Annualized</b>							
Life of the Strategy	<b>22.65</b>	20.62					

*Nottinghill results are presented net-of-the management fee; all annualized returns are associated with time periods ending December 31, 2010*

### PERFORMANCE DISCLOSURE STATEMENT

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1. Nottinghill Investment Advisers, Ltd., ("Firm") is an independent, SEC-registered investment adviser utilizing a number of primarily large capitalization equity investment strategies. Berge & Company, Ltd., and BKD,LLP, Certified Public Accountants in each case, completed Firm-wide Verifications of Nottinghill's compliance with the AIMR-PPS<sup>™</sup> for, respectively, the 1996-2001 and 2002-2005 periods. The Verifications associated with years after 2005 also were completed by BKD, LLP, and tested Nottinghill's compliance with the aforementioned Global Investment Performance Standards (GIPS<sup>®</sup>). Verifications are conducted annually; a copy of the most recent report is available by request.
2. The Enhanced Index performance composite (Composite A: all non-wrap fee accounts and those with a fixed annual brokerage charge less than 0.25% of assets) was created on January 1, 2009.
3. No segments of other portfolio composites and no accounts with a fixed annual broker charge are included in the Enhanced Index composite.
4. The most appropriate benchmark for the Enhanced Index strategy is the S&P 500 Index, an unmanaged, capitalization-weighted index of primarily U.S. corporations. Index performance includes price change and income, however, the Index has no expenses. The S&P 500 Index has been the benchmark since inception.
5. Investment results have been calculated net-of-the management fee, which was deducted from the results achieved by every account in the composite. The annual fee schedule associated with the Actively Managed Equity Component is 1.0% of the first \$1 million, 0.75% of the next \$4 million, and 0.50% of remaining assets. The annual fee schedule associated with the Indexed Component is 0.25% of assets.
6. Investment results calculated net-of-the management fee are appropriate for presentation or redistribution in all settings, but must be accompanied by this disclosure language.
7. All performance calculations are based upon trade-date accounting, and, except where otherwise noted, are associated with time periods ending December 31.
8. Performance is expressed in U.S. Dollars.
9. Annual composite dispersion is the asset-weighted standard deviation of gross investment returns.
10. Exchange-Traded Fund shares may be utilized in this strategy from time to time. No other derivatives and no leverage are employed.
11. Past performance is no guarantee of future results.
12. A complete list of Nottinghill performance composites and additional information regarding the calculation and reporting of Nottinghill performance are available upon request.

# The Value Plus Balanced Strategy

The Value Plus Balanced Strategy is a combination of our Value Plus equity approach and a passively managed fixed income component. The latter, which consists of several Treasury notes with staggered maturities between two and 10 years, further stabilizes the pattern of investment returns, and provides sanctuary in times of stress. Strategy objectives: performance superior to that of the benchmark Balanced Index, typically weighted 60% S&P 500 Index, 30% Barclays Capital Intermediate Treasury Index, 10% 90-day Treasury bills, over the life of the Strategy and performance superior to that of the Balanced Index over a significant majority of all rolling three-year periods.

## Performance Summary

	End of the Period						
	Value Plus Balanced (%)	Balanced Index (%)	Firm Assets (\$/mm)	Composite Portfolios (#)	Composite Assets (\$/mm)	% of Firm Assets (%)	Annual Composite Dispersion (%)
1999 QII-QIV	<b>6.22</b>	9.92	31.7	1	0.2	1	--
2000	<b>5.95</b>	-2.04	27.0	1	0.3	1	--
2001	<b>2.84</b>	-3.83	31.5	2	0.5	2	--
2002	<b>-8.18</b>	-10.32	36.1	6	1.6	4	0.94
2003	<b>22.57</b>	17.65	57.7	6	2.0	3	1.37
2004	<b>12.91</b>	7.32	70.8	6	2.5	4	1.12
2005	<b>8.88</b>	3.76	123.1	7	3.5	3	0.70
2006	<b>13.61</b>	11.87	162.3	7	4.2	3	1.67
2007	<b>-2.07</b>	6.50	162.5	9	4.9	3	1.16
2008	<b>-21.88</b>	-20.47	88.0	9	3.7	4	4.67
2009	<b>20.60</b>	15.41	107.6	9	4.2	4	5.03
2010	<b>8.97</b>	11.13	80.5	8	4.2	5	0.66
<b>Annualized</b>							
Life of the Strategy	<b>5.27</b>	3.31					
10 Years	<b>4.98</b>	3.14					
Five Years	<b>2.69</b>	3.81					
Three Years	<b>0.88</b>	0.66					

*Nottingham results are presented net-of-the management fee; the Balanced Index is weighted 60% S&P 500 Index, 30% Barclays Capital Intermediate Treasury Index, 10% 90-day Treasury bills; all annualized returns are associated with time periods ending December 31, 2010*

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2. The Value Plus Balanced performance composite (Composite A: all non-wrap fee accounts and those with a fixed annual broker charge less than 0.25% of assets) officially was created on January 1, 2002; however, the composite as currently defined has an effective date of compliance with the AIMR-PPS™ of April 1, 1999.

3. No segments of other portfolio composites and no accounts with a fixed annual broker charge are included in the Value Plus Balanced composite.

4. The most appropriate benchmark for the Value Plus Balanced strategy is the Balanced Index, an unmanaged, 60%/30%/10% blend of S&P 500 Index, Barclays Capital Intermediate Treasury Index, and 90-day Treasury bill returns. Index performance includes price change and income, however, the Index has no expenses. The Balanced Index has been the benchmark since inception.

5. Investment results have been calculated net-of-the management fee, which was deducted from the results achieved by every account in the composite. The annual fee schedule associated with the equity sector is 1.0% of the first \$1 million, 0.75% of the next \$4 million, and 0.50% of remaining assets. The fee schedule associated with the fixed income sector is 0.25% of assets.

6. Investment results calculated net-of-the management fee are appropriate for presentation or redistribution in all settings, but must be accompanied by this disclosure language.

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8. Performance is expressed in U.S. Dollars.

9. Annual composite dispersion is the asset-weighted standard deviation of gross investment returns.

10. Exchange-Traded Fund shares may be utilized in this strategy from time to time. No other derivatives and no leverage are employed.

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