LF BENTLEY
US DOLLAR BALANCED FUND

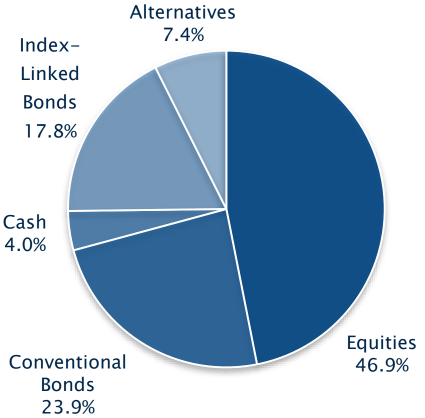
31ST DECEMBER 2018

BENTLEY REID

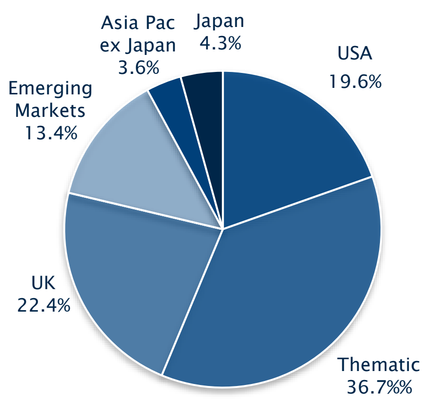
INVESTMENT OBJECTIVE

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

It was a torrid end to the year for US equities with the S&P 500 falling by 20% peak-to-trough during the final quarter. A late relief rally helped it to recover to a 14% loss over the three-month period, but the downturn means that US indices have now joined their European and Asian counterparts in bear market territory. Commodity and corporate bond prices finished the year under pressure too as mounting fears over slowing global growth and a further tightening of liquidity conditions spooked investors.

This is the second major market fracture during the past 5 years; the first being the 2015/16 sell-off, sparked by a sharp economic slowdown in China, that saw most headline stock markets suffer 10-20% losses in short order. During the intervening years most risk assets recovered strongly, particularly in 2017 with the S&P 500 gaining 22%, as growth accelerated and Central Banks continued to pump cheap liquidity into the financial system. Despite its relatively conservative stance, the fund produced a 10% gain in 2017.

continued overleaf

EQUITIES	46.9%
US	**9.2%**
HSBC S&P 500 ETF	1.4%
iShares S&P 500 ETF	6.0%
iShares S&P 500 Financials	1.8%
UK	**10.5%**
City Financial Abs Equity	2.3%
Henderson UK Abs $ Hdg	4.2%
S&W Enterprise $ Hedged	4.0%
Asia Pacific ex Japan	**1.7%**
Hermes Asia ex Japan	1.7%
Japan	**2.0%**
Vanguard FTSE Japan	2.0%
Emerging Markets	**6.3%**
1167 Global High Income	2.1%
Stewart Latin America	1.8%
Schroder EMD Abs Ret	2.4%
Thematic	**17.2%**
Fundsmith Equity	2.8%
Guinness Global Equity Inc	1.8%
Jupiter Global Abs Ret Hdg	4.0%
Kennox Strategic Value	4.8%
Wellington Global Healthcare Long/Short	3.8%
ALTERNATIVES	**7.4%**
iShares Physical Gold ETC	7.4%
BONDS	**41.7%**
Rentenbank 1.625% 2020	5.3%
KFW 1.625% 29/05/2020	7.9%
BNG 2.375% 16/03/2026	4.6%
EIB 1.875% 10/02/2025	6.1%
US TIPS ETF	15.6%
UK Index-Linked Gilt 2068	2.2%
CASH	**4.0%**

PERFORMANCE (NET OF FEES)*

CUMULATIVE	3 MONTHS	YTD	1 YEAR	3 YEAR (ANN.)	5 YEAR (ANN.)
Fund	-2.8%	-4.6%	-4.6%	0.5%	0.5%
Inflation (US CPI)*	n/a	n/a	2.2%	2.0%	1.6%

12 MONTHS TO	31 DEC 18	31 DEC 17	31 DEC 16	31 DEC 15	31 DEC 14
Fund	-4.6%	9.7%	-3.0%	-2.2%	3.4%

** 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.*

Market conditions have deteriorated markedly in recent months, but we welcome the return of volatility and risk aversion. US equities, in particular, have been long overdue a period of weakness that brings valuations back to healthier levels. This bearish trend now seems underway and further falls are likely.

The fund has held up well during the latest turbulence and finished the quarter down less than 3%. Turning to longer-term performance, at 0.5% p.a., its 5-year average annual return ends 2018 below its target of inflation + 3%. Given the limited recent drawdown, this is mainly the result of us not participating more aggressively in the latter stages of the bull market. The dollar's strength has also been a drag as it has limited the opportunities to make money from non US markets. In hindsight, we de-risked too early, but recent events are helping to validate our caution and over the past 10 years the fund has generated an average gain of 4.6% p.a., which is approximately 3% ahead of US CPI inflation.

The fund's risk profile was further reduced in the early stages of the quarter via a sale of the final dedicated European equities holding and a halving of the US Financials exposure. These changes took the aggregate "long" equity exposure below 30%. The defensive positions have also performed better in recent months with the active long-short managers acting as effective diversifiers. City Financial (which is short several US healthcare and financial names) rallied 10% last quarter and with US indices falling below key support levels we have added another 2% to the Jupiter Global Absolute fund, which is also profiting from a "short US" strategy. It gained 3% over the quarter.

The more traditional "risk off" holdings have added value in recent months. Gold rose by 8% as investors sought safe haven assets and began to price in the end of the Federal Reserve's rate hike cycle. These factors also boosted the US government bond market with Treasury yields falling (and prices rising) sharply across the curve. The fund has 42% invested in fixed income assets.

The few "risk on" equity positions struggled last quarter with the US financials and Japan holdings amongst the main losers. Given the extensive falls in US and European equity markets it was no surprise to see many emerging markets (EM) also suffer, particularly in Asia with the Hermes Asia fund declining by 13%. However, we are encouraged by the recent outperformance of EM assets over their developed market counterparts as this is unusual during such extreme bouts of risk aversion. The Stewart Latin America fund posted a 2% gain last quarter, buoyed by a strong bounce in Brazilian stocks, and the Schroders EM debt fund also appreciated by 2%. With signs of stability starting to unfold across multiple EM assets we may look to amplify the fund's exposure to these regions over the coming months.

We expect the equity and credit sell-off in developed markets to continue, but we feel the fund's de-risking process is already complete. We are now turning our attention to how we will gradually "re-risk" the portfolio once market conditions permit. We will first need to see valuations de-rate to more supportive levels and liquidity conditions improve before we can feel comfortable buying back into equities and other risk assets, but some specific opportunities are already starting to look interesting. We would welcome further market weakness because it would encourage us to revert to a more bullish stance for the first time in several years.

PORTFOLIO ACTIVITY

DECREASE EQUITY EXPOSURE (50.5% to 48.5%):
Sell Invesco European Equity (-2.0%)
Sell iShares S&P 500 Financials (-2.0%)
Buy Jupiter Global Abs Ret Hdg (+2.0%)

KEY FACTS

Price	$1.2393	NISA	Yes
Fund Size	$99.2m	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

CONTACTS

LONDON: **Tel +44 (0) 20 7222 8081** UK@bentleyreid.co.uk Attn: George Holmes
HONG KONG: **Tel +852 2810 1233** HK@bentleyreid.com Attn: Jeanette Chiu

DISCLAIMER