LOM | LOM ASSET MANAGEMENT LIMITED

LOM Fixed Income Fund Manager's Report Q4 2017

December 29, 2017

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

$65,148,450

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

In 2017, the LOM Fixed Income Fund USD once again delivered strong performance on both an absolute and relative basis. Over the year, the Fund provided a net total return of 3.98%, far outpacing its stated benchmark, the Citigroup 1-5 year Government/Corporate index which increased by just 1.27% during the period. Smart sector bets and good security selection both contributed to the strong returns despite the U.S. Federal Reserve hiking short term rates a total of three times during the past twelve months.

Throughout the year, the Fund maintained its overweight to credit securities versus sovereigns and thereby benefitted from better pricing and higher coupons as spreads continued to tighten. Another key to outperformance were our positions outside of the benchmark corporate issue market through participation in carefully selected emerging market debt, asset-backed issues and hybrid securities.

After a tumultuous year in 2016, emerging market debt began to look increasingly attractive to us going into the early part of 2017. We found many high-grade EM credits trading wide to comparable developed market bonds as investors feared America's new government would destroy existing EM trading partnerships as had been suggested in the early days of the Trump presidency. However, our bets proved solid later on in the year as the political campaign rhetoric faded, EM trading continued and bond prices recovered. Still, we see many EM issues trading at relatively attractive yields and continue to explore this often-overlooked fixed income sector.

Another bright spot for us in 2017 was our position in asset-backed securities (ABS). Here also, we have been able to find issues trading well above the traditional investment grade corporate bond curve but doing one's homework is essential. Many ABS issues have peculiar call features and often come with irregular principal repayment schedules. In this area, our close relationships with knowledgeable bond dealers combined with our internal software capabilities have allowed us to find the right paper at good prices.

Going forward into 2018 we anticipate up to three more Fed rate hikes and a somewhat flatter yield curve as long-term interest rates continue to stay low in the non-U.S. developed world. In this environment, we continue to emphasize floating rate notes which now comprise approximately twenty percent of the portfolio. The Fund's overall bond duration is a relatively short two years and well below benchmark. Meanwhile, we continue to reduce our exposure to the belly of the interest rate curve, where we see the greatest vulnerability at this point in the economic cycle.

Fixed Income Fund Performance through 12/29/17

Fund	Q4 2017	Annualized Return 1 Year	3Year	5 Year
LOM Fixed Income Fund USD	0.38%	3.98%	2.31%	1.73%
Citi 1-5 Year Corp/Gov't Bond Index	-0.28%	1.27%	1.29%	1.12%