NOTTINGHILL
INVESTMENT ADVISERS, Ltd.

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Quarterly Update

SCORECARD

	2023 QI	One Year	Three Years	Five Years	10 Years
S&P 500 Index	7.50%	-7.72%	18.61%	11.19%	12.24%
10-Year Treasury Note	3.98	-6.40	-5.49	0.99	1.07
Gold	8.78	2.32	7.24	8.36	2.15

All multi-year returns are annualized, and all returns are associated with time periods ending March 31, 2023

2023 QI — Something Broke, the Jury is Still Out

Rising interest rate environment. Last year, the Fed raised short-term interest rates by four and one-half full percentage points and created headwinds for all asset classes. The Fed also made it clear that reducing the inflation rate to the central bank's 2% target would require more work. As a result, January-February was a lot like 2022, but then came March. We had been hearing over and over again that 2022's interest rate shocks would cause something to break, and something did break in March. California's Silicon Valley Bank broke. We told the whole story in our March 27 "Perspective," which focused on SVB's mismatching of assets and liabilities precipitating a high-tech bank run. As the first quarter came to an end, many unanswered questions remained. The two big ones: How did regulators miss SVB, and how widespread is the problem? Frankly, the jury is still out, but the number and magnitude of SVB's apparent sins suggest that this unfortunate situation was at least somewhat unique. We shall see.

U.S. equities were mixed in the first quarter. Large company stocks outperformed small company stocks, and Growth came back from last year's carnage and generally outperformed Value stocks. Financials, principally banks, were under a fair amount of pressure as everyone tried to sort out the SVB mess, while Technology was considered something of a safe haven and performed well. Bonds also made a comeback. The investment return from a Treasury maturing in 10 years was 3.98%, 90-day Treasury bills 1.15% (quite some time since we mentioned a Treasury bill return). Gold, as usual, was the beneficiary of perceived issues in the banking system. The first quarter investment return was 8.78% .

THE CURRENT SITUATION — Is the Fed's Work Done?

- **Worldwide Economy**
  Before the SVB mess, the worldwide economy appeared headed for a so-called soft landing, i.e., an interest rate-induced slowdown, followed by renewed, lower-inflation growth. Even if SVB is an isolated event, however, that probably has changed. The slowdown now is likely to be more pronounced as credit availability tightens. Still, progress is being made on the inflation front…clearly a positive.

- **Equities**
  The overall stock market topped out in October 2021. Therefore, the price retracement has lasted almost 18 months, and the price declines in many market sectors have been noteworthy. All of this runs <u>counter</u> to the somewhat dispiriting "more pronounced slowdown" talk, and progress on the inflation front <u>also</u> is a positive. The banking situation? Unfortunately, the jury is still out.

- **Interest Rates**
  The perils of interest rate forecasting were on full display in the first quarter. The Fed had raised short-term interest rates by four and one-half full percentage points in 2022, and everyone suspected that the Fed's work was not done. Then, along came SVB and evidence that something in the System indeed had "broken." To inspire confidence if nothing else, the Fed did hike rates in March, but also signaled that the pause option soon may be on the table. A pause, but in fact the Fed's work soon may be <u>done</u> if SVB proves to be a one-off and the inflation data continue to improve.

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Now, how about a return to those Faber College days?

ABOUT THE FIRM

Nottinghill Investment Advisers, Ltd., is a registered investment adviser founded in May 1996. A long history of achievement.

Nottinghill is a team of seasoned professionals serving taxable and tax-exempt investors, as well as other investment advisers. Asset management and otherwise serving asset management clients are the Firm's only business. The twin results: commitment and focus.

Nottinghill is a manager of large capitalization equity and widely diversified balanced portfolios. The Firm can serve in a specialized role, or as a client's sole adviser.

Nottinghill's equity and balanced investment strategies constitute the Firm's Yield Plus Approach to investing. The Yield Plus Approach is a straightforward, all-encompassing investment philosophy and a set of well-defined investment processes. Precision and discipline.

A long history of achievement. Commitment and focus. Specialization, or single-manager responsibility. Precision and discipline.

Nottinghill is your ideal partner as you go down the financial path ahead.

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Investing at Faber and Investing on Main Street — Some Differences but A Lot of Similarities

"Over? It's never over. Was it over when the Germans bombed Pearl Harbor?
- John ("Bluto") Blutarsky,
"Animal House" (1978)

The place: Faber College. The time: 1962. The founder's creed: "Knowledge is Good."

Of course knowledge is good, but widely dispensing it to the Bluto Blutarskies of the world and their frat house brothers is a herculean task requiring...money. Lots of it. That's where endowment funds enter the picture. The fictitious Faber of "Animal House" fame would have had one, and all the real-life Fabers out there indeed do have one.

We are experienced endowment fund investors. A few years ago, a client, who just had been appointed to an endowment Board, knew about this background and wanted to gather a few of our thoughts. We were happy to oblige and framed a lengthy written response around the five fundamental questions posed in the Commonfund Institute's excellent "Principles of Nonprofit Investment Management." As those thoughts were put on paper, we were struck by how much the fundamental issues involved actually apply to the entire world of investing. In other words, whether one is an endowment fund trustee or a taxable individual investor, the major considerations and how one deals with them are pretty much the same. Let's take a look at the five questions from each perspective.

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, the trustees 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 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 will be called upon to 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 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 and in many other areas 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 the Faber campus. Dean Wormer (played by the always-wonderful John Vernon in the movie) and a select group of Trustees are going through a carefully constructed, step-by-step process of ensuring that the school's endowment fund assets 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 than the necessary considerations of the individual investor. And, that's exactly what we told our client.