LOM ASSET MANAGEMENT LIMITED

LOM Stable 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

07/29/11

Dealing Terms

Friday (5:00 AST)

Settlement Terms

Trade +3

ID ISIN

BMG556251830

Bloomberg Ticker

LOMSTAB BH

Fund Size

$51,574,066

Management Fee

1.50%

Administration Costs

0.25%

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

Over the fourth quarter of 2017 the LOM Stable Income Fund once again outperformed its stated benchmark, delivering a positive return even as the S&P preferred stock index dipped modestly into negative territory. For the period, the Fund gained 0.99% compared to a 0.87% return on the benchmark.

For the year as a whole, the Stable Income Fund provided a total return of 9.78%, which also compares favorably to the benchmark return of 8.72%. The Fund's return also includes a monthly dividend of 0.03 per unit, which translates into a current yield of 3.19% at the current NAV price.

In the last three months of 2017, equities outperformed fixed income by a large margin as the global reflation scenario continued to play out. But here, our balanced approached paid off as weakness in the baby bond market was more than offset by gains on the high-dividend paying stock portion of the portfolio.

During Q4, longer term interest rates modestly increased on investor expectations for a stronger global economy. For example, the ten-year U.S. government bond yield increased by seven basis points from 2.33% to 2.40% at year end. Although credit spreads remained tight, the portfolio did experience some duration risk which modestly impacted prices. On the other hand, the equity portion of the portfolio continued to shine on the back of rising corporate profits and news of the U.S. tax reform package which was eventually passed in the last days of the year.

The Fund's current asset allocation is now approximately 45% equity and 53% fixed income as we have been slightly increasing our equity exposure. The fixed income portion of the portfolio is primarily represented by preferred issues, or so-called baby bonds. These securities generally possess long final maturities. However, many of them are trading to near term call dates which effectively reduces the interest rate risk for the portfolio.

On the equity side, we continue to invest in stocks which have historically been generous with their dividends and have the cash flow to continue paying. Our largest sector weightings necessarily include electric utilities, telecommunications companies, health care and energy which overall did not perform quite as well as the red-hot technology sector throughout the year. Nevertheless, high-dividend stocks did register respectable gains in 2017 on an absolute basis as demonstrated by the 14.83% total return achieved by the Dow Jones Dividend Select index. The index is one of our larger positions, represented by an exchange-traded fund (ETF) within the Stable Income Fund.

Stable Income Fund Performance through 12/29/17

		Annualized Return		
Fund	**QTD**	**1 Year**	**3 Year**	**5 Year**
LOM Stable Income Fund (with dividends)	0.99%	9.78%	3.08%	4.69%
Stable Income Fund Benchmark Index *	0.87%	8.72%	1.69%	2.29%

* 50% DJ Global Dividend Select/50% S&P Preferred Index