



The Year in a Nutshell

▪ 2008 - The subprime mortgage mess of 2007 spawned a wholesale altering of the Financial landscape, and then a consumer-led recession in the overall economy. U.S. equities were not immune. The S&P 500 Index suffered its worst loss since 1931. The good news: There is compelling investment value just about everywhere.

▪ The Lost Decade - The impact of 2008 was considerable. The widely followed S&P 500 Index is on track to have its worst decade since the start of the Ibbotson data series in the mid-1920s. The good news: That's yesterday's news (and, see above).

▪ Index Plus - Nottinghill never sleeps. With the background work complete, our planned foray into the world of Core-Satellite investing became a reality. The benefits of the Index Plus equity strategy: investment returns superior to the Index (if our research is any guide), investment returns more highly correlated with those of the Index, low transaction costs, low management fees. We welcomed our first Index Plus client a few weeks ago, so the official track record has begun.

▪ Certified and Audited - Once again, our overall compliance with the Global Investment Performance Standards (GIPS[®]) was certified by a third-party attestation firm, and the complete record of our flagship Growth & Value 20 strategy was audited. It happens every February.

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REPORT CARD 2008

"Seeing much, suffering much, and studying much, are the three pillars of learning."
--Benjamin Disraeli

"Our goal is modest: We simply attempt to be fearful when others are greedy and to be greedy when others are fearful."
--Warren Buffett

One for the Record Books

Someday, someone will write the definitive history of 2008, a year that will live in infamy. Were there lessons to be learned? Had to have been because there was so much to see, so much to suffer, and so much to study.

The year started slowly, but then, things really got moving. A couple of high-profile dividend cuts were followed in March by the Fed-brokered purchase of Bear Stearns by J.P. Morgan Chase. Six months later and in quick succession came the rescue of Fannie and Freddie, the crisis at AIG, the Fed-brokered Merrill/Bank of America tie up, and the collapse of Lehman Brothers. The landscape was altered for all time by these events, all directly or indirectly the result of falling home prices and souring mortgages.

The U.S. stock market took note, and, after five good years, came back to earth in dramatic fashion. The S&P 500 Index had its worst year since 1931, and most of the overseas markets did even worse. Oil (-53.33%) and most commodities, after a stunning six-month collapse, finished well down for the year, although gold's December rally resulted in a 12-month gain of 5.50%. Real shelter, however, was to be found in only one place, the Treasury market. To put some numbers on the remarkable 2008 Treasury phenomenon, the year-end 90-day Treasury bill yield was 0.08%, down from 3.30% one year earlier. Moving out on the yield curve, the 10-year note's yield-to-maturity went from 4.02% to 2.16%, which translates into a total return of 19.42%. Of the alternatives that we routinely monitor and consider, therefore, the 10-year Treasury note was the big-time winner of 2008's performance derby, such as it was.

How'd we do in the 2008 minefield? Well, the Value side trumped the Growth side in our **Growth & Value 20** portfolios, and generally played its stabilizing role relative to the overall market. Gross-of-the management fee, the Strategy beat the benchmark S&P 500 Index for the eighth time in the nine years of this decade (more about the decade in a moment); net-of-fee, we missed by an eye lash. So, depending upon one's perspective, we either added value in 2008 or came very close, but the phrase "hollow victory" immediately comes to mind.

Balanced portfolios? Now, that's another story. The fixed income side of our **Growth & Value 20 Balanced** portfolios consists only of Treasuries with maturities less than 10 years. The role of these securities is to provide stability and sanctuary in an uncertain world, and they really did the job in the uncertain world of 2008. Please note the extent of this 2008 contribution on the back page.

For equities, though, the year was beyond difficult. Many stock market myths and legends were destroyed irretrievably, and others are up for serious review. But now, let's see how 2008 fits into and impacted "the long run."

The Lost Decade

At 1600 hours Eastern Standard Time on December 31, 1999, the S&P 500 Index closed at 1469.25. Nine years later, on December 31, 2008, that same Index had a closing value of 903.25. With dividends added back, that translates into an annualized return of -3.60%. We're calling the 00s the Lost Decade because, with one year to go, the S&P 500 Index is on track to experience its worst decade since the Ibbotson database's inception, December 31, 1925.

What, you say? How about the 30s with that Depression and that Dust Bowl and the rise of fascism, etc.? Actually, the 30s is only the runner up on the futility scale. American popular music's greatest decade was almost a breakeven in stock market terms.

What about the 70s with all that stagflation and two oil shocks and those "Death of Equities" articles? Good try, but the decade of the 70s isn't it either.

Nope, so far it's the 00s...bottom of the barrel, worst of the bunch. How bad has it been versus all those other decades? Let's take a walk down memory lane and pull some numbers together.

The 20s

The Ibbotson data series starts on December 31, 1925, so we don't have the whole decade on paper; but, the heyday of laissez-faire Capitalism, flappers, the Gershwins, Ruth and Grange, wasn't all that bad. The S&P's 1926-1929 annualized return... 19.19%.

The 30s

Everybody's assumed cellar dweller in fact wasn't all that good. But, the decade of the Great Depression, the Dust Bowl, Porter and Arlen and the Gershwins (again), and Hollywood escapism actually can't compete with the 00s on the futility scale. Annualized return... -0.05%.

The 40s

Worldwide conflagration, Midway and Stalingrad and the "hinge of fate," price controls and post-war anxiety, HUAC, the springtime of Frank Sinatra, the Splendid Splinter, and "Casablanca." After all that dust settled, the nail biting annualized return... 9.17%.

The 50s

The assumed winner, and it is. Healthy, non-inflationary growth and technological advance, interstate highways and McDonalds and Holiday Inns, Jonas Salk, Willie and the Mick, the birth of rock 'n' roll. The S&P's annualized return... 19.35%.

The 60s

Not exactly a smooth ride, but good growth point-to-point along with the laying of inflation's groundwork. Vietnam and social unrest, JFK and LBJ, Lennon & McCartney and Dylan, Vince and the Wizard, Jim B. and Johnny U. Annualized return... a scrambling 7.81%.

The 70s

A stop-start equity market fostered by the stop-start pattern of stagflation. Two oil shocks, two interest rate spikes, two Godfathers and one war among the stars, one Big Red Machine and one solid Steel Curtain. Annualized return... 5.86%.

The 80s

Ronald Reagan and Paul Volcker take charge. The Laffer curve in action, Maggie and a U.K. renaissance, Cold War endgame, MTV and "Thriller," Larry and Magic, West Coast Joe and Jerry. Another very good "buy 'em and hold 'em" decade. Annualized return... 17.55%.

The 90s

Bill and Hillary, the Contract with America, Alan Greenspan and the triumph of productivity, terrorism's shots across the bow, Mariah and Garth, Michael J. Through it all, steady growth and good markets. Annualized return... 18.20%, which brings us to...

The 00s

We aren't even finished with the current decade, but already we've had two recessions, three asset bubbles, a terrorist attack on our shores, and the worst stock market year since 1931. Annualized return (2000-2008)... -3.60%.

The Lost Decade. Clearly, U.S. equities have failed to deliver, but what has worked? Try gold. In an era practically devoid of inflation, the once-and-future inflation hedge has a 2000-2008 annualized return of 13.12%. Or, how about a 10-year Treasury (8.59%), which, after a 17-year bull run, just kept on going? Even cash, both the money market kind (90-day Treasury bills 3.09%) and the under-the-mattress kind, walloped U.S. equities, every portfolio's featured player.

Of course, 2008 sealed the deal, and made the Lost Decade what it currently is. Last year's downdraft also gave us some interesting year-end relationships, many of which we've rarely if ever seen. How about a 90-day Treasury bill yielding 0.08%, or a five-year Treasury note with a yield-to-maturity of 1.23%? Or, as Bloomberg reported, how about a worldwide total of 2,267 public companies having more cash than the combined value of their outstanding stock and total debt? That's investment value.

Where does that leave us? There are several conclusions to be drawn:

- 1) Diversification among asset classes is always the way to go
- 2) A well-conceived plan with all the necessary specifics is essential
- 3) A periodic rebalancing in accordance with that plan is essential
- 4) U.S. equities are on sale, and there is every reason to be greedy in the midst of the current fear

Incidentally, what would it take in 2009 for the Lost Decade to become the Breakeven Decade and move ahead of the 30s in the standings? The total investment return of the S&P 500 Index would have to be 39.13%, a very healthy and probably unlikely showing. But, given current stock market valuations and the current level of despair, "impossible" is not a word we would use. "Unlikely," "doubtful," "improbable" maybe, but not "impossible." Historically, many powerful bull moves have begun in eras characterized by rock-bottom valuations, total despair regarding the economy, and a widespread hatred of equities. Sound familiar?

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How'd we do in the minefield of 2008? Take a look at the next two pages, and note on the back page in particular the impact of Treasuries in our balanced portfolios.

THE GROWTH & VALUE 20 EQUITY STRATEGY

Our Core 20-stock approach. Three independent processes are used to select the portfolio's three groups of stocks. Two selection processes are value-oriented, and are applied to the Nottinghill LARGCAP Universe of 75 candidates. The third process is growth-oriented, and is applied to the entire S&P 500. During periods of above-average stock market risk, which we define quantitatively, intermediate-term Treasuries are held instead of this third group of five Growth stocks.

Investment Results

	Growth & Value 20 (%)	S&P 500 Index (%)	End of the Period				
			Firm Assets (\$/mm)	Composite Portfolios (#)	Composite Assets (\$/mm)	% of Firm Assets (%)	Annual Composite Dispersion (%)
1997	26.03	33.36	15.1	8	5.2	34	0.32
1998	18.26	28.58	23.4	9	6.8	29	1.42
1999	14.97	21.04	31.7	10	9.8	31	0.53
2000	5.09	-9.10	27.0	12	12.5	46	1.02
2001	0.29	-11.89	31.5	13	13.5	43	0.75
2002	-17.17	-22.10	36.1	15	17.9	50	0.46
2003	37.22	28.68	57.7	16	22.5	39	1.03
2004	18.44	10.88	70.8	20	26.7	38	0.62
2005	11.10	4.91	123.1	37	72.1	59	0.88
2006	18.23	15.80	162.3	40	97.8	60	0.79
2007	-6.38	5.49	162.5	64	103.3	64	0.48
2008	-37.10	-37.00	88.0	59	63.0	72	0.99

Annualized

Life of the Strategy	5.40	3.39
10 Years	2.35	-1.38
Seven Years	0.58	-1.53
Five Years	-1.24	-2.19
Three Years	-11.37	-8.36

Nottinghill results are presented net-of-the management fee; all annualized returns are associated with periods ending December 31, 2008

Nottinghill 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-PPSTM) for the period from July 1, 1996 to December 31, 2005 and the Global Investment Performance Standards (GIPS[®]) beginning in 2006. No regulatory or governing body has been involved in the preparation or review of this report.

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-PPSTM 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[®]). Verifications are conducted annually; a copy of the most recent report is available by request.

2. The Growth & Value 20 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-PPSTM 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 2002-2006 periods. On December 31, 2008, accounts with a fixed annual brokerage charge less than 0.25% of assets contained 56% of total composite assets. The purpose of this fee is to cover trading costs.

3. No segments of other portfolio composites are included in the Growth & Value 20 composite.

4. The most appropriate benchmark for the Growth & Value 20 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 management fees, which were 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 \$14 million, 0.65% of the next \$35 million, and 0.50% of the next \$50 million.

6. Investment results calculated net of management fees 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 GROWTH & VALUE 20 BALANCED STRATEGY

The Growth & Value 20 Balanced Strategy is a combination of our Core Growth & Value 20 equity approach and a passively managed fixed income component. The objectives of the latter, which consists of several Treasury notes with staggered maturities between two and 10 years, are to stabilize the long-term pattern of investment returns and to provide sanctuary in times of stress.

Investment Results

	Growth & Value 20 Balanced (%)	Balanced Index (%)	End of the Period				
			Firm Assets (\$/mm)	Composite Portfolios (#)	Composite Assets (\$/mm)	% of Firm Assets (%)	Annual Composite Dispersion (%)
1999 QIII-QIV	6.22	9.22	31.7	1	0.2	1	--
2000	5.95	-2.04	27.0	1	0.3	1	--
2001	2.84	-3.83	31.5	2	0.5	2	--
2002	-8.18	-10.32	36.1	6	1.6	4	0.94
2003	22.57	17.65	57.7	6	2.0	3	1.37
2004	12.91	7.32	70.8	6	2.5	4	1.12
2005	8.88	3.76	123.1	7	3.5	3	0.70
2006	13.61	11.87	162.3	7	4.2	3	1.67
2007	-2.07	6.50	162.5	9	4.9	3	1.16
2008	-21.88	-20.47	88.0	9	3.7	4	4.67
Annualized							
Life of the Strategy	3.45	1.39					
Seven Years	2.67	1.43					
Five Years	1.33	0.92					
Three Years	-4.57	-2.04					

Nottingham results are presented net-of-the management fee; the Balanced Index is weighted 60% S&P 500 Index, 30% Lehman Brothers Intermediate Treasury Index, 10% 90-day Treasury bills; all annualized returns are associated with time periods ending December 31, 2008

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-PPSTM) for the period from July 1, 1996 to December 31, 2005 and the Global Investment Performance Standards (GIPS[®]) 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-PPSTM for, respectively, the 1996-2001 and 2002-2005 periods. 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[®]). Verifications are conducted annually; a copy of the most recent report is available by request.

2. The Growth & Value 20 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-PPSTM of April 1, 1999.

3. No segments of other portfolio composites and no accounts with a fixed annual broker charge are included in the Growth & Value 20 Balanced composite.

4. The most appropriate benchmark for the Growth & Value 20 Balanced strategy is the Balanced Index, an unmanaged, 60%/30%/10% blend of S&P 500 Index, Lehman Bros. 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 management fees, which were 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 \$14 million, 0.65% of the next \$35 million, and 0.50% of the next \$50 million. The fee schedule associated with the fixed income sector is 0.25% of assets.

6. Investment results calculated net of management fees 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.