LOM ASSET MANAGEMENT LIMITED

LOM Balanced Fund Manager's Report Q2 2019

June 28, 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

$2,523,037

Management Fee

0.65%

Administration Costs

0.28%

Sales Fee

May be applicable

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The Balanced Fund continued its outperformance in the first half of the year, returning 11.58% while the broader market returned 11.20%.

The last quarter saw an increase in volatility as global markets continue to operate in late and recessionary cycles. Markets dropped in May as an unexpected escalation of US-Chinese trade tensions caused global equity markets to drop. The decision to cut the real estate investment trusts (REIT's) position proved to be beneficial as the real estate sector underperformed during the subsequent quarter. We continued to be tactically 10% overweight equities relative to our benchmark as of quarter end but are reducing the allocation towards a neutral marketed weighted asset allocation position.

An unexpected escalation in US-Chinese trade talks posed a temporary headwind to the Fund's performance as Chinese exposure took a hit in May. The positions mostly recovered heading into the end of the second quarter as tensions have since eased. The gold hedge helped offset some of the pain from global political uncertainty. Gold gained 9.17% while the China position lost -4.17%. Our decision to increase European exposure paid off during the prior quarter as the position gained 4.25%. The fund gained 1.43% on a net basis during the second quarter.

On the macroeconomic front, we are seeing weaker economic data in Europe as some member states flirt with recession. In the US, we're seeing mixed signals as strong jobs data (a lagging indicator) are offset by weakness in other fundamentals. Paradoxically, the markets are hoping that the Federal Reserve will cut rates, a simulative effect indicating their perceived weakness in the US markets. The market consensus is that the Federal Reserve will cut rates in July given signals coming from Fed Chair Jerome Powell. Strong jobs data late in the quarter weakened the likelihood of a 50-basis point cut in the Fed Funds rate, the rate at which banks can borrow funds. The more likely outcome is a 25-basis point cut.

Fixed income markets continued to rally into the second quarter in advance of a potential rate cut (bond prices go up when interest rates go down). The inversion in the US Treasury curve seems justified, as least in part, by the high probability of a rate cut in US markets and continued potential disruption from the overhanging threat of the trade war. While rising bond prices can be good in the short run, the trend may threaten bond holders of the short end of the maturity curve who will need to reinvest into bonds at lower yields if the Fed announces rate cuts.

Balanced Fund Performance through 6/28/19

		Annualized Return		
Fund	QTD	1 Year	3 Year	5 Year
LOM Balanced Fund (with dividends)	11.58%	1.92%	7.68%	2.19%
Balanced Fund Benchmark Index *	11.20%	5.01%	6.79%	3.62%

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