NOTTINGHILL
INVESTMENT ADVISERS, Ltd.

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An Update

SCORECARD

	2019 QI-QIII	One Year	Three Years	Five Years	10 Years
S&P 500 Index	**20.55%**	**4.26%**	**13.39%**	**10.84%**	**13.24%**
10-Year Treasury Note	**10.35**	**14.62**	**2.29**	**3.85**	**4.64**
Gold	**15.51**	**24.46**	**4.13**	**4.04**	**4.04**

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

2019 QIII — Overseas Weakness, and Low, Low Interest Rates

"The best house in a bad neighborhood" is an expression used to describe the U.S. economy following the worldwide recession of 2008-2009. The expression applied then, and the expression has continued to apply ever since. In Europe and Japan, numerous structural problems stand in the way of healthy economic growth, pricing flexibility, and full employment. Unfortunately, these problems require more in the way of a fiscal policy response, however, monetary policy in the form of ultra-easy conditions and negative interest rates stands alone in the battle. Here in the U.S., monetary policy and fiscal policy have been working more in tandem, and the macro-economic data are far better. The jobs situation in particular deserves mention, i.e., the unemployment rate for several months now is at a 50-year low. That bodes well for consumer spending and, ultimately, capital investment. Of course, the latter also would benefit greatly if we are able to settle our trade differences with the Chinese among others.

The U.S. stock market shrugged off overseas problems, and performed reasonably well in the third quarter, with the Growth style of investing generally outperforming Value, and large-company stocks generally outperforming their smaller brethren. But, interest rates and the bond market remained the big story of 2019. At the end of last year, the 10-year Treasury note yield was 2.68%. By June 30, the note's yield had fallen to 1.98%, and then declined further to the 1.67% of September 30. That translates into third quarter and nine-month total investment returns of 3.32% and 10.35%, respectively. So far, a banner year for bonds, and the same goes for gold. The metal's price (Engelhard industrial bullion) advanced 4.95% in the third quarter, and that makes for a nine-month investment return of 15.51%.

What's the situation at the nine-month mark? As usual, we break things down under three headings:

- **Worldwide Economy**
  As stated in past Updates, the data here in the U.S. are a little soft, but far better than the data coming from the eurozone and Japan where monetary conditions are ultra-easy and interest rates are negative. Will that be enough to get these economies moving? Time will tell, but a U.S./China trade deal would be a distinct tailwind for all the developed economies.

- **Equities**
  The late-2018 swoon made the U.S. market very attractive, and this year's rally has confirmed that appraisal. Still, the markets here and overseas are being held hostage by tariff/international trade developments, and, overall, the rally has lost some of its steam in recent months. Bargains? They do exist, and we once again mention Cyclical/Value stocks and emerging market stocks.

- **Interest Rates**
  After a noteworthy pivot by the Fed, the path of least resistance now clearly is down. That does not mean that one or more additional interest rate cuts are on the way. The operative phrase in Fedspeak is "data-dependent." In other words, what does the Board regard as the key pieces of economic data at this point, and what messages are those data sending?

Bottom line: The tariff/international trade situation is the key variable as far as the worldwide economy, worldwide stock markets, and the behavior of interest rates here and overseas are concerned. We are optimistic that the parties involved will arrive at a partial solution anyway, but the watchword, as always, is "diversification."

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And now, "Our Back Pages," followed by a review of the balanced strategies.

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, U.S. Fixed Income, and the 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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Our Back Pages

"Ah, but I was so much older then.
I'm younger than that now."

-Bob Dylan,
"My Back Pages" (1964)

In 1964's "My Back Pages," Bob Dylan criticizes himself for being much too certain about all aspects of life during his earlier folk music/ protest days. The same criticisms can apply to many of us, particularly to many of us who invest money for a living.

Back in the 70s, one of us embarked upon a career managing equities. At that point and probably into the modern era, the business tends to attract a certain type. Self-confidence typically is not a problem, and that to go along with the aforementioned Dylanesque, sometimes unhealthy certainty of youth. The years went by, though. As lessons were learned, this unfettered self-confidence and certainty in all things gradually moved toward what Richard Nixon called "peace at the center." That's what seasoning is all about, and the grand product of that seasoning is a set of Fundamental Nottinghill-type Investment Beliefs. Let's go over those Beliefs and see how they evolved.

- **Diversification and disciplines are <u>the</u> key elements of long-term investment success.**

Hair brushed (even the top of the head could be brushed in those days) and shoes shined, newly minted Equity Guy walked into the offices of Big Downtown Firm, and learned how the grand economic forecast was absorbed by the all-powerful Investment Committee, who then forecast stock market direction, gathered the thoughts of various analysts, and attempted to identify the market's winners and losers. Nothing wrong with that in a perfect world. But, guess what? Equity Guy learned that it all rests upon grand macro and interest rate trends and company-specific earnings that are basically unforecastable. There had to be a better way, but first came humility, the realization that he who once was so certain about all things was living in a very uncertain world. The solution: Spread investable assets around in a well-researched, disciplined manner, and then stay the course unless and until circumstances <u>clearly</u> have changed.

- **Equities in general and Value equities in particular should be the cornerstone of any portfolio.**

Equities were the chosen profession of fresh-off-the campus Equity Guy, so no seismic evolution here. If anything, his respect and reverence for the virtues of ownership have grown ever-stronger. But, Value equities? Seismic attitudinal change, and Equity Guy's metamorphosis actually wasn't that unusual. Most people come into the equity management business thinking that their job is to ferret out the next Google or Microsoft and then jump on board for the long, never-ending ride. As the years passed, however, Equity Guy learned that those who continually focus on equities that are out-of-favor and cheap have a distinct advantage over those who continually search for the fastest growers. The historic advantage: 2-3% per year, which is significant. Most things in life continually revert to some sort of mean or equilibrium, and that's the rationale for Value investing. So, Equity Guy's focus became the Value style. How about the Growth style? It can be the winner for long stretches (don't we know it?), and deserves a seat at the table, albeit a smaller seat.

- **Indexed approaches often compete very effectively with the active management of both equities and bonds, and should be represented in the overall portfolio.**

Invest in a stock or bond market <u>average</u>? It took Equity Guy a while to get on board with this one, but ultimately he was worn down by the data. What the data say is that the passive stock and bond market indexes are formidable competitors, and most active managers, particularly those in the peripheral equity/ bond asset classes, have a hard time keeping up. Indexed approaches have a lot to recommend them. In fact, Equity Guy learned that indexed approaches weren't the enemy. Rather, they can be important portfolio allies.

Fundamental Beliefs

- **Diversification and discipline** — <u>the</u> key elements
- **Value equities** — the portfolio's cornerstone
- **Indexing** —a powerful ally
- **Investment expenses** — controlled and transparent

- **Investment expenses should be kept under strict control, and should be transparent.**

Equity Guy started out thinking that he actually was Big Picture Guy. Work on market direction, the sectors, and the individual stocks, and everything else falls into place. Over the years, however, he learned that, if a lack of discipline is not <u>the</u> single largest impediment to investment success, then investment expenses are. They — and we mean commissions, wrap fees, management fees, and all other fees — are right-off-the top charges that compound over time. They must be kept under strict control. Transparency? Hard to believe that's an issue in 2019, but we know that it still is because there are complaints in the financial press all the time. All fees should be disclosed fully, in the King's English.

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Not to be too hard on Equity Guy, but he — and this goes for many others as well — came into the investment business with a lot of preconceived notions that gradually were dispelled during a long, very beneficial seasoning process. He and they mistook the (sometimes unhealthy) certainty of youth for the wisdom that only can come with age and experience. Like Bob Dylan, Equity Guy and the others were "so much older then," i.e., old and wise in their own minds, but now have become "younger than that now." And, by that we mean (at least in the case of Equity Guy) made younger and made more energized and genuinely confident by that long seasoning process. The result: a very worthwhile decision-making framework. And, to this four-Belief framework, we'll add a fifth, kind of a non-investment Belief, but one that's equally important. The fact is — and we've discussed this before — we believe that the investment business has become much more <u>solution</u>-oriented as clients present specific problems or tasks and want specific solutions. So, along with everything else, Equity Guy also should be Solution Guy in 2019. Nothing at all wrong with that — we welcome all opportunities to put on the Solution hat and address specific client needs.

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. 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-QIII	2002-2019
TPM Baseline*	**13.46%**	**7.50%**
S&P 500 Index	20.55	7.66
Barclays Capital US Aggregate Bond Index	8.52	4.54

*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 September 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-QIII	2002-2019
ITPM Baseline*	**12.80%**	**6.86%**
S&P 500 Index	20.55	7.66
Barclays Capital US Aggregate Bond Index	8.52	4.54

*65% equities

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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

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