LOM ASSET MANAGEMENT LIMITED

LOM Fixed Income 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
03/13/2000

Dealing Terms
Friday (5:00 AST)

Settlement Terms
Trade +2

ID ISIN
BMG556251343

Bloomberg Ticker
LOMFIXDBH

Fund Size
$71,347,545.22

Management Fee
1.00%

Administration Costs
0.30%

Sales Fee
May be applicable

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Credit markets continued their rally for another quarter as the Federal Reserve officials maintained their dovish stance on monetary policies. Over Q2, the USD Fixed Income Fund achieved a net total return of 1.59%, once again outperforming our competitor's average, which returned 1.16% for the quarter. Comparing to its stated benchmark, the Citigroup 1-5 Year Government Corporate Bond Index, the Fund lagged by 29 bps in the most recent three months, but has outperformed by 79 bps year-to-date. The Fund has also consistently outperformed the benchmark and our competitor's average over a two-year, three year, and five-year horizons.

In the second quarter, the Treasury yield curve shifted downward by about 20 bps and remains inverted. By the end of Q2, the ten-year had drifted to just 2%, below three-month Treasury yield which is at 2.1%, while the 3-year continues to be the lowest point of the curve at just 1.7%. The inverted yield curve signals investors' concern of the economy. Their willingness to accept a lower return on longer term maturities than shorter ones indicates expectation of rate cuts.

Based on the Fed Fund futures market indications and the inverted yield curve, the market is now forecasting a high likelihood of rate cut in the July FOMC meeting. From a data perspective, the jobs report for June came out strong, signaling a solid economic environment. On the other hand, inflation has been stuck at below the Fed's target of 2%, ending the quarter at 1.6%. Once again, inflation data and employment number are telling conflicting stories. The low inflation number gives policymakers an incentive to cut interest rate, in order to stimulate spending.

For the upcoming months, the fund will continue its barbell strategy. Our duration management, along with credit analysis, combining top down and bottom up approaches have produced the outperformance so far. Longer duration preferreds purchased at the end of last year have since appreciated in value, allow the Fund to bank profits. Floating rate notes continue to yield relatively high returns, as three-month Libor yields more than longer-term Treasuries.

While a July rate cut now appears likely, the current debate is about whether the Fed will cut by 0.25% or 0.50%. Clearly, a more dovish stance has been confirmed by Fed Chairman Jerome Powell and other Fed officials in recent communications. However, the ultimate direction and degree of change by the FOMC will remain 'data dependent.' As we enter into the early part of the current election cycle, the Fed needs to maintain the perception of being politically neutral.

Fixed Income Fund Performance through 6/28/19

		Annualized Return		
Fund	Q2 2019	1 Year	3Year	5 Year
LOM Fixed Income Fund USD	4.32%	4.24%	2.65%	2.13%
Citi 1-5 Year Corp/Gov't Bond Index	3.53%	5.26%	1.70%	1.81%