NOTTINGHILL INVESTMENT ADVISERS, Ltd.

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An Update

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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SCORECARD

	QI-QIII 2013	One Year	Three Years	Five Years	10 Years
S&P 500 Index	19.79%	19.33%	16.26%	10.01%	7.56%
10-Year Treasury Note	-5.02	-5.28	3.59	5.77	5.33
90-Day Treasury Bill	0.08	0.10	0.09	0.11	1.61
Gold	-20.39	-25.41	0.44	8.41	13.05

All multi-year returns are annualized, and all returns are associated with time periods ending September 30, 2013

The Economy and the Markets - Mixed Fed Signals and Washington Shenanigans, but...U.S. Equities Again

For as along as we have been managing client portfolios, "don't fight the Fed" has been sage advice, and gauging what the Fed wants and is doing never has been that difficult. Until now. On June 19, as we reported, Chairman Bernanke announced that the Fed's stimulative bond-buying program, known as quantitative easing, soon would be scaled back and eventually brought to a close. The consensus was that the details of this "tapering" would be announced at the Fed's September meeting and actually would begin shortly thereafter. The September 18 announcement was not at all what the markets expected, however. Instead of spelling out the details of its tapering program, the Fed announced instead that its bond-buying would continue at the current pace. Hedging its bets? We believe so because most of the macro data continue to be encouraging, and the Fed is well aware of that.

Mixed Fed signals to be sure, but Round III (?) of the Washington budget battle was impacting the capital markets even more as the quarter came to an end. Government shutdown? Increase the debt ceiling? Unfortunately, we have heard it all before; but, while the Washington clock was ticking, the U.S. stock market in the form of the broadly based S&P 500 Index had yet another good quarter, specifically a total investment return of 5.24% (nine-month return of 19.79%). But gold, after a difficult January-June, bounced back 11.11% (Engelhard industrial bullion), and was the actual third quarter winner among our asset classes. The 10-year Treasury note, our proxy for the bond market, also bounced back, although this was a late-September bounce back in the midst of the more favorable Fed signal. The note's total investment return was -0.34%. Ninety-day Treasury bills came in at 0.01%. But, U.S. equities again were the place to be, and even the Ghosts of October were swept aside.

The Portfolios - Contrarian Comeback but Small Was Best, Stability in Bonds

Yet another good quarter for U.S. equities, and our Value Plus stocks, which are in stand alone equity portfolios and are the largest component of our TPM portfolios, more than participated. Three groups of large capitalization stocks constitute a Value Plus portfolio/component; and, the much maligned Contrarian Group finally came alive, and joined the other two. The Momentum Group remains the year-to-date winner, and the slow, steady Yield Group also did well; but, the Contrarians were the third quarter champ. TPM portfolios? Same pattern as before. Smaller capitalization U.S. equities had an exceptional third quarter, while the emerging markets stocks came in last by a wide margin.

TPM's bonds? Once again, good relative performance and even a positive return, but the environment remains challenging.

Let's take a look at the strategies.

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

	QI-QIII 2013	One Year	Three Years	Five Years	10 Years	Life of the Strategy*
Value Plus	**20.77%**	**24.91%**	**13.93%**	**11.36%**	**8.81%**	**8.85%**
S&P 500 Index	19.79	19.33	16.26	10.01	7.56	6.94
Russell 1000 Value Index	20.47	22.30	16.25	8.86	7.99	7.79

**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 September 30, 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:

Portfolio 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	
Portfolio Fixed Income Securities		**30**
Three mutual funds, Treasuries**		
Portfolio Non-Traditional Assets		**5**
Gold		

*Value Plus Equity Strategy
**Select Four Bond Strategy

Performance

	QI-QIII 2013	One Year	Three Years	Five Years	10 Years	Life of the Composite*
TPM Baseline	**8.51%**	**11.45%**	**8.86%**	**10.11%**	**9.09%**	**8.60%**
Balanced Index **	8.80	9.92	9.58	9.10	8.23	7.43

**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, the actual investment returns associated with three equity and three fixed income mutual funds/ETFs, the actual investment returns associated with gold bullion, and the simulated investment returns of the passive Nottinghill Treasury Ladder. The entire data series, therefore, 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 are annualized, and all returns are associated with time periods ending September 30, 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.

Rock 'n' roll lyrics from the Fifties? What's that all about? Details on the next page.

Be-Bop-A-Lula

"The best is yet to come, and won't that be fine.
You think you've seen the sun, but you ain't seen it shine."
--*Tony Bennett, 1961*

Well, they did it again. Yet another Washington stand off followed by an 11th hour deal that sent the can hurtling down the road one more time. Our form of democracy can be messy from time to time; but, are we, as the overseas chanters would have us believe, spiraling downhill? Are the government shut down, debt ceiling mess, and Washington dysfunction clear signs that America is in fundamental decline? We don't believe it for a second. Proof? How about a funny but thought-provoking mid-90s story that just as easily could have been a 2013 story, and then, how about a few Nobel Prize statistics? The funny, thought-provoking story first.

According to the English writer A.A. Gill, in the mid-90s he participated in a debate at the Hay Literary Festival, and, to his current dismay, spoke in favor of a motion stating that American culture was far too pervasive and should be "resisted." His partner in the four-person debate preceding the vote was the historian Norman Stone, and on the other side were a writer from The New Yorker and the celebrated British-Indian author, Salman Rushdie. After Gill and his partner had ranted and raved and the writer from The New Yorker had defended our honor, it was Rushdie's turn. In Gill's words, "Rushdie leaned into the microphone, paused for a moment, regarded the packed theater from those half-closed eyes, and said, soft and clear, 'Be-bop-a-lula, she's my baby, / Be-bop-a-lula, I don't mean maybe. / Be-bop-a-lula, she's my baby, / Be-bop-a-lula, I don't mean maybe. / Be-bop-a-lula, she's my baby love.' Then, he sat down."

What Gill referred to as a bookish audience evidently sat in stunned silence for a moment, and then burst into cheering and applause. To Gill, Rushdie's reference to good old American rock 'n' roll, known and beloved the world over, in essence was a lofty, grand argument that, by itself, had turned the tables completely. Sure, these classic lines are hardly prima facie evidence of ongoing American greatness. But, Rushdie in some small way was saying, "Get a grip. American energy and creativity have been facts of life for a very long time, and will continue to be for a very long time." Game Over.

Gill regrets to this day his participation in the shameful Hay debate, and has gone on to become a true believer in the greatness of America and its people in many ways, not just in our ability to create great rock 'n' roll lyrics. He ended his July 2013 Vanity Fair article, in which the Rushdie anecdote was told, with the following:

"There is in Europe another popular snobbery, about the parochialism of America, the unsophistication of its taste, the limit of its inquiry. This, we're told, is proved by 'how few Americans travel abroad.' Apparently, so we're told, only 35% of Americans have passports. Whenever I hear this, I always think, My good golly gosh, really? That many? Why would you go anywhere else? There is so much of America to wonder at. So much that is the miracle of a newly minted civilization. And anyway, European kids only get passports because they all want to go to New York."

America in decline? A few folks out there still may believe that our pop culture should be "resisted," or that we have a tax and spending problem, or that our Congress is dysfunctional; but, America in fundamental decline? Don't bet on it.

Now, let's look at things in a more serious vein.

For this, we want to give credit where credit is due and cite a few facts and figures presented by the Wall Street Journal's Bret Stephens in a recent column. He began by saying that Washington shenanigans have inspired the usual America-in-Decline op-ed pieces and even some Chinese commentary on the need to start building a "de-Americanized" world. But then, he started discussing Nobel Prizes. Let's start with China.

China. A beautiful country with 1.3 billion people. In all its history, China has produced a grand total of nine Nobel Prize winners. Seven of them live abroad; three in the U.S. One who does not live abroad instead lives in a Chinese prison. But, with all those people, is China the Nobel land of the future? Maybe, but maybe it always will be.

Russia. Now down-sized from the old Soviet days, Russia has 142 million people and three living Nobel Prize winners. As Stephens says, "So much for the land of Pasternak and Sakharov."

Israel. People identifying themselves as Jewish constitute 0.2% of the world's population, yet Jewish scientists, authors, and statesmen have won 20% of all Nobel Prizes. The Jewish state itself? Nine living winners, three of whom live and teach primarily in the U.S. Why? As the brother of a recent winner explained, "There are a lot of smart people in Israel and at the same time there was not a job, so he left." It's not enough to produce geniuses; countries also have to figure out how to employ them.

Europe. According to Stephens, France has 10 living laureates; Germany 30 (nine of whom have lived in the U.S. a long time); the UK about the same as Germany. In all, not many for a continent with 500 million people. Why? The Holocaust certainly was (is) a factor, but Stephens also blames what he calls the pervasive mediocrity of Europe's higher education. Cambridge and Oxford aside, something called the Shanghai Jiao Tong rankings list only the Swiss Federal Institute of Technology among its top 30 universities worldwide. Most European universities in fact are overcrowded and underfunded.

Nobel Prize Winners - 2013

	Born	Lives
Chemistry		
Martin Karplus	Austria	USA
Michael Levitt	S. Africa	USA
Arieh Warshel	Israel	USA
Economics		
Eugene Fama	USA	USA
Lars Peter Hansen	USA	USA
Robert Shiller	USA	USA
Literature		
Alice Munro	Canada	Canada
Medicine		
James Rothman	USA	USA
Randy Schekman	USA	USA
Thomas Sudhoff	Germany	USA
Physics		
Francois Englert	Belgium	Belgium
Peter Higgs	England	Scotland

Which brings us to…

The U.S. Since 2000, we Americans have won 21 of the 37 physics prizes, 18 of the 33 prizes in medicine, 22 of the 33 chemistry prizes, and 27 (!) of the 30 prizes in economics. Not bad for a country of failing schools, no science and math grads, and international test scores below those of Singapore, South Korea, Finland et al. Speaking of which, what happens to all those 15-year old achievers in those countries? In the history of the Nobel Prize, Singapore has none, Korea has one (a peace prize), and Finland's last science prize was awarded in 1967. So, what gives?

Stephens cites three reasons for America's success at the Nobel podium. First, a welcoming immigration culture. Send us your huddled masses, particularly if they have untapped talent or are known to be talented. Second, a mostly private, highly competitive, lavishly endowed university system with considerable federal funding for the most basic research. And third, a culture of individualism and, with it, an appreciation of and respect for outside-the-box thinking and analysis.

To those, we'll add a fourth: We Americans more than others always have had a passion for the pursuit of opportunities, and have been able to pursue them in a free, open, free-wheeling system. For sure, it hasn't always been pure Capitalism. But, for the most part the individual, immigrant or already-here American, has been allowed to take all that those great universities have to offer, then to think totally outside-the-box or even conventionally, and finally, to create and achieve in a system that celebrates creativity and achievement.

What does all of this have to do with Nottinghill Investment Advisers? A lot. As the industrial world rose from the ashes of 2008-2009, the U.S. was considered the best house in a bad neighborhood, and our equity market was the first one out of the gate. But really, it was so much more than that. For all the above reasons and, we might add, more than our share of resilience/perseverance, we got things in shape, and started moving. The structures and national traits that helped us then always have been with us to varying degrees, and we expect the future to be like the past. U.S. equities, to a large extent representative of our national character, are the primary work of this firm (it's work that we do well, by the way), and constitute the largest component of our balanced portfolio structures by far. We would have it no other way. In the U.S., the best is yet to come. Very indirectly, of course, maybe that's what Rushdie countering simply with "Be-Bop-A-Lula" (Gene Vincent and His Blue Caps, 1956) is all about. A dysfunctional Congress, debt ceiling messes, etc. Pebbles in the road. The best is yet to come, and won't that be fine.