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

	2019 QI-QII	One Year	Three Years	Five Years	10 Years
S&P 500 Index	**18.54%**	**10.42%**	**14.19%**	**10.71%**	**14.70%**
10-Year Treasury Note	**6.80**	**9.86**	**1.00**	**3.30**	**4.56**
Gold	**10.07**	**12.70**	**2.22**	**1.43**	**4.20**

All multi-year returns are annualized, and all returns are associated with time periods ending June 30, 2019

2019 QII — A Cyclical Slowing Worldwide, but the U.S. Economy Remains Strong

In our April reports, we remarked that, as the tariff rhetoric receded, interest rates became the big economic and capital market story of the first quarter. In the second, the tariff rhetoric returned, however, the interest rate story continued to be particularly noteworthy. The fact is, the worldwide economy clearly is slowing, and central bankers everywhere are doing what they can to stimulate with low-cost money. "Central bankers everywhere," of course, includes our own Federal Reserve Board, which ended its policy of hiking short-term interest rates several months ago and now is reducing rates. Still, the U.S. economy continues to be in far better shape than those of our trading partners, and Fed policy at this point appears to be aimed at heading off a bit of trouble, as opposed to responding to serious problems.

After its first quarter revival, the U.S. stock market had a more muted advance in the April-June quarter. The growth-oriented S&P 500 Index provided an investment return of 4.30%; our Russell 1000 Value Index an investment return of 3.84%. Bonds? As Fed policy changed, they responded. More specifically, the yield on a Treasury note maturing in 10 years went from the 2.41% of March 31 to the 1.98% of June 30, and the note's second quarter investment return was 3.74% (6.80% for the six-month period), as a result. Likewise, the prospect of interest rates staying lower, longer had a positive impact on the price of gold. The second quarter advance was 8.62%, which means that gold's six-month investment return is 10.07%.

Where are we now? As usual, we break things down under three headings:

- **Worldwide Economy**
  A cyclical slowing clearly is upon us, but are we talking recession? Not here, and not yet anyway. The U.S. economy by almost all measures still is doing well. Europe, on the other hand, is much more of a mixed bag, with numerous structural issues involved, as usual. Europe's ability to bounce back is dependent at this point upon the easy-money policies of the European Central Bank and the ability of our economy to keep performing.

- **Equities**
  A very famous stock market adage is "Don't fight the Fed." That sage advice applies in mid-2019. U.S. equities for the most part were limping along (albeit after a strong first quarter) until the Fed meeting and announcements of June 18-19. Then, in the wake of a clearly more accommodative pivot, U.S. equities headed up (with many indexes reaching all-time highs on June 20), and the quarter turned out to be a pretty good one. Now, we are in the seasonally weak part of the stock market year (with a clear uptick in volatility), but an accommodative Fed clearly is a plus.

- **Interest Rates**
  At least for now, the path of least resistance is down. If the economy's current cyclical slowing turns out to be just that (and the data are clear in that regard), however, short-term interest rates probably will be kept in a narrow band. But, a resumption of Fed tightening clearly has been put off, probably for quite a while.

Therefore, we are in good shape; the European (and Chinese) economies are struggling. Still, an actual recession here and/or overseas is not necessarily in the cards, and the monetary/interest rate backdrop is a positive for equities. As always, however, wide diversification required.

* *

And now, "To Be a Value Investor…," followed by a review of the balanced strategies.

To Be a Value Investor!
(but not in ’10, ’11, ’12,…,’19)

“Everything concerning markets and economies regresses from extremes toward normal faster than people think.”

- Jeremy Grantham

OK, we admit it, we’re kind of obsessed with the subject of the Growth style of investing vs. the Value style of investing in large capitalization U.S. equities. But, sharply contrasting philosophies in any vein always attract our attention, and Growth’s superiority over the last 10 years has been a noteworthy phenomenon. What exactly are we talking about?

If your job is to find out how 50 equity managers pick stocks, first of all you have our sympathies. “Spellbinding” typically is not the right word — the stories managers tell never will be confused with an Eddie Murphy or Robin Williams routine. But, two things we can promise are that, first, you’ll hear 50 different stories and, second, that all will fall under one of two headings: Growth or Value. The styles are different, to be sure. How so?

Growth. The Growth investor’s most fundamental belief is that, at any point, there are companies favored by the economy’s many cross-currents. By virtue of, say, a deep and talented management team, one or more popular product lines, or simply being in the right place at the right time, these companies are exhibiting sales and earnings growth superior to that of the overall economy. Furthermore, the Growth investor believes that the economic and corporate trends spawning these superior growers can be spotted continually and will persist.

Value. The principles of the Value style are directly across the spectrum from those of the Growth style. Rather than attempting to spot sustainable trends and their supposed beneficiaries, the Value investor believes in the concept of absolute investment value and that investment value can be stated in terms of certain metrics. He/she tends to be more valuation-sensitive, and is attracted to the out-of-favor and downtrodden. The stock market, as viewed by the Value investor, is governed by countless and continual reversion-to-the mean forces, and the cheap and misunderstood, for whatever reason, ultimately will revert to some kind of equilibrium.

Growth or Value, which is better? The answer depends upon the time period in question and the specific characteristics employed, but Value usually comes out ahead. In one study, the Fama-French Growth and Value data series (1960-1994) were combined with the Russell 1000 Growth and Russell 1000 Value data series (1995-2019 QII), and the Value style’s performance advantage was a noteworthy 2.66% per year (12.03% vs. 9.37%).

That’s what we call a Value tailwind. If only it were that simple, we could stick to the Value style, and call it a day. Unfortunately, this simple 59-year comparison hides the fact that Growth stocks and the Growth style can go through (have gone through) long periods during which they, not Value, were clearly king of the hill. For sure, we’re in one of those periods right now. Take a look at Figure 1, which shows the year-by-year comparisons over the 2010-June 2019 period (almost 10 years; the boxed number is each year’s winner). As shown, the Growth investor had the upper hand in seven of the 10 periods; overall performance advantage 3.22% per year.

Figure 1

The Growth Style vs. the Value Style 2010-2019

	Russell 1000 Growth Index (%)	Russell 1000 Value Index (%)
2010	16.72	15.51
2011	2.63	0.39
2012	15.27	17.51
2013	33.48	32.53
2014	13.05	13.45
2015	5.72	- 3.85
2016	7.08	17.34
2017	30.21	13.66
2018	- 1.51	- 8.27
2019*	21.49	16.24
Annualized	14.66	11.44

*January-June

But wait! The last decade’s Growth performance advantage is only #2 on the list. In the now long-ago 90s, which ended with the so-called dot-com bubble (remember Pets.com, Webman, Boo.com et al.?) and Growth/NASDAQ stocks ultimately going parabolic, Growth beat Value to the tune of 4.66% per year.

That said, the pendulum always swings back, and the aftermath of the Dot-Com 90s is educational because this decade of speculative excess was followed by Growth’s Hangover 00s. As the pendulum swung back, the Value style to which we subscribe outperformed Growth by a whopping 6.45% per year (the respective 2000-2009 investment returns are 2.47% and –3.98%). The birth of the Internet, which caused the late-90s Growth run up, in fact has revolutionized our lives in so many ways; but, as it turned out, too many investors embraced the concept too early, too fast, and too euphorically. We’ve seen this movie before. The exuberance of the late-90s required a cleansing of the corporate pretenders, and everyone needed to take a breath and methodically try to figure things out. As the late-90s excesses were unwound (2000-2009), the Growth/Value performance gap closed in earnest.

Where does that leave us? The Dot-Com 90s and the Hangover 00s have come and gone, and Growth has had yet another good 10-year run. Unless things truly are different this time (a dangerous assumption), the pendulum will swing again. That’s not to say that the current Growth favorites are bad companies or will become punch lines down the road (Amazon is no Boo.com). It’s just that they’ve been on top for a long time, and they’ve attracted quite a stock market following versus just about everything else. In stock market parlance, they’ve become “crowded trades.” One way or another, Value stocks will close the gap again. We can’t tell you when this is going to happen, but it will. Value is the long-term winner. Should we embrace the Value style 100%? From our standpoint, no. We believe that the Growth style should have a seat at the equity management table, and that’s why Growth/Momentum has a 25-35% weighting in our all-equity Value Plus and Yield Plus portfolios and the U.S. large cap component of our TPM balanced portfolios. We’re primarily Value investors, but diversification, as always, trumps just about everything else.

Total Portfolio Management

Portfolio Structure

Total Portfolio Management, or TPM, is a largely passive, balanced approach to the management of a taxable individual's or tax-exempt institution's overall portfolio. TPM portfolios consist of three sectors: Equities, U.S. Fixed Income, and the Alternatives Group. The Firm's Value Plus Equity Strategy, an active approach, governs the large capitalization component of the Equities sector, which also includes three other, passively managed ETF components. The U.S. Fixed Income sector is a combination of three actively managed bond mutual funds and intermediate Treasuries. And finally, positions in three alternative asset classes (ETFs) constitute an Alternatives Group that adds yet another layer of diversification. The result: a complete, largely passive destination for all of the taxable individual's or tax-exempt institution's investment needs.

Investment Objectives

- **A positive inflation-adjusted investment return** — A Life of the Strategy investment return greater than the inflation rate of the overall U.S. economy
- **Value-added** — A Life of the Strategy investment return superior to that of a balanced index weighted in accordance with the portfolio's asset allocation structure
- **Value-added with balanced index volatility** — Life of the Strategy investment return volatility comparable to that of a balanced index weighted in accordance with the portfolio's asset allocation structure

Investment Return Summary

	2019 QI-QII	**2002-2019**
TPM Baseline*	**14.66%**	**7.67%**
S&P 500 Index	18.54	7.67
Barclays Capital US Aggregate Bond Index	3.08	4.47

*65% equities

Nottinghill Investment Advisers, Ltd., is an independent investment adviser utilizing a number of large capitalization equity and widely diversified balanced strategies. The above Total Portfolio Management - Baseline performance data are associated with the Total Portfolio Management - Baseline model portfolio. The data were developed with all due care; however, they are simulated, and 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. These data are provided net-of-transaction costs, assumed to be 0.13% per quarter, but gross-of-the management fee. Furthermore, the data are associated with time periods ending June 30, 2019, are annualized for the multi-year period, are expressed in U.S. Dollars, and are compared in this case to the broadly based, all-equity S&P 500 Index and the all-fixed income Barclays Capital US Aggregate Bond Index. Whether simulated or actual, past performance is no guarantee of future results. A complete list of Nottinghill performance composites and model portfolios and additional information regarding the calculation and reporting of Nottinghill performance are available upon request.

Investment Strategy Advantages

- A seasoned team of investment professionals
- The complete, partially indexed answer
- Low management fees, transaction costs, and taxes
- Solid performance at a low level of risk

Now, let's talk about ITPM in 2019. Details on the next page.

Indexed Total Portfolio Management

Portfolio Structure

Indexed Total Portfolio Management, or ITPM, is a totally passive, balanced approach to the management of a taxable individual's or tax-exempt institution's overall portfolio. ITPM portfolios consist of three sectors: Equities, U.S. Fixed Income, and the Alternatives Group. A total of nine components within those sectors, and all nine consist of ETF positions performing in line with an associated equity market index, bond market index, or commodity price. ITPM portfolios combine the traditional performance advantages of passive management, along with ultra-low transaction costs and management fees. The result: a complete, totally passive destination for all of the taxable individual's or tax-exempt institution's investment needs.

Investment Objectives

- **A positive inflation-adjusted investment return** — A Life of the Strategy investment return greater than the inflation rate of the overall U.S. economy
- **A structure-consistent investment return** — A Life of the Strategy investment return consistent with the component investment returns weighted in accordance with the portfolio's asset allocation structure
- **Low, structure-consistent volatility** — Life of the Strategy investment return volatility consistent with that of a low-volatility, indexed asset allocation structure

Investment Return Summary

	2019 QI-QII	2002-2019
ITPM Baseline*	**12.58%**	**6.94%**
S&P 500 Index	18.54	7.67
Barclays Capital US Aggregate Bond Index	3.08	4.47

*65% equities

Nottinghill Investment Advisers, Ltd., is an independent investment adviser utilizing a number of large capitalization equity and widely diversified balanced strategies. The above Indexed Total Portfolio Management - Baseline performance data are associated with the Indexed Total Portfolio Management model portfolio. The data were developed with all due care; however, they are simulated, and 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. These data are provided net-of-transaction costs, assumed to be 0.13% per quarter, but gross-of-the management fee. Furthermore, the data are associated with time periods ending June 30, 2019, are annualized for the multi-year period, are expressed in U.S. Dollars, and are compared in this case to the broadly based, all-equity S&P 500 Index and the all-fixed income Barclays Capital US Aggregate Bond Index. Whether simulated or actual, past performance is no guarantee of future results. A complete list of Nottinghill performance composites and model portfolios and additional information regarding the calculation and reporting of Nottinghill performance are available upon request.

Investment Strategy Advantages

- A seasoned team of investment professionals
- The complete, fully indexed answer
- Ultra-low management fees, transaction costs, and taxes
- Solid performance at a low level of risk