LOM Balanced Fund Manager's Report Q4 2021

January 7, 2022

Fund Information

Fund Manager

LOM Asset Management Ltd.

Portfolio Manager

Bryan Dooley, CFA

Domiciled

Bermuda

Exchange

Bermuda Stock Exchange

Inception Date

03/13/2000

Dealing Terms

Friday (5:00 AST)

Settlement Terms

Trade +4

ID ISIN

BMG556251004

Bloomberg Ticker

LOMBALF BH

Fund Size

$4,068,363

Management Fee

0.65%

Administration Costs

0.22%

Sales Fee

May be applicable

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The Balanced Fund posted strong gains in 2021, returning 16.76%. That represents an outperformance of 4.92% over the benchmark. The Fund was upgraded to a 4-star rating by Morningstar, with the 3- and 5-year performance reaching 5-stars.

Gains were attributable to a continued overweight in equities and the United States as we emerged from the COVID lockdowns of 2020. Pandemic stimulus and supply chain disruptions contributed to a tight labor market as jobless claims continue to fall to 2017 levels. This strength in labor gave central banks a clear mandate: tamping down on inflation. Most central banks are accomplishing that by tapering and signaling a rise in interest rates. While this is a short-term headwind to the economy, it should provide central banks with dry powder to combat future shocks. We continued our strategy of cutting back equity exposure throughout the year as markets kept pushing to new highs.

In fixed income markets, the U.S. Treasury yield curve flattened during the last quarter, with short-term and medium-term yields moving up while long term yields moved down slightly. Credit spreads widened; the spread between BBB corporate bonds and the ten-year Treasury ended the year at 1.2%, higher than beginning of the year, but still below pre-pandemic lows.

In December, Fed chairman Jerome Powell dropped the word "transitory" from his inflation view and acknowledged that high inflation could persist well into 2022. Policymakers shifted to a more hawkish policy in their December FOMC meeting. The committee decided to double their pace of tapering to $30 billion a month.

After this change, the Fed's quantitative easing program will end entirely in March instead of June 2022. Ending the assets purchases earlier paves the way for faster rate hikes. According to the latest FOMC dot plot, there will be at least one rate hike in the new year. The median projection forecasts three rate hikes in the New Year.

2022 will likely be more muted than the strong 2021 gains. Tighter monetary policy will be a headwind to markets. Rising interest rates should cause bond prices to fall. An increased cost of borrowing will also be a headwind when companies roll their debt. However, many companies used the record low interest rates to binge on debt for projects so there shouldn't be many impacts in the short run. Resilient corporate earnings and a strong labor market should continue to strengthen the markets.

Balanced Fund Performance through 12/31/21

		Annualized Return		
Fund	Q4 2021	1 Year	3 Year	5 Year
LOM Balanced Growth Fund USD	3.19%	16.76%	16.35%	10.62%
Custom Benchmark	4.31%	11.84%	13.03%	8.75%