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Jamaica Money Market Brokers Ltd. | Market Research

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**JMMB's Portfolio Management Services
CLIENT PORTFOLIO RECOMMENDATIONS**

GLOBAL REVIEW AND OUTLOOK

- A trade war is in full swing between the USA and Asian countries (China in particular) the European Union and Canada. US president Donald Trump recently imposed tariffs on imports from several EU countries, Asian countries and Canada and as expected these countries retaliated by imposing tariffs of their own. U.S. and global firms see a future where a predictable, rules-based order for international trade and commerce is threatened and uncertain. Bilateral and multilateral trade agreements reduce uncertainty and promote investment and exports. Recently, in retaliation against U.S. steel tariffs, the European Union has raised its tariff on U.S. imported heavyweight motorcycles from 4 percent to 31 percent. Already facing higher costs for steel and aluminium from U.S. tariffs, Harley-Davidson announced it was shifting production outside the U.S. to avoid the tariffs. This is following tariffs imposed by China and other European countries with Canada widely expected to announce tariffs in short order. Close attention should be paid to these developments as they will have implications to global financial markets.
- On the 13th of June the US Federal Reserve increased interest rates a further 25 basis points. The market continues to anticipate at least another two increases for 2018. Today's move is the 7th increase since the February 2015 tightening trend.

LOCAL REVIEW AND OUTLOOK

- As Jamaica continues to improve under the existing IMF agreement the most recent visit to the island from the mission chief to Jamaica Uma Ramakrishnan took place on June 11th to 15th. The mission statement touched on three (3) critical areas:
 - Economic progress is reflected in high employment levels, an 11-year low unemployment rate, and significantly lower poverty rate.
 - The central government primary surplus was 7.7 percent of GDP in FY2017/18, exceeding the budget target by 0.7 percentage points of GDP.
 - Important to use the window of the 4-year wage agreement to overhaul the

public sector's compensation structure.













The current agreement is expected to last until 2019 and so far Jamaica has performed admirably.

- Relative to February the inflation rate in March declined by 0.1%. The reduction largely mirrors price movement in the heaviest weighted division 'Food and Non-Alcoholic Beverages', which recorded decline of 4.3%. Prices in the 'Transport' division fell 0.4% during the period. These price movements were tempered however by upward price adjustments in the division 'Housing, Water, Electricity, Gas and Other Fuels' where prices increased by 3.2%, primarily due to higher electricity, water and sewage rates.
- On June 27th the Bank of Jamaica announced its decision to lower the policy rate (the interest rate offered on overnight placements with Bank of Jamaica) by 50 basis points to 2.00 per cent, effective 28 June 2018. The BOJ reported that the main factors that contributed to inflation being below target included a stronger-than-anticipated recovery in agricultural supplies following adverse weather shocks in 2017, lower-than-forecasted imported inflation (associated with an appreciation in the Jamaican dollar over the year to April 2018 and a reduction in the pass-through of oil prices to inflation) and weaker-than-anticipated domestic demand.

REGIONAL REVIEW AND OUTLOOK

- The economic condition in Trinidad and Tobago remains fluid with the risk of growth tilted toward the downside. The outlook is for moderate rise in inflation, which should however remain subdued as a result of low economic activities in both the public and private sectors
- Real GDP growth is expected to decelerate below 5% in 2018 due in part to lower government spending. Despite this outlook, economic growth in the Dominican Republic is likely to remain the highest in the western hemisphere.

Market Pulse

INDEX/ITEM	LEVEL/PRICE	TREND
JSE Main	305,736.36	
JSE JNR	3,037.56	
ALL TTSE	1,727.37	
S&P 500	2,718.37	
BOJ 90 DAY T-BILL	2.54%	
T&T REPO RATE	4.75%	
T&T DEBT/GDP	61.10%	
GOJ DEBT/GDP	105%	
US\$:T&T\$	\$6.74	
US\$:J\$	\$129.64	
OIL (PER BARREL)	US\$74.31	
GOLD (PER OUNCE)	US\$1,252.80	

The First half of the year has seen modest growth in the local stock market when compared to the previous two years. The JSE combined index has grown by 5.32% with the main market index growing by 4.70%, and the junior market growing by 10.99%. The modest year to date growth in the indices may be a sign that the market is more or less fairly valued with quite a number of stocks trading close to their intrinsic values. The 2nd quarter of the calendar saw two new companies listing on the stock exchange, Everything Fresh Limited (EFRESH) and Sygnus Credit Investments Limited which had both JMD and USD issues (SCIJMD and SCIUSD). Post listing, neither company performed as well as the average IPO has performed over the last 3 years this may have been as a result of the relatively large allocation that investors received. Traditionally most IPOs are significantly oversubscribed which resulted in investors getting only a small fraction of the amount required. Due to the small allocation investors would then be forced to get the additional units required in the secondary market which drive up demand and by extension the stock price, this was not the case with either of the two.

The forecast remains the same with the expectation that there will be some moderate increases towards the latter part of the year due to rising US Fed rates, the Jamaican economy is projected to remain relatively stable. The BOJ's introduction of B-FIXIT which creates efficiency in the currency market due to the new trading tools implemented by the Bank of Jamaica and less speculative trading as investor sentiment around the outlook of the economy improves. With this increased information symmetry we should continue to see relative currency stability. Despite the recent sharp increase in the USD exchange rate the expectation is that long term there will be stability. The fiscal numbers are projected to remain within manageable levels as successive administrations continue to slowly grind down the debt. The strategy of issuing less debt as new debt reaches maturity makes excess liquidity available to the market. That liquidity will search for a home; with exchange rate stability and in some cases dollar appreciation being the near term and possibly medium term norm, Jamaican dollar instruments are attractive. For the past 3 years the equity market has looked impressive, providing returns often excess of 25%. A favourable economic climate is also likely to drive further new listings on the stock exchange in 2018. After a strong year for listings in 2017 which saw eight (8) companies listed ordinary shares in addition to several preference shares from other companies and this year has already seen three new listings.

Despite the favourable outlook for the market for 2018 investors should be cautious as not all stocks will represent value. Seek qualified advice to guide your asset selection when building your portfolio. If there are assets in your portfolio that have appreciated significantly, now may prove to be an opportune time to take some gains and rebalance into other suitable assets that meet your portfolio needs.

In building out and managing an equity portfolio it is important to look at companies that have a diversified business model and/or provide consistent cash flows and also look for the presence of significant cross ownerships. As the market consolidates we expect established companies to continue to do well and IPOs to bolster the market. Therefore, these stocks could be considered as candidates for addition to investors' portfolios. Another option for equity investment of course is the Income and Growth Unit Trust as it is mainly equity based and is actively managed and rebalanced.

Stocks to Watch:

Jetcon - Jetcon saw its revenues exceeded the billion dollar mark in 2017 as turnover amounted to \$1.18B, a 37.3% or \$319.54M increase on the \$857.04M reported in the 2016 financial year. Profit before taxation rose 49.1% to \$153.85M while net profit for the year was \$153.79M, up 145% year-over-year.

Wisynco Group Limited – WISYNCO came to market in December 2017, seeking over J\$6B in an IPO that saw applications totaling over J\$20B, demonstrating the strong brand equity of the company. Revenues in the first quarter rose 16.7% to \$6.13B while profits rose 11.0% to \$655.8M. The company aims to widen its regional footprint with the capital raised as the majority of its strong revenues are locally-generated.

LASCO Group of Companies – LASF acquired Scotia Jamaica Microfinance Company Limited (CrediScotia) in the fourth quarter of 2017, a move in line with its key strategy to expand its small loans business. Over the year the branch network, team, and services were expanded as it aims to carve out a significant market share in the micro loans segment. Net profits for the nine months amounted to \$221.52M, exceeding the full year results for the previous financial year.

LASD reported net profits of \$535.22M for its nine months period ended December 2017, up 28% year-over-year, on revenues of \$12.2B. The company continued its efforts to improve efficiency in its operations as several measures were implemented including improved capacity utilization due to warehouse expansion and improved logistics, resulting in stronger profitability margins.

In January 2018, **LASM** announced a US\$103M joint venture with US-based United Cannabis and Cannabinoid Research and Development for the manufacture of cannabis-infused water among other cannabis medicinal. LASM is in the process of receiving approval from the Cannabis Licensing Authority which will allow it to import the raw material need for the intended products. Revenues for the first quarter ended December 2017 rose 22% to \$1.8B while profit after tax stood at \$195M, up 72% from the comparable period of the previous year.

Stationery & Office Supplies Limited – SOS came to market in June 2017 to raise J\$95.0M to support its aims to expand its warehouse and lower leverage. Since listing, the company has posted its nine months ended September 2017, which saw revenues rising 27% while pre-tax profits rose by 46%. Revenues for the 3rd quarter rose by 37% to \$233M while pre-tax profits surged 91% to \$18.8M.

UNIT TRUST INVESTMENT OPPORTUNITIES FOR PORTFOLIOS

We continue to encourage our clients to look at, and execute upon the opportunities that are available to them by way of our Unit Trust offerings. We recently added four new options to the existing suite of three. As such, we now have as part of our product offering eight (8) Unit Trust investment vehicles that will provide our clients with immediate diversification and expert management by JMMB Fund Managers of their investment dollar. The funds have varying degrees of suitability for different risk profiles, time horizon and investment objectives that clients may have. Please see details of pricing and returns on each fund below

FUND	PRIMARY COMPOSITION	SELLING PRICE	YTD RETURN	12 MONTH GROWTH
Giltedge	Fixed Income	\$20.38	1.78%	4.95%
Income and Growth	Equity	\$16.45	3.28%	11.93%
Optimum Capital	Real Estate	\$28.82	5.03%	8.04%
JMD Bond Fund	Fixed income	\$11.8513	2.07%	5.05%
JMD Real Value Fund	Mutual Funds	\$11.5408	2.97%	4.36%
JMD Income Fund	Fixed Income	\$10.1866	0.92%	1.75%
USD Income Fund	Fixed Income	\$1.02444	-0.40%	1.99%
USD Giltedge Money Market Fund	Fixed Income	\$1.0087	N/A	N/A

GILTEDGE FUND

The Giltedge Fund pursues a conservative investment strategy and is comprised of a diversified range of high grade income bearing securities which is expertly managed to provide excellent risk adjusted returns for investors.

INCOME AND GROWTH FUND

The Income and Growth Fund represents a very seamless and efficient way for clients with interest in the stock market. Given its very diversified nature across individual equities, the Income and Growth Fund is the perfect vehicle for clients to get efficient equities exposure and diversification while getting professional and active management

OPTIMUM CAPITAL FUND (REAL ESTATE)

The Optimum Capital Fund is a truly diversified fund which comprises of all major asset classes including cash, bonds, equities and real estate. The Fund is designed to offer investors protection against long-term inflation impact on their portfolios, while giving clients the added dimension of achieving true portfolio diversification with minimal effort on their part.

JMD BOND FUND

The JMMB JMD Bond Fund is positioned as a medium to long-term investment solution to clients desirous of having stable and consistent returns. The portfolio consists of Government of Jamaica sovereign instruments and blue chip corporate debt instruments and is managed to provide clients with consistent price appreciation over time. This fund is ideal for the moderate investor whose focus is capital appreciation.

JMD REAL VALUE FUND

The JMMB Real Value Fund is invested primarily in other USD Collective Investment Schemes and is ideal for clients wanting exposure to USD securities/assets but have JMD to invest. The investment manager will therefore have the opportunity to choose from a range of CIS, balancing risk and return objectives. As a balanced asset investment solution, the asset structure gives the fund the added dimension of clients achieving portfolio diversification with minimal effort on their part. The fund is positioned as a medium to long-term investment solution for the moderate investor seeking investment returns in line with inflation.

JMD INCOME FUND

The JMMB JMD Income Fund consists of sovereign and corporate debt securities and is managed to provide relative stability in the NAVPU. It is ideal for clients who desire consistent medium to long term growth and the fund price should reflect relative stability over time. It is suitable for the moderate investor with an investment horizon of greater than three months

USD INCOME FUND

The JMMB USD Income Fund consists of USD sovereign and corporate debt securities and is managed to provide relative stability in the NAVPU. The fund is structured to provide consistent medium to long term growth (gross return) and should reflect relative stability over time and therefore would be ideal for clients concerned about price volatility. The fund offers a diversified range of USD securities and other high grade assets. The fund is ideal for the moderate investor with an investment horizon of greater than three months. Now is an opportune time for clients across all risk profiles, portfolio size and objectives to review their overall holdings and seek to utilize the Unit Trust vehicles outlined above to position their portfolios for exceptional performance moving forward.

USD GILTEDGE MONEY MARKET FUND

The JMMB USD Giltedge Money Market Fund is positioned as a short to medium term investment solution; ideal for the conservative investor whose focus is liquidity and capital preservation. This Portfolio largely consist of diversified range of short to medium term high grade corporate bonds, preference shares and sovereign bonds from Caricom, Canada, Europe and the USA and will be positioned as a conservative investment solution. This fund is ideal for all portfolios given its focus on liquidity and capital preservation

FIXED INCOME INVESTMENT STRATEGY

On June 13th the US Federal Reserve announced that there will be a 25 basis points or 0.25% increase in the fed rates. This is the second increase for the year following a similar move in March and the expectation is that there will be two (2) further rate increases for 2018 and the 7th in the last three (3) years. The implication in the short run is that it should cause bond prices to fall and yields to increase. So for investors seeking to build out a portfolio in climate of expected raising interest rates and falling bond prices, buying shorter duration bonds is the key as you will be able to reinvest the proceeds from those maturities in a better rate environment.

The Prime Minister of Barbados recently announced on Friday, June 1, that her government would be suspending payments on debt owed to foreign creditors. On the domestic side, the government noted that it would endeavour to make scheduled interest payments, however domestic creditors would be asked to roll over principal maturities until a full restructuring agreement is reached. The Prime Minister pointed out that debt levels had climbed from about BD\$6 billion to BD\$15 billion under the previous administration taking into account government arrears. The debt/GDP ratio has climbed to in excess 171%, according to the PM, with the interest burden coming in at BD\$800 million. Talk has since commenced with the International Monetary Fund (IMF) and it's clear that restructuring is on the horizon. What that restructuring will look like is yet to be seen but we will be monitoring its progress

On May, 11th the Financial Oversight and Management Board for Puerto Rico (the Oversight Board created by Congress) authorized the Fiscal Agency and Financial Advisory Authority ("AAFAF"-the Spanish acronym) to proceed with the restructuring of the debt of the Government Development Bank (GDB) of Puerto Rico. The proposed restructuring is a voluntary agreement. GDB Financial creditors have the opportunity to exchange their claims for one tranche of new bonds at an upfront exchange ratio of 55%. As you may recall, Puerto Rico has faced great challenges for the last 3 years and has not made principal or coupon payments on these bonds since 2016.

Our strategy to navigate these choppy seas of rate increases, trade wars and political uncertainties continues to be one that focuses on portfolio diversification. By reducing your exposure to any one asset you will control the impact that asset can have on your overall portfolio. Seeking exposure on the short end of the yield curve and building out laddered portfolio is the prescribed strategy for fixed income securities as we expect sustained levels of volatility throughout the Emerging Markets.

Outside of purchasing the assets outright, investors are also able to gain exposure to a diversified global bond through a professionally managed fund. The JMMB Fund Managers (JMMBFM) USD Income Distribution Fund is one such option that gives investors access to diversified portfolios that are expertly managed with the intention of returning great value.

As always, decisions surrounding the creation and management of your portfolio should be within the context of what is appropriate given your client's risk and return objectives.

Bond	Coupon Rate	Indicative Price	Indicative yield	Recommendation
Petroleum Company of Trinidad and Tobago 2019	9.75%	\$104.95	5.12%	HOLD/MARKET WEIGHT
Govt. of Trinidad 2024	4.375%	\$102.25	3.92%	BUY
Grupo Unicomer 2024	7.875%	\$107.15	6.33%	BUY/OVERWEIGHT
Govt. of Dominican Republic 2024	5.875%	\$104.94	4.71%	BUY
Nat Road Operating & Constructing Co. (NROCC) 2024	9.375%	\$124.50	4.86%	BUY
Govt. of Jamaica 2025	7.625%	\$11.00	4.91%	BUY
Govt. of Jamaica 2028	6.625%	\$111.00	5.30%	BUY

Prices and yields are extremely indicative and are subject to change without notice

We recommend that clients take the portfolio approach to investing. This is where they seek to build a portfolio that takes the appropriate exposure to the different asset classes in a way that is consistent with their risk profile, time horizon and objectives. Currently, our recommendation for client portfolios is that cumulative exposure to global bonds issued outside of GOJ and the region should be no more than 10% of one's overall portfolio with an additional limit of 5% to a specific country. We continue to conduct reviews of our capital market expectations and Strategic Asset Allocation for clients' portfolios and will update such guidelines and recommendations where applicable.

Discretionary portfolio management is a form of investment management service in which buy and sell decisions are made by a portfolio manager on behalf of client. This service is beneficial to clients because it frees them from the burden of making day-to-day investment decision which can be better made by a qualified portfolio manager who is attuned to the idiosyncrasies of the market. Delegating the investing process to a competent portfolio manager leaves the client free to focus on other things that matter to him or her. Discretionary investment management may also ensure that the client has access to better investment opportunities through the portfolio manager as it aligns the investment manager's interest with that of the client. The client may also receive better prices for executed trades, as the portfolio manager can put through a single buy or sell order for multiple clients.

At JMMB we offer two (2) categories of discretionary portfolio management, Plan 1 and Plan 2:

Plan 1

Designed primarily for clients who want JMMB to manage their goal achievement to a targeted return, in keeping with goal objectives. This management is executed by JMMB after initial IPS is agreed, so there is no consultation on transaction execution. These individuals tend to have investment objectives along the lines of wealth maximization, retirement, wealth protection, income generation among others and the investment approach will include the outright purchase of bonds and stock (regional and international) with portfolio allocations specific to their risk tolerance and return requirement.

Plan 2

Designed for all JMMB clients (could include HNW) who choose to buy packaged portfolio solutions that will be managed by JMMB. Customized solutions (which include individual products) cannot be selected under this option. After consultation the client has chosen to allow JMMB to manage goal achievement to a targeted return in keeping with investment objectives. Client receives a simple goal plan and makes a commitment to set savings amounts and frequency. Education, house purchase, short term goals, retirement among others are the primary goals for these clients. The investment approach consists of the purchase of a portfolio of CIS and Money market accounts managed by JMMB with allocation in the various accounts determined by the risk and returns objectives associated with the clients.

JMMB RATING SYSTEM GUIDE

Buy Recommendation

The security is attractively priced relative to the broader market, and based on fundamental assessment; we believe the risks related to that security not achieving projected price targets and are minimal.

Buy for Income Only

Based on fundamental assessments, we believe the security may be fairly valued at current prices, and as such additional capital appreciation may not be likely at least in the short to medium term. However, we believe investors could benefit from consistent dividend payments moving forward.

Hold

We believe the security is fairly valued at current prices and no significant deviation in price is anticipated except where there is the release or discovery of new and material information. Investor action could include taking gains and realigning portfolio to other securities.

Speculative Buy

The security is attractively priced relative to its fundamental and intrinsic value. However, overarching risk factors could cause significant volatility in the price of the asset in the short to medium term and further result in the security not achieving its projected price targets. This asset is more suited to clients with a very high tolerance for risk.

Underweight

We believe the security is fairly valued at current prices or its intrinsic value has been exceeded. There could also be risk factors on the horizon that could result in significant price movement to the downside. As a consequence, the recommended course of action is to reduce current portfolio allocation below the Strategic Asset Allocation guidelines by selling down the asset and realigning the portfolio to other securities. For investors who do not currently own the asset, it may be a risky proposition to take exposure at the current price levels as better entry points may be possible in the short to medium term.

Overweight

The security is attractively priced relative to its intrinsic value and the probability of above average growth in the short to medium is extremely strong. As such, investors' interest could be best served by taking a larger than initially projected exposure relative to the portfolio's Strategic Asset Allocation guidelines to take advantage of this highly probable price movement to the upside.

Neutral

We neither have a bullish nor bearish opinion on the asset at this time. However, the discovery of material information or new developments could result in a change in our recommendation on the security.

Sell Recommendation

The security's intrinsic or fundamental value has been exceeded and as such, investors' interests may be best served exiting that particular investment and realigning their portfolios to other securities recommended as buys.

PORTFOLIO MANAGEMENT BASICS

Investment Policy Statement (IPS)

A document that captures information about a respective portfolio's strategic asset allocation, objectives, risk tolerance, time horizon, and details including frequency of portfolio reviews.

Strategic Asset Allocation

A "base policy mix" that is established based on expected returns, client's objectives, risk tolerance, and time horizon. Because the value of assets can change given market conditions, the portfolio constantly needs to be re-adjusted to meet the policy.

Tactical Asset Allocation

A variation from a portfolio's strategic asset allocation weights in order to take advantage of short term market opportunities.

Portfolio Rebalancing

The process that involves constantly adjusting the portfolio to meet its strategic asset allocation.

Conservative Portfolio

Portfolios that either have short investment time horizons or have principal perseverance and income generation as the major objectives. These portfolios generally cannot tolerate swings in their value greater than 10%.

Moderate Portfolio

Portfolios that have medium to long term investment time horizons and typically have income and growth, or long term capital growth as the major objectives.

Aggressive Portfolio

Portfolios that have long term time horizons and have the ability and willingness to take on additional risk in order to make above average returns. These portfolios may utilize margin/leverage from time in an effort to increase returns.

Yield Pick Up

This is the additional interest rate an investor receives when selling a lower-yielding bond in exchange for a higher-yielding bond.

Amortizing Bond

A bond that makes payments of both interest and principal at specific intervals until final maturity.

Bullet Payment or Plain Vanilla Bond

A bond that pays interest at periodic intervals and repays principal in a single payment at maturity.

Exchange Traded Funds (ETFs)

A special type of fund that allows efficient diversification by investing in a portfolio of stocks or bonds and which is designed to mimic the performance of a specific index.

Margin

The use of leverage or borrowed funds utilizing securities held in a portfolio as collateral. The intent is to increase the overall returns of the portfolio. However, this can be a very risky undertaking especially in times of extreme volatility.

INVESTMENT STRATEGIES

Capital Preservation

A conservative investment strategy where the main objective is to protect the real value of a portfolio's principal.

Current Income

A conservative investment strategy where a portfolio's main objective is providing current and consistent income generation.

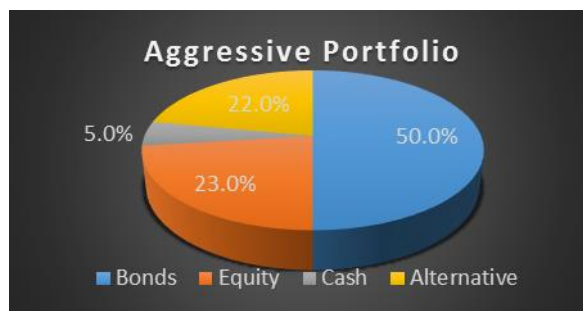
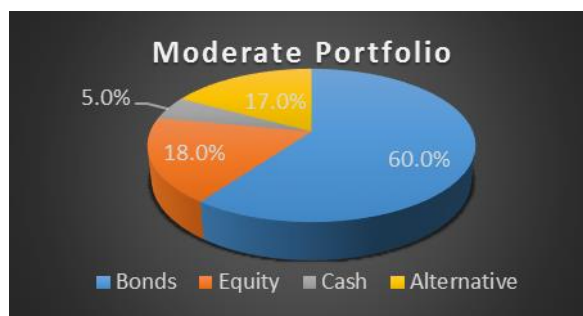
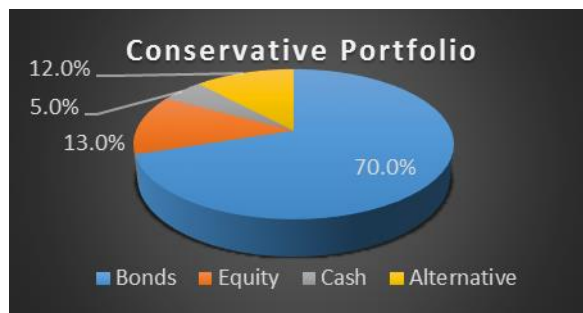
Income and Growth

A moderate investment strategy where the portfolio manager seeks to balance the generation of income for the portfolio with long term capital appreciation.

Long Term Capital Growth

An aggressive investment strategy that is geared towards maximizing the value of a portfolio over the long term.

ACTUAL MODEL PORTFOLIOS



Underweighting an Asset Class

Where a portfolio does not hold a sufficient amount of a particular security when compared to the security's weight in the strategic asset allocation. Underweighting a security may allow the portfolio manager to achieve returns greater than that of the benchmark or model portfolio.

Overweighting an Asset Class

Where a portfolio holds an excess amount of a particular security when compared to the security's weight in the underlying benchmark portfolio. Actively managed portfolios will make a security overweight when doing so will allow the portfolio to achieve excess returns

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