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## JMMB's Portfolio Management Services CLIENT PORTFOLIO RECOMMENDATIONS

### GLOBAL REVIEW AND OUTLOOK

- A potential trade war is developing between China and the USA which has the attention of the entire world. The US president is planning tariffs on \$60bn worth of Chinese goods, in part because of alleged Chinese theft of intellectual property - which means design and product ideas. The White House said it has a list of more than 1,000 products that could be targeted by tariffs of 25%. In response, China has announced that they intend to hit back with tariffs of their own.
- UK and the EU has agreed an exit date of March 29<sup>th</sup> 2019 followed by a 21 month transition period to pave a road for post Brexit relations. This period will allow companies and individuals to get their affairs in order for the new terms that will guide the relationship between UK and the EU going forward. That being said, those terms are yet to be ironed out and for the UK to strike its own trade deals. Even though the process is moving forward it's still far from being over and there still exists mounting uncertainties going forward.
- On the 21<sup>st</sup> of March 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 6<sup>th</sup> increase since the February 2015 tightening trend.

### LOCAL REVIEW AND OUTLOOK

- In March, Finance Minister, Audley Shaw, presented the budget for the 2018/2019 fiscal year. Most notably was that no new taxes have been levied on the public. The international community looked on favourably with the IMF indicating that another US\$233M would be made available under the standby Arrangement. One key thing to watch is the progress of the different public sector wage negotiations.
- Prime Minister Andrew Holness has announced some key changes to his cabinet midway his term that will take effect in the new fiscal year. The reshuffle will see changes in key portfolios such as Finance, National Security and Transport and Mining. Finance Minister Audley Shaw will be transferred to the Ministry of Industry, Commerce, Agriculture and Fisheries. He













will be replaced by Dr. Nigel Clarke. Minister of National Security Robert Montague will assume responsible of Transport and Mining, being replaced by Dr. Horace Chang.

- In January, the inflation rate increased marginally relative to December. There were contraction in some prices which were partly offset by increases in others. Prices in the heaviest weighted division, 'Food and Non-Alcoholic Beverages', declined by 0.2%. This was due mainly to a 1.4% falloff in prices in the sub-division 'Vegetables and Starchy Foods. Prices fell by 0.1% in the Transportation division owing to lower cost for air travel.
- During the month trading in the currency market was volatile and by month end the Jamaica dollar (JMD) lost 1.6% of its value relative to the US dollar (USD). Speculative force returned to the market during the period, as end-user opted to go long in the US dollar in anticipation of higher levels of depreciation despite the Bank of Jamaica (BOJ) indicating that there was adequate levels of supply. This was reflected in the Bank's forward calendar via the BFXIT trading platform at the start of the month, which indicated that there would be no intervention in the market until mid-March.

### 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. Consequent on increase in Fed rates and further expected rate adjustments in 2018, we are expecting the CBTT to increase the repo rate, albeit with a lag. While the CBTT remains steadfast in preserving the repo rate in order to facilitate improved economic activities in the non-petroleum sector, it will have to carefully gauge this against the risk of outflows of funds from portfolios in search of higher returns.

### Market Pulse

INDEX/ITEM	LEVEL/PRICE	TREND
JSE Main	292,341.55	
JSE JNR	2,906.77	
ALL TTSE	1,698.51	
S&P 500	2,605.00	
BOJ 90 DAY T-BILL	2.98%	
T&T REPO RATE	4.75%	
T&T DEBT/GDP	61.10%	
GOJ DEBT/GDP	117%	
US\$:T&T\$	\$6.78	
US\$:J\$	\$125.79	
OIL (PER BARREL)	US\$64.72	
GOLD (PER OUNCE)	US\$1,350.30	

The 2017 calendar year was a strong one for the local equities market in with the combined JSE index grew by 43.9%, the main market index rose 49.9%, and the junior market rose by 5.34%. Stability in the local exchange rate, strong fiscal performance by the government of Jamaica, the slow reduction of debt, reduced unemployment and increased liquidity flows all augur well for the local stock market. The current year has begun with continued interest; in excess of J\$1 billion chased less than 100 million in shares as issued by Elite Diagnostics despite some hiccups in terms of the financials and timing of issuance.

The forecast suggests that while there could be some moderate increases interest rates 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. 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. This year has already seen its first listing with Elite Diagnostics Limited the first out of the block in January.

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 their 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:**

**NCB Financial Group Limited** – NCBFG reported a 17% increase in operating income for the first quarter of the 2017/18 financial year while net profits rose 28% to \$4.61B. The Group made a US\$174M bid for another 74.23M shares in Guardian Holdings Limited as it aims to take a controlling stake in the company. This move is part of NCB's goal to become a regional financial powerhouse and the initial 29.99 stake acquired in 2016 was positive for the company, helping it to set profitability records.

**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.

**Kingston Wharves Limited** - KW continues to improve its core services, while building its capacity to serve a wider range of local and transshipment requirements for the loading, discharge and storage of bulk, break-bulk, containerised and automated cargo. The commissioning of on-dock bulk storage facilities, a near-port domestic automotive centre and a terminal resurfacing and rehabilitation programme are some of the projects KW currently has underway. For the nine months ended September 2017, KW revenues amounted to \$4.5B, a 17% increase year-over-year while net profits climbed 36% to \$1.18B.

**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 medicinals.** 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	0.79%	4.94%
Income and Growth	Equity	\$16.45	-0.25%	13.43%
Optimum Capital	Real Estate	\$28.82	-0.18%	5.82%
JMD Bond Fund	Fixed income	\$11.7045	0.80%	5.17%
JMD Real Value Fund	Mutual Funds	\$11.4630	1.26%	4.07%
JMD Income Distribution	Fixed Income	\$10.1438	0.59%	2.74%
USD Income Distribution	Fixed Income	\$1.0244	-0.17%	4.38%
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 DISTRIBUTION FUND

The JMMB Income Distribution Fund consists of sovereign and corporate debt securities and is managed to provide relative stability in the NAVPU. It is ideal for clients with need for periodic cash flows 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 DISTRIBUTION FUND

The USD Income Distribution Fund consists of USD sovereign and corporate debt securities and is managed to provide relative stability in the NAVPU. The fund offers clients the chance to invest in USD and is ideal for clients with need for periodic cash flows. Funds 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

In a widely anticipated move, the new chairman of the US Federal Reserve, Jerome Powell, in his first meeting announced that there will be a 25 basis points or 0.25% increase in the fed rates. This most recent increase is the first of three (3) expected rate hikes for 2018 which follows three (3) increases in 2017. As you may recall, the Fed fund rates is the rate banks in the US charge one another for overnight loans and is used as the global risk free rate against which other assets are benchmarked. The question will then be, how does the increase in the fed rates affect a global bond portfolio? The simplest answer is that in the short term, all else being equal, 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. And of course, diversify. A well balanced portfolio that contains a diversified mix of assets can help investors sleep well through even the most raucous Federal Reserve board meeting

The potential trade war that is developing between China and the USA is a something that investors should keep a close eye on as it could have implications for global asset prices. The US and China are two of the largest economies in world and it should come as no surprise that if the trade war develops it will may negatively impact economic growth across the globe and create further uncertainty in the global markets. With uncertainty you will find what a dubbed a "flight to quality" as investor seek to reduce the risk in their portfolios. This is done by shedding risky assets such as Emerging Market (EM) Bonds and picking higher quality assets such as investment grade bonds and US treasuries. Other markets happenings such as the continued BREXIT negotiations and mounting political tensions between Russia and The US and UK only serve to introduce more uncertainties in the markets.

Our strategy to navigate these choppy seas of rate increases, trade wars and political uncertainties is 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%	\$107.43	4.22%	HOLD/MARKET WEIGHT
Sagikor Finance Ltd 2022	8.875%	\$114.24	5.20%	HOLD/MARKET WEIGHT
Govt. of Trinidad 2024	4.375%	\$106.09	3.22%	BUY
Grupo Unicomer 2024	7.875%	\$109.78	5.92%	BUY/OVERWEIGHT
Govt. of Dominican Republic 2024	5.875%	\$107.17	4.51%	BUY
Nat Road Operating & Constructing Co. (NROCC) 2024	9.375%	\$125.00	4.91%	BUY
Govt. of Jamaica 2025	7.625%	\$119.25	4.50%	BUY
Air Jamaica 2027	8.125%	\$111.00	5.35%	BUY
Govt. of Jamaica 2028	6.625%	\$113.00	5.09%	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.

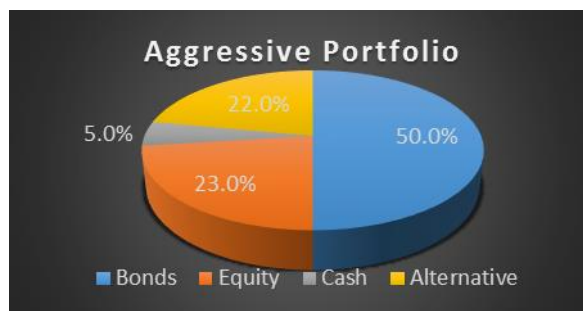
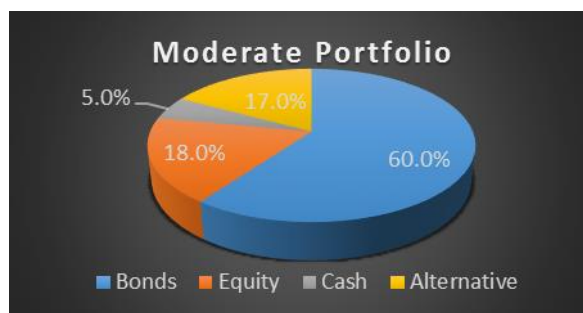
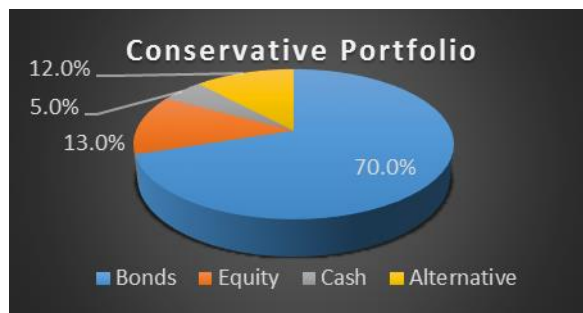
### Income and Growth

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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