OMI BENTLEY
STERLING BALANCED FUND

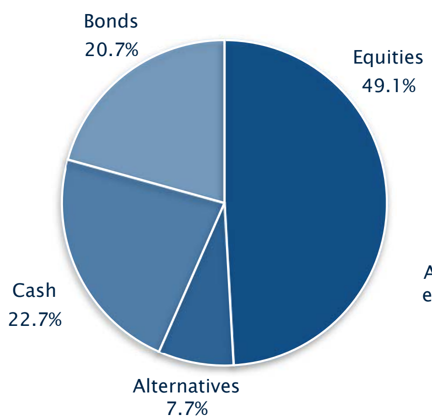
31TH MARCH 2019

BENTLEY REID

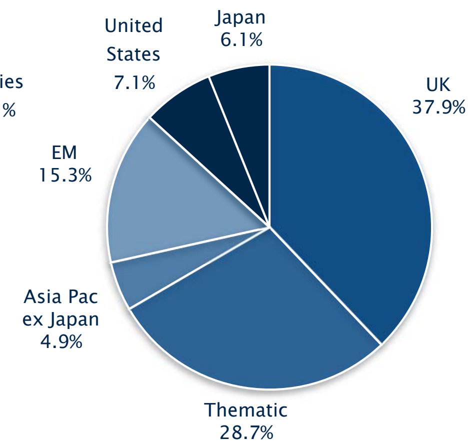
INVESTMENT OBJECTIVE

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 GBP 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 FTSE All-Share gained 9% 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 gilt yield falling back below 1% for the first time since 2017.

Although we have booked profits on some of the more defensive exposures and added modestly to equities, the fund remains conservatively positioned. This served it well during last year's market turmoil, but means it has participated only modestly in the rebound. The fund's price rose by 0.7% over the quarter. 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.

continued overleaf

EQUITIES	49.1%
UK	**18.6%**
Ardevora UK Equity	3.3%
iShares Core FTSE 100 ETF	2.1%
Janus Henderson UK Abs Ret	3.9%
Jupiter UK Special Sits	2.5%
S&W Enterprise	2.0%
Vanguard FTSE 250 ETF	4.8%
US	**3.5%**
X-Trackers S&P Inverse	3.5%
Japan	**3.0%**
Vanguard FTSE Japan	3.0%
Asia Pac ex Japan	**2.4%**
Hermes Asia ex Japan	2.4%
Emerging Markets	**7.5%**
1167 High Income	2.1%
iShares MSCI China A	1.0%
Schroder EMD Abs Ret £ Hdg	2.4%
Stewart Latin America	2.0%
Thematic	**14.1%**
Fundsmith Equity	3.1%
Guinness Global Equity Inc	2.0%
Jupiter Abs Ret £ Hedged	2.4%
Kennox Strategic Value	5.3%
Merian Gold & Silver	1.3%
ALTERNATIVES	**7.5%**
iShares Physical Gold	7.5%
BONDS	**20.7%**
UK Index-Linked Gilt 2022	5.0%
UK Index-Linked Gilt 2024	5.2%
UK Index-Linked Gilt 2068	2.0%
Vanguard US Govt £ Hdg	8.5%
CASH	**22.7%**

PERFORMANCE (NET OF FEES)*

CUMULATIVE	3 MONTHS	YTD	1 YEAR	3 YEAR (ANN.)	5 YEAR (ANN.)
Fund	0.7%	0.7%	-0.9%	0.8%	0.7%
Inflation (UK CPI)**	n/a	n/a	1.8%	2.3%	1.4%

12 MONTHS TO	31 MAR 19	31 MAR 18	31 MAR 17	31 MAR 16	31 MAR 15
Fund	-0.9%	-3.0%	6.4%	-4.7%	6.1%

** 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.*

On balance, we remain of the view that most stock markets have peaked, but 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.

Unsurprisingly, the fund's "insurance" holdings, that made solid gains during the Q4 sell-off, were last quarter's worst performers; the inverse S&P 500 position lost 14% as US large-cap stocks bounced strongly. Its 19% gain in the prior quarter had pushed it to a 5% weighting, prompting us to book some profits early in the New Year. The long/short managers, which are still betting against expensive US stocks, also struggled with Jupiter Global Absolute losing 5%. We opted to redeem the 2.5% allocation to City Financial due to poor performance and the manager's departure for another firm. All of the bond positions fared well, particularly the 2068 index-linked gilt, which surged in response to the fall in UK inflation-adjusted (real) yields; the result of falling nominal yields and "sticky" inflation. It gained 15% over the quarter, after a 25% intra-month spike in March that led us to book some profits on the position around its highs.

UK equities also produced solid gains and we are seeking to amplify the exposure; numerous domestically-focused mid and small cap stocks are primed for a strong recovery once a Brexit outcome becomes clear. The Ardevora UK fund benefited from investing in this part of the market with an 11% rally; an exposure to the housebuilding sector was a notable driver of returns. The rally in domestic names also benefited LF Woodford Income Focus, which we sold in favour of a FTSE 250 tracker on the grounds that the former's declining assets and other corporate distractions may eventually become problematic.

During the quarter we continued to address 2 headline aims. The first is 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 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. We are also seeking to reduce the fund's currency risk. The "short sterling" position, that comes via multiple overseas holdings, has been a profitable one for several years, but absent a hard Brexit, the pound's risks appear skewed to the upside. Last quarter's sales of the longer-dated US Treasury bond, the US Financials ETF and some of the inverse S&P 500 all involved booking profits on an underlying US dollar exposure and repatriating the proceeds into sterling around U$1.30.

PORTFOLIO ACTIVITY

DECREASE EQUITY EXPOSURE (51.5% to 49.3%):
Sell City Financial Absolute Equity (-2.5%)
Buy iShares MSCI China A (+1%)
Sell iShares S&P 500 Financials ETF (-2%)
Buy Merian Gold & Silver (+1.3%)

FUNDS SWITCHES:
Buy Vanguard FTSE 250 ETF (+5%)
Sell LF Woodford Income Focus (-3%)
Sell S&W Enterprise (-2%)

DECREASE BOND EXPOSURE (25.1% to 20.1%):
Sell EIB 1.875% $ 10/02/2025 (-5%)

KEY FACTS

Price	£1.572	NISA	Yes
Fund Size	£158.2m	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%	Depositary	BNY Mellon Trust & Depositary (UK) Ltd
Minimum Investment	£5,000	Prices Published	www.bentleyreid.com

CONTACTS

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

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