LOM ASSET MANAGEMENT LIMITED

LOM Balanced Fund Manager's Report Q3 2018

Sept 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
$2,925,265.92

Management Fee
0.65%

Administration Costs
0.28%

Sales Fee
May be applicable

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The third quarter was characterized by lower volatility in the equity markets and rising interest rates in the fixed income markets. The Balanced Fund modestly underperformed the benchmark in this period, gaining 1.65% while the benchmark gained 3.09%. The offshore peer group earned 0.64% during the same period.

The fixed income portion of the portfolio continued to benefit from its tactical over weighted allocation in floating rate securities as the Federal Reserve continued its policy of normalizing interest rates. When rates rise, financial instruments with fixed interest rates tend to underperform. Floating rate securities help protect us against that risk by periodically adjusting the interest rate. Rising interests have hit vanilla fixed income securities and preferred shares. We are not immune from that. Preferred shares (approximated 8.69% of the portfolio as of 09/28/18) have been affected, declining by 0.07% during the period. We benefitted both from being underweight fixed income and having our holdings outperform the benchmark.

The equity portion of the portfolio gained 4.88% while the benchmark gained 5.09%, representing slight underperformance. However, the sector a whole outperformed other asset classes by a wide margin, contributing to the overall strength of the portfolio.

Going forward, the Balance Fund continues to maintain its position in emerging market equities as a core component of its overall equity exposure. Although this subsector has recently been impacted by the ongoing trade war, rising interest rates and a strong U.S. dollar, we believe the longer-term prospects for EM growth and market performance remain intact. We see the EM markets, trading at historically cheap levels to the S&P 500, as a compelling opportunity over the next three to five years.

Balanced Fund Performance through 09/30/2018

		Annualized Returns		
Fund	Q3 2018	1 Year	3 Year	5 Year
LOM Balanced Growth Fund	1.65%	3.79%	7.04%	3.90%
Balanced Fund Benchmark Index *	3.09%	6.88%	8.28%	6.22%
Offshore Balanced Fund Universe	0.64%	-0.66%	3.30%	0.20%

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