OMI BENTLEY
EURO BALANCED FUND

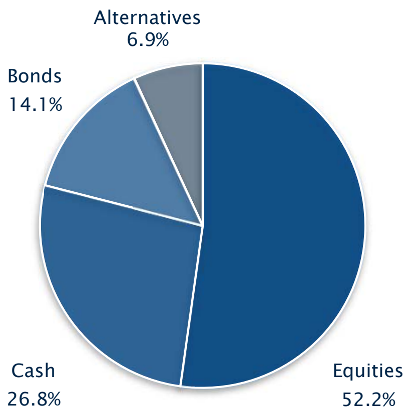
31ST MARCH 2019

BENTLEY REID

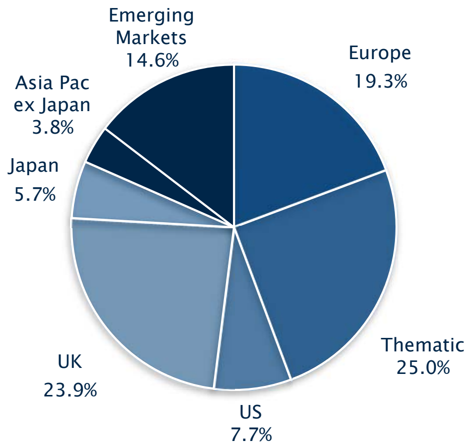
INVESTMENT OBJECTIVE

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 EUR terms.

ASSET ALLOCATION



EQUITY BREAKDOWN



QUARTERLY INVESTMENT REPORT

The major Central Banks have staged a complete U-turn since the start of the year by promising to end their tightening plans, whilst laying the foundations for a return to rate cuts and potentially more QE.

Equity markets drew upon the positives with the prospect of a fresh liquidity boost helping stock markets to recover from their 15-20% falls in late 2018; the MSCI Europe ex UK index rebounded by 12% over the quarter. Whereas bond markets have focused on the sharp economic slowdown that precipitated the policymakers' response; government bond yields have tumbled, with the 10-year German bund yield turning negative for the first time since 2016.

The fund retains the conservative positioning that served it well during last year's market turmoil, but it still produced a 4% gain over the quarter. Strong performances from the fixed income and EM equity positions compensated for our continued aversion to US equities.

continued overleaf

EQUITIES	52.2%
Europe	**10.1%**
FP Crux European	2.6%
Invesco Perpetual European	4.0%
Jupiter European	3.5%
UK	**12.5%**
Janus Henderson Abs Ret €H	2.0%
S&W Enterprise € Hedged	2.0%
Vanguard FTSE 250 ETF	8.5%
US	**4.0%**
DB X-Trackers S&P Inverse	4.0%
Japan	**3.0%**
Vanguard FTSE Japan	3.0%
Asia Pac ex Japan	**2.0%**
Hermes Asia ex Japan	2.0%
Emerging Markets	**7.6%**
1167 High Income	2.0%
iShares MSCI China A	1.1%
Stewart Latin America	2.0%
Schroder EM Debt Abs Ret €H	2.5%
Thematic	**13.0%**
Fundsmith Equity	3.0%
Guinness Global Equity Inc	2.0%
Jupiter Glb Abs Ret € Hedged	2.0%
Kennox Strategic Value	4.7%
Merian Gold & Silver	1.3%
ALTERNATIVES	**6.9%**
Pictet Physical Gold	6.9%
BONDS	**14.1%**
Vanguard US Govt' Bond €H	5.0%
iShares Index-Linked Gilt	4.1%
Lyxor US TIPS ETF	5.0%
CASH	**26.8%**

PERFORMANCE (NET OF FEES)*

	3 Months	YTD	1 Year	3 Year (Ann.)	5 Year (Ann.)
Fund	3.9%	3.9%	-0.9%	-0.6%	0.3%
Inflation (EUR CPI)**	n/a	n/a	1.4%	1.4%	0.8%

12 Months to	31 Mar 19	31 Mar 18	31 Mar 17	31 Mar 16	31 Mar 15
Fund	-0.9%	-2.8%	2.0%	-9.6%	14.3%

** 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.*

It is not unusual to see equity prices bounce so strongly after an abrupt downturn. Indeed, “typical” bear markets are characterised by multiple relief rallies of up to 20%+ that can last for several months before the falls resume. On balance, we remain of the view that most stock indices have peaked and we maintain a low exposure to the US stock market. Its year-to-date rally has been driven mainly by the tech names, but we find the sector unattractive, particularly with political risks rising, borne of the US/China trade tensions and a European-led antitrust campaign.

As we noted last quarter we are not inclined to further de-risk the fund. At some stage, our next steps will be to raise its return potential by reducing the cash and defensive holdings in favour of equities and other risk assets. How and when we re-risk will depend much on how the economic trends develop from here. For us to have confidence that this year’s rally is sustainable, recession risks must fall significantly. Otherwise, the bond market moves will be justified and stock markets will likely weaken again. Recent data sides mostly with the bond market, providing limited evidence of a nascent economic recovery, but we remain open-minded; any signs that the recent stimulus is morphing into stronger growth, particularly in the US and China, will encourage us to raise the fund’s risk profile from its all-time low.

The long/short managers, which are still betting against expensive US stocks, were amongst the worst performers with Jupiter Global Absolute losing 4%. We opted to redeem the 2.5% allocation to City Financial due to poor performance and the manager’s departure for another firm. We also halved the Smith & Williamson Enterprise fund to a 2% weighting; its performance has been steady, gaining 2% last quarter, but as our assets under management have grown we have become the dominant investor in the fund and felt it prudent to trim the position to protect against future illiquidity and other structural risks. All of the bond positions fared well including the 2068 index-linked gilt, which surged in response to the fall in inflation-adjusted (real) yields; the result of falling nominal yields coupled with “sticky” UK inflation. It gained 19% over the quarter, after a 28% intra-month spike in March that prompted us to book some profits near its highs.

Many of the overseas equity holdings produced high single or double-digit gains. Fundsmith was the best performer with an 20% rally as the return of a low-rate regime boosted its growth-based strategy. Both the EM debt and equity positions made solid progress over the quarter. Hermes Asia rallied 12%, and a strong bounce in Brazilian stocks helped the Stewart Latin American fund to a 8% gain. EM equities are no longer as cheap as when we first bought them in 2016, but they still offer better value than most developed world stocks. However, we are mindful that any meaningful rise in the US dollar would hurt the fund’s EM allocation.

We are seeking to identify idiosyncratic investment opportunities that can help the fund produce a positive return whilst we await a more constructive general view on markets. In this regard, we have initiated dedicated positions in gold mining equities (as the return of monetary easing should boost the gold price) and mainland Chinese (A-share) stocks. After last year’s falls, the latter are cheap and stand to benefit from the structural buying support that comes from their recent inclusion in global equity benchmarks.

PORTFOLIO ACTIVITY

DECREASE EQUITY EXPOSURE (54.3% to 52.1%):
Sell City Financial UK Absolute Equity (-2.5%)
Buy Merian Gold & Silver (+1.3%)
Buy iShares MSCI China A (+1%)
Sell iShares S&P 500 US Financials (-2%)

FUND SWITCHES:
Sell Merian European Smaller Companies (-3.5%)
Sell Woodford Income Focus (-5%)
Buy Vanguard FTSE 250 ETF (+8.5%)

DECREASE BOND EXPOSURE (19.2% to 14.2%):
Vanguard US Govt’ Bond (-5%)

KEY FACTS

Price	€0.985
Fund Size	€2m
Benchmark	EZ CPI +3%
Launch Date	31/01/2001
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