NOTTINGHILL
INVESTMENT ADVISERS, Ltd.

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An Update

SCORECARD

	2022 QI	One Year	Three Years	Five Years	10 Years
S&P 500 Index	-4.60%	15.65%	18.93%	15.99%	14.64%
10-Year Treasury Note	-6.76	-3.14	2.00	2.21	2.42
Gold	6.02	14.68	14.19	9.17	1.52

All multi-year returns are annualized, and all returns are associated with time periods ending March 31, 2022

2022 Q1 — Another Tragedy Replaces COVID

After two years of turmoil and tragedy, COVID has receded from the headlines, only to be replaced by another tragedy. On February 24, the Russian army invaded Ukraine. The Ukrainians have fought back hard, but the destruction and loss of life have been more than considerable. The economic ramifications also have been considerable. In particular, the European community, heretofore very much dependent upon Russian oil and natural gas, has been buying energy elsewhere. As a result, energy prices were on the rise in the first quarter, and the post-pandemic inflation that has been with us for a while ticked up. The Fed was not a casual observer. On March 16, the Board raised the fed funds rate by one quarter point, thereby signaling that the fight against inflation is on.

Inflation and the higher interest rates used to fight inflation constituted serious headwinds for U.S. equities in the first quarter. The Growth style of investing was a noticeable laggard, while the stock market's Value side, the side we prefer, held up much better. With Fed policy no longer at its back, the bond market also had a difficult time in the first quarter. Our proxy is a Treasury note maturing in 10 years. The note's investment return was -6.76% as the note's yield went from 1.90% to 2.46%. Gold? The barbarous relic participated in the overall strength of commodity prices, and advanced 6.02%. In a financial market sense, some quarters are calm and uneventful. The first quarter of 2022 was not.

The current situation? A complicated array of crosscurrents.

- **Worldwide Economy**
  We have pointed out many times that the road back to business-as-usual never was going to be easy, but the <u>various</u> hurdles <u>were</u> being overcome. Now, we have Ukraine with its large-scale human suffering and economic disruption, particularly with respect to Energy. Ukraine clearly is a wild card. The key now is to do as much as we can for the Ukrainian people and their military, and thereby bring this unfortunate matter to a face-saving close. The good news is that our trading partners and we still are playing post-pandemic catch up, with most economic trends headed in the right direction.

- **Equities**
  For some time, the valuation case has been a hard one to make, particularly among the market's Growth favorites of the past few years. In the first quarter, valuations came down quite a bit. Still, we believe that the real bargains continue to be on the Value side and that Growth will continue to be the underperformer.

- **Interest Rates**
  The Fed controls them at the short end of the yield curve, and the Fed has spoken. The March 16 interest rate hike was the first in over three years, and more hikes are on the way as monetary policy battles inflation. Will the economy be damaged in the process? That is the big question, but all concerned know that that is the big question. All concerned, in our opinion, will act accordingly, i.e., will be ever-mindful of the risks.

Bottom line: Geopolitics are at center stage, but equity valuations are more reasonable in the midst of a rising interest rate environment. In other words, a complicated array of crosscurrents. As usual, a very good time to be well-diversified and to maintain a Rainy Day Fund.

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And now, let's have a look at individual vs. institutional investing.

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.

Southampton Square
7414 Jager Court
Cincinnati, OH 45230
513.624.3000 Tel
513.624.3003 Fax
www.nottinghilladvisers.com

Editors Note: As most readers know, we occasionally update and resubmit past articles that others and we regard as particularly useful. The original version of the article below appeared in 2017.

Investing for the ABC Endowment Fund and Investing on Main Street — Some Differences but a Lot of Similarities

"I believe in a disciplined approach to personal (and institutional) investing. An approach that minimizes emotions in decision-making, respects the past, which is knowable, and never tries to predict the future, which is not."

- James B. Stewart

Several years ago, a client, who was sitting on the Board of a prominent endowment fund, came to us with a special request. He knew that we were experienced managers of endowment/foundation assets, and wanted to hear what we had to say on the matter. Of course, we were happy to oblige, and ended up framing a lengthy written response around five of the fundamental questions posed in the Commonfund Institute's excellent "Principles of Nonprofit Investment Management." And, "framing" is the right word because that response contained more than a few of our own thoughts. As we put them on paper, we were struck by how much the fundamental issues involved actually transcend the world of investing. In other words, whether one is an endowment fund Trustee or a taxable individual, the major considerations and how those considerations are dealt with are pretty much the same. Let's take a look at the five questions from each perspective, and you'll see what we mean.

1) What is the real objective of the endowment fund/foundation?

Trustee. The institution has two constituencies: a group of current beneficiaries and a group of beneficiaries to come. Should the institution's current good works be the focus of the fund, or should its future needs be the focus? Typically, of course, he/she will attempt to strike the right balance; but, there is a trade off, and knowing what the right balance should be is an important part of the process.

Individual. Likewise, he/she has to balance current needs and desires with the future resources needed for retirement, a second career, etc. Same decisions, same process.

2) How much should the endowment fund/foundation routinely contribute to the institution's operating budget?

Trustee. Here, the focus is Constituent Group #1. The institution has a long wish list of good deeds, to go along with a host of fund-raising channels and, sadly, a host of expenses. A portion of the fund routinely will be called upon to help balance those needs and (net) resources. How much, how often?

Individual. In personal or family terms, the question has just as much relevance. Monthly family income is X; monthly family expenses or the family's wish list is Y. If there's a hole, a portion of the portfolio (preferably the income portion) can fill it. How much, how often?

3) How can the value of the endowment/foundation portfolio be preserved for the future of the institution?

Trustee. The focus here, of course, is Constituent Group #2. Current income is all well and good, and badly needed in some cases; but, serving the needs of Group #2 means putting the pieces together so that capital can grow, at a healthy rate in excess of inflation.

Individual. The plan is for the institution to live forever. Taxable individuals do not; but, we all are living longer, and there is a need to work one's assets as hard as possible and, again, to preserve the purchasing power of those assets. Inflation is the one true enemy here as well.

4) How should fund assets be invested for maximum, or at least optimal, investment return?

Trustee. "Optimal" in this case means the most appropriate combination of expected investment return and expected investment risk, under a certain set of circumstances. Modest current needs, a vibrant donor base, large future needs? A growth-oriented structure makes a lot of sense. A more mature fund with large current needs and a stable donor base, on the other hand, requires a more balanced structure. Bottom line: Define the circumstances, which define the appropriate risk/return blend, which then defines the fund's appropriate asset allocation structure.

Individual. Not much different, but emotions can play a larger role. Individuals are more prone to shade what the unemotional computer spews out, depending upon their (the individuals') comfort levels. We see nothing wrong with that since sleeping well at night is a laudable goal. Granted, endowment/foundation boards may bend to the emotional wills of one or two influential members, but boards typically are more apt to go with the unemotional program.

5) In the management of endowment/foundation assets, who should assume which responsibilities?

Trustee. The answers here typically are spelled out in the fund's Investment Policy Statement, the importance of which cannot be overstated. IPSs come in different sizes, formats, and degrees of specificity; but, IPSs all are vital to the long-term success of the fund, however that is defined. And, a very important aspect of this very important document is who does what.

Individual. IPSs usually are associated with institutional investors, but there's nothing wrong with an individual investor writing one up as well. Before that, though, he/she must decide whether or not to employ an investment adviser, what latitude to grant the adviser, who that adviser might be, and where to custody his/her assets. In other words, he/she must decide who does what, and only then can he/she turn to IPS-like things such as investment objectives, asset allocation parameters, etc.

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Picture a big conference room somewhere on a large state university campus. A sophisticated group of Trustees is going through a carefully constructed, step-by-step process of ensuring that the assets in the school's large endowment fund are invested properly. Objectives routinely are established and reviewed; the proper balance between current and long-term needs is determined; responsibilities are assigned. Sounds like a somber exercise suitable only for the very wise and learned, doesn't it? Actually, the decisions made around that table and the processes by which those decisions are made aren't much different from the necessary considerations of the individual investor. And, that's exactly what we told our client years ago.

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 company 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
- **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 structure and one weighted in accordance with the portfolio's asset allocation structure

Investment Return Summary

	2022 QI	2010-2022
TPM Baseline*	**-2.47%**	**9.83%**
S&P 500 Value Index	-0.16	11.91
Bloomberg Barclays US Aggregate Bond Index	-5.93	2.99

*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. While the data associated with the strategy incorporate the model and actual investment returns associated with strategy components, such data, even when combined in accordance with the Baseline structure, do have certain inherent limitations. First, unlike an actual performance record, such data 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-assumed transaction costs and net-of-assumed management fees. Furthermore, the data are associated with time periods ending March 31, 2022, are annualized for the multi-year period, are expressed in U.S. Dollars, and are compared to the value-oriented, all equity S&P 500 Value Index and the all-fixed income Bloomberg Barclays 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, largely indexed answer
- Low, fully disclosed investment expenses
- Solid performance at a low level of risk

Now, ITPM...

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 structure and one weighted in accordance with the portfolio's asset allocation structure

Investment Return Summary

	2022 QI	2010-2022
ITPM Baseline*	**-4.15%**	**7.85%**
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