LF BENTLEY
US DOLLAR BALANCED FUND

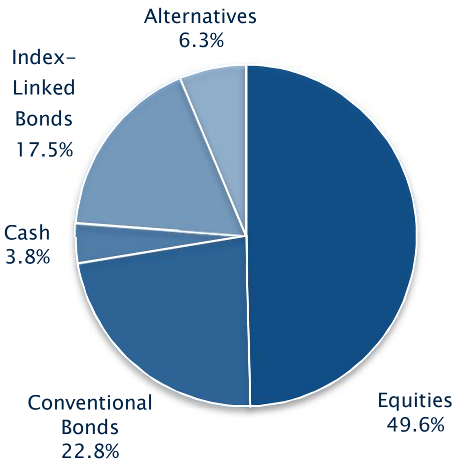
30TH SEPTEMBER 2018

BENTLEY REID

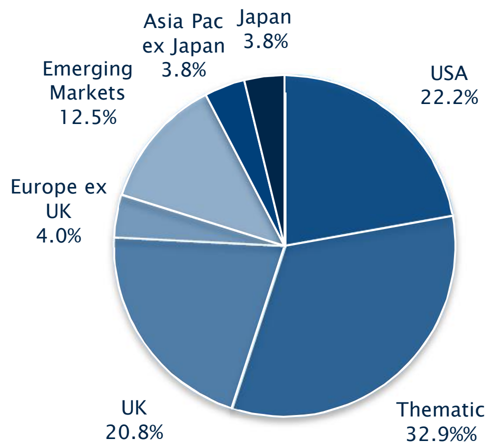
INVESTMENT OBJECTIVE

The fund seeks to achieve an average annual return of CPI + 3% over any 5-year period, after all fees, with about half the risk of a pure equity exposure. Though the mandate favours equity investment, the investment manager has the latitude to actively allocate between different asset classes to protect values and reduce volatility. The fund aims to maximise returns in USD terms.

ASSET ALLOCATION



EQUITY BREAKDOWN



QUARTERLY INVESTMENT REPORT

US stocks have rebounded to all-time highs, but troubles are brewing elsewhere. The MSCI World ex-US index has fallen 12% from its January peak and many emerging markets experienced 20%+ losses over the summer. Global bond markets are drifting lower too, whilst commodity prices (bar oil) have seen renewed weakness.

There remains a risk that this is a temporary correction and not the material downturn we have been waiting for, but our bearish view now seems be playing out. The final shoe to drop will be the US indices and there are signs that these are also running out of steam; several of the large technology stocks, which have dominated the bull market's returns, have slumped by 20-30% in recent months.

Protecting capital is our priority and the fund has not experienced anything like the double-digit drawdowns seen in many risk assets this year; it was flat over the quarter and is down less than 2% year-to-date. The fund's continued underperformance of the US stock market remains a source of frustration, but the recent return profile compares favourably to most other asset classes on a risk-adjusted basis.

continued overleaf

EQUITIES	**49.6%**
United States	11.0%
HSBC S&P 500 ETF	1.5%
iShares S&P 500 ETF	5.6%
iShares S&P 500 Financials	3.9%
UK	10.3%
City Financial Abs Equity	2.0%
Henderson UK Abs $ Hdg	4.2%
S&W Enterprise $ Hedged	4.1%
Europe ex UK	2.0%
Invesco European $ Hedged	2.0%
Asia Pacific ex Japan	1.9%
Hermes Asia ex Japan	1.9%
Japan	1.9%
Vanguard FTSE Japan	1.9%
Emerging Markets	6.2%
1167 Global High Income	2.1%
Stewart Latin America	1.7%
Schroder EMD Abs Ret	2.4%
Thematic	16.3%
Fundsmith Equity	3.0%
Guinness Global Equity Inc	2.0%
Jupiter Global Abs Ret Hdg	2.0%
Kennox Strategic Value	5.1%
Wellington Global Healthcare L/S	4.2%
ALTERNATIVES	**6.3%**
iShares Physical Gold ETC	6.3%
BONDS	**40.3%**
Rentenbank 1.625% 2020	5.1%
KFW 1.625% 29/05/2020	7.6%
BNG 2.375% 16/03/2026	4.3%
EIB 1.875% 10/02/2025	5.8%
US TIPS UCITS ETF	15.4%
UK Index-Linked Gilt 2068	2.1%
CASH	**3.8%**

PERFORMANCE (NET OF FEES)*

Cumulative	3 Months	YTD	1 Year	3 Year (Ann.)	5 Year (Ann.)
Fund	0.0%	-1.9%	-0.2%	1.9%	2.0%
Inflation (US CPI)*	n/a	n/a	2.7%	1.9%	1.5%

12 Months to	30 Sep 18	30 Sep 17	30 Sep 16	30 Sep 15	30 Sep 14
Fund	-0.2%	5.4%	0.8%	-1.6%	5.8%

** the CPI figure is the actual inflation figure and is not adjusted to show the fund's target return. The 3 and 5-yr figures are annualised averages.*

We are continually re-assessing our negative outlook for US stocks. The fund is running a historically low aggregate exposure of just 15% to the home market. This is biased towards the financial and healthcare sectors, which produced reasonable gains last quarter. The US Financials ETF rallied by 4%, buoyed by the Fed's rate hikes (which boost the profit potential of the commercial banks) and the Wellington Healthcare fund also added 4% on the back of a solid earnings season and a wave of short-covering. The fund would have benefited from a greater headline allocation to US equities, but with valuations still at multi-decade highs, real returns are forecast to be negative over the coming years and we see no reason to buy US listings at these lofty speculative prices.

EM assets had a banner 2017 with the likes of Hermes Asia rallying by almost 50%, but this year has been a struggle with the stronger dollar causing widespread weakness. It is pleasing to see good stock-picking protecting the fund's dedicated EM positions last quarter; Hermes Asia posted a modest gain, whilst the Schroder EM Debt fund fell by only 2%. With shades of panic-selling driving valuations to cheaper levels, we added 2% to the 1167 actively-managed EM debt and currency fund, which is currently yielding 8% in local currency terms. To maintain the fund's low overall risk profile, we redeemed Crux Europe and booked some profits on Fundsmith, which has averaged a 16% p.a. gain over the past 5 years.

The fund price would have increased had some of its defensive positions performed better, but government bonds, gold and the active managers that run short positions all struggled. We draw a degree of comfort from the fact that this basket of "protection" assets is yet to harvest the solid gains that typically come during such "risk off" periods and the gold and bond holdings should rally strongly if the US Federal Reserve signals an end to its tightening cycle; a scenario we expect to unfold in the coming months. Gold fell by 5% last quarter, but it is finding some buying support around U$1,200/oz. We retain a 6% exposure to the physically-backed bullion ETF and plan to invest in cheap gold mining equities once the underlying gold price regains some positive momentum.

We believe the fund's overall exposure is well balanced. It owns some cheap, albeit higher risk, EM and value equities that should generate solid returns over the coming years, whilst the dedicated gold and bond positions provide downside protection if risk assets continue to trend lower. At a 3%+ p.a. yield, US Treasuries offer reasonable value. The fund now has 23% invested in conventional supranational issues. The remainder of the 42% bond allocation is held mainly in US TIPs, which are providing a yield of 1% p.a. above inflation.

It is reassuring that the 2018 market struggles are more consistent with our conservative stance. We are well aware of the need to curtail losses should a bear market take hold. This would reward our investors' patience and help to protect the gains made in prior years. There is a (slim) chance that we revert to a more "risk on" stance without a major market fracture, particularly if the Central Banks pro-actively resort to looser monetary policies, but for now stretched valuations, global growth concerns and less supportive liquidity conditions all argue for caution.

PORTFOLIO ACTIVITY

INCREASE EQUITY EXPOSURE (48.5% to 50.5%)
Sell Crux European Special Sits (-2.5%)
Buy Jupiter Global Abs Ret Hdg (+2.0%)
Buy 1167 Global High Income (+2.0%)

FUND SWITCHES:
Sell Fundsmith Equity (-1.5%)
Buy Guinness Global Equity Income (+2.0%)

INCREASE BOND EXPOSURE (38.2% to 39.6%):
Buy UKTI 0.125% 22/03/2068 (+1.4%)

KEY FACTS

Price	$1.2749	NISA	Yes
Fund Size	$102.2m	Launch Date	01/02/2006
Benchmark	US CPI +3%	Bloomberg Code	LFBUSBA LN
Initial Fee	0%	ISIN	GB00B0XQ3L61
Fees	1.5% AMC	ACD	Link Fund Solutions Limited
Ongoing Charge Figure	2.08%	Depositary	BNY Mellon Trust & Depositary (UK) Ltd
Minimum Investment	$10,000	Prices Published	www.bentleyreid.com

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