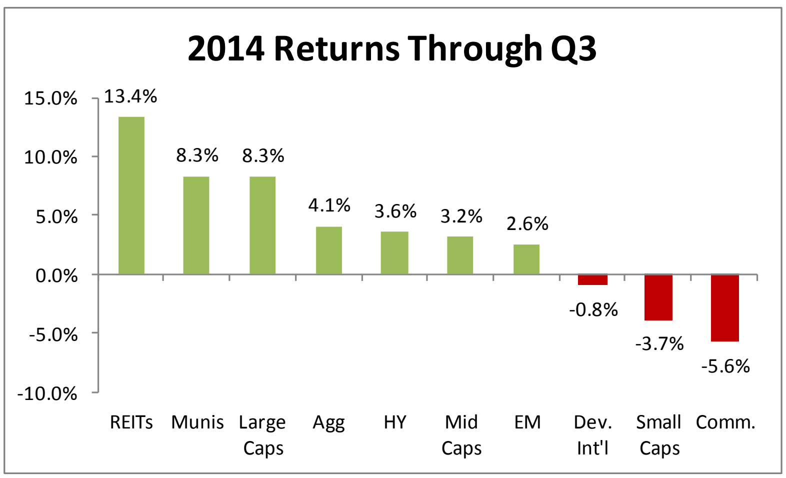
Q3 2014 Select Managers Program Performance Update

Third Quarter Market Recap

The third quarter was a mixed bag, with all major asset classes posting varied returns. From an equity standpoint, the S&P 500 was the best performer, gaining +1.2% during the quarter. Large-cap U.S. equities have been the year's top performer thus far, gaining +8.3% YTD. During the quarter, the general market trend favored a "risk-off" environment, with domestic mid- and small-caps losing -4.3% and -6.9%, respectively. Developed International and Emerging Market equities both moved lower, losing -6.0% and -3.5%, respectively, as European economic data continued to weaken. Market participants have increasingly become less confident in the European Central Bank's (ECB) ability to enact a full blown quantitative easing (QE) program like has been done in the U.S., increasing fears that European growth will continue to falter, and potentially send the Eurozone into a Japan-like deflationary spiral.

From a fixed income standpoint, the Barclays Aggregate Bond Index gained +0.3% during the quarter, but was surpassed by gains in municipal bonds and long-dated government securities. Munis gained +1.7% during the period, bringing year-to-date gains to +8.3%, as the sector continues to rally after a disappointing 2013. High-yield corporate bonds lost -2.0% during the quarter as investors continue to fear that there will be a day of reckoning for junk bonds in the near future. Many market participants believe high-yield is in a bubble, fueled by continued risk appetite and a prolonged low-interest rate environment. While high-yield debt indeed looks rich, there are few other alternatives for investors seeking income. With that being said, we continue to maintain a relatively small allocation to the sector for fears that as rates rise there will be a mad dash for the exits when investors sell junk bonds indiscriminately.



Q3 returns were driven largely by exposure to large-cap domestic equities and fixed income securities. Risk assets (small- and mid-caps, international, and emerging market equities) were largely detractors from performance.

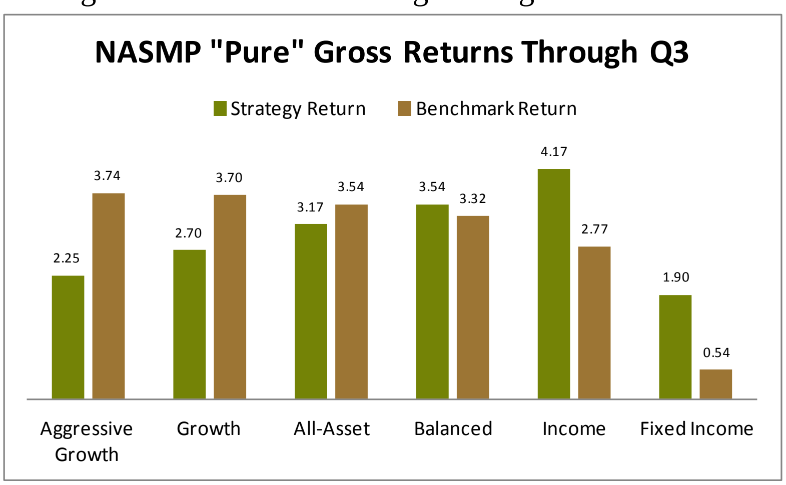
Select Managers Program

The Nottingham Advisors Select Managers Program (NASMP) posted solid returns during the third quarter, led by strategies with larger allocations to fixed income securities.

During the period, NASMP Balanced, Income, and Fixed Income strategy returns outpaced their respective benchmarks, helped higher by fixed income oriented funds taking both duration and credit risk. Strategies with greater equity allocations such as the NASMP Aggressive Growth, Growth, and All-Asset strategies were hampered by poor performance from risk assets, including international equities (both developed and emerging), as well as small-cap domestic equities.

Cash Positions

As the S&P 500 continues to hit new all-time highs, it is important to review our asset allocations, including our model weights to cash. At Nottingham, we essentially serve as the "manager of managers," responsible for setting an asset allocation and choosing active managers to fill each respective geography, capitalization size, sector, etc. within that asset allocation. With that being said, we typically have a model weight to cash of roughly 5%, give or take, providing us with a buffer for new opportunities, tactical trades, and day-to-day account maintenance. Moreover, it is important to recognize that there is a second asset allocation decision being implemented, this time ***at the manager level***. These active managers choose what securities to buy and sell, and when to deploy and raise cash. What we've found is there is a cohort of managers that have started to stockpile cash, allowing their cash weights to rise above historical levels. Largely, this is due to individual holdings being pared back (having reached their target prices) and lack of "no brainer" trade ideas for new capital (due to valuation concerns). The end result is a larger than anticipated cash balance within our strategies ***due to active managers increasing their cash positions***. Remember – we pay active managers to make decisions on what stocks to buy and sell, and we must give them time to execute their strategies. In the event that a manager hoards cash too long and begins to meaningfully underperform, we may replace that manager with a different one. We are constantly reviewing our asset allocations, ***both at the NASMP level and at the individual fund level*** and wanted to communicate this fact in an effort to increase transparency towards underlying holdings within the Select Managers Program.



*Relative outperformance was seen in the Program's more conservative strategies, driven by manager alpha within **the fixed income asset class***

Equities

International equities contributed both positively and negatively to portfolio returns during the quarter. Positive returns were hard to come by, and the only positive gainer was the Matthews Pacific Tiger Fund (MAPTX), which gained +2.6% during the quarter. The fund is up a solid +13.1% on the year as exposure to the Asia/Pacific region continues to drive positive returns. Matthews continues to buck the trend of negative returns from the broader international arena. For example, exposure to a broad basket of Developed International equities through the Dodge & Cox International Stock Fund (DODFX) lost -2.9% during the quarter, while exposure to Emerging Market equities through the Oppenheimer Developing Markets Fund (ODMAX) lost -3.8%. A blend of developed and emerging international equities found in the Scout International Fund

(UMBWX) was the period's worst performer, losing -5.5% during the quarter, bringing the year's decline to -3.0%.

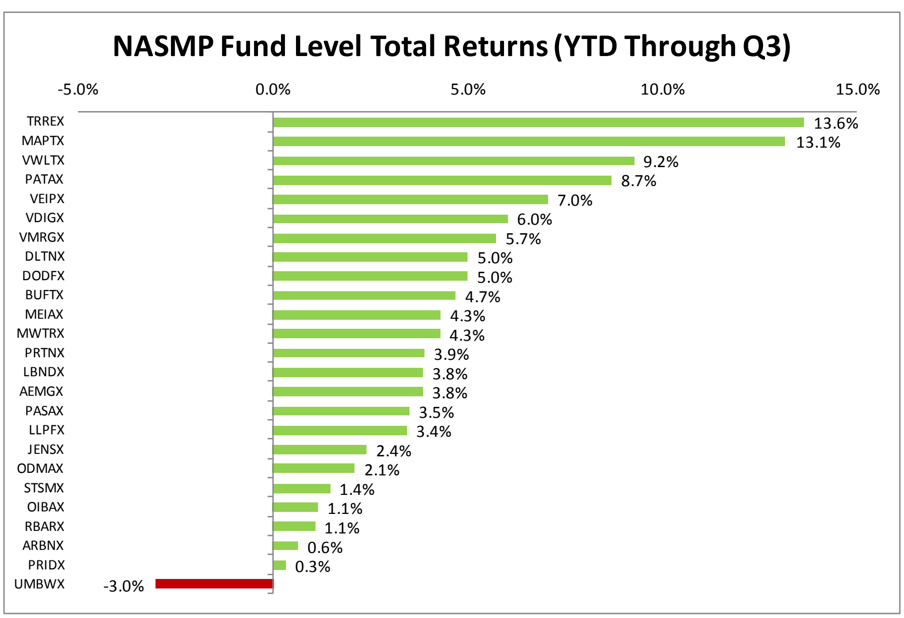
Domestic equities held their own during the period, led by growth names such as those found in the Vanguard Dividend Growth Fund (VDIGX) and the Jensen Quality Growth Fund (JENSX), which gained +1.4% and +0.3% respectively during the period. High quality names such as those held in the Vanguard Equity Income Fund (VEIPX) held up fairly well. The fund lost -0.6% during the quarter, but is still up +7.0% on the year.

Fixed Income & Alternatives

During the quarter, yields on 10-year and 30-year U.S. Treasury bonds fell from 2.53% to 2.52% and from 3.34% to 3.21%, respectively. At the fund level, taxable fixed income returns were driven by the DoubleLine Total Return Fund (DLTNX), which added +0.6% during the period, and has gained +5.0% on the year. Additionally, the Lord Abbett Bond-Debenture Fund (LBNDX), lost -1.6% during the period, as investors continued to shed exposure to riskier junk bond securities. However, we remain tactically (near-term) constructive on short-term junk bonds after the recent selloff, as government option adjusted spreads (OAS) widened from 353bps to 440bps at the end of the quarter.

From a tax-exempt fixed income standpoint, the T. Rowe Price Tax-Free Income Fund (PATAX) was the quarter's best performer, gaining +2.1% during the period, and +8.7% YTD. Similarly, the Vanguard Long-Term Tax-Exempt Fund (VWLTX) also continued to benefit from declining long-term bond yields, gaining +2.0% during the quarter and +9.2% on the year. As for short-term munis, the Wells Fargo Short-Term Muni Fund (STSMX) added +0.3% during the period, and has now gained +1.4% year to date.

In the alternative space, exposure to Real Estate was a detractor to overall performance, after being a strong performer in the second quarter. The T. Rowe Price Real Estate Fund (TRREX) lost -3.6% during the quarter, bringing this year's total return to +13.6%. Secondly, the PIMCO All-Asset Fund (PASAX) lost -3.1% during the quarter, but remains up +3.5% on the year. Finally, the newly added Arbitrage Fund (ARBNX), a merger arbitrage fund specializing in corporate takeovers, lost -0.3% during the period. Despite the difficult quarter, exposure to alternatives has been accretive to performance year to date.



Note: Some NASMP strategies may include alternative funds based on fund closures.

Source: Bloomberg

Fund Changes & Highlights

During the third quarter we added two new funds to the Select Managers Program. First, we added The Buffalo Discovery Fund (BUFTX), a "go anywhere" domestic equity fund with a mid-cap tilt and sizeable exposure to both the health care and technology sectors (~60% of the fund). The Buffalo Discovery Fund screens for stocks that have revenue and earnings per share growth greater than 10% and are involved with innovative long-term themes and trends. The investment team consists of 20 individuals that hold the Chartered Financial Analyst (CFA) designation and the group has a strong long-term track record. According to data compiled by Morningstar, the fund has been a ***top decile*** performer over the trailing 1-, 3-, 5-, and 10-year periods at the time the fund was added to client portfolios. The Buffalo Discovery fund was added to the NASMP Aggressive Growth, Growth, All-Asset, and Balanced strategies

Second, the RBC BlueBay Absolute Return Fund (RBARX) was added to the Program to diversify fixed income exposure and dampen volatility. The fund has a global investment grade mandate (fixed income), but risk controls state the Fund may invest no more than 25% of the portfolio in below investment grade credits. The only geographic restriction is a 10% cap on emerging market debt. The fund does not use leverage, has daily liquidity, and seeks a target return of cash + 3%, with an expected volatility of 3%. To achieve its return objective the fund targets alpha from the following sources: term structure (+65bps), credit beta (+70bps), credit alpha (+150bps), and currency (+15bps) for a total of 300bps of return. Per BlueBay Asset Management, the BlueBay Absolute Return fund has had correlations of 0.09, -0.07, 0.09, 0.27, and 0.01 with Euro Corporates, U.S. IG Corporates, Global Agg, Global HY, and U.S. equities since inception, highlighting the diversification benefits that can be gained by adding a low-correlating fund to the Program. The RBC BlueBay Absolute Return fund was added to the All-Asset, Balanced, Income, and Fixed Income strategies.

To source the funds for these new additions, the Neuberger Berman Genesis Fund (NBGAX) and Keeley Small Cap Value Fund (KSCVX) were eliminated from the Select Managers Program. These two particular funds were eliminated for two reasons – poor performance and an overall asset allocation shift away from overweight positions to small- and mid-cap domestic equities.

Looking ahead to the fourth quarter, we will continue to monitor and re-evaluate existing fund managers for fit within our asset allocation strategy, while scouring the investment universe for new funds to add. At the same time, it should not be expected that there will be meaningful portfolio turnover at the manager level on a quarter-to-quarter basis. Recent turnover has been consistent with our overall strategy to "build out our bench" of active managers within an asset class, while vowing to keep managers accountable for poor performance (should poor performance occur).

Lastly, I would like to again plug our blog, located at www.nottinghamadvisors.com/blog where we add additional market commentary on a regular basis. Be sure to look through our *Quarterly Chartbook*, as well as listen to replays of our quarterly webinars, which we launched last quarter. Furthermore, the replay of our recent webinar on alternative choices to the PIMCO Total Return Fund can be found on our website. With the recent departure of long-time manager Bill Gross for rival Janus, PIMCO will be turning to a new management team to run the behemoth Total Return Fund. As fund due diligence experts, Morningstar opined on the transition noting that PIMCO is "entering a new era." Even after the transition, PIMCO still remains a world-class organization ripe with top talent; however, prior to Gross's departure we felt there were better alternatives. We eliminated exposure to the Fund in the first quarter, noting the recent underperformance of the fund relative to its benchmark, high fund costs, and below-benchmark yield. Instead, we favor both the

Metropolitan West Total Return Fund (MWTRX) and the DoubleLine Total Return Fund (DLTNX), as seen in the below chart, both of which can be found in the Select Managers Program.

			Performance				
Mutual Funds	Ticker	Expense Ratio	TTM Yield	YTD (9/30)	1-yr Return	3-yr Return	5-yr Return
PIMCO Total Return	PTTAX	0.85%	1.72%	3.03%	2.89%	4.16%	4.64%
DoubleLine Total Return	DLTNX	0.73%	4.81%	4.98%	4.72%	4.68%	N/A
Metropolital West Total Return	MWTRX	0.62%	2.19%	4.26%	4.81%	5.50%	7.05%

Source: Morningstar

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.

Matthew Krajna
Portfolio Manager
November 2014