Nottingham Monthly Market Wrap
October 31, 2014

Economic Overview

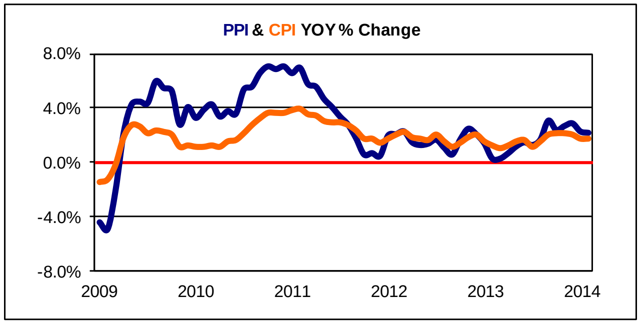
Once again October proved a challenging month for investors, despite the continuation of relatively benign economic data. The mid-month spasm that saw equities collapse and bonds rally strongly was less driven by economic news than good old fashioned animal spirits. The long-awaited "10% correction" was ever so briefly realized, with the losses only to be recouped by months end.

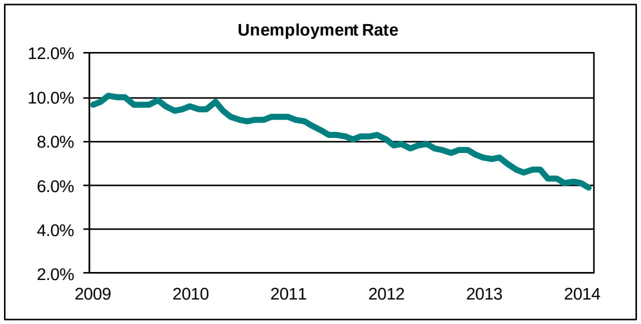
September saw an increase of +248k in nonfarm payrolls, beating analyst estimates for a +218k gain. Augusts' number was revised up strongly from +142k to +180k, adding to the bullishness around the headline number. The unemployment rate dropped to +5.9% from +6.1%. Private payrolls once again provided the bulk of the job gains. The underemployment rate dropped to +11.8% from +12.0%, still higher than the Fed would like. Also troubling was the Average Hourly Wages number which came in flat MoM and is up only +2.0% YoY. The Fed, and workers, would very much like to see wage pressures rise, signaling greater strength in the overall economy.

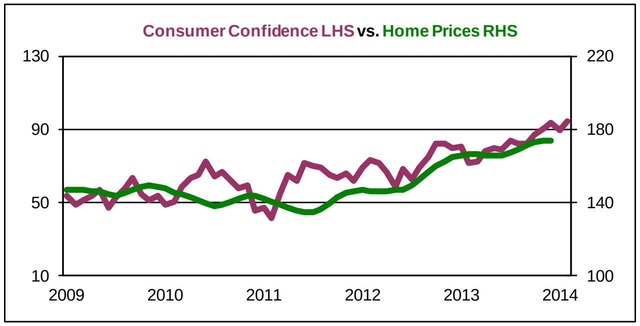
This lack of wage pressure carried over into the broader economy as the Producer Price Index for September declined -0.1% and is up a paltry +1.6% YoY. Consumer Prices gained a modest +0.1% and are also up a modest +1.7% YoY. Core measures came in consistent with the headline numbers. The GDP Price Index rose a modest +1.3% YoY while the PCE Deflator gained +1.4% YoY. By virtually any measure, U.S. inflation remains subdued.

Third quarter GDP rose at a +3.5% Q/Q SAAR, beating estimates for a +3.0% gain. The latest report showed a +0.8% contribution from government spending, an indication that perhaps government's drag on the economy is slowing. Consumer spending added +1.2% while trade added +1.3% and the change in inventories subtracted -0.6%. All in all it was a good GDP report and helped contribute to the recent rebound in equities.

The U.S. economy continues its slow and steady growth and is increasingly being seen as the primary international economic driver as both the Eurozone and Japan struggle with deflation and economic contraction. It remains to be seen how long the U.S. can carry the global economy but for now it seems to be working.

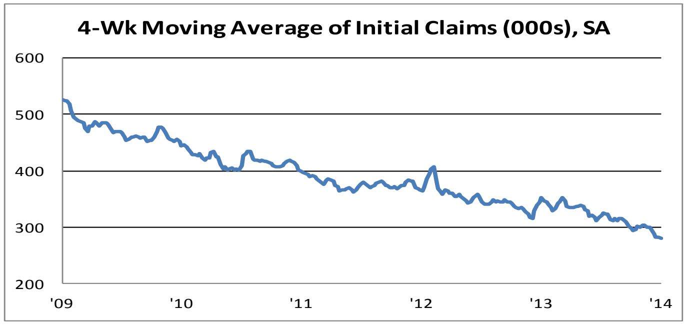


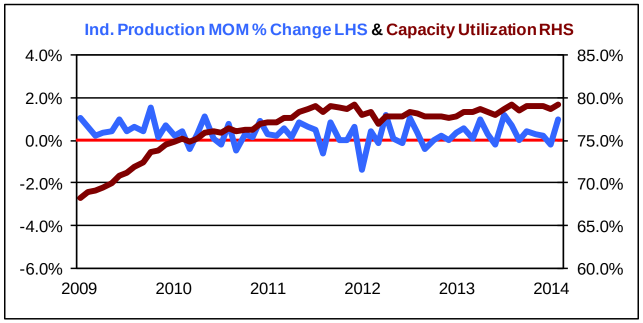




Key Data Points

Name	Current	For	Previous	For
Retail Sales ex. Autos MOM %	-0.20%	September	0.30%	August
Housing Starts	1,017K	September	957K	August
Factory Orders MOM %	-10.10%	August	10.50%	July
Leading Indicators MOM %	0.80%	September	0.00%	August
Unit Labor Costs	-0.10%	Q2 2014	11.60%	Q1 2014
GDP QOQ (Annualized)	3.50%	Q3 2014	4.60%	Q2 2014
Wholesale Inventories	0.70%	August	0.30%	July
MBA Mortgage Applications	-6.60%	October	-0.20%	September





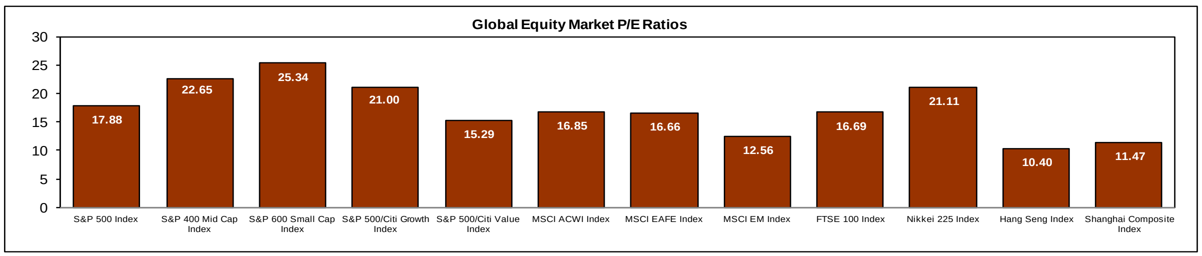
Equity Markets

Prior to October, equity investors were looking at a stock market in the United States that had returned +19.69% in the past twelve months, +85.91% in the past three years, and +107.14% in the past five years. With such impressive performance of late, a sense of nervousness has started to creep into market sentiment and after last month's move lower, investors seemed all but convinced that another shoe was set to drop.

They were right as the S&P 500 quickly fell -5.49% during the first fifteen days of the month. However, the pullback was short-lived and investors hoping to put some cash to work needed to have a quick trigger finger as the index quickly rallied +8.50% during the second half of the period. The index not only recouped its losses, but finished the period in the green, up +2.44%, demonstrating the resilience of the market's current rally, despite the worries of market participants.

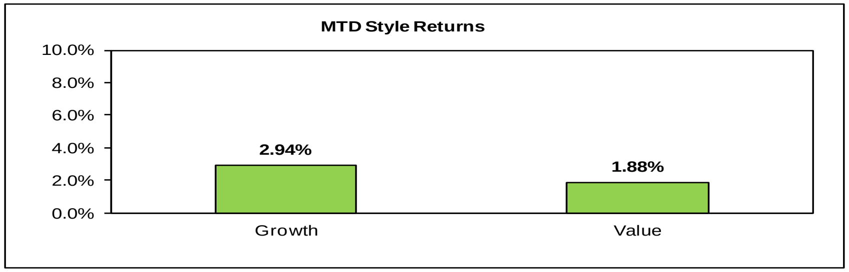
Following suit, the S&P 400 and the S&P 600 returned +3.56% and +7.09% in October. However, large-cap U.S. equities still lead on the year, up +10.99%. On a sector level, eight out of ten sectors finished in the green with Utilities leading the way (+8.05%). The rate-sensitive sector benefitted as the 10-year yield fell from roughly 2.50% to 2.30% during the month. After the sharp move higher during the period, the Utilities sector is the new surprise leader on the year (+23.12%) Energy and Materials were the two laggards, down -2.88% and -2.52% during the month. The two sectors struggled on continued weakness by commodities, particularly oil.

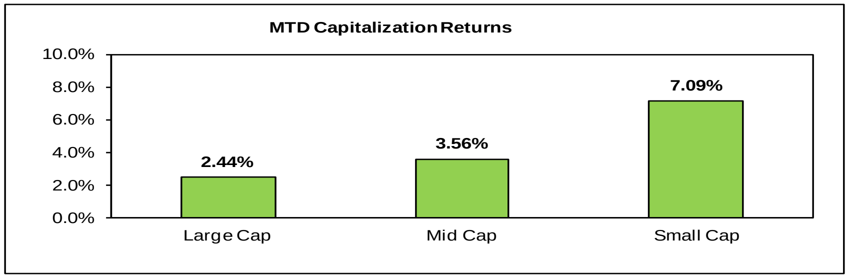
Shifting our focus overseas, Europe continued to struggle as investors shunned the region as they started to lose faith in Mario Draghi's ability to accomplish much of anything other than jawboning. With Europe weighing on the index, the MSCI EAFE Index fell -1.43% during the period and it is the only major equity index currently in the red on the year (-2.21%). Offsetting some of the weakness in Europe, Japan continued to rally (+1.49%), spurred higher by a surprise announcement on the last day of the month by the Bank of Japan to expand its already large monetary stimulus program.



Equity Returns

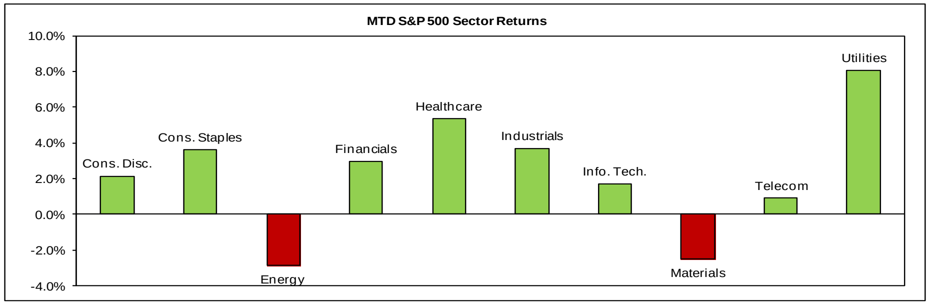
Name	MTD	QTD	YTD	1 Year	3 Year	5 Year
S&P 500 Index	2.44%	2.44%	10.99%	17.26%	19.74%	16.67%
S&P 400 Mid Cap Index	3.56%	3.56%	6.87%	11.62%	18.60%	18.23%
S&P 600 Small Cap Index	7.09%	7.09%	3.10%	9.29%	19.95%	19.20%
S&P 500/Citi Growth Index	2.94%	2.94%	12.57%	19.38%	19.70%	17.35%
S&P 500/Citi Value Index	1.88%	1.88%	9.25%	14.95%	19.83%	15.99%
MSCI ACWI Index	0.73%	0.73%	4.99%	8.42%	13.71%	11.26%
MSCI EAFE Index	-1.43%	-1.43%	-2.21%	0.07%	10.40%	7.21%
MSCI EM Index	1.19%	1.19%	3.78%	0.95%	3.61%	5.00%
FTSE 100 Index	-0.98%	-0.98%	0.24%	1.02%	10.04%	9.56%
Nikkei 225 Index	1.49%	1.49%	2.31%	16.46%	24.48%	12.40%
Hang Seng Index	4.83%	4.83%	6.97%	7.51%	10.57%	5.59%
Shanghai Composite Index	2.38%	2.38%	18.17%	16.76%	2.32%	-1.77%





S&P 500 Sector Returns

Sector	MTD	QTD	YTD	1 Year	3 Year	5 Year	% of S&P 500
Consumer Discretionary	2.15%	2.15%	3.03%	9.09%	22.47%	22.54%	11.63%
Consumer Staples	3.62%	3.62%	11.11%	13.52%	17.86%	15.92%	10.40%
Energy	-2.88%	-2.88%	0.26%	4.29%	9.80%	11.06%	9.10%
Financials	2.97%	2.97%	10.60%	18.13%	23.21%	13.03%	16.12%
Healthcare	5.35%	5.35%	22.86%	29.71%	28.64%	21.51%	14.06%
Industrials	3.71%	3.71%	6.68%	15.18%	20.90%	19.19%	10.35%
Information Technology	1.72%	1.72%	16.09%	25.71%	18.60%	16.48%	19.67%
Materials	-2.52%	-2.52%	6.12%	12.68%	14.51%	13.87%	3.28%
Telecommunications	0.91%	0.91%	8.44%	5.39%	14.42%	15.02%	2.31%
Utilities	8.05%	8.05%	23.12%	21.89%	13.83%	14.57%	3.09%



Fixed Income

U.S bonds rallied strongly in October, with prices driven lower by increased equity volatility and further declines in international bond yields. The 10-year Treasury note briefly hit an intraday low yield of 1.86% on October 15th as equities collapsed and investors (or an investor?) dove for cover in the U.S. Treasury market. The MOVE Index surged to its highest level in nearly a year before the panic ebbed and calm was restored to the market.

High yield bonds bounced back from a weak September as the ML U.S. High Yield Master II Index posted a +1.14% gain. The ML U.S. Treasury/Agency Master Index placed second with a +1.05% monthly gain, followed by the ML U.S. Broad Market Index up +1.00% and ML U.S. Corporate Master up +0.99%. International sovereign debt fared well with the ML Global Government Bond II Index rising +0.73% while the ML USD Emerging Market Sovereign & Credit Index gained +0.46%. Municipal bonds continued their hot streak, gaining +0.61% in October and the ML Municipal Master Index is now up +9.0% YTD.

The Federal Reserve officially announced in October that it would cease its program known as QE, or quantitative easing. Since it was first announced in late 2008, QE has increased the size of the Fed's balance sheet nearly five-fold to $4.5 trillion. For the better part of the past year+, the Fed has been buying Treasury and MBS to the tune of $85 billion per month. With these purchases finally phased out, the bond market should find a truer equilibrium between buyers and sellers. The end of asset purchases now turns investor attention to the timing of the first interest rate hike. At the start of 2014, the consensus seemed to be for late 2014 to Q1 2015. More recently, however, that timetable has been extended to the end of 2015 into early 2016.

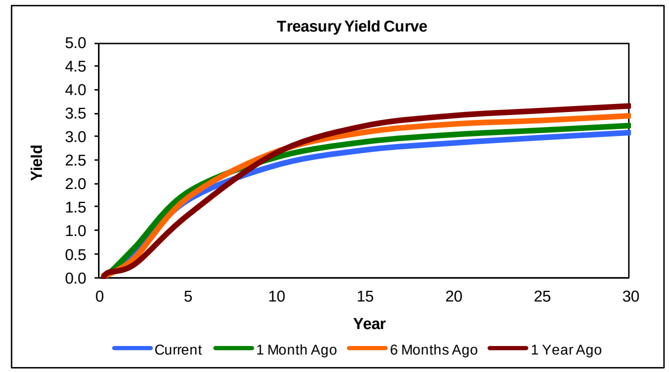
Whatever the timing may be, Nottingham's case for "lower rates longer" seems to be very much on the mark. Long-end yields appear to be adjusting this eventuality as the 10-year and 30-year Treasury appear to be finding good support at these lower levels. Absent wage pressures and broader price inflation, bonds will likely remain a reasonable bet going forward, despite historically low rates.

Central Bank Activity

Name	Current	1 Month Ago	6 Months Ago	1 Year Ago
Fed Funds Rate	0.25%	0.25%	0.25%	0.25%
Bank of Japan Target Rate	0.10%	0.10%	0.10%	0.10%
European Central Bank Rate	0.05%	0.15%	0.25%	0.50%
Bank of England Official Bank Rate	0.50%	0.50%	0.50%	0.50%

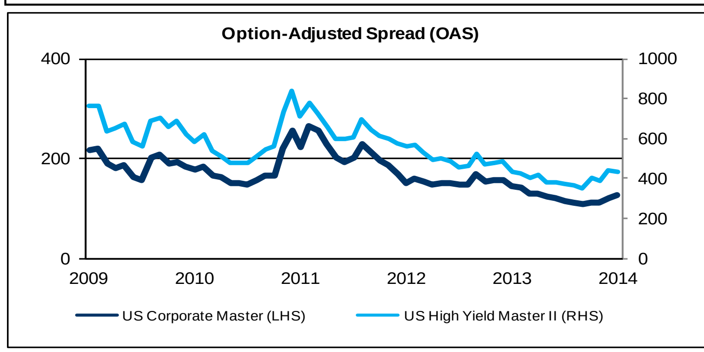
Fixed Income Returns

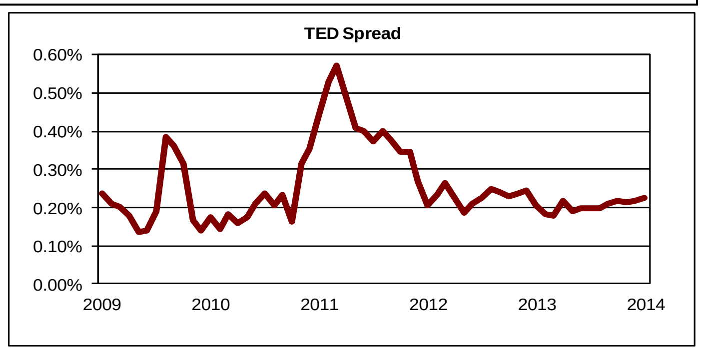
Name	MTD	QTD	YTD	1 Year
ML U.S. Treasury/Agency Master Index	1.05%	1.05%	4.68%	3.22%
ML U.S. Broad Market Index	1.00%	1.00%	5.39%	4.27%
ML U.S. Corporate Master Index	0.99%	0.99%	6.99%	6.49%
ML U.S. High Yield Master II Index	1.14%	1.14%	4.79%	5.85%
ML USD Emerging Market Sovereign & Credit Index	0.46%	0.46%	6.25%	5.70%
ML Global Government Bond II Index	0.73%	0.73%	6.20%	5.30%
ML Municipal Master Index	0.61%	0.61%	9.00%	8.37%
ML Municipal High Yield Index	-0.68%	-0.68%	10.99%	9.84%

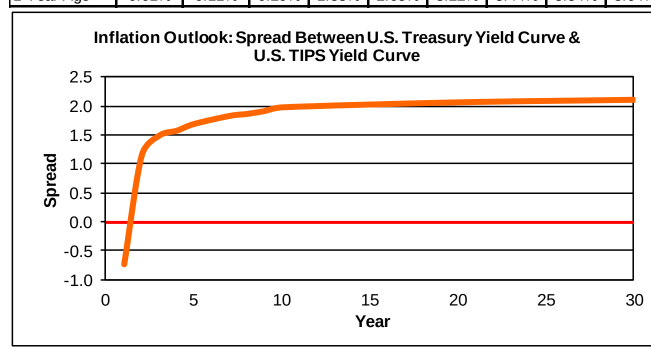


U.S. Treasury Yields

Period	3 Month	6 Month	2 Year	5 Year	10 Year	15 Year	20 Year	25 Year	30 Year
Current	0.05%	0.07%	0.54%	1.65%	2.40%	2.73%	2.88%	2.99%	3.10%
1 Month Ago	0.03%	0.05%	0.62%	1.81%	2.56%	2.89%	3.04%	3.14%	3.24%
6 Months Ago	0.03%	0.05%	0.41%	1.69%	2.67%	3.09%	3.26%	3.34%	3.44%
1 Year Ago	0.01%	0.11%	0.29%	1.33%	2.65%	3.22%	3.44%	3.54%	3.64%







Alternative Investments

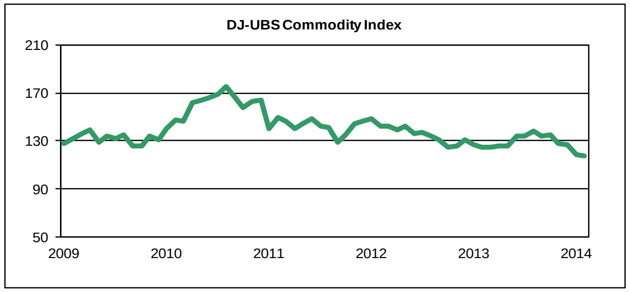
Alternative investments were a mixed bag in October, with many notable monthly pops and drops. The most significant and talked about story of the month was the steep decline in West Texas Intermediate (WTI) crude oil, which fell from $91.16 per barrel at the end of September to $80.56 per barrel to cap off the worst monthly drop in more than two years. The last time that WTI lost more than $10/barrel in a given month was in May of 2012 when WTI fell $18/barrel. The next worst performer was gold, which shed nearly $35/ounce during October to close at $1,173/ounce, its first close below $1,200/ounce since April 2010. To round out the commodities space, the index as a whole, as measured by the DJ UBS Commodities Index, lost -0.8% on the month, marking the fourth consecutive negative monthly return. Commodities closed October at their worst level since April 2009, and have now lost almost a third (-32.9%) of their value since peaking in April 2011.

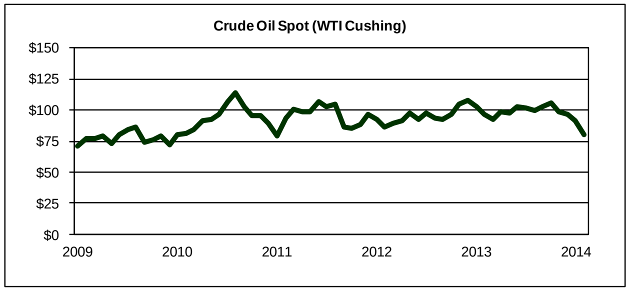
On a more positive note, real estate, as measured by the FTSE NAREIT All-REIT Index posted another strong gain in October, after selling off in September. REITs gained +8.5% on the month, to bring the year's gains to +18.9% as interest rates have continued to grind lower. Real Estate has been the year's best performing alternative, outpacing the S&P 500 by more than 790bps. The index closed the month at 185.97, its highest monthly close since May 2007. While REITs have soared since the depths of the financial crisis, Real Estate remains highly sensitive to rising interest rates. Should rates rise sharply, or spike unexpectedly, REITs may suffer.

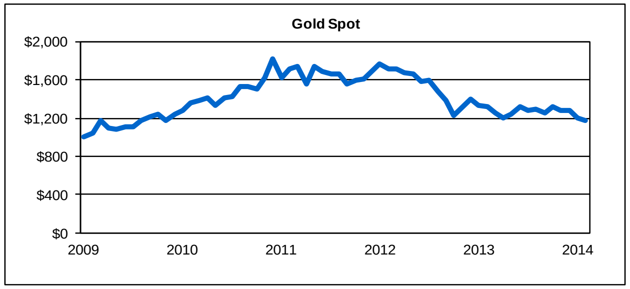
Continuing one of the year's most stealthy trades, the Dollar Index rose +1.1% on the month to close at 86.917, making its fourth straight monthly gain, and marking the highest close since February 2009. The index has now risen +8.6% on the year, an extraordinary move in magnitude for the currency space. In a "normal" environment, currencies typically do not appreciate or depreciate so drastically in such a short period of time; however, given the current "currency war" between global central banks, such moves should not come as a surprise given the unprecedented monetary policy occurring globally.

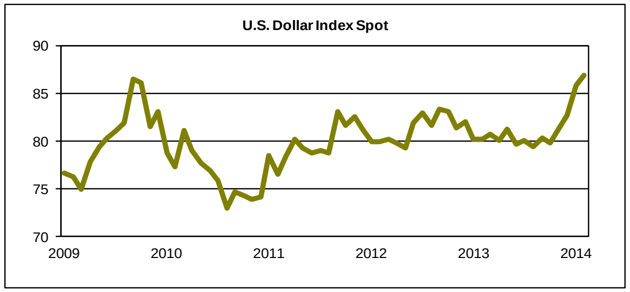
Furthermore, to add to the unprecedented nature of global monetary stimulus, the Bank of Japan fired another shot on Friday. The central bank increased its monthly bond purchases from 60-70 trillion Yen to 80 trillion yen, equivalent to an extra $90 billion USD per year of stimulus (approximately one month of US quantitative easing at its peak). The Yen immediately weakened more than 2% on the news, falling to 112 JPY/USD, its lowest level since 2008.

So, as the Federal Reserve ended its quantitative easing program at its October meeting, the Bank of Japan has picked up the slack. This comes as the European Central Bank (ECB) continues to move towards U.S. style quantitative easing by beginning to purchase European covered bonds. With that being said, the Euro should continue to follow the Yen lower, and the Dollar should continue to move higher as we continue to sail into uncharted waters on the back of unprecedented monetary stimulus worldwide.





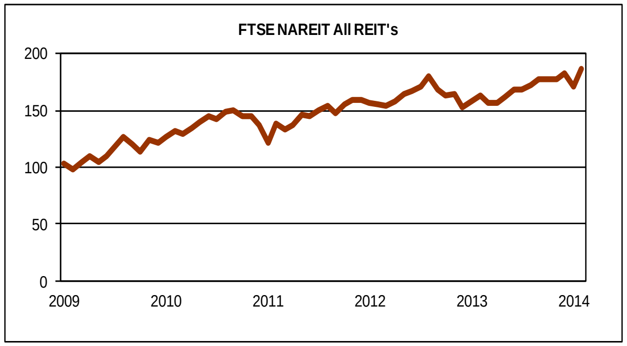




Hedge Funds

Name	MTD	QTD	YTD	1 Year	3 Year	5 Year
Global Hedge	-1.65%	-1.65%	-0.49%	0.62%	2.76%	1.50%
Convertible Arbitrage	-0.91%	-0.91%	-2.09%	-1.72%	4.77%	4.38%
Distressed Securities	-2.73%	-2.73%	0.43%	0.41%	1.12%	1.84%
Equity Hedge (L/S)	-0.83%	-0.83%	0.38%	2.61%	4.58%	1.19%
Equity Market Neutral	0.94%	0.94%	3.61%	4.44%	0.16%	0.09%
Event Driven	-5.30%	-5.30%	-3.90%	-3.05%	4.52%	2.76%
Macro	0.07%	0.07%	2.62%	2.90%	-0.07%	-1.44%
Merger Arbitrage	0.43%	0.43%	1.19%	1.85%	1.97%	2.23%
Relative Value Arbitrage	-0.04%	-0.04%	-0.09%	0.78%	1.79%	2.67%
Absolute Return	-0.44%	-0.44%	1.35%	2.10%	1.68%	0.53%

Note: Price Return, Returns as of 10/30/14



Spot Rates

Description	Current	1 Month Ago	3 Months Ago	6 Months Ago	1 Year Ago
CAD / USD	1.13	1.12	1.09	1.10	1.04
JPY / USD	112.32	109.65	102.80	102.24	98.36
USD / GBP	1.60	1.62	1.69	1.69	1.60
USD / EUR	1.25	1.26	1.34	1.39	1.36

S&P 500 Index (SPX) – Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

S&P 500 Sector Indices (S5COND, S5CONS, S5ENRS, S5FINL, S5HLTH, S5INDU, S5INFT, S5MATR, S5TELS, S5UTIL) – The S&P 500 is broken down into ten sub-indices according to the Global Industry Classification Stardard (GICS) sectors. These ten sectors include Consumer Discretionary, Consumer Staples, Energy, Financials,Health Care, Industrials, Information Technology, Materials, Telecommunication Services, and Utilities.

S&P 400 Mid Cap Index (MID) – Standard and Poor's Mid Cap 400 Index is a capitalization-weighted index, which measures the performance of the mid-range sector of the U.S. stock market.

S&P 600 Small Cap Index (SML) – Standard & Poor's Small Cap 600 Index is a capitalization-weighted index that measures the performance of selected U.S. stocks with a small market capitalization.

S&P 500/Citigroup Growth Index (SGX) – The S&P 500/Citigroup Growth Index is a market capitalization-weighted index. All the stocks in the underlying parent index are allocated into value or growth. Stocks that do not have pure value or pure growth characteristics have their market caps distributed between the value & growth indices.

S&P 500/Citigroup Value Index (SVX) – The S&P 500/Citigroup Value Index is a market capitalization-weighted index. All the stocks in the underlying parent index are allocated into value or growth. Stocks that do not have pure value or pure growth characteristics have their market caps distributed between the value & growth indices.

MSCI AC World Index (MXWD) – The MSCI AC World Index is a free float-weighted equity index. The index includes both emerging and developed world markets.

MSCI EAFE Index (MXEA) – The MSCI EAFE Index is a capitalization-weighted index that monitors the performance of stocks from developed markets in Europe, Australiasia, and the Far East.

MSCI Emerging Market Index (MXEF) – The MSCI Emerging Market Index is a free-float weighted index that is designed to measure the equity performance of international emerging markets.

FTSE 100 Index (UKX) – The FTSE 100 Index is a capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange. The equities use an investibility weighting in the index calculation.

Nikkei 225 Stock Average Index (NKY) – The Nikkei-225 Stock Average is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange.

Hang Seng Index (HSI) – The Hang Seng is a free-float capitalization-weighted index of selected companies from the Stock Exchange of Hong Kong. The components of the index are divided into four subindexes: Commerce and Industry, Finance, Utilities, and Properties.

Shanghai Stock Exchange Composite Index (SHCOMP) – The Shanghai Stock Exchange Composite Index is a capitalization-weighted index. The index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.

S&P Global 1200 Index (SPGLOB) – The S&P Global 1200 Index is a composite index, comprised of seven regional and country indices – S&P 500, S&P Europe 350, S&P/TOPIX 150 (Japan), S&P TSX 60 (Canada), S&P/ASX 50 (Australia), S&P Asia 50, and S&P Latin America 50. The S&P Global 1200 is calculated in US dollars. The index is market-cap weighted.

ML U.S. Treasury & Agency Index (G0A0) – The Merrill Lynch U.S. Treasury and Agency Index tracks the performance of U.S. dollar denominated U.S. Treasury and non-subordinated U.S. agency debt issued in the U.S. domestic market.

ML U.S. Broad Market Index (US00) – The Merrill Lynch U.S. Broad Market Index tracks the performance of U.S. dollar denominated investment grade debt publicly issued in the U.S. domestic market, including U.S. Treasury, quasi-government, corporate, securitized, and collateralized securities.

ML U.S. Corporate Index (C0A0) – The Merrill Lynch U.S. Corporate Index tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market.

ML U.S. High Yield Index (H0A0) – The Merrill Lynch U.S. High Yield Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.

ML Global Government Index (W0G1) – The Merrill Lynch Global Government Index tracks the performance of investment grade sovereign debt publicly issued and denominated in the issuer's own domestic market and currency.

ML U.S. Municipal Securities Index (U0A0) – The Merrill Lynch U.S. Municipal Securities Index tracks the performance of U.S. dollar denominated investment grade tax-exempt publicly issued by U.S. states and territories, and their political subdivisions, in the U.S. domestic market.

FTSE NAREIT All REITs Index (FNAR) – The FTSE NAREIT All REITs Index is a free float adjusted market capitalization-weighted index that includes all tax qualified REITs listed in the NYSE, AMEX, and NASDAQ National Market.

Dow Jones UBS Commodity Index (DJUBS) – The Dow Jones UBS Commodity Index is composed of futures contracts on 19 physical commodities. It reflects the return of underlying commodity futures price movements only. Previously, the index was the Dow Jones AIG Commodity Index.

U.S. Dollar Index (DXY) – The U.S. Dollar Index (USDX) indicates the general int'l value of the USD. The USDX does this by averaging the exchange rates between the USD and 6 major world currencies. The ICE US computes this by using the rates supplied by some 500 banks.

HFRX Global Hedge Fund Index (HFRXGL) – The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies.

HFRX Convertible Arbitrage Index (HFRXCA) – The HFRX Convertible Arbitrage Index is designed to reflect the general performance of strategies in which the investment thesis is predicated on realization of a spread between related instruments in which one or multiple components of the spread is a convertible fixed income instrument.

HFRX Distressed Securities Index (HFRXDS) – The HFRX Distressed Securities Index is designed to reflect the general performance of strategies focused on corporate fixed income instruments, primarily on corporate credit instruments of companies trading at significant discounts to their value at issuance of obliged (par value) at maturity as a result of either formal bankruptcy proceeding or financial market perception of near term proceedings.

HFRX Macro Index (HFRXM) – The HFRX Macro Index reflects the general performance of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency, and commodity markets.

HFRX Equity Hedge Index (HFRXEH) – The HFRX Equity Hedge Index is designed to reflect the general performance of strategies that maintain both long and short positions in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques. Strategies can be broadly diversified or narrowly focused.

HFRX Equity Market Neutral Index (HFRXEMN) – The HFRX Equity Market Neutral Index is designed to reflect the general performance of strategies that employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movement and relationships between securities.

HFRX Event Driven Index (HFRXED) – The HFRX Event Driven Index reflects the general performance of strategies that maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including, but not limited to, mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance, or other capital structure adjustments.

HFRX Merger Arbitrage Index (HFRXMA) – The HFRX Merger Arbitrage Index reflects the general performance of strategies which employ an investment process primarily focused on opportunities in equity and equity related instruments of companies which are current engaged in a corporate transaction.

HFRX Relative Value Arbitrage Index (HFRXRVA) – The HFRX Relative Value Arbitrage Index reflects the general performance of strategies that maintain positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities.

Economic Data Sources:
PPI & CPI – Bureau of Labor Statistics
Unemployment Rate – Bureau of Labor Statistics
Consumer Confidence – Conference Board
S&P/Case-Shiller Composite 20 – Case-Shiller
Industrial Production – Federal Reserve
Capacity Utilization – Federal Reserve
Retail Sales – U.S. Census Bureau
Housing Starts – U.S. Department of Commerce
Factory Orders – U.S. Census Bureau
Leading Indicators – Conference Board
Unit Labor Costs – Bureau of Labor Statistics
GDP – Bureau of Economic Analysis
Wholesale Inventories – U.S. Census Bureau
MBA Mortgage Applications – Mortgage Bankers Association
4-Week Moving Average of Initial Claims, SA – Bureau of Labor Statistics

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