

QWI Investments Limited

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Executive Summary

QWI Investments Limited (QWI) was incorporated as an investment company on December 13, 2018 by Jamaican Teas Limited (JAMT) and KIW International Limited (KIW). QWI's primary business is the holding of securities of other companies. QWI is seeking to raise \$787 million by issuing 600 million shares at various prices ranging from \$1.20 to \$1.35. **QWI may upsize the offer by an additional 300 million shares at \$1.35 subject to approval by the Financial Services Commission (FSC).**

Offer Details

Offeror	QWI Investments Limited
Securities	QWI is seeking subscription for 600,000,000 ordinary shares for a total consideration of \$787 million. However, subject to FSC approval the company has the right to accept subscriptions up to an additional 300,000,000 ordinary shares at \$1.35
Subscription Price	270 million shares at \$1.35 for the general public; details for reserved shares is presented below
Minimum Subscription	10,000 shares with incremental purchases of 1,000 shares
Basis of Allocation	Allotment of ordinary shares to applicants on a basis to be determined by it in its sole discretion including on a pro-rata basis in the event the invitation is oversubscribed
Lead Arranger	NCB Capital Markets Limited
Use of Proceeds	To invest in companies listed on the JSE and overseas companies and to pay the expenses of the invitation.
Dividend Policy	QWI intends to make dividend and capital distributions of up to 50% of its distributable profits.
Listing	The Company intends to apply to the JSE for listing on the Main Market.
Timetable of Key Dates	Opening Date: 9:00 A.M. September 16, 2019 Closing Date: 4:30 P.M. September 30, 2019 (subject to early closing).

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QWI Investments Limited

Reserved Share Structure

Reserved Shareholders	Share Price	Amount of Shares
NCB Insurance Company Limited	1.35	115,000,000
NCB Capital Markets Limited	1.25	115,000,000
JAMT and KIW International Limited	1.25	45,000,000
Directors of QWI	1.20	30,000,000
Directors and Staff of JAMT & KIW International Limited	1.25	15,000,000
JAMT suppliers	1.25	10,000,000
Total		330,000,000

Pre-Listing Shareholders

QWI Shareholders	Percentage Ownership	Number of Shares held
Jamaican Teas Limited	47.3%	220,000,010
KIW	52.7%	245,000,005
Total Issued Shares	100.00	465,000,015

Post-Listing Shareholders

QWI Shareholders	Percentage Ownership	Number of Shares held
Jamaican Teas Limited	20.65%	220,000,010
KIW	23.00%	245,000,005
All Other Shareholders	56.35%	600,000,000
Total	100.00	1,065,000,015

Company Overview

QWI Investments Limited (QWI) was incorporated as an investment company on December 13, 2018 by Jamaican Teas Limited (JAMT) and KIW International Limited (KIW). On March 19 2019, QWI issued 220 million shares to JAMT and 225 million shares to KIW. In turn, JAMT and KIW sold their portfolios to QWI. Subsequently, on May 6 2019, QWI issued an additional 20 million shares to KIW for a consideration of \$22 million.

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Board of Directors

Name	Bio
John Jackson Chairman Member of the Investment Committee	<p>He is the Chairman of several entities including JAMT, Jetcon Corporation and Jamaica Deposit Insurance Corporation. He has experience in the financial services industry and is a Chartered Accountant.</p>
John Mahfood	<p>He is the CEO of JAMT and has experience in local and international retail and trading as well as mergers, expansions and turnarounds. He is a Certified Public Accountant and a fellow of the Institute of Chartered Accounts of Jamaica.</p>
Cameron Burnet Member of the Investment Committee	<p>He is the CFO of JAMT. He is responsible for accounting and financial operations at JAMT. As a private investor Mr. Burnet has invested in companies listed on several exchanges including Singapore, Australia and Europe.</p>
David Stephens Member of the Investment Committee	<p>He recently founded Infinity Capital Partners Ltd, a private equity company that targets mid-size growth companies and real estate investments in the Caribbean. He performs investment analysis using both fundamental and technical indications to inform investment decisions. He completed his BSc. In Computer Science and Management from UTECH.</p>
Malcolm McDonald	<p>He is a member of the Jamaican Bar Association and the Law Society of England and is an Attorney-at-Law with extensive legal experience in Jamaica and the United States of America. He has many years of experience in commercial law.</p>
Carl Carby	<p>He is a Management Account, with experience in Finance, Investments and Management. Mr. Carby is the former Executive Chairman of Carlong Publishers Limited and the current Chairman of Sangster's Book Stores Limited.</p>

Financial Performance

QWI has limited historical performance in its current form given the recent incorporation. The company has nonetheless produced significant revenue and profits since its recent establishment, as indicated in the table below. The primary asset of the company is listed securities which have seen increased value resulting in higher Investment Income and Profits. The company has also taken on some debt to purchase additional securities. As at June 2019, QWI has \$128.2 million pledged to secure an overdraft facility of \$50 million at an interest rate of 8.50% per annum.

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JAMT will provide certain administrative, accounting and company secretary services for a fee of 1.2% of average monthly assets owned by QWI. The Administrative Management Agreement has a 10-year term, renewable for two terms of eight years terminable without cause by either party with six months' notice. Under the company's Incentive payment scheme, the investment committee is entitled to 10% of the Net Investment Return above the hurdle rate. The hurdle rate will be the percentage change of the MSCI ACWI All Cap Index in USD for the corresponding incentive period. The Administrative Management fee of 1.2% and Incentive Payments will be the two major expenses for the QWI going forward.

	YE 2019 30-Mar-2019	6M 30-Jun-2019	7M 31-Jul-2019
Investment Income	12,418,082	135,117,394	282,030,146
Net Income	6,786,190	112,147,060	238,437,222
Quoted Investments	436,522,184	732,298,509	899,045,640
Total Assets	461,298,550	732,703,934	898,147,506
Total Liabilities	9,512,360	153,556,859	192,766,939
Debt	5,708,374	151,294,796	190,504,876
Equity	451,786,190	579,147,075	705,380,567
Debt to Equity	0.013	0.261	0.270
NAVPS	1.015	1.245	1.517

JAMT and KIW Historical Performance

In the prospectus, the performance of JAMT and KIW portfolios were provided. We compared the performance of each to the Combined Market Index (which we view as the relevant benchmark) for the applicable periods. For JAMT the financial year ends September meanwhile, for KIW the year-end period was March except for 2017 and 2018 when the year-end was changed to September. The performance of each portfolio was compared with the Combined Market Index for a single-period and multiple periods. This revealed marginal underperformance for KIW and a material underperformance for the JAMT portfolio. For clarity, if \$1 million were invested in the Combined Market Index at the end of September 2013, it would be valued at approximately \$4.2 million as at Sep-2018 versus a value of \$3.4 million for JAMT's portfolio. **Therefore while the performance of the JAMT and KIW portfolios over the last five years has been impressive in absolute terms; relative to the Combined Market Index, KIW has been average at best while JAMT has been uninspiring.**

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	Combined Market Index	JAMT Cummulative Return
30-Sep-14	0.8532	0.9907
30-Sep-15	1.1490	1.2001
30-Sep-16	2.0409	1.9415
30-Sep-17	3.1493	2.6676
30-Sep-18	4.2235	3.3883
CAGR	33.39%	27.64%

	Combined Market Index	KIW Cummulative Return
31-Mar-14	0.9306	1.0712
31-Mar-15	1.0229	1.1510
31-Mar-16	1.9465	2.1745
30-Sep-17	3.2730	3.0610
30-Sep-18	4.3893	4.3062
CAGR	34.42%	33.91%

QWI proposes to use MSCI ACWI ALL CAP Index as the benchmark. We don't view the use of this index as justified, given that the current portfolio holdings and expected future holdings has systematic risk factors which are not accurately reflected in the MSCI Index. **We believe a better benchmark would contain a material weighting towards the JSE Combined Index.**

	2014	2015	2016	2017	2018
Combined Index Performance¹	-14.68%	34.66%	77.63%	54.31%	34.11%
JAMT Performance	-0.93%	21.14%	61.77%	37.40%	27.02%
JAMT Outperformance	13.75%	-13.52%	-15.86%	-16.91%	-7.09%

	2014	2015	2016	2017	2018
Combined Index Performance	-6.94%	9.92%	90.29%	68.15%	34.11%
KIW Performance	7.12%	7.45%	88.92%	40.77%	40.68%
KIW Outperformance	14.06%	-2.47%	-1.37%	-27.38%	6.57%

¹ For the year ended September

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Recent Performance

Holdings	Shares Held	Value	% Holdings	Stock Price
Caribbean Cement Company Ltd	1,958,171	156,281,628	17.38%	79.81
NCB Financial Group Ltd	706,068	150,187,724	16.71%	212.71
WISYNCO Group Limited	5,293,000	147,198,330	16.37%	27.81
Barita	782,202	69,944,503	7.78%	89.42
Seprod Limited	1,027,892	61,293,200	6.82%	59.63
Stationery & Office Supplies Ltd	4,064,181	49,826,859	5.54%	12.26
General Accident Insurance	4,829,533	21,974,375	2.44%	4.55
Lasco Manufacturing Ltd	5,000,000	21,750,000	2.42%	4.35
Dolphin Cove Ltd	1,752,576	21,118,541	2.35%	12.05
Jamaica Broilers Group Ltd	530,525	17,045,768	1.90%	32.13

QWI has seen a material increase in NAV recently surging from \$1.015 at the end of March 2019 to \$1.52 at the end of July 2019. For the same period, the JSE Combined Index increased by 32.9% resulting in QWI producing 16.8% outperformance in the period. This performance was primarily due to 3 stocks, namely WISYNCO, the NCB Financial Group and Barita Investments which produced gains of \$109.9 million, \$79.7 million and \$69.9 million respectively. Shortly, investors will be able to track the QWI's performance if its IPO is successful. This is due to QWI's intention to publish its NAV on the Jamaica Stock Exchange's website on a weekly basis.

Investment Policy

QWI currently focuses on investing in JSE listed companies. However, it intends to diversify to regional and global assets listed on recognized stock exchanges with a medium to long-term investment horizon. Investments will be under the direction of the Investment Committee, which will be Board appointed. The Investment Committee is composed of independent and non-independent directors, namely John Jackson, David Stephens and Cameron Burnet. QWI intends to invest primarily in ordinary and preference shares with limited exposure to fixed income securities. **However, QWI may invest in non-traditional asset classes such as real estate, private debt or private equity. Non-traditional asset investments are not expected to exceed 20% of the Company's capital.**

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Investment Positives and Negatives

Positives	Negatives
IPO price is marginally below NAV as at July 31, 2019	Plans to expand invest in global assets; however it has no track record of performance.
Retail investors with high risk tolerance are able to achieve some level of diversification chiefly among the equity asset class	As at July 2019 top 3 holdings constitute more than 50% of portfolio holdings. Which indicates material concentration risk.
Retail investors are able to access active portfolio management	Historical performance has been materially below the JSE Combined Market Index
Investment committee has several years of investment experience	The incentive structure is tied a hurdle rate based on MSCI ACWI Index which we view as incompatible. Additionally there is no clawback provision on incentive fees.
	No indication of an Investment Policy Statement (IPS) and strong risk controls were provided.

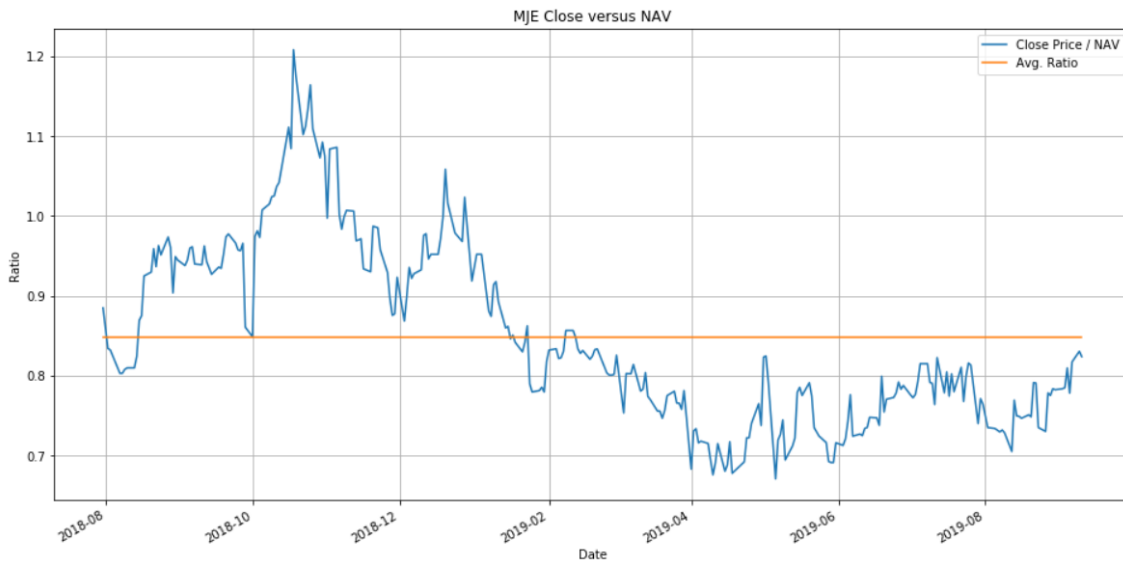
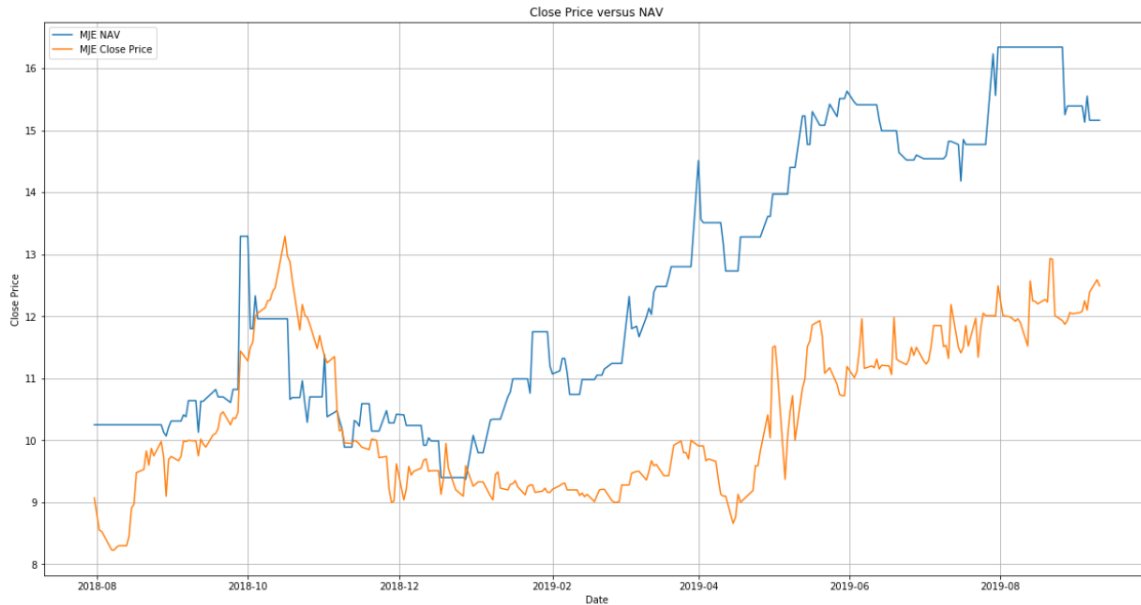
Outlook

Given the nature of QWI's operations, the primary measure of value is the NAV. Therefore investors purchasing QWI should consider the NAV when making an investment decision. Projecting the performance of QWI with any reasonable amount of confidence is difficult given the nature of the business and the lack of data provided, such as the portfolio holdings over time. Historically QWI's performance is highly dependent on the return of the asset class in which it is invested. Therefore if a material decline in the asset classes in which it is invested were to materialize, this could negatively impact future performance. We project a NAV of about \$1.38, assuming shares are fully allotted. This would result in a discount of about 2% for the general public IPO price. We see this as inadequate, given the risk associated with this investment and what currently exists in the market. **The most relevant peer in the market is Mayberry Jamaican Equities (MJE). As indicated below, since listing, MJE has traded on average 15% below its NAV. Furthermore, the recent² discount to NAV for MJE is about 18%. Also of note, MJE at its lows traded more than of 30% below NAV.**

² September 10, 2019

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Recommendation

While we acknowledge that in the near-term (similar to MJE and the Sagicor Select Funds) speculators may rally the stock materially above its NAV, we also bear in mind that the significant appreciation in the local stock market since 2015 may have had a pernicious effect on investor’s

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ability to assess risk. We see the risk associated with this investment at its IPO price as beyond the risk tolerance of the majority of JMMB's retail investors.

Our foremost issue with QWI is the absence of a rigid investment structure, including proper risk controls, which we view as necessary to safeguard investors in the long-term. As of July 31, 2019 while the effective number of stocks in the portfolio is 10 the top 3 holdings make up more than half the portfolio, resulting in material concentration risk. Therefore potential volatility could be higher than what the average investor may be willing to tolerate. **We don't view the IPO price relative to its NAV as providing adequate protection for the average investor.** Furthermore, the historical performance of QWI relative to the JSE Combined Market Index does not induce significant confidence. **Applying a 15% discount to our expectation of NAV, we estimate a price target of \$1.17 which is below the IPO price of \$1.35.**

At this time we do not recommend exposure to QWI for JMMB's clients or JMMB's own portfolios. **Consequently we see the stock as a SELL for JMMB.** However, for those investors with the necessary risk appetite, diversity of portfolio and investment expertise, they may act accordingly

Source: <http://www.Jamstockex.com>, JMMB Investment & Research, Bloomberg, IPO Prospectus

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APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

UNDERWEIGHT—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

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