LOM ASSET MANAGEMENT LIMITED

LOM Balanced Fund Manager's Report Q2 2018

June 30, 2018

Fund Information

Fund Manager
LOM Asset Management Ltd.

Portfolio Managers
Bryan Dooley, CFA

Domiciled
Bermuda

Exchange
Bermuda Stock Exchange

Inception Date
03/13/2000

Dealing Terms
Friday (5:30 AST)

Settlement Terms
Trade +5

ID ISIN
BMG556251004

Bloomberg Ticker
LOMBALF BH

Fund Size
$2,820,087

Management Fee
0.65%

Administration Costs
0.28%

Sales Fee
May be applicable

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While volatility continued to characterize the second half of 2018, the Balanced Fund experienced another strong quarter. The Fund outperformed its benchmark in both the fixed income and equity asset classes.

The fixed income portion of the portfolio continued to benefit from the tactical over weighted allocation in floating rate securities and preferred stock, generating 1.56% alpha relative to the fixed income component of the benchmark. Equities continue to have a relatively high weight. The equity portion generated 1.95% alpha relative to the portfolio. Gains were attributable to strong performance in the technology and energy sectors, which were both over weighted in the portfolio.

The Fund has continued to outperform the offshore open-ended balanced fund universe (BBOOBLNC Index), gaining 0.73% in total return while our competitors lost an average of -3.31% for their shareholders (from year end to 7/13/18). Over the past decade, we have outperformed the benchmark by 16.74% total return.

We expect two more interest rate hikes this year as the Fed continues to unwind its balance sheet. The US economy continues to realize the benefits of the Trump tax cuts. Historically low unemployment is driving modest wage growth and increasing turnover in jobs as people trade up.

It's not all roses and sunshine as the specter of a trade war continues to drive uncertainty in the markets. We are seeing modest increases in tariffs as established mediation processes begin to wrap up with little accomplished. This has begun to affect certain sectors within the global economy. For example, in the U.S. Whirlpool, Harley Davidson and the soybean farmers have been among the first victims of the trade war.

On the other hand, some economies are regrouping and may actually come out the other side in decent shape. For example, an unusual beneficiary of the trade war has emerged in Brazil as it is exporting more to the US and China in the wake of their trade spat. Emerging markets as a group have underperformed the MSCI World Stock Index almost nine percent during the second quarter. We see this as a long-term opportunity and have modestly increased our exposure during the period, taking profits from the developed market regions.

As the trade war effects begin to be realized, we will continue to monitor the market for opportunities. We expect the Federal Reserve will continue to raise rates over the next year as this thesis is supported by the notion that tariffs and moderate wage growth will continue to drive inflation in the US. We will therefore likely continue to stay with our short duration strategy on the fixed income side of the portfolio.

Balanced Fund Performance through 06/30/2018

		Annualized Returns		
Fund	Q2 2018	1 Year	3Year	5 Year
LOM Balanced Growth Fund	0.52%	6.50%	2.52%	4.17%
Balanced Fund Benchmark Index *	0.74%	6.88%	5.53%	6.66%
Offshore Balanced Fund Universe	-3.74%	1.96%	2.22%	1.31%

* 60 MSCI World Stock Index / 40% Citigroup 1-5 Year Govt/Corp Bond Index