

JMMB INVESTMENT & SOVEREIGN RESEARCH

FOSRICH LIMITED (FOSRICH)



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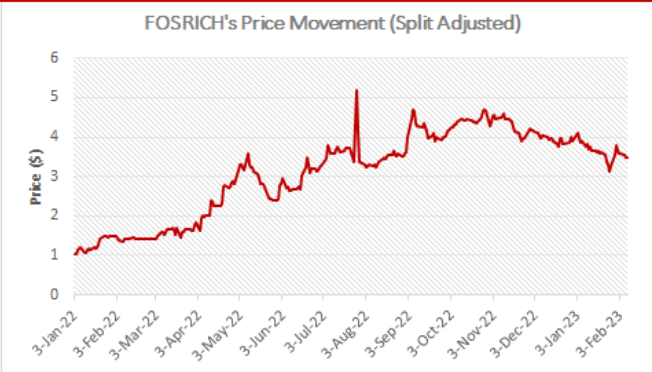
EXECUTIVE SUMMARY

Fosrich Company Ltd. (FOSRICH), was established in 1993 and had its shares listed on the Junior Market of the Jamaica stock exchange on December 19, 2017. Fosrich's principal activities are the manufacturing of PVC pipes and fittings as well as the distribution of lighting, electrical and solar energy products. Fosrich has subsequently ventured into the transformer repairs business via recently created firm, Blue Emerald Limited.

FosRich recorded \$2.35B in revenue and \$199.3M in net income for their 2021 financial year (FY). Revenues have grown by a 4-year compound average growth rate (CAGR) of 22% while the 4-year CAGR of net income has outpaced the growth in revenues as it stands at 38%. More recently, FosRich reported an increase in profits to \$387.8M for the nine-month period ended September 2022, compared to profits of \$179.2M for the corresponding nine-month period in 2021.

We attach a **MARKETPERFORM/HOLD** recommendation to Fosrich as we believe the stock is trading close to its fair value. Additionally, the company has taken steps to increase its capacity to be able to meet the growing demand for its products. Under their new subsidiary Blue Emerald Limited, the company intends to begin the repairs of electric transformers for JPS and the manufacturing of PVC fittings. These moves should add to the company's revenue base and further bolster its net income.

FOSRICH'S PRICE MOVEMENT



Fosrich's Statistics

Financial Year End	December
Stock Price (10/02/2023)	\$ 3.50
Trailing EPS	\$ 0.08
Book Value per share	\$ 0.48
P/E	43.09x
P/B	7.31x
Net Profit 9M 2022 (millions)	\$ 388
Price Target	\$ 3.10
Dividend Yield	1.14%

Company Overview

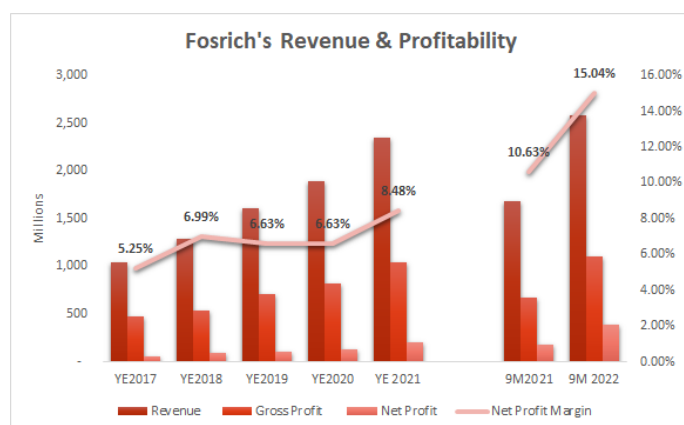
FosRich Company Limited distributes lighting, electrical, and solar energy products in Jamaica. The company provides boxes, panels, steel wire armored cables, wires, wiring devices, bulbs, contactors, breakers, and switches and related devices. It also supplies ceiling lighting, standing lighting, outdoor lighting, fans, and electrical supplies; and industrial products that are used to build hotels, factories and housing development projects. In addition, the company manufactures and sells PVC pipes and fittings. It serves retail and commercial customers. Fosrich has subsequently ventured into the transformer repairs business via recently created firm, Blue Emerald Limited. FosRich Company Limited was founded in 1993 and is headquartered at 79 Molynes Road, Kingston 10, Jamaica. Effective December 19, 2017, the company's shares were listed on the Junior Market of the Jamaica Stock Exchange.

Recent Development

In the company's annual general meeting held on July 12th, 2022, the company authorized resolutions that each of the issued ordinary shares of the Company be subdivided into 10 ordinary shares with effect from the close of business on 27 July 2022, resulting in the total issued share capital of the Company being increased from 502,275,555 ordinary shares of no par value to 5,022,755,550 ordinary shares of no par value. Moreover, the company be authorized to issue up to 126,000,000 ordinary shares by way of a Rights Issue to existing stockholders, or via an Additional Public Offering.

Financial Overview

Profitability



Fosrich reported revenues of \$2.35B for the FY ended December 2021. This represents a 24% year over year increase. This growth outpaced the 4 year CAGR of 22%. The rate of growth for revenues in 2021 was only slightly hindered by the advent of the pandemic, as containment measures to prevent the spread of the virus minimally affected business operations.

The company has however experienced

significant growth in several product lines, inclusive of solar product (157%), control devices

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(55%), PVC products (45%) and wiring devices (37%). Management attributed the growth in these product lines to greater demand for their products. Subsequently, revenue increased by 31.4% for Q3, to \$779.2M from \$592.8M the corresponding quarter in 2021. Notably, for the 9M period, Fosrich reported revenue at \$2.58B, that already outpaced the twelve month 2021FY by 9.7%. This increase was attributed to increased sales in eleven (11) of twelve (12) Product Groups, with Panels being the only product group that registered a decrease over the prior year.

Cost of sales increased by 22% from \$1.07B to \$1.31B for FY2021. Management highlighted that the company experience fluctuations in volume and price increase throughout the financial year, driven by escalating copper and PVC material prices on the international market and increased shipping prices. However, 2021FY cost of sales growth has not significantly affected gross margins. The gross margin for the year was 44.4%, which is 1.1% higher than the 4-year average gross margin of 43.3%. Fosrich's gross profit of \$1.04B, represents a 26.5% increase from 2020's gross profit of \$824.75M. More recent, for the nine months period gross profit surged by 64% year over year, reported at \$1.1B. Gross margin for the nine months, improved year over year to 42.7% from 39.8% the prior comparable period.

Administrative expenses for the 2021FY totaled \$631.63M. This reflects a 24.89% increase when compared to 2020's administrative expenses of \$505.75M. In 2021FY, there were increases in staff related costs, increased legal and professional fees and rent associated with the factory space in Hayes Clarendon. However, administrative expenses as a percentage of revenue has constantly been declining. For the 2021FY, administrative expenses margin was 26.9%, below the 4-year average of 31%. Subsequently, for the 9M 2022 period, administrative expenses is \$612.4M, reflecting a year over year increase of \$165.5M. Fosrich highlighted that this is increase is primarily driven by staff related cost, increased occupancy cost, selling and marketing cost, computer expenses, increase travel and petrol cost, increase electricity cost and increase legal cost. Nevertheless, administrative expenses margin improved to 23.8% from 26.5% the prior comparable period.

Operating profit for 2021FY amounted to \$384.5M, which is an increase of 34.6% year over year. This corresponds to an operating margin of 16.4%, which is above the operating margin of 15.1% in 2020. Finance costs for Fosrich jumped by 15.7% for the 2021FY. Finance costs totaled \$185M for 2021 compared to \$160M in 2020. The increase in the finance costs is attributable to an increase in bank charges and bad debt impairment provisions. Bad debt provisions were \$43.79M for 2021 versus a bad debt impairment of \$31.77M in 2020. Additionally, interest on long term and short term borrowings totaled \$50.37M versus \$33.83M in 2020, due to an increase in the company's debt to finance operations. More recent, for the 9M period, operating profit surged

to \$514.5M from \$290M the previous comparable period in 2021. This is due to the reduction in company's operating expenses margin. Notably, operating margin for the 9M period rose from 17.2% to 20%.

Fosrich's Net Income for the financial year ended December 31, 2021 amounted to \$199.3M. This represents a growth of \$73.6M over the \$125.7M recorded for the same period last year. Moreover, net profit margin improved from 6.6% a year ago to 8.5%, above the 4-year average margin of 7.2%. Subsequently, for the 9M period, net profit amounted to \$387.9M, up \$208.7M from the \$179.2M reported for the same period in 2021. The net profit margin stood at 15% for the 9M period, up from 10.6% for the previous comparable period. As at September 30th 2022, the return of assets stood at 8.4%, compared to 5.2% a year prior, while the return on equity stood at 16.1%, relative to 17.1% in 2021.

EPS recorded for the nine-month period FY2022 amounted to \$0.077 (adjusted for stock split), up from \$0.036 the previous comparable period. The trailing twelve month (TTM) EPS for Fosrich stands at \$0.081 which when compared to the 2021FY represents an increase of 105%.

Liquidity & Solvency

Fosrich's total assets as at December 2021 stood at \$3.76B. This represents an increase of 23.24% from total assets of \$3.05B as at December 2020. Fixed assets grew by 37.53%, from \$1.05M in December 2020, to \$1.44B. This growth was mainly due to an increase in 'investment in associated company' and 'lease right of use asset'. Right of use asset increased by 43.6%, moving from \$393.3M to \$564.8M, as the company secured leases on additional properties to assist with the warehousing and distribution of their merchandise. Additionally, Fosrich's increased their stake in associated company Blue Emerald to 80%, a company established to conduct transformer repairs as well as, the manufacture of large diameter PVC pipes and PVC fittings. The value of this investment in the associate company grew to \$121.6M from \$24.3M booked in FY2020.

Current assets grew by 15.8%, moving from \$2B to \$2.3B as FY2021. Fosrich's trade receivables increased by 11.6%, from \$245M to \$274M. Additionally, inventories increase from \$1.45B to \$1.78B, as the company make strides to increase inventories to meet consumers demand. Notably cash and cash equivalents surged to \$72M from \$34M booked in FY2020.

Furthermore, Total assets climbed to \$4.6B at the end of Q3 FY2202, a yoy increase of 34.7%. This increase is primarily due to a 52.6% yoy increase in fixed assets. Property, plant and equipment (PPE) was the main driver in growth, booked at \$844.8M from \$358.1M the prior comparable period. Notably, current assets rose by 24% yoy for the Q3 2022 period, moving

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from \$2.1B to \$2.7B. Inventories and accounts receivable increases are the primary drivers of the higher current assets. Inventories increased by 29.4% to \$1.9B at the end of Q3 FY2022 (FY2021: \$1.4B). Meanwhile, accounts receivables rose to \$534.6M from \$455.7M the prior comparable period. Notably, there was a downturn in cash and cash equivalents for the 9M period to \$62.3M from \$86.9M.

Total liabilities increased by \$562M, or 25.7%, and stood at \$2.75B as at December 2021. Current liabilities increased by 41.9%, from \$579.8M to \$822.5M. This jump is attributable to a 28.6% increase in trade payables. Trade payables as at the end of the 2021FY were booked at \$597M, compared to \$464M as at the end of the 2020FY. Non-current liabilities grew by a smaller percentage than current liabilities. Non-current liabilities totalled \$1.93B as at the end of the 2021FY, up by 20% when compared to the 2020FY. This increase in non-current liabilities was primarily driven by a 47% increase in right use of liability, due to long term lease obligation in connection with the lease of the second Hayes factory building which commenced in January 2021. Additionally, long term liabilities grew by 14%, booked at \$1.38B in comparison to \$1.22B in FY2020.

The growth in Fosrich's liabilities corresponds to a growth in total interest bearing debt by 21% to \$1.56B, up from \$1.29B. As such, the company's leverage increased, as the debt/equity ratio moved from 1.49x to 1.54x. Fosrich's total equity increased by 17%, from \$858.5M in 2020, to \$1.02B in 2021. The main contributor to this growth was retained earnings as it grew by 33.5%, from \$440M to \$588M. Subsequently, for the nine months period 2022, shareholders' equity now stands at \$2.4B, up from the \$1.04B as at 31 September 2021. The increase of \$860M arose primarily as a result of property revaluation gains of \$495M and retained profits for the 9M 2022 period.

The company's current ratio for FY2021 period was 2.83x, a decline from a ratio of 3.46x in 2020. The company's quick ratio followed a similar trend, which stood at 0.66x, a decline from 0.95x in 2020. Since then, the company's liquidity position improved relative to FY2021, however, deteriorated year over year for the 9M period. Fosrich's current ratio for the 9M period was 3.80x, a decline from 4.62x a year ago, while the quick ratio was down to 1.15x from 1.53x. Cash ratio stood at 0.09x from 0.19x the prior corresponding period.

Cash Flow Adequacy

Fosrich's cash flow from operations has grown at a CAGR of 7.6% for the 2017-2021 period. Cash from operating activities (CFO) represented outflows of \$67.76M for the twelve-month period, relative to inflows of \$2.92M in 2020. The deterioration in CFO was mainly driven by

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Fosrich's increased stake in associated company Blue Emerald, representing an outflow of \$97.29M. Notably, the working capital positioning of the Company has deteriorated. Specifically, operating cash flow before working capital amounted to \$366.33M relative to \$274.47M in the prior year, a 33.5% increase. However, the change in working capital for the period has amounted to an outflow of \$434.1M, much larger than the prior year's outflow of \$268.76M. A main driver to the lower working capital is the increase in inventories from an outflow of \$289.94M to an outflow of \$326M.

Cash from investing activities represented an outflow of \$71.24M for FY2021, relative to an outflow of \$64.24M in 2020. This was driven by the year over year increase in purchase of PPE, an increase of 41%. Cash from financing activities represented an inflow of \$174.62M for the period, relative to an inflow of \$38.52M in 2020. This was mainly driven by the increase loans received from \$130.4M in FY2020 to \$591.5M in FY2021. Notably, cash received from loans for the period would have contributed to dividends paid and loans repaid in the amount of \$51.73M and \$260.45M respectively.

In FY2021, the company experienced a gain of \$35.61M to its cash balance (not accounting for currency translation gains) from a loss of \$22.8M the prior financial year. To date, for the 9M 2022 period, the working capital positioning of the Company has deteriorated year over year. However, operating cash flow before working capital amounted to \$470M relative to \$248M in the prior year, an 89% increase due to improved profits reported for the quarter. The change in working capital for the period has amounted to an outflow of \$467.3M from an outflow of \$250.8M the prior comparable period. Consequently, net operating cash flow for the 9M period ended September 2022 amounted to an outflow of \$28.7M relative to an outflow of \$2.3M the prior year.

REAL VALUE ADDED IN THE GOOD PRODUCING INDUSTRIES (%)				
	Jul-Sep 2021	Oct-Dec 2021	Jan-Mar 2022	Apr-Jun 2022
Goods Producing	2.2	0.5	0.6	-2.0
Agriculture, Forestry & Fishing	7.3	13.8	8.4	6.3
Mining & Quarrying	-29.1	-60.5	-60.0	-62.5
Manufacturing	3.7	-2.2	4.5	5.6
Construction	4.4	5.9	3.5	-5.2

November 23, 2022 Planning Institute of Jamaica

Outlook & Valuation → According to the Planning Institute of Jamaica (PIOJ), the Jamaican economy continued its recovery in Q3 2022 (July-September) recording a year over year increase of 4.3%. The goods producing sector recorded a 3.2% increase while the services sector recorded a 4.7% increase. Notably, the Construction industry declined by 2.2% compared with July-September 2021. There was a 2.7% contraction in the real sales of construction inputs which supported the building construction

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division. Nevertheless, the Building Construction component was estimated to have grown, supported by an increase in the value and the volume of mortgages disbursed. Notably, the number of housing starts by the NHT was estimated to have increased by 103%.

Fosrich is in the growth phase of its life cycle, as evidenced by both the CAGR of revenues and net income, as well as the initiatives to diversify their revenue streams. The company has recently completed the build out of a warehouse facility at 76 Molynes Road in order to be able to house inventory, which is likely to improve their capacity to meet market demand. Additionally, a section of the space will be retrofitted with shops and stores to be rented to different operators including business process outsourcing (BPO) entities and other spaces befitting modern business requirements, which is expected to positively impact the company's earnings and growth prospects. Fosrich has also acquired a 120,000 square foot plant in Hayes, Clarendon on a long term lease. This plant will be home to the manufacturing of large diameter PVC pipes, PVC fittings and transformers repair.

Fosrich signed a 4-year renewable contract with the Jamaica public service company (JPS), for the repair of pole mounts and pad mount transformers. These repairs would be done exclusively through Fosrich's associated company, Blue Emerald Limited, which is now an 80% subsidiary of Fosrich. Blue Emerald, which is now registered under the Special Economic Zone Authority (SEZA), is expected to be able to complete approximately 2,000 transformer repairs per annum. Notably, the FosRich-associated company which operates with a special economic zone designation from its base in Hayes, Clarendon, started operations recently after getting approval to operate in early July 2022 and stand to benefit from the significant long-term tax concessions that are available, both of which relate to the ownership of the factory and lands. Activities being undertaken at the new Hayes facility in Clarendon will be done through this new entity, acting exclusively for FosRich under a contract manufacturing arrangement.

Fosrich highlighted their strategic initiative to boost its export business, which includes exporting PVC pipes to the region. The company has already taken various steps to achieve this goal, by investing in the expansion of their manufacturing capacity, in order to meet the export market and the commencement of operations at its associated company, Blue Emerald with a special economic zone designation.

Moreover, Fosrich stated their intentions to target the energy sector by plans to offer more solar energy solutions to the Jamaican market. The increase in inflation and fluctuation in oil prices is likely to increase consumers' electricity bills. As such, this is likely to grow consumers/businesses uptake of transitioning to solar energy. Recently, Fosrich partnered with microfinance companies to provide financing solutions for solar power systems and accessories to householders and small

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businesses. Additionally, Fosrich highlighted its intentions to operate all their plants on solar energy. Therefore, these initiatives are likely to improve revenue, reduce cost and improve future earnings.

We have a positive outlook on Fosrich, as they continue to grow their business to take advantage of the upsurge in demand for PVC pipes and fittings, as well as electrical supplies. The manufacture of PVC pipes will coincide with their plans to ramp up production of PVC fittings. The transformer repair business line and the commencement of the manufacture of electrical transfers will further diversify Fosrich's revenues.

We are forecasting revenues of \$4.3B for the year ended December 2023, and net profits of \$623.8M, which corresponds to earnings per share (EPS) of \$0.12. We are forecasting a forward book value of \$2.99B as at December 31, 2023, which translates to a book value per share of \$0.59. We employed the price-multiples approach to determine the fair price for Fosrich. We utilized the average P/E of comparable listed companies to arrive at a market multiple of 18.0x, which when applied to the forward EPS of \$0.12 resulted in a target price of \$2.23, while the P/B for the peer group of 2.32x yields a price of \$1.38.

The 2-yr historical average for the P/B ratio is 7.37x, which when applied to the forward BVPS yields a price of \$4.38. The 2-year historical average for the P/E ratio is 35.37x, which when applied to the forward EPS yields a price of \$4.39. **The average of our price forecast is \$3.10.**

Company	Market Capitalization	Price to Earnings	Price to Book	Return on Equity	Return on Assets	Dividend Payout	Dividend Yield
CAC	1,077,419,354	117.7x	2.7x	4.59%	1.61%	49.30%	0.41%
DTL	9,610,724,620	20.7x	2.2x	7.78%	3.89%	0.00%	0.00%
EFRESH	1,154,400,000	36.2x	4.1x	12.54%	4.15%	0.00%	0.00%
FTNA	10,982,004,712	17.8x	5.4x	28.04%	13.32%	41.22%	2.28%
INDIES	3,984,284,581	15.2x	5.1x	19.10%	10.47%	66.68%	3.78%
JETCON	612,675,000	21.4x	1.1x	2.77%	2.06%	0.00%	0.00%
LASD	8,917,184,863	8.6x	1.3x	13.95%	8.16%	22.45%	2.56%
LUMBER	1,596,096,750	10.7x	3.2x	38.41%	31.53%	15.36%	1.77%
MDS	1,315,789,475	14.0x	1.3x	9.55%	3.94%	17.47%	1.40%
Sector Average	4,944,388,750	18.0x	2.3x	15.19%	8.79%	28.15%	1.84%
FOSRICH	17,881,009,758	45.5x	9.6x	19.62%	5.30%	25.96%	1.14%

Key Risks to our price target

While we believe Fosrich's business model to be sound, it still faces operational risks. Due to Fosrich's higher level of inventories, a decrease in market demand would leave the company carrying inventories it is unable to clear in a timely manner.

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Moreover, Forsich has upgraded their associate stake in Blue Emerald Ltd to a subsidiary. Blue emerald is set to begin manufacturing and repairing JPS trasnformers while also commencing the manufacturing of PVC pipes. The margins on these new activities are not yet known, neither is it clear if these new operations will be immediately profitable. The company faces the risk of consolidating a possible loss if these new activities under Blue Emerald are not profitable. The structure and conditions under which the SEZA operates is susceptible to changes based on the ruling government which is likely to impact the profitability of Blue Emerald and ultimately Fosrich's profitability.

Additionally, a key risk to our earnings target are Fosrich's ability to contain its cost of goods sold. Cost of goods sold can be impacted due to increasing cost of global commodities, as a result of demand outpacing supply, ongoing global supply chain issues and increasing transport cost.

Recommendation

We have placed an **MARKETPERFORM/HOLD** recommendation on the shares of Fosrich. This asset is most suitable for equity investors with a medium to high risk tolerance.

Abridged Financials	YEAR END						Change	NINE MONTHS		Change
	YE2016	YE2017	YE2018	YE2019	YE2020	YE2021		Sep-21	Sep-22	
Revenue	1,155,557,852	1,046,241,522	1,293,223,605	1,612,164,170	1,895,680,002	2,351,146,322	24.0%	1,685,935,096	2,578,270,314	52.9%
Cost of Sales	(686,663,459)	(573,008,705)	(759,227,812)	(902,215,700)	(1,070,926,098)	(1,308,000,581)	22.1%	(1,014,862,133)	(1,477,817,400)	45.6%
Gross Profit	468,894,393	473,232,817	533,995,793	709,948,470	824,753,904	1,043,145,741	26.5%	671,072,963	1,100,452,914	64.0%
Administrative distribution and marketing expense	(384,296,428)	(404,831,281)	(422,793,468)	(487,324,506)	(505,750,293)	(631,626,512)	24.9%	(446,863,848)	(612,410,928)	37.0%
Net Income	30,337,614	54,941,175	90,390,215	106,886,060	125,695,400	199,309,658	58.6%	179,214,707	387,877,728	116.4%
Total Assets	1,119,683,835	1,294,218,493	2,052,591,331	2,450,064,317	3,056,388,378	3,766,603,299	23.2%	3,435,062,508	4,627,501,690	34.7%
Total Liabilities	720,777,227	689,286,959	1,359,243,144	1,650,469,444	2,187,825,014	2,749,865,968	25.7%	2,387,090,885	2,719,513,615	13.9%
Total Shareholder's Equity	398,906,608	604,931,534	693,348,187	799,594,872	868,563,364	1,016,737,331	17.1%	1,047,971,623	2,403,414,056	129.3%
EPS (\$)	0.06	0.11	0.18	0.21	0.25	0.40		0.04	0.08	
Book Value per share (\$)	0.79	1.20	1.38	1.59	1.73	2.02		0.21	0.48	
Price to Earnings (x)			21.56	19.65	16.42	22.81		22.73	56.33	
Price to Book (x)			1.38	1.59	1.73	2.02		3.89	9.09	
Key Ratios										
Gross Profit margin	40.6%	45.2%	41.3%	44.0%	43.5%	44.4%		39.8%	42.7%	
Net Profit margin	2.6%	5.3%	7.0%	6.6%	6.6%	8.5%		10.6%	15.0%	
Return on Assets	2.7%	4.2%	4.4%	4.4%	4.1%	5.3%		5.2%	8.4%	
Return on Equity	7.6%	9.1%	13.0%	13.4%	14.5%	19.6%		17.1%	16.1%	
Current ratio (x)	1.60	2.71	4.16	4.30	3.46	2.83		4.62	3.80	
Quick ratio (x)	0.29	0.82	1.12	1.20	0.95	0.66		1.53	1.15	
Cash ratio (x)	0.03	0.05	0.21	0.15	0.06	0.09		0.19	0.09	
Debt/Equity (x)	0.76	0.53	1.45	1.41	1.49	1.54		1.37	0.67	

Source: www.jamstockex.com, www.boj.org.jm, www.pioj.gov.jm, **Bloomberg**, **Company Financials**, **Company Prospectus**, **JMMB Investment Research**.

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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.

STRONGLY UNDERPERFORM—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 2.5% FOR THIS PARTICULAR ASSET

UNDERPERFORM—REDUCE EXPOSURE IN YOUR PORTFOLIO TO 2.5% - 4.9% FOR THIS PARTICULAR ASSET

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

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

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

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