

OMI BENTLEY STERLING BALANCED FUND

30TH SEPTEMBER 2018

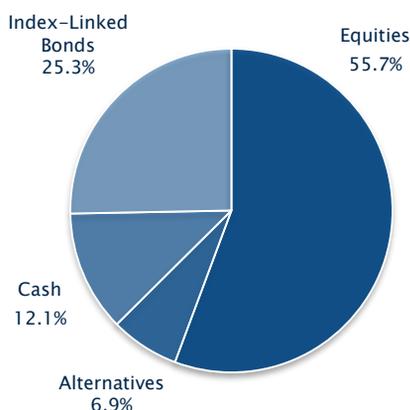


BENTLEY REID

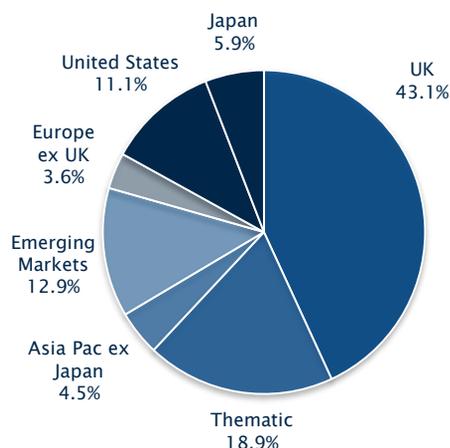
INVESTMENT OBJECTIVE

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 GBP terms.

ASSET ALLOCATION



EQUITY BREAKDOWN



QUARTERLY INVESTMENT REPORT

US stocks have rebounded to all-time highs, but troubles are brewing elsewhere. UK and European indices are trading several percent below their 2018 peaks 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 to be playing out. 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 fell a little over 1% during the quarter with a peak-to-trough decline of less than 3%, compared to the FTSE 100's drawdown of 6.5%.

The fund price would have been little changed (or marginally up) 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 "risk off" periods.

continued overleaf

EQUITIES	55.7%
UK	24.0%
Ardevora UK Equity	2.9%
City Financial Abs	2.3%
GVQ UK Focus	3.1%
iShares Core FTSE 100 ETF	2.0%
Janus Henderson UK Abs Ret	3.9%
Jupiter UK Special Sits	2.7%
LF Woodford Income Focus	3.1%
S&W Enterprise	4.0%
United States	6.2%
X-Trackers S&P Inverse	4.1%
iShares S&P 500 Financials	2.1%
Europe ex UK	2.0%
Invesco European Equity	2.0%
Japan	3.3%
Vanguard FTSE Japan	3.3%
Asia Pac ex Japan	2.5%
Hermes Asia ex Japan	2.5%
Emerging Markets	7.2%
Stewart Latin America	1.9%
iShares MSCI EM	2.9%
Schroder EMD Abs Ret £ Hdg	2.4%
Thematic	10.5%
Fundsmith Equity	3.0%
Guinness Global Equity Inc	2.0%
Kennox Strategic Value	5.5%
ALTERNATIVES	6.9%
iShares Physical Gold	6.9%
BONDS	25.3%
EIB 1.875% 10/02/2025	4.9%
UK Index-Linked Gilt 2022	5.0%
UK Index-Linked Gilt 2024	5.1%
UK Index-Linked Gilt 2068	2.1%
Vanguard US Govt £ Hdg	8.2%
CASH	12.1%

PERFORMANCE (NET OF FEES) *

CUMULATIVE	3 MONTHS	YTD	1 YEAR	3 YEAR (ANN.)	5 YEAR (ANN.)
Fund	-1.4%	-2.9%	-2.5%	0.9%	1.5%
Inflation (UK CPI)**	n/a	n/a	2.6%	2.0%	1.5%

12 MONTHS To	30 SEP 18	30 SEP 17	30 SEP 16	30 SEP 15	30 SEP 14
Fund	-2.5%	0.8%	4.6%	1.5%	3.0%

* the fund's return is calculated net of the Insurance Bond Wrapper cost

**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 believe that gold and the various 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 4% in £ terms last quarter, but it is finding some buying support around U\$1,200/oz. We retain a 7% 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.

Similarly, we have been adding to longer-dated government bonds on the recent weakness. At a 3%+ p.a. dollar yield, US Treasuries offer reasonable value and we have completed the 2% allocation to the UK index-linked 2068 issue. The latter should produce a sizeable profit if UK real (inflation-adjusted) yields continue to fall. However, it was another tough quarter for City Financial, which tends to perform best when equity markets weaken; it declined by 12% with bets against US tech and healthcare stocks proving costly. City Financial is held in the portfolio as insurance and we are mindful that its 11% gain during the February market sell-off (when the FTSE 100 fell by 11%) was one of the reasons the overall fund held up so well.

There were wide-ranging returns across the equity positions last quarter. In hindsight the most profitable strategy would have again been to own expensive US equities and sell short most other assets. But with US stock valuations still at multi-decade highs, real returns are forecast to be negative over the coming years. As a result, the fund remains short the S&P 500 (but owns a US Financials tracker, which gained 6% last quarter) and long the much cheaper UK and emerging market (EM) listings. EM assets had a banner 2017 with the likes of Hermes Asia rallying by more than 30%, 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 and First State Latin America posted modest gains in £ terms, whilst the Schroder EM Debt fund fell by only 2%. With shades of panic-selling driving valuations to cheaper levels, we are keen to retain the modest EM allocation and may look to add if the sell-off intensifies. In the meantime, so that the fund can tolerate holding the more volatile EM positions we have slightly moderated its headline risk profile by redeeming FP Crux Europe and booking some profits on Fundsmith, which has averaged a 22% p.a. gain over the past 5 years.

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 bond and gold positions provide downside protection if risk assets continue to trend lower. It is reassuring that the 2018 market struggles are more consistent with our conservative stance and we are well aware of the need to curtail losses should a bear market take hold. This would reward our investors' patience as well as helping to protect the gains made in prior years. There remains 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

DECREASE EQUITY EXPOSURE (57.0% to 54.5%):

Sell Crux European Special Sits (-2.5%)
Buy City Financial Abs Equity (+0.5%)

FUND SWITCHES:

Sell Fundsmith Equity (-2.5%)
Buy Guinness Global Equity Income (+2.0%)

INCREASE BOND EXPOSURE (18.7% to 25.1%):

Buy EIB 1.875% 10/02/2025 (+5.0%)
Buy UKTI 0.125% 22/03/2068 (+1.4%)

KEY FACTS

Price	£1.589	NISA	Yes
Fund Size	£162.4m	Launch Date	04/01/2005
Benchmark	UK CPI + 3%	Bloomberg Code	CFBSTBA LN
Initial Fee	0%	ISIN	GB00B046K924
Fees	1.5% AMC	ACD	Link Fund Solutions Limited
Ongoing Charge Figure	2.09%	Depository	BNY Mellon Trust & Depository (UK) Ltd
Minimum Investment	£5,000	Prices Published	www.bentleyreid.com

CONTACTS

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