LOM Balanced Fund Manager's Report Q2 2022

July 11, 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 +5

ID ISIN

BMG556251004

Bloomberg Ticker

LOMBALF BH

Fund Size

$3,445,566

Management Fee

0.65%

Administration Costs

0.26%

Sales Fee

May be applicable

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The backdrop of high inflation and geopolitical instability in Europe continued to weigh on markets. The Balanced Fund dropped -10.57% in the quarter as the benchmark dropped -8.42%. The Fund is ranked 4-stars by Morningstar as the long run performance continues to outperform our peer group. While we might have a rocky road in the near term, we believe the recent rout in stocks and bonds presents an opportunity for long term investors to buy assets at reasonable prices.

Inflation hit a 40-year high last quarter, prompting the US Federal Reserve and other countries central banks to engage in tightening monetary policies (e.g., raising interest rates and quantitative tightening). The Federal Reserve raised their reserve rate by 0.75% in their last meeting, a move that was more aggressive than they had previously signaled. These efforts are designed to slow down the economy, and thus lower inflationary pressures. Central banks are hoping to thread the needle and achieve a "soft landing," meaning a slowdown without tipping the economy into recession. Central banks don't have a strong track record in achieving this. Market participants are estimating a 33% likelihood of a recession in the next year.

Last year, we were focused on bringing down the Fund's equity exposure that had ballooned during the post pandemic surge in the equity markets. Now that the market equity markets have dropped into bear market territory, our policy has shifted to taking on more risk. Historically, this strategy tends to pay off with higher returns and lower volatility for long term investors. While the future is far from certain, we believe this this a prudent approach for our investors.

We are likely to see continued uncertainty in the short run. The war in Ukraine drags on as Russia has made slow but consistent progress in the east. Russia is believed to have fully deployed their amassed troops but high losses have led to speculation of a pause in hostilities. The economic impact of the war is being felt in higher food and energy costs. Gasoline prices have shown signs of coming down from their highs but remain at elevated levels as refinery costs tripled due to limited near term processing capacity. Central bank activity is going to have limited effect on those structural challenges.

In a spot of bright news, shipping costs have dropped ~-32% since hitting post pandemic highs in September 2021. US jobless claims have been rising since mid-March (likely a function of the central banks moves) but remain near historic lows. If corporate earnings can hold up, it would strengthen the likelihood of a soft landing.

Balanced Fund Performance through 06/24/22

		Annualized Return		
Fund	**YTD**	**1 Year**	**3 Year**	**5 Year**
LOM Balanced Growth Fund USD	-17.80%	-14.58%	5.14%	4.67%
Custom Benchmark	-12.78%	-9.54%	4.23%	4.38%