NOTTINGHAM ADVISORS
ASSET MANAGEMENT

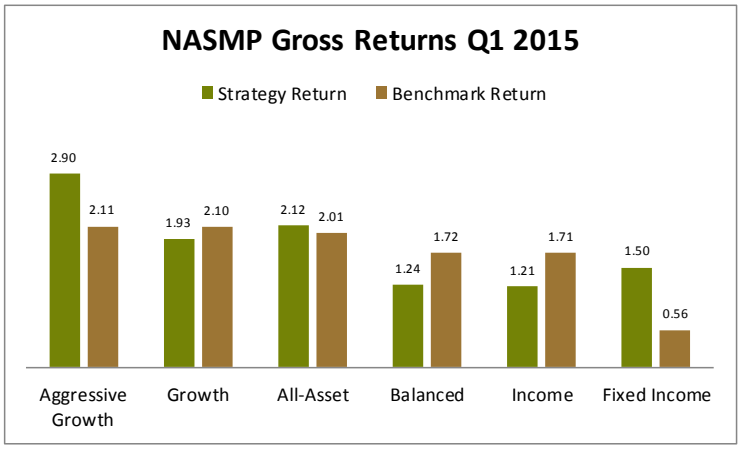
Q1 2015 Select Managers Program Performance Update

First Quarter Market Recap

The first quarter was a quick reversal of last year's trend of domestic strength and international weakness, and a true testament to the benefits of holding a global, multi-asset class portfolio over time. International equities caught a strong bid on the back of a newly announced quantitative easing program in Europe, while overly weak economic data and fears of rising interest rates in the U.S. kept a lid on domestic equity returns. Domestic fixed income returns were largely positive, but quite nominal, reminding investors that while bond yields may move lower, the opportunity cost of holding cash (versus fixed income) remains quite low.

Select Managers Program

The Nottingham Advisors Select Managers Program (NASMP) posted solid returns during the first quarter, with all strategies posting positive returns. The Aggressive Growth (100% equity) strategy was the top performer, posting a total return of +2.90%, outpacing its benchmark by 79 basis points. The flagship All-Asset strategy (70% equity, 30% fixed income) returned +2.12%, beating its benchmark by 11 basis points. Moving down the risk spectrum, the Income strategy (30% equity, 70% fixed income) posted a +1.21% return, underperforming the benchmark by 50 basis points.



Relative outperformance was seen in the Program's equity oriented strategies, as international managers posted strong returns, while domestic managers with sizeable exposure to health care and technology followed suit. It should be noted that fixed income managers have begun raising cash and shifting to short term Treasuries and cash equivalents, leading those strategies to underperform their benchmarks.

Cash Positions

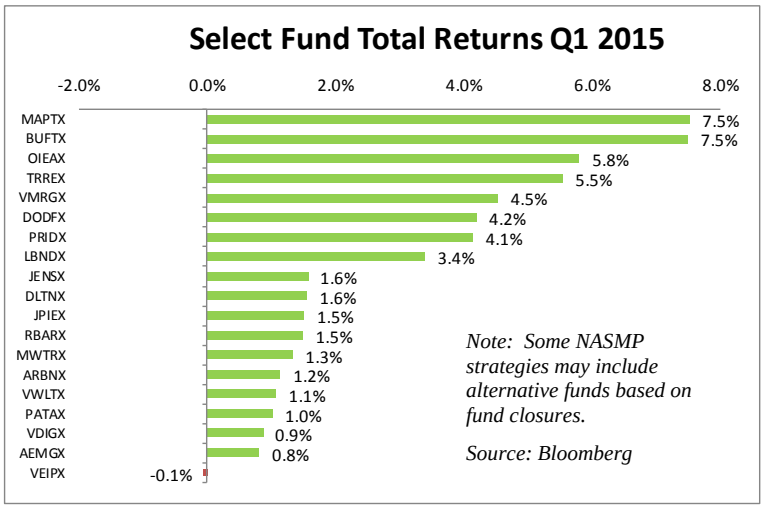
As global equity markets continue to make new all-time highs, and fixed income yields become more and more depressed, we've noticed many managers continued to raise cash in the first quarter. While we spoke of this development late last year, it has become a larger phenomenon so far in the first quarter. For example, the Aggressive Growth strategy, which has ***zero*** exposure to fixed income, and a nominal exposure to cash, saw its bond exposure rise to 6.8% during the quarter, and its overall cash exposure swell to 11.6%. It is important to remember that these decisions are made at ***the manager level.*** As a "manager of managers," we remain responsible for setting an asset

allocation and selecting active managers to fill each respective part of our global style-box. It should be noted that we typically have a model weight to cash of roughly 5%, providing us with a buffer for new opportunities, tactical trades, and day-to-day account maintenance.

Utilizing a fund "look through," we are able to aggregate strategy holdings across all active managers to see the *actual positioning* of our strategies (versus our chosen asset allocations). According to data compiled by Morningstar, and visible on our quarterly strategy fact sheets, the "actual" strategy weights to fixed income and cash are visible on the respective pie charts. Moreover, it's interesting to point out that our active managers are holding **an average of 12% more fixed income, cash, and cash equivalents** than our internal models call for. This is an example of active management at its finest – allowing managers to sell securities when fully valued, harness cash, and redeploy capital more strategically or tactically when provided the market opportunity to do so. The overall level of conservatism has been a direct contributor to underperformance in the Growth, Balanced, and Income strategies.

Notable Fund Performance

Strong performance in the first quarter was led by exposure to international equities. Top performers included the Matthew's Pacific Tiger (ticker: MAPTX), JP Morgan Researched Equity Fund (ticker: OIEAX), Dodge & Cox International Stock Fund (ticker: DODFX), and the T. Rowe Price International Discovery Fund (ticker: PRIDX), which returned +7.5%, +5.8%, +4.2%, and +4.1%, respectively. Domestically, the Buffalo Discovery Fund (ticker: BUFTX) was the top performer (+7.5%), boosted by concentrated overweights to securities within the Health Care and Technology space. Additionally, another strong performer was the Vanguard Morgan Growth Fund (ticker: VMRGX), which rose +4.5%. Notable underperformers included large-cap core and value funds such as the Vanguard Dividend Growth Fund (ticker: VDIGX) and Vanguard Equity Income Fund (ticker: VEIPX), which returned +0.9% and -0.1%, respectively.



From a fixed income standpoint, the Lord Abbett Bond Debenture Fund (ticker: LBNDX) was the top performer, gaining +3.4% as high-yield debt came back into favor. In general, fixed income returns were quite muted, ranging from a +1.60% gain in the DoubleLine Total Return Fund (ticker: DLTNX), to +0.70% in the Oppenheimer International Bond Fund (ticker: OIBAX). Overall, fixed income returns were positive.

In the alternative space, exposure to Real Estate was a strong contributor to overall performance. The T. Rowe Price Real Estate Fund (ticker: TRREX) gained +5.5% during the quarter. Additionally, The Arbitrage Fund (ticker: ARBNX), specializing in merger-arb opportunities, added +1.2%. We tend to categorize merger arbitrage strategies as quasi fixed income securities (even though they hold equities), as managers attempt to capture the "spread" between current market price and the deal price of announced mergers and acquisitions, which is largely driven by the risk free rate. Overall, exposure to alternatives was a positive for all strategies during the first quarter.

Fund Changes & Strategy Highlights

During the first quarter there were fund changes and additions within all NASMP strategies. The Longleaf Partners Fund (ticker: LLPFX), a deep value fund, and the UMB Scout Fund (ticker: UMBWX), an international equity fund, were both removed from all strategies. Their replacements, the JP Morgan Disciplined Equity Fund (ticker: JPIEX) and JP Morgan Research Enhanced Equity Fund (ticker: OIEAX) were added to the Aggressive Growth, Growth, All-Asset, and Balanced strategies. The two funds that we eliminated were high-cost underperformers, and the two new funds are much more cost effective, with expense ratios of 0.45% and 0.34%, respectively.

Additionally, the DoubleLine Shiller Enhanced CAPE Fund (ticker: DSEEX) was added to the Aggressive Growth, Growth, All-Asset, and Balanced strategies from cash. The fund specializes in a sector rotation strategy using Professor Robert Shiller's infamous CAPE ratio of cyclically adjusted price to earnings measures.

Moreover, the Dodge & Cox Income fund was added in the Balanced and Income funds, sourced by the PIMCO Low Duration Fund (ticker: PTLAX) and the PIMCO Real Return Fund (ticker: PRTNX). The Dodge & Cox Income Fund seeks to provide a high level of current income within the context of capital preservation.

Finally, in the Income strategy, the proceeds from the sale of Longleaf and Scout were rolled into the Vanguard Equity Income Fund (ticker: VEIPX) and the Forward International Dividend Fund (ticker: FFIEX), with the latter being newly added. One additional fund, the Cullen High Dividend Fund (ticker: CHDVX) was also added in the large-cap space, boosting the overall yield of the NASMP Income strategy to over 3.0%.

As always, please feel free to contact our office with any questions or comments regarding the Select Managers Program or any of the funds that we have added to the Program. We are always happy to discuss performance, portfolio strategy, and fund selection in more detail.

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