LOM ASSET MANAGEMENT LIMITED

LOM Fixed Income Fund Manager's Report Q1 2019

March 29, 2019

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 +2

ID ISIN

BMG556251343

Bloomberg Ticker

LOMFIXDBH

Fund Size

$66,337,914.13

Management Fee

1.00%

Administration Costs

0.30%

Sales Fee

May be applicable

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

Despite investor fears of an economic slowdown or even a recession this past quarter, credit spreads managed to tighten during the period and that benefitted the Fixed Income Fund. Over Q1, the Fund achieved a net total return of 2.69% which compares favorably to the return of 1.77% on its stated benchmark, the Citigroup 1-5 Year Government Corporate Bond Index, representing outperformance of 1.77%. For the past three years through the end of March, the Fund provided a total return 8.25%, or 2.67% annually compared to the return of 4.78%, or 1.56% annually on the benchmark.

In the early part of Q1, Fed Chairman Jerome Powell signaled the Federal Reserve would not raise interest rates again until it saw inflation accelerating. He also dropped reference to his prior declaration of "further gradual increases" (on interest rates) and indicated a "flexible" approach to shrinking the government balance sheet.

His more recent statements were broadly interpreted as setting a more "dovish" policy stance than last year. After nine successive increases in the Federal Funds rate since 2015, the central bank implied the next rate move could just as likely be down. Immediately following what is now known as the "Powell pivot" bond markets rallied into quarter end. The benchmark ten-year Treasury yield fell by 28 basis points, from 2.68% to 2.40% over the period.

In March, the U.S. yield curve became inverted for the first time since 2007 with yields on three-month Treasury Bills briefly offering a higher yield than ten-year government bonds. While some investors saw this as a sign of an imminent recession, we note that much of the price action in longer-dated U.S. bonds was driven by overseas markets. Specifically, ten-year German Bund yields fell below zero percent for the first time since 2016. Lower rates in Europe undoubtedly pushed U.S. Treasury yields lower despite American economic data points which so far suggest more of a slowdown than a recession.

On a strategic basis, the Fund continues to maintain its overweight to the corporate bond sector while looking for opportunities on an issue and credit specific basis. In recent weeks we have banked profits in baby bonds and preferred issues purchased in December. These fairly recent purchases have already begun to pay off as we are receiving substantially higher prices above our initial costs in addition to having collected above-market coupons.

Fixed Income Fund Performance through 3/29/19

		Annualized Return		
Fund	Q1 2019	1 Year	3Year	5 Year
LOM Fixed Income Fund USD	2.69%	2.95%	2.67%	2.06%
Citi 1-5 Year Corp/Gov't Bond Index	1.77%	-4.41%	1.50%	-0.70%
Bloomberg Offshore Government/ Corpoate Bond Fund Index	1.63%	3.54%	1.49%	1.57%