LOM
LOM ASSET
MANAGEMENT LIMITED

LOM Balanced Fund Manager's Report Q1 2019

March 31, 2019

Fund Information

Fund Manager
LOM Asset Management Ltd.

Portfolio Manager
Bryan Dooley, CFA

Domiciled
Bermuda

Exchange
Bermuda Stock Exchange

Inception Date
03/13/00

Dealing Terms
Friday (5:00 AST)

Settlement Terms
Trade +5

ID ISIN
BMG556251004

Bloomberg Ticker
LOMSTAB BH

Fund Size
$2,606,356.12

Management Fee
0.65%

Administration Costs
0.28%

Sales Fee
May be applicable

The Balanced Fund experienced a strong start to 2019 gaining 10.01% in the year. This represents an outperformance of 1.88% relative to the benchmark.

Since we appear to be late in the business cycle, we have been taking steps to reduce the overall risk of the portfolio. During the quarter, a reduction in the equity position and the elimination of REIT exposure which were sold at a realized gain. These changes have brought the fund within 3% of the strategic allocation 60% Equity and 40% Fixed Income. We are still slightly overweight equities but are continuing to periodically adjust.

Equity exposure has shifted partially from the US to more broadly encompass value opportunities we are currently seeing in both China and Europe as the regions experienced slowdowns and recessions, respectively, in 2018.

Mixed global macroeconomic indicators have shown signs of improvement. In the US, jobs gains and a pivot to a more dovish Fed policy are supportive of a continued recovery in the near term. Risks in the trade war have shown signs of cooling as the US and China appear to be finding common ground in their trade talks. In Europe, challenges are still baked into prices as Italy and Turkey fell into recession in 2018 and Germany narrowly avoided a recession. Concerns over Brexit appear to have reduced significantly as the British Parliament and the European Union have shown a lack of willingness to default into a hard Brexit scenario. Despite these positive changes, European equities have lagged the broader market in the period.

Fixed Income markets saw rallies in Q1 as a shift in Federal Reserve policy caused investors to adjust future expectations on rate hikes. At the start of the year, the Federal Reserve was debating between 1-3 rate hikes in 2019. We are now looking at no rate hikes in 2019. While this has been viewed as positive by some individuals, it is important to remember that the change in policy indicates that the Federal Reserve is less concerned with the economy overheating and more concerned about a possible downturn.

With investing, there is always a tradeoff between the return and risk of losses. A strong indicator of risk in the US markets is the Treasury curve. A look at the active US Treasury curve shows credit markets have heard that signal as well. As of 03/28/19, the 3-month Treasuries were offering better yields than the 10 years. When this has happened in the past, a recession has always happened within the next 2 years. The trend has since reversed but the yield curve remains flat. A shift in the curve does not change the historical relationship.

Balanced Fund Performance through 3/31/19

Fund	QTD	Annualized Return 1 Year	3 Year	5 Year
LOM Balanced Fund (with dividends)	10.01%	1.01%	6.78%	2.78%
Balanced Fund Benchmark Index *	8.13%	2.90%	6.06%	3.63%

* 60% MSCI World Stock Index/40% Citigroup 1-5 Year Govt/Corp Bond Index

LOM Asset Management
The LOM Building
27 Reid Street
Hamilton, HM11
Bermuda
(441)295-6999
www.lom.com
asset@lom.com