

Daniel Thompson – Manager, Client Portfolio and Investment Strategies

Jamaica Money Market Brokers Ltd. | Market Research

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## JMMB's Portfolio Management Services CLIENT PORTFOLIO RECOMMENDATIONS

### GLOBAL REVIEW AND OUTLOOK

- With the passage of hurricanes Harvey, Irma and Maria through parts of the Caribbean and the USA we have seen over 200 lives lost and thousand displaced. Growth projections in the US has been revised downwards to 2.5% from 3% for the 3<sup>rd</sup> quarter. There is an expected negative impact on short term GDP projection as a result of loss in production. Most economists see the fourth quarter getting a boost as rebuilding begins, but had not yet estimated the impact.
- The production cuts were originally discussed earlier in the year appears to have started to take shape as crude oil prices are on pace to wrap up a strong September. Having gained a little over 9% month to date some analysts are of the opinion that prices could climb above \$55 by year end. Further fuelling the commodity's recent upside is the International Energy Agency having upped its demand outlook for the end of this year and into 2018. Due to this combination of production cuts and growing demand, oil could head up to its 2017 high.
- The Federal Open Market Committee (FOMC) has been on an interest rate increase path, moving up its benchmark rate another 25 basis points (0.25%) on Wednesday June 14<sup>th</sup>. Prior to passage of hurricanes Harvey, Irma and Maria market expectation pointed to at least one more rate increase for this year. Now there is the possibility of a delay in further rates increase until the full impact of the hurricanes is clear.

### LOCAL REVIEW AND OUTLOOK

- Following the non-deal roadshow that the GOJ in conjunction with Citibank embarked on in June of this year, the government successfully completed a tender offer in August. The deal saw the GOJ repurchasing its notes due 2019, 2021, 2022 and 2025 and in return reopening its 2028 and 2045 notes.
- Real output expanded by 0.3% year-on-year in Q2:17 due to increase external demand for some domestic goods and services and continued strengthening in the Construction industry. Growth was however constrained by bad weather conditions which caused flooding and negatively affected some sectors, including

Agriculture and Mining and Quarrying.













The growth outturn over the next two quarters is expected to be more positive led by expansion in Mining and quarrying and Construction. In June the employed labour force increased by 35,800 persons to 1,204,800 persons relative to April 2016.

- The month-on-month inflation rate in July was 0.6% which was slightly lower than the 0.7% recorded in June. The highest movement in the price index occurred in the division 'Food and Non-Alcoholic Beverages' where prices increased by 1.2%. This was driven primarily to a 3.8% upward adjustment in prices in the sub-division 'Vegetables and Starch Foods'. Food scarcity from due to heavy rains in the second quarter is the main cause for the price increases. The inflation rate for the month was also driven by prices expansion in 'Transport' division of 0.3% due to higher air travel cost. The 'Housing, Water, Electricity, Gas and Other Fuels' recorded negative price movement of 0.3% due to lower electricity rates for the month of July. There was however increases in the cost of water and sewage rates which tempered prices contraction in the division. The rate of inflation for the calendar year-to-date was 2.7 per cent, the point-to-point movement was 4.5 per cent and the fiscal year-to-date was 1.7 per cent.
- The Jamaica dollar lost some ground against the US dollar in August having appreciated cumulatively by 1.5% in the two months prior. The domestic currency traded at an exchange rate of \$J128.54/US\$1 which was 0.25% lower than previous month. However at 0.8% the 12-month depreciation rate subsided to the lowest level in 5 years

### REGIONAL REVIEW AND OUTLOOK

- The Caribbean territory is currently recovering from the horrors of hurricanes Harvey, Irma and Maria. Most countries have yet to fully assess the extent of the damages as they are scrambling to the use of regain essential resources such as electricity and water. There is most likely to be significant impact on GDP and weeks of production will be lost. Most of the Caribbean countries impacted are reliant on tourism so there is no doubt that there will be some impact. Countries like Jamaica, that weren't heavily impacted, could see increased tourist arrivals while these countries recover.

### Market Pulse

INDEX/ITEM	LEVEL/PRICE	TREND
JSE Main	262,729.14	
JSE JNR	2,906.7	
ALL TTSE	1,782.18	
S&P 500	2,519.36	
BOJ 90 DAY T-BILL	4.98%	
T&T REPO RATE	4.75%	
T&T DEBT/GDP	61.10%	
GOJ DEBT/GDP	117%	
US\$:T&T\$	\$6.78	
US\$:J\$	\$128.54	
OIL (PER BARREL)	US\$51.64	
GOLD (PER OUNCE)	US\$1,289.30	

The market showed some signs of consolidation in the 3<sup>rd</sup> quarter with mixed results for the main index and the junior market. The main index grew by 8.75% while the junior market contracted 3.83% while the combined index grew by 7.05%. While the overall market grew during the quarter it is important to note that trading volumes were relatively low. It is important to note that low trading volumes, while a norm for the summer period, has been the pretty much the order of the day for most of the financial year. So investors should be cautious when looking at market performance as these results are not substantiated with significant trading volumes as this could be a signal that institutional appetite is weakening and there may be a pullback soon after.

Investors who have built out equity portfolios over time might want to use this as an opportunity to review those portfolios. Where there are significant gain, now may prove to be an opportune time to take some gains and rebalance into other suitable assets that meet their portfolio needs.

For investors seeking to gain exposure to blue chip stocks now might prove to be the opportune time as the latter part of the quarter saw a pull back or in some cases a stabilization in the prices on some of these assets. As the market consolidates investor should continue to look to sectors/companies whose performance are positively correlated with economic performance, such as financial services and manufacturing sectors for opportunities. IPOs provide another avenue for investors as they are able to benefit any potential upside to the company going public. By going public companies are able to expand their operations with the proceeds from the IPO and they are subject to greater levels of scrutiny from analysts and investors. The increased scrutiny help to align the strategic direction of the company to that of its shareholders hence providing some protection of shareholders value. For junior market IPOs the size of these offers tend to be small which often result in the offers being oversubscribed and investors end up with only a fraction of the desired exposure. Notwithstanding, IPOs still remain a great avenue for investors to gain exposure to equities. While IPOs have the potential to provide positive returns for investors, as a caution, each IPO should be evaluated to decipher whether or not the company will be suitable for your portfolio.

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.

### **Lasco Financial Services (LASF) - \$4.02**

- Diversified business model
- Earns Foreign currency through its cambio and remittance services thus providing a hedge for currency devaluation

### **Carreras (CAR) - \$12.67**

- Market leader in the distribution of tobacco related products in Jamaica
- Strong profitability despite susceptibility to "sin tax" measures by GOJ
- Excellent dividend policy and dividend yield relative to current fixed income rates

### **National Commercial Bank Jamaica Limited (NCBJ) - \$87.02**

- Market leader in area of deposits and loans in Jamaica
- Seeking to expand its operations regionally
- Good dividend policy and dividend yield relative to current fixed income rates

### **Dolphin Cove (DCOVE) - \$17.49**

- Company earns majority of its revenue in USD thus providing a hedge for currency devaluation
- Great upside potential over the medium to long term

### **tTech Limited (TTECH) - \$7.05**

- Increasing profit margins
- Strong position in a growing market
- Good dividend policy and dividend yield relative to current fixed income rates

### Major Market Updates

- Douglas Orane retires as chair of First Global Bank and Peter Moses will assume the role
- Scotia Investments Jamaica Limited (SIJL) has advised that Mr David Noel has been appointed to the Board of Directors of Scotia Investments Jamaica Limited with effect from September 5, 2017.
- Sagicor Group Jamaica Limited (SJ) has advised that the Board of Directors of Sagicor Bank Jamaica Limited wishes to announce the retirement of Mr Donovan Perkins, President and CEO of the Bank effective September 30, 2017 after over 25 years of outstanding service to the Bank. SJ further advised that Mr Philip Armstrong, the Deputy CEO will act as Chief Executive Officer of the Bank, effective October 1, 2017.

## 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	\$19.92	3.99%	5.09%
Income and Growth	Equity	\$15.38	18.52%	28.09%
Optimum Capital	Real Estate	\$28.06	10.12%	15.20%
JMD Bond Fund	Fixed income	\$11.4023	4.06%	5.06%
JMD Real Value Fund	Mutual Funds	\$11.3075	3.37%	3.91%
JMD Income Distribution	Fixed Income	\$10.1412	3.15%	4.63%
USD Income Distribution	Fixed Income	\$1.0281	5.50%	5.66%
USD Giltedge Money Market Fund	Fixed Income	\$1.0003	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

This hurricane season has been one of the most active we have seen in a while with hurricanes Harvey, Irma and Maria wreaking havoc in a few Caribbean countries and the USA. The human tragedy of loss of lives and millions displaced is coupled with a potential loss in economic growth due to the lost productivity. The impact of the hurricanes will likely extend to the financial markets as the storms could affect decision making in the major central banks influencing the future direction of currency exchange rates as well as global bond and equity markets.

The Fed may be forced to delay future rate hikes until the full impact on the US GDP and employment becomes clear. For bond investors, postponement of the next rate increase would be a bullish signal.

Locally, the Government of Jamaica in August successfully completed a tender offer which saw the GOJ repurchasing its notes due 2019, 2021, 2022 and 2025 and in return reopening its 2028 and 2045 notes. By way of the tender, the GOJ was able to improve the maturity profile of its debt as they reduced their short term high coupon debt and replaced them with longer tenured, low coupon debt. Favourable economic and fiscal performance has led to greater demand for GOJ Global bonds albeit at relatively high prices, despite volatility in the wider emerging market due primarily to political and interest rate dynamics in major economies.

We continue to emphasize the importance of portfolio diversification as managing your exposure to any asset 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 on 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%	\$109.25	4.59%	HOLD/MARKET WEIGHT
Sagicor Finance Ltd 2022	8.875%	\$116.00	5.13%	HOLD/MARKET WEIGHT
Govt. of Trinidad 2024	4.375%	\$103.75	3.70%	BUY
Grupo Unicomer 2024	7.875%	\$109.50	6.09%	BUY/OVERWEIGHT
Govt. of Dominican Republic 2024	5.875%	\$110.00	4.12%	BUY
Nat Road Operating & Constructing Co. (NROCC) 2024	9.375%	\$127.50	4.78%	BUY
Govt. of Jamaica 2025	7.625%	\$122.25	4.24%	BUY
Air Jamaica 2027	8.125%	\$111.50	5.35%	BUY
Govt. of Jamaica 2028	6.625%	\$117.00	4.69%	BUY

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

As always, 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.

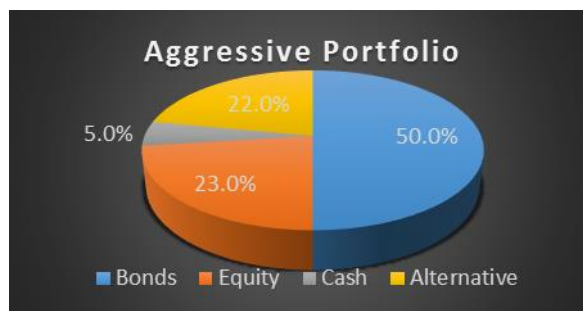
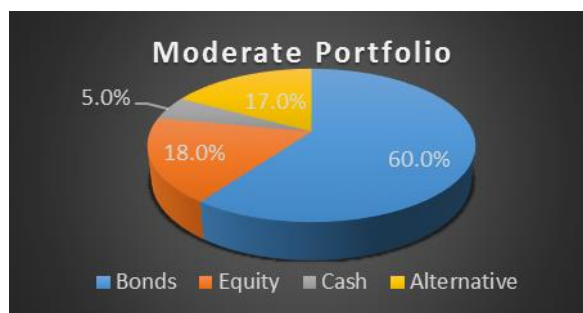
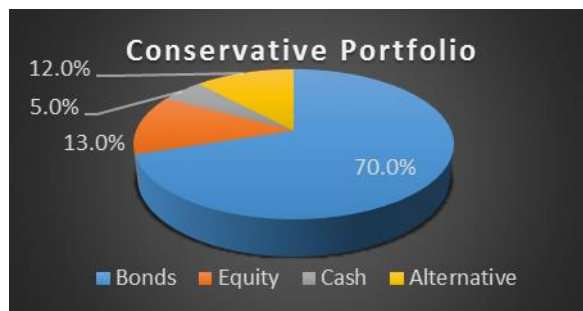
### Income and Growth

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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