LOM ASSET MANAGEMENT LIMITED

LOM Fixed Income Fund Manager's Report Q4 2018

December 31, 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
$64,361,424.22

Management Fee
1.00%

Administration Costs
0.30%

Sales Fee
May be applicable

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Credit prices fell as investors hit the panic button during the fourth quarter of 2018. This is a regular pattern we have seen reoccurring every few years over the past two decades. The Q4 risk off move created wider credit spreads on all types of bonds, taking prices lower for most fixed income securities with the exception of some U.S. Treasury Notes.

Despite challenging credit markets, the LOM Fixed Income Fund USD held up better than its peers posting a flat return compared to the return of –4.96% for the index of comparable offshore mutual funds with similar mandates over the 2018 year. Over the past three-year period, the Fund provided a net total return of +7.00% which exceeded the offshore benchmark return of 5.14% by 1.86%.

The Fund continues to maintain its strategic overweighting to the corporate fixed income sector and has been opportunistically increasing its exposure to asset-backed securities (ABS). We see value in select ABS bonds as credit spreads blow out, while the underlying collateral for the securities we own remains stable or even improves in some cases.

In December, we also saw a unique opportunity to buy longer-dated "baby bonds" at fire sale prices as retail investors dumped positions. For example, we bought invest grade $25 par issues yielding around six percent, more than twice the yield available on long-term Treasury bonds. Some of our positions include strong credits such as electric utility bonds which we expect to remain financially resilient in the event of an economic downturn.

Despite the recent addition of some longer-dated fixed income issues, the overall portfolio duration remains relatively short, providing protection against the possibility of rising interest rates. The current modified duration of the fund is 2.39 years and the option-adjusted portfolio duration presently sits at just 1.83 years. Despite the relatively low average duration and the portfolio's high credit quality at A-, the yield-to-maturity of the portfolio is an attractive 4.36%. The underlying portfolio therefore offers a yield of over 130 basis points above the 30-year U.S. Treasury and with much less expected volatility.

Looking ahead, we anticipate one or two more U.S. rates hikes in 2019 before the Fed backs off. While the December hike in the face of a slowing economy likely represents another FOMC policy mistake, recent commentary from Fed Chairman, Jerome Powell indicates the Fed may ultimately do less damage than they have in past cycles. In any event, the yield curve is essentially flat from two to ten years and we see little reason to extend the fund's duration, except in special situations such as we have outlined in the foregoing.

Fixed Income Fund Performance through 12/31/18

		Annualized Return		
Fund	Q4 2018	1 Year	3Year	5 Year
LOM Fixed Income Fund USD	-0.49%	0.00%	2.28%	1.81%
Bloomberg Govt/Corp Offshore Fund Index	-1.11%	-4.96%	1.52%	-0.72%