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LOM Stable Income Fund Manager's Report | Q2 2023

Fund Information

Fund Manager
LOM Asset Management Ltd.

Portfolio Managers
Bryan Dooley, CFA

Domiciled
Bermuda

Exchange
Bermuda Stock Exchange

Inception Date
7/27/2011

Dealing Terms
Friday (5:30 AST)

Settlement Terms
Trade +3

ID ISIN
BMG556251830

Bloomberg Ticker
LOMSTAB BH

Fund Size
$52,270,177

Management Fee
1.50%

Administration Costs
0.26%

Sales Fee
May be applicable

Over the second quarter of 2023, the LOM Stable Income Fund rose 0.91% as strong cash flows from our dividend-paying equities and hybrids offset price declines in some higher yielding securities.

US gross domestic product (GDP) continued to decelerate in the first half of 2023 as interest rate increases and inflation took hold on the economy. America's GDP rose 1.8% in Q1 and is forecast to grow at just 1.3% for the 2023 year as a whole. While the economy remains weak, concerns of an imminent recession have subsided since the beginning of the year as the housing market remains relatively firm and pent up demand for many goods and services continues to recover from the pandemic lows.

While the market weighted global equity markets fared well in the second quarter, high dividend paying stocks as a group showed broad price declines. The Dow Jones Dividend Select stock index, fell by 2.54% in Q2 as rising interest rates reduced interest in equities with bond-like characteristics.

In the fixed income markets, the yield curve experienced an upward shift throughout the second quarter. Initially, the short-term end of the curve rose due to concerns surrounding a technical default related to the debt ceiling, and subsequently due to expectations of a more hawkish stance from the Federal Reserve.

The yield on the two-year Treasury note, which is particularly sensitive to Fed Funds rate expectations, started the quarter at 4.03% and concluded at 4.90%. Likewise, the 10-year U.S. Treasury note, often employed as a benchmark for mortgage pricing, began the quarter at 3.47% and concluded at 3.84%, indicating a 37 basis point increase in yield. Although the outlook for growth remains restrained in the face of tightening financial conditions, the Federal Reserve proceeded with another 25-basis point interest rate hike during its May meeting before pausing in June. The current target range for the Fed Funds rate stands at 5.00-5.25%.

During the second quarter, we shifted to asset allocation from over 60% in equities to 42% at quarter end. This move was designed to take advantage of the higher yields in the fixed income markets for both hybrid securities and conventional debt instruments.

Importantly, the Stable Income Fund dividend will increase from $0.03 per month to $0.035 for holders of record on July 1. The first dividend paid at this rate will be on July 31st. At the current unit price of $10.86, the new dividend rate will be 3.86%, up from 3.31%.

Stable Income Fund Performance through 30 June 2023

		Annualized Returns		
	QTD	1 Year	3 Year	5 Year
LOM Stable Income Fund	0.91%	-1.73%	5.24%	2.99%
Stable Income Index* (50% Dow Jones Global Dividend Select / 50% S&P Preferred Index)	0.02%	0.12%	2.86%	0.22%