LOM ASSET MANAGEMENT LIMITED

LOM Fixed Income Fund Manager's Report Q2 2018

June 30, 2018

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

$64,073,003

Management Fee

1.00%

Administration Costs

0.30%

Sales Fee

May be applicable

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LOM Fixed Income Fund outperformed its benchmark over Q2 2018 as longer-duration securities ended the quarter well bid despite another Federal Reserve rate hike in June. For the period, the Fund returned +0.33% compared to the return of +0.19% on the stated benchmark. Over the past one-year period, the Fund provided a net total return of +1.10% which exceeded the benchmark return of -0.18% by 1.28%.

Our view for an extended mid-cycle recovery causes us to maintain an overweight to the corporate bond sector versus sovereign debt and we have thus benefited from higher coupons and better yields. In terms of maturities, we continue to concentrate new purchases on lower-duration securities such as LIBOR-based floating-rate notes. However, occasionally we are able to source attractively priced longer-duration bonds, such as the recently offered Unum 6.25% fixed rate issue trading below par. By heavily weighting the short end of the interest rate curve while selectively adding to longer-duration positions, we have created a 'barbell' maturity structure which we view as the best approach in this environment of a consistently flattening yield curve.

Looking ahead, we anticipate up to two more Federal Reserve rate hikes by year-end. With the long end of the curve holding under three percent, we expect the yield curve to remain relatively flat. Ongoing low interest rates in the non-U.S. developed world, a relative dearth of inflation and heightened geopolitical volatility have conspired to keep a lid on longer-term yields even as the Fed pushes short rates higher.

At the June FOMC meeting the Fed elected to raise rates another 0.25%, continuing a trajectory of tighter monetary policy that started at the beginning of 2016. During the latest quarter, the yield on the 10-year U.S. Treasury reached a high of 3.11% on expectations of rising inflation and continued concerns over growing U.S. government debt. However, the 10-year U.S. Treasury ended the quarter at 2.86%, down from the high, but still above its 2.4% starting point for the year. As of June 30, the difference between the 30-year and five-year points tightened to 25 basis points at the end of the period from 42 basis points at the quarter's start.

Looking ahead, we expect demand for longer maturities to remain strong. Persistently low yields on longer-maturity bonds have created some worries over the possibility of an inverted yield curve in the near future, a potential indicator of a forthcoming recession. However, we see the longer end of the curve being more indicative of lower interest rates in other developed markets such as Europe and Japan. As well, technological innovation has helped keep inflation at bay despite having reached full employment levels. The Fed's preferred metric for measuring inflation is hovering just around 2.0%.

Fixed Income Fund Performance through 6/30/18

		Annualized Return		
Fund	Q2 2018	1 Year	3Year	5 Year
LOM Fixed Income Fund USD	0.33%	1.10%	1.97%	2.09%
Citi 1-5 Year Corp/Gov't Bond Index	0.19%	-0.18%	0.86%	1.15%