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

	2017 QI-QII	One Year	Three Years	Five Years	10 Years
S&P 500 Index	**9.34%**	**17.89%**	**9.61%**	**14.63%**	**7.18%**
10-Year Treasury Note	**2.48**	**-4.18**	**3.04**	**1.76**	**5.76**
Gold	**7.25**	**-5.91**	**-1.85**	**-4.92**	**6.68**

All multi-year returns are annualized, and all returns are associated with time periods ending June 30, 2017

QII 2017 — Politics and Growth Investing Rule

At every opportunity during the last six months, we have pointed out that lower taxes and other pro-growth policies are all well and good, but that there was considerable work to be done. We meant legislative work to be done, and regrettably, that still is the case. Politics rule in mid-2017. And, regardless of one's politics, the business of the people appears to have taken a back seat as one side lashes out, the other side responds, and then the roles reverse. Frustrating, however, the U.S. economy appears to be on a firm footing. That's why the Fed chose to raise short-term interest rates on June 14. By itself, that indicates a fair degree of central bank optimism, or at the very least a lack of central bank pessimism.

Equities had a decent second quarter, however, the real story was the remarkable disparity between the growth-oriented and value-oriented styles of investing. We monitor the two sets of data closely, and the outperformance of Growth equities vs. Value equities now has reached a point not seen since the late-1990s. For example, our U.S. large capitalization benchmark, the Russell 1000 Value Index, provided a six-month investment return of 4.66%, while the decidedly more growth-oriented S&P 500 Index came in at 9.34%. A very large gap. The pendulum will swing back at some point, but for now, the investor infatuation with the Growth style is producing some unusual relationships.

Large company Growth equities have been the clear winner in the 2017 performance derbies. Regarding bonds, our proxy is a Treasury note maturing in 10 years, and that second quarter investment return was 1.43% (2.48% for the six-month period). Gold, despite losing 0.35% in the second quarter (Engelhard industrial bullion), still was up 7.25% for the entire six-month period.

In summary, the pace of this year's first quarter simply could not be sustained in the second. Investors once again were very well-served by the emerging markets, both equities and bonds; but, U.S. equities lagged, and we look forward to a resumption of first quarter trends.

How about now?

- **The Price/Earnings Ratio of the S&P 500 Index**
  At 25.63x the earnings of its component companies (June 30), this valuation metric actually ticked down from the 26.52x of March 31. Not much, but still, seeing corporate earnings rise to support equity prices even a little is encouraging. May this trend continue to be our friend.

- **The Average Yield Within the 10-Stock Yield Group**
  The Yield Group is an important part of our actively managed all-equity portfolios and the actively managed portions of our balanced portfolios. The more generous the dividend yields within the Group, the more we believe that out-of-favor bargains still exist in the world of U.S. large capitalization equities. On March 31, the average yield of these 10 stocks was 3.72%. By June 30, after a decent but uninspiring quarter, the Group's average yield had increased slightly to 3.75%. So, bargains still exist and their existence suggests that we're not close to a major market top.

- **The Yield of a Treasury Note Maturing in 10 Years**
  Surprisingly, the yield of this stock market rival went from 2.42% to 2.30% in the year's first half as enactment of the administration's pro-growth agenda appeared to be getting pushed back. What that means, of course, is that in the world of relative valuation this security became even less competitive.

As someone once said, we are talking about a market of stocks, as opposed to a stock market. In other words, the market in the overall may not represent compelling value; however, there still are attractive bargains out there, and they clearly are more attractive than a 10-year Treasury note yielding 2.30%. As always, though, diversification is everything.

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And now, the balanced strategies…

Total Portfolio Management

Total Portfolio Management, or TPM, is our largely passive, uber-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.

Second Quarter Summary — The Pace Slows, But There Were Some Bright Spots

U.S. equities may have lagged a bit, but the emerging markets most certainly did not. Likewise, the U.S. Fixed Income sector did well in both an absolute sense and relative to the popular bond market indexes. We had no complaints in the first quarter and very few in the second.

Investment Returns

	2017 QI-QII	One Year	Three Years	Five Years	10 Years	Life of the Strategy**
TPM Baseline*	**5.88%**	**8.64%**	**3.14%**	**7.93%**	**5.41%**	**7.94%**

**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 June 30, 2017. 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 the second quarter. Details on the next page.

Indexed Total Portfolio Management

Indexed Total Portfolio Management, or ITPM, is our totally passive, uber-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.

Second Quarter Summary — EM and Growth!

U.S. equities in general may have lagged a bit, but the Growth steamroller continued to forge ahead. That and the aforementioned emerging markets were second quarter standouts to be sure.

Investment Returns

	2017 QI-QII	One Year	Three Years	Five Years	10 Years	Life of the Strategy**
ITPM Baseline*	**5.71%**	**10.80%**	**4.21%**	**7.36%**	**4.75%**	**7.11%**

**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 June 30, 2017. 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.

Diversify...and sleep peacefully. Check out the back page.

Editor's Note: We seldom miss an opportunity to talk about the virtues of portfolio diversification, and have written about those virtues on two occasions in this space. The last time was in 2010. The following is an updated version of that 2010 piece.

Diversify, Diversify, Diversify

"Too much of a good thing can be wonderful."
- Mae West

"As long as it stays good."
- Editor

On June 15, Kroger Co., a hometown gem to be sure, issued a disappointing earnings report; and, in a totally unrelated move, Amazon announced the next day that it was buying Whole Foods, a direct competitor. Kroger stock fell 26% over that two-day period. Unfortunately, equity investors often do vote with their feet when troubling news comes down the pike. But, what about Kroger's loyal employees? In the wake of this two-day drubbing, someone took a look, and it seems that not long ago Kroger common stock constituted 28% of the company's largest retirement plans and 53% of the Savings Plan in particular. We hasten to point out that the DC plans of several other companies held even larger positions in company stock, but regardless, does this make sense from a diversification standpoint? For openers, we'll bring up a name from the past.

Years before the housing bubble, the subprime mess, and all those bank bailouts, there was Enron. You remember that Houston energy company with its revolutionary ways of doing business and unfortunately, its cooked books. Well, diversification was a large part of the Enron story since over 60% of the average Enron employee's 401(k) supposedly was invested in Enron common stock, which ultimately became worthless.

To diversify, Webster tells us, is to "balance defensively," and the emphasis is where it should be: the risk side of the equation. There's something commendable about loyalty and pride in one's employer, but having 60% (or more) of one's assets exposed to the same risk is, well, risky. Let's stay on this line of thought and be even more specific about what proper diversification is not.

1) Having assets invested in different securities of the same issuer

You may be snickering, but we have heard more than one of these tragic stories. A company goes the way of an Enron or a Lehman Brothers, and an investor is quoted as saying that he's shocked at what happened to his portfolio. Sure, he owned a lot of the company's common stock, but didn't he "spread his risk" by also owning some of the company's bonds and preferred stock? Not much to say here.

2) Owning 10 tech, or 10 bank, or 10 gold, or 10 (of some other group of stocks) instead of just one

A common sin, particularly during the 2000-2002 and 2007-2008 bear markets. What happened is that investors committed way too much of their portfolios to several tech (2000-2002) or several bank (2007-2008) stocks, and considered their portfolios well-diversified. Not so fast. The group effect is alive and well, and was a huge factor in the widespread carnage of these two periods. Specifically, all the tech companies in that earlier era were victimized by the same incendiary combination of supply/demand imbalance and high valuations, and most banks in 2007-2008, of course, were victimized by the same bout of complacency and lax lending standards. Diversification means owning different industries and/or stock market sectors because the same forces continually can pound the stocks of homogeneous groups.

3) Having 60%, 70%, 80% or more of one's assets tied up in one stock...any stock

We hear it all the time, particularly about another hometown favorite: "XYZ is a great company, and it's been good to me." That's fine, but keep in mind that's what hundreds if not thousands of people at Enron said. Bad things can happen to the best of companies, and nobody is smart enough always to see trouble just before the music stops. We advise everyone to have no more than 20% or so of his/her financial assets invested in even a low-cost, "emotional" favorite and to have no more than 5-10% invested in anything else.

4) Having everything invested in one asset class

In calendar year terms, 2007-2008 was one of the stock market's all-time worst two-year periods. The damage was significant, but of course, much more palatable if other asset classes had been represented in one's overall portfolio. Treasuries, for example, had a very good 2008 as fearful investors exited the stock market in droves, and the price of gold (+5.50%) also increased in 2008...for the eighth straight year. The lesson? Balance is a good thing, and the absolute key is to be well-represented in asset classes that typically do not go up and down in price together.

Figure 1
Equities and Five-Year Treasuries
During Times of Stock Market Stress
1926-2017

	S&P 500 Index*	Five-Year Treasury Note*
1929-1930	-31.22%	13.13%
1930-1931	-57.43	4.24
1973-1974	-37.27	10.56
2001-2002	-31.36	21.54
2007-2008	-33.54	24.48

**Unannualized total investment return*

Take a look at Figure 1, which shows how a five-year Treasury note performed in 2007-2008, as well as in four other difficult two-year periods for the stock market. Investing in five-year Treasuries may be a lot like watching paint dry, and they almost certainly will not beat U.S. equities over any meaningful time frame. But, the notes would have been valuable members of the team during these times of considerable stress. Same with gold during the latter periods when it was allowed to trade freely.

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Again, we don't mean to focus exclusively on Kroger, a hometown gem whose stock likely will reward the patient investor in the years ahead. And frankly, we're a little uncomfortable talking about Kroger and that little energy company mentioned earlier in the same article. But, there is the issue of company-stock concentration within a company's retirement assets. Here and elsewhere, our solution is the same: diversify by issuer, diversify by group, diversify by asset class. Diversify in an uncertain world...and sleep.