

Sygnus Credit Investments (SCI) Additional Public Offer

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INFRINGEMENT IN THE APPENDIX**

Executive Summary

Sygnus Credit Investments Limited is a specialty Private Credit Investment Company focused on providing non-traditional financing to medium-sized entities across the Caribbean. The type of credit SCI provides is customizable and more flexible than traditional financing options, which allows the Company to offer an alternative channel through which mid-sized firms can access capital to drive growth.

The Company has embarked on an Additional Public Offering (APO) with the hope of raising net proceeds of US\$21M, subject to the right to upsize the Offer in the event of oversubscription. This capital raise is to aid in the company's medium term goal to grow its portfolio investments north of US\$100M and generate more than US\$8M in core revenues. The company plans to repay debt and invest in credit instruments of medium-sized firms with the proceeds of the Offer.

Offer Details	
Issuer	Sygnus Credit Investments Limited (SCI)
Lead Arranger	Sygnus Capital Limited
Joint Lead Brokers	Sagicor Investments Jamaica Limited and NCB Capital Markets Limited
Securities	Up to 196,372,431 ordinary shares (upsizable by up to a further 82,271,772 ordinary shares)
Target APO Capitalization	US\$22,000,000 (subject to the right of the Company to upsize the offer on oversubscription) or J\$3,300,000,000
Subscription Price	<ul style="list-style-type: none"> US\$0.1270 per US\$ share or J\$14.70 per J\$ share for existing shareholders and team members US\$0.1400 per US\$ share and J\$16.30 per J\$ Share for all other subscribers
Reserved Shares	176,735,188 shares are reserved for priority application: <ul style="list-style-type: none"> The First Priority Reserved Pool is comprised of 157,097,945 shares and is reserved for existing shareholders and team members. The Second Priority Reserved Pool is comprised of 19,637,243 shares and is reserved for key investors.

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Sygnus Credit Investments (SCI) Additional Public Offer

	Shares in both pools will be allotted on a “first come, first served” basis at the discounted subscription price. Any reserved shares that go unsubscribed will be available for subscription by the general public. Excess subscriptions not fulfilled by allotment in the reserved pool will be treated as part of the general and allot shares accordingly.
Minimum Subscription	1,000 shares
Use of Proceeds	The Company intends to use the net proceeds of the APO to: repay a short term bridge note for US\$10M; invest in credit instruments issued by medium-sized firms; and pay APO & listing expenses
Dividend Policy	The Directors intend to distribute up to 85% of SCI’s net income to shareholders, subject to provisioning for an appropriate reserve to cover outgoings and contingencies.
Listing	The Company intends to apply to the JSE for the Shares to be listed on the Main Market. It is expected that the listing will occur within 21 days after close of the APO.
Timetable of Key Dates	Subscription/Applicant List Opens – 9.00 a.m. on December 18, 2020 Application List Closes – 4.30 p.m. on December 23, 2020 (subject to right of the Company to close at any time after the APO is fully subscribed)

Shareholdings

Before the APO			
	Shareholding (Ordinary Shares)		
Shareholders	J\$ Shares	US\$ Shares	% Issued Capital
Top 10 Shareholders	93,897,426	44,595,655	39.6
Other existing shareholders	90,413,874	121,180,608	60.4
Total Issued Shares	184,311,300	165,776,263	100
After the APO			
	Shareholding (Ordinary Shares)		
Shareholders	J\$ Shares	US\$ Shares	% Issued Capital
Top 10 Shareholders	93,897,426	44,595,655	25.3%
Other existing shareholders	90,413,874	121,180,608	38.7%
Reserved Share Applicants	93,046,138	83,689,060	32.3%
Members of the Public	10,338,459	9,289,784	3.6%
Total Issued Shares	287,695,897	258,755,107	100.0%

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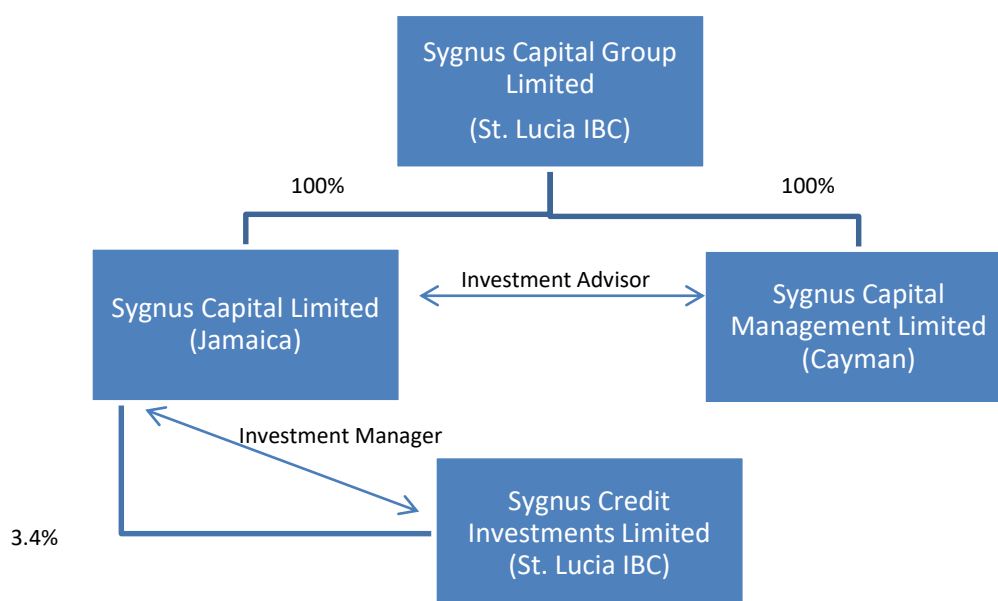
Sygnus Credit Investments (SCI) Additional Public Offer

Company Overview

Incorporated in January 2017 under the International Business Companies Act, 1999 as an international business company, Sygnus Credit Investments Limited is a specialty Private Credit Investment Company focused on providing non-traditional financing to medium-sized entities across the Caribbean. In April 2018, SCI launched a successful Initial Public Offering (IPO) of 90,909,091 ordinary shares. The IPO was oversubscribed and upsized by a further 99,908,949 shares. On June 18, 2018 the Company's US\$ shares and J\$ shares were listed on the Jamaica Stock Exchange.

The type of credit SCI provides is customizable and more flexible than traditional financing options, which allows the Company to offer an alternative channel through which mid-sized firms can access capital to drive growth. The Company's goal is to generate attractive risk-adjusted returns with an emphasis on principal protection by targeting current income, with a lesser focus on capital appreciation.

SCI invests primarily in private credit instruments such as: bilateral notes and bonds; preference shares; asset-backed debt; mezzanine debt and convertible debt. Investments are made in portfolio companies, which operate across a broad range of sectors inclusive of: manufacturing; distribution; financial services; energy; real estate; transportation; infrastructure; and business services. The companies typically generate revenues between US\$5M and US\$25M.





Sygnus Credit Investments (SCI) Additional Public Offer

SCI's investment activities are managed by its Investment Manager, Sygnus Capital Management (SCM), acting on the advice of the Investment Advisor, Sygnus Capital Limited (SCL), both of which are wholly owned subsidiaries of Sygnus Capital Group Limited. SCL's services include: advice and assistance in order to identify and evaluate potential investments to be made by clients of SCM; monitor the performance of SCM's client investments; and execute on behalf of SCM clients any transaction approved by SCM.

Capital Structure

The company is authorized to issue four classes of shares:

- Special share – a special rights redeemable preference share that gives the holder one vote that is equivalent to 101% of the aggregate votes vested in all ordinary shares issued by the Company but no right to dividend or to receive any distribution of assets on winding-up except the US\$1.00 which was subscribed for the Special Share. A dividend may be paid to the holder of the Special Share in lieu of, or in addition to, the management fee payable to the Investment Manager. The Special Share will rank ahead of the US\$, J\$, and TT\$ shares in the event of a winding up of the Company;
- US\$ shares – Every holder of a US\$ Share will have one vote for each share of which he holds. Holders of US\$ Shares will have the usual right to receive dividends and to participate in the assets of the Company on a winding-up. Each US\$ Share has a par value of US\$0.01;
- J\$ Shares - Every holder of a J\$ Share will have one vote for each share of which he holds. Holders of J\$ Shares will have the usual right to receive dividends and to participate in the assets of the Company on a winding-up. Each J\$ Share has a par value of J\$1.30;
- TT\$ Shares - Every holder of a TT\$ Share will have one vote for each share of which he holds. Holders of TT\$ Shares will have the usual right to receive dividends and to participate in the assets of the Company on a winding-up. Each TT\$ Share has a par value of TT\$0.07.



Sygnus Credit Investments (SCI) Additional Public Offer

Management Agreement & Fee Structure

The Company operates as a special purpose investment company and as such does not have a permanent management staff or employees. Rather, the Investment Manager provides management services and operational oversight of the business and affairs of SCI. SCI will pay a management fee of 1.9% of assets under management and a performance fee of 15% of return on average equity above the hurdle rate of 6% to the Investment Manager, Sygnus Capital Management. The management fee will be paid monthly and the performance fee annually.

The Investment Manager will bear its own operating and overhead expenses attributable to its duties while other expenses incurred by SCM in its management of SCI's affairs such as service provider, legal fees and travelling fees will be borne by the Company. Fees paid to the investment advisor (SCL) will be paid out of the assets of SCM's clients, which include the Company.

The fees payable to SCM may be reduced by a shareholders' resolution if the company fails to make an invitation to redeem shares at certain time intervals or fails to redeem shares which it is obliged to redeem pursuant to any invitation and such failure was not caused by a Material Adverse Event.

Share Buy-Back Program

After the fifth anniversary date, SCI will invite shareholders to offer for sale their shares of an aggregate value that will not exceed more than 15% of the Net Asset Value. After the initial invitation, similar invitations will be made every three years following the fifth anniversary date. If in response to any such invitation offers are received for more shares than SCI is obligated to repurchase then acceptances by SCI will be scaled back on a pro rata basis based on the offers received. These invitations are subject to the availability of distributable profits or proceeds from the fresh issue of shares.

If SCI fails to make any such invitation or fails to repurchase shares which it is obligated to pursuant to an invitation, any one or more of SCI's shareholders holding not less than 10% of the issued shares of the Company may request a meeting to consider a resolution to reduce the management fees payable to the Investment Manager. In such a vote, the holder of the special share will not be entitled to vote on such a resolution.

Sygnus Credit Investments (SCI) Additional Public Offer

Board of Directors

Name	Bio
Clement Wainwright Iton, B.Sc., M.B.A Independent Chairman	Former Chief Executive Officer of the Trinidad and Tobago Securities and Exchange Commission (TTSEC); Former Chief Executive Officer of the Trinidad and Tobago Stock Exchange (TTSE); Former General Manager of the Jamaica Stock Exchange (JSE); Former Project Manager and Corporate Planning Analyst at Grace Kennedy.
Linval Freeman, FCA, FCCA Independent Non-executive Director	Chairman of the Public Accountancy Board Investigations Committee; Member of the Accounting Standards Committee of the Institute of Chartered Accountants of Jamaica; Director and Chairman of the Audit Committees for Sygnus Real Estate Finance Limited and Canopy Insurance Limited; Chairman of the Audit Committee of the Council of the University of Technology; Former Director and Assurance Partner at Ernst & Young Caribbean (EY), Jamaica Office; Former Director at PriceWaterhouseCoopers.
Ian Williams, B.Sc., M.B.A Independent Non-executive Director	Ian Williams is currently the President and CEO of ZNW Management and Consultancy Limited. Ian works with companies that do not have a presence across the Caribbean market to help establish new relationships and sales in the region. Previously, Ian worked with CIBC FirstCaribbean International Bank (FCIB) for 15 years primarily within Treasury. Prior to leaving the FCIB Ian was the Director and Head of Foreign Exchange Sales.
Peter Thompson, CFA, M.Sc. Independent Non-executive Director	Peter is Group Client Investment Manager at JMMB Ltd where he is responsible for the build out of the process and structures for the management and service delivery for client portfolios of JMMB. Previously he was Manager, Group Product Portfolio and Business Development Manager JMMB Ltd.
Damian Chin, B.A., M.Sc.	Damian is currently director Treasury/Finance at Gorstew Limited; previously he was Deputy Director, Finance and Planning at Sandals Resort International.
Hope Fisher, B.Sc. Independent Non-executive Director	Hope Fisher is a Civil Servant with the Ministry of Labour & Social Security where she is currently the Director of the Bond Portfolio at the National Insurance Fund ("NIF"). She has responsibility for monitoring of the fixed income portfolio and developing the strategy to capitalise on investment opportunities.
Ike Johnson, PhD, CFA Non-executive Director	Executive Vice President and Chief Operating Officer, Sygnus Capital Limited. Former Assistant VP of Business Analytics and Product Development at Scotia Investments Jamaica; former Senior Strategy Management Officer and former Market Risk Analyst at JMMB Group.

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Sygnus Credit Investments (SCI) Additional Public Offer

Financial Performance (USD) – Year ended June 30, 2020

Profitability

SCI generated total income of \$4.58M, up 36.3% year-over-year, driven by core earnings of \$5.38M in interest income, which increased 69.9% y-o-y. This increase was driven by record origination of SCI's private credit investments portfolio across the Caribbean. Net interest income amounted to \$4.49M, up 41.8% year-over-year, as interest expense amounted to \$890.76K. No interest expense was booked in the previous financial year. SCI noted that the growth in core revenues was adversely impacted by timing differences between interest expenses associated with new debt, and interest income earned from the deployment of that debt.

Fair value gains were down 44.9% to \$74.64K while participation fees slid 86.3% to \$7.0K. Fair value gains reflected investments in portfolio companies with profit-sharing participation in addition to SCI's standard investment income. The reduction in these gains was attributed to higher interest rates and widening credit spreads due to the COVID-19 pandemic.

Total expenses amounted to \$2.62M, doubling expenses incurred in the 2019FY. The primary drivers behind this increase were a 42.3% or \$298.81K increase in management fees to \$1.01M and a 374.6% or \$820.36K increase in net foreign exchange losses to \$1.04M. The rise in management fees reflected a 60% increase in assets under management. The surge in net foreign exchange losses was driven by a one-off conversion of J\$1.2B to USD, which was part proceeds of new JMD debt raised during the year and part proceeds of JMD investments that were exited during the quarter ended March 2020. Net foreign exchange loss during the third quarter in particular was US\$714.4K amid a volatile foreign exchange market. The conversion lowered SCI's net JMD exposure from US\$13.81M equivalent as at 2019FY year end to US\$3.17M equivalent as at 2020FY yearend.

Sygnus Credit Investments (SCI) Additional Public Offer

Abridged Financials						
	FYE June 2019	FYE June 2020		Q1 Sept 2019	Q1 Sept 2020	
Abridged Financials	US\$	US\$	% change	US\$	US\$	% change
Interest income	3,168,047	5,382,777	69.9%	1,126,662	1,698,688	50.8%
Interest expense	-	(890,759)		(40,937)	(412,546)	907.8%
Net interest income	3,168,047	4,492,018	41.8%	1,085,725	1,286,142	18.5%
Participation fees	50,944	7,000	-86.3%	7,000	22,997	228.5%
Total investment income	3,218,991	4,499,018	39.8%	1,092,725	1,309,139	19.8%
Total operating expenses	1,010,133	1,469,944	45.5%	285,547	470,127	64.6%
Net investment income	2,208,858	3,029,074	37.1%	807,178	839,012	3.9%
Loss on sale of investments	-	(8,370)		-	-	
Fair value gain (loss)	135,429	74,640	-44.9%	198,006	47,744	-75.9%
Net foreign exchange gain (loss)	(219,011)	(1,039,375)	374.6%	(505,114)	(34,198)	-93.2%
Provision for expected credit losses	(74,645)	(101,592)	36.1%	27,853	(54,718)	-296.5%
Profit for the the period	2,050,631	1,954,377	-4.7%	527,923	797,840	51.1%
Taxation credit	-	18,416		-	-	
Profit attributable to shareholders	2,050,631	1,972,793	-3.8%	527,923	797,840	51.1%
Total assets	38,145,919	61,039,613	60.0%	39,864,478	68,531,731	71.9%
Total debt	-	21,558,749		-	27,214,605	
Shareholders' equity	37,586,537	37,672,359	0.2%	37,243,517	37,598,481	1.0%
Efficiency ratio	31.4%	32.7%		26.1%	35.9%	
Management expense ratio	2.6%	2.4%		0.7%	0.7%	
Net profit margin	61.1%	43.1%		40.9%	58.8%	
Debt to equity (times)	-	0.57		-	0.72	

“Impairment allowance on financial assets” stood at \$101.59K for the year, up 36.1% year-over-year. During the year, a portfolio company with an investment value of \$1.43M was moved to Stage 3 or the default category as the private credit investment terms for the portfolio company are being restructured to align its prospects with the global COVID-19 pandemic.

SCI noted that this restructuring was the Company’s first in its two and half year history and the discounted value of the collateral was larger than SCI’s outstanding investment, which resulted in zero expected credit losses. The non-performing investment rate as a result stood at 2.7%. One portfolio company with an investment value of \$1.24M fell under the enhanced monitoring category, with an expected credit loss of \$18.65K. To date, the company has no realized losses from defaulted investments.

Audit fees & expenses rose 86.5% to \$68.14K, registration fees rose 514.1% to \$57.18K while advertising & promotion expense climbed 272.1% to \$19.7K. During the year, SCI booked commitment fees of \$47.35K and corporate service fees of \$75.91K, relative to balances of zero in the previous year. Corporate fees reflected accrual expenses for a new contract with a related

Sygnus Credit Investments (SCI) Additional Public Offer

part for the provision of accounting and other corporate services. Commitment fees reflected one-time costs related to the establishment of bank credit lines during the year.

As such, net profits amounted to \$1.97M, a 3.8% or \$77.8K decline on the prior year's performance. The net profit margin fell to 43.1%, relative to 61.1% in the 2019FY.

Liquidity & Solvency

Total assets amounted to \$61.04M, up 60.0% or \$22.89M year-over-year. Investments amounted to \$51.55M, up 59.1% or \$19.16M whilst securities purchased under resale agreements totalled \$2.5M, up 139.4% or \$1.46M. Cash at bank stood at \$3.01M, up 43.3% while finance lease receivable rose 29.9% to \$2.05M. At the close of the year, interest receivable amounted to \$1.89M, up 139.4% y-o-y, while other receivables was up 47.9% to \$33.3K. Amounts due from related parties fell from \$116.81K to nil at year end.

The number of portfolio companies stood at 25 at year end, up from 19 at the start of the period. The weighted average fair value yield on portfolio investments remained unchanged at 12.3% with an average investment per portfolio company of \$2.14M, up from \$1.79M.

	2019FY	2020FY
Investment Activity Summary¹	US\$	
Fair value of investment in portfolio companies	33,966,572	53,595,750
New investment commitments during period	20,700,420	54,725,233
Dry Powder to be deployed ²	6,467,692	5,505,973
Number of portfolio company investments (#)	19	25
Average investment per portfolio company	1,787,714	2,143,830
Weighted average term of portfolio company investments (years)	1.9	2.1
Weighted average fair value yield on portfolio companies	12.3%	12.3%
Non-performing portfolio company investments ³	Nil	1
Non-performing investments ratio	Nil	2.7%

Sygnus has diversified its investments across ten major industries, up from eight in the prior year. The top 3 industry allocations were infrastructure (19%), manufacturing (18%) and hospitality (15%). The Company's regional footprint was also widened to seven Caribbean territories, up

¹ Source – Management Discussion & Analysis: Financial Yearend June 30, 2020

² Excludes US\$10.7M in undrawn credit facilities

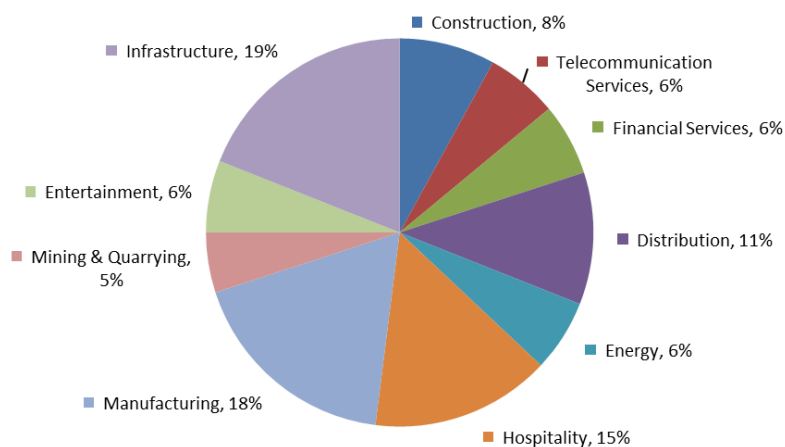
³ Terms of portfolio company investment are currently being restructured

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Sygnus Credit Investments (SCI) Additional Public Offer

from five in the 2019FY. Jamaican companies retain the lion's share of SCI's portfolio at 50%, down from 59%.

Sygnus Sector Distribution June 30, 2020



Assets were funded by \$37.67M in shareholders' equity and \$23.37M in total liabilities. Share capital amounted to \$35.11M, unchanged from the start of the year, whilst retained earnings rose 3.5% or \$85.82K to \$2.56M. Retained earnings rose only 3.5% during the year despite SCI reporting \$1.97M in net profits as dividends declared for the year stood at \$1.89M. As such, total shareholders' equity increased by just \$85.82K.

Accounts payable rose 265.3% or \$1.0M to \$1.38M while amounts due to related companies rose 247.0% or \$150.24K to \$211.06K. Sygnus booked a dividend payable of \$218.81K at the close of the year. Total debt amounted to \$21.56M as the company raised debt during the year for the first time in its existence. Notes payable amounted to \$14.87M while loans and borrowings amounted to \$6.51M. Interest payable stood at \$175.71K at yearend. SCI's debt-to-equity ratio stood at 0.57x at the 2020FY year end. During the second and third quarter of the 2020FY, SCI raised the equivalent of US\$14.87M in its first ever JMD and USD debt issuances, via private placements.

At the end of the 2020FY, SCI had \$5.51M in dry powder, as well as \$10.7M in undrawn credit facilities, which it expressed was adequate available capital to finance new private credit investment opportunities.

Sygnus Credit Investments (SCI) Additional Public Offer

Outlook & Valuation

In the Chairman's Letter to Prospective Investors in the APO prospectus, SCI underlined that its "number one job is to be vigilant about minimizing permanent or realized credit losses, as this has a permanent impact on Shareholder value." This commitment to risk management and capital preservation was evidenced by the relatively solid performance for the 2020FY and further supported by the strong results for the first quarter of the 2021FY. Despite the impact of the ongoing COVID-19 pandemic, the company's non-performing portfolio remains within target levels while net profits were relatively unchanged from the prior year.

For the first quarter of the 2021FY, SCI reported a 5.1% increase in total income and a 51.1% increase in net profits. The main driver behind this performance was a 26.7% decline in expenses, attributable to a 93.2% decline in net foreign exchange losses. This result follows the decision to materially reduce the JMD exposure in the previous financial year. The decline in this line item, more than offset the 51.0% increase reported in management fees and 97.0% increase in other operating expenses.

The fair value of investment in portfolio companies grew to \$62.27M, up from \$28.71M a year prior and \$53.6M at the start of the quarter. The number of portfolio company investments rose to 29, from 25 at the beginning of the financial year and the non-performing investment ratio improved to 2.3%, down from 2.7%, a year prior.

We expect the strong performance of the first quarter to continue for the remainder of the 2021FY (subject to the risk of the COVID-19 pandemic spiralling and leading to a worsening of economic conditions). Assuming this Offer is fully subscribed, we anticipate continued growth in net interest income driven by the increase in dry powder. We are not expecting a recurrence of the high foreign exchange losses seen in the 2020FY given the reduction in JMD exposure.

At its November 2019 annual general meeting, SCI presented a "2X Growth Strategy" which detailed plans to grow the investment portfolio over the next 12 to 18 months. After raising approximately US\$31.5M in debt financing, this Offer represents the equity financing portion of the strategy to fund its investment pipeline. This Offer will reduce the Company's already low levels of leverage, which will improve SCI's capacity to take on additional debt further down the road, which can be used to further grow its investment portfolio and generate higher levels of profit.

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Sygnus Credit Investments (SCI) Additional Public Offer

Valuation

Based on our forecasts, we are projecting total income of US\$6.71M and net profits of US\$4.31M for the 2021FY. We utilized the price multiples approach to value SCI. Applying the 1-year P/E ratio average of 23.34x to our forwards EPS of US\$0.0096 yields a price of US\$0.22. Applying the 1-year P/B ratio average of 1.30x to our forward BVPS of US\$0.1086 yields a price of US\$0.14.

The average of our estimates is US\$0.1830, 30.7% above the offer price of US\$0.14 for general public applicants and 44.09% above the offer price for existing shareholders and team members of US\$0.1270. We note that the US\$ shares, when converted to JMD⁴, are 24.6% and 23.8% above the offer prices for the J\$ shares.

RECOMMENDATION

We recommend the US- and JMD-denominated SCI shares as **OUTPERFORM/OVERWEIGHT/BUY**. Sygnus offers diversification into a unique asset class that has exposure across various productive sectors, across the Caribbean region and in multiple currencies. This investment is suitable for investors with medium-risk appetite and a medium term outlook who are primarily interested in income-generation. SCI aims to have a dividend pay-out ratio as high as 85% and to date has paid out US\$3.8M in dividends since listing, or 11% of its share capital. The primary risk faced by the company is credit risk and the extent to which the company is exposed to this risk is SCI's ability to properly assess the credit investments it makes in target companies. This risk has been mitigated by instituting globally-accepted standards for portfolio and risk management with the maintenance of a diversified portfolio of private credit investments.

Source: *<http://www.Jamstockex.com>, JMMB Investment & Research, Bloomberg, APO Prospectus, Company Financials*

⁴ BOJ Average Selling Rate of J\$144.1878: US\$1 as at December 18, 2020.

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Sygnus Credit Investments (SCI) Additional Public Offer

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.

OUTPERFORM/OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE UP TO 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

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

UNDERPERFORM/UNDERWEIGHT— ADJUST EXPOSURE IN YOUR PORTFOLIO HELD AT JMMB TO BETWEEN 2.5% AND 4.9% FOR THIS PARTICULAR ASSET

STRONGLY UNDERPERFORM/UNDERWEIGHT—REDUCE EXPOSURE TO THIS ASSET TO BELOW 2.5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO (0%).

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Sygnus Credit Investments (SCI) Additional Public Offer

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