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Jamaica Money Market Brokers Ltd. | Market Research

Jamaica, West Indies | Friday, 31 March 2017

JMMB's Portfolio Management Services CLIENT PORTFOLIO RECOMMENDATIONS

GLOBAL REVIEW AND OUTLOOK

- In January 2017 relative to the outlook in October, the International Monetary Fund (IMF) raised the global growth forecast marginally to 3.4% in 2017 and 3.6% in 2018 due to higher than expected growth in United States, China, Europe, and Japan. The Fund however cautioned that growth outcomes are uncertain because of the potential policies in the US under the Trump administration.
- The Fund raised its growth expectation for advanced economies which have shown an upturn in growth since last summer. Growth in China, supported by stimulus, was also stronger than anticipated. However, the growth outlook for the world economy is being weighed down by weaker than forecast growth in some emerging market economies, particularly Brazil and Argentina.
- A key driver in economic sentiment – increasing both upside and downside risk – has been the election of Donald Trump as US President, and the policy uncertainty that it has brought. The IMF is expecting the Trump administration to embark on expansionary fiscal policy, based on tax cuts and increased infrastructure and defense spending.

LOCAL REVIEW AND OUTLOOK

- The Bank of Jamaica (BOJ) recently announced that it would implement an increase in the cash reserve requirement ratio for foreign currency liabilities (foreign currency deposits) held at deposit taking institutions. The liquid asset ratio applicable to foreign currency prescribed liabilities will also be increased. The cash reserve requirement for local currency and the liquid asset ratio for local currency assets will both remain unchanged.
- What the Central Bank has effectively done is to level the playing field in terms of the relative attractiveness of Jamaican dollar versus US-dollar liabilities/deposits. In fact, both the cash reserve requirement ratio and the liquid assets ratio for US-dollar liabilities is higher than the comparable ratios for Jamaica dollar liabilities. This effectively means that, the bias has been tilted towards or in favour of holding Jamaican-dollar liabilities. This should aid in controlling the relative demand for US-dollars and consequently also reduce the pace of devaluation of the Jamaican dollar versus the USD.
- Inflation is rising, albeit at a slow pace. The rate of inflation for the calendar year-to-date was 0.6%, the point-to-point rate 3.6% and the fiscal year-to-date was 3.7%. The likely













factors to drive inflation are the pass-through effect of adjustments in prices consequent on higher consumer based taxes from the recently concluded budget which will impact electricity, transportation and food prices. It is envisaged however that the pace of adjustment will be tempered by overall low global commodity prices and moderate depreciation. Inflation for calendar year 2017 and FY 2017 are expected in the range of 4% - 6%.

- At end-February the Jamaica dollar traded at an exchange rate of \$128.11 relative to the US dollar. This represents a 0.12% increase in the value of the local currency during the month and 0.7% for the 3-month (December-February). The Jamaica dollar has strengthened relative to the US dollar for the fourth straight month since November. The 12-month depreciation rate fell to 5.1% in February compare to 6.7% and 5.7% in December and January, respectively. We are forecasting the J-dollar to depreciate by 3.7% in FY 2017/18. However, downside risks are high as the actions of the central bank could result in further strengthening of the domestic currency over the next 6-month or more which could therefore result in the J-dollar depreciating at a lower rate relative to forecast.

REGIONAL REVIEW AND OUTLOOK

- Trinidad and Tobago's sovereign credit ratings was downgraded in early 2016 by Standard and Poor's and Moody's amid growing concerns regarding its elevated fiscal deficit; growing debt relative to peers; guaranteed financial support to state entities, which could add to the debt, particularly PetroTrin; and lack of optimism with respect to the ability of the government to effectively undertake the necessary fiscal and economic policy reforms to arrest deterioration in government finances. In their deliberations, both rating agencies assigned a negative outlook to the sovereign predicated largely on fiscal and growth challenges. Based on our forecast, we are not expecting any change in ratings over the next year or so, as no material deviations are expected in the main ratings drivers, particularly the fiscal dynamics and external accounts. However, we do anticipate an improved outlook (negative to stable) to reflect marked adjustments in real GDP growth.

Market Pulse

INDEX/ITEM	LEVEL/PRICE	TREND
JSE Main	222,831.63	
JSE JNR	2,991.64	
ALL TTSE	1,233.79	
S&P 500	2,366.38	
BOJ 90 DAY T-BILL	6.13%	
T&T REPO RATE	4.75%	
T&T DEBT/GDP	45.60%	
GOJ DEBT/GDP	128.4%	
US\$:T&T\$	\$6.74	
US\$:J\$	\$128.13	
OIL (PER BARREL)	US\$50.74	
GOLD (PER OUNCE)	US\$1,249.55	

The first quarter of 2017 has seen more or less a continuation of the latter half of 2016 which the main index growing by 18% and the junior market by 15.8% calendar year to date following growth of 28% and 59% in 2016 respectively. It is important to note that even though there was growth in the 1st quarter growth the market has been trading on very low volumes. As we approach the end of the financial year and the budget season investors are generally a bit cautious around their market activities which has resulted in a 2.9% and 3.5% month to date contraction in the main and junior markets respectively. Notwithstanding, equities remain a crucial part of the portfolio building/management process and strategy around equities remain the same as we enter a new financial year.

With the outlook for Jamaica being positive for the upcoming financial year, investors should seek to gain/maintain exposure to sectors/companies whose performance are positively correlated with economic performance, financial services and manufacturing sectors are two such sectors. Junior markets IPOs may also great options for investors but the size of these offers tend to be small. This often times result in the offers being oversubscribed and investors end up with only a fraction of the desired exposure, the recent Main Event Entertainment Group IPO is one such example. Outside of the offer size issue, investors can benefit from IPOs as companies are able to optimise and expand their operations with the capital raised from going public and return value to 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. The options of repositioning into other asset classes or investing in a diversified equity fund such as the JMMB Income and Growth fund are also at the client's disposal. The entire process should be guided by the client's risk and return objectives.

Despite the Jamaican Main and Junior Stock Exchanges strong performances over the last twelve (12) months there remain great examples of companies that are undervalued and have the potential to deliver long term value for investment portfolios. 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.

Scotia Group Jamaica Limited (SGJ) - \$38.56

- Strong market share of deposits and loans in Jamaica
- Excellent dividend policy and dividend yield relative to current fixed income rates
- Diversified business operations include commercial banking, insurance and investments

Carreras (CAR) - \$71.72

- 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) - \$61.18

- 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

Lasco Financial Services (LASF) - \$3.94

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

Dolphin Cove (DCOVE) - \$18.01

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

Access Financial Services (AFS) - \$34.00

- Excellent dividend policy and dividend yield relative to current fixed income rates
- Strong market share in micro-financing

Major Market Updates

- Mr. Christopher Zacca to replace Mr. Richard Byles as President and CEO of Sagicor Jamaica Ltd (SJ)
- Mr. Stephen Price, VP of Sales and Services for C&W J to assume the Role of Managing Director replacing Mr. Garfield Sinclair

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 seven (7) 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	\$19.41	1.33%	5.28%
Income and Growth	Equity	\$14.68	13.15%	36.29%
Optimum Capital	Real Estate	\$27.74	8.87%	24.47%
JMD Bond Fund	Fixed income	\$11.1321	1.59%	4.62%
JMD Real Value Fund	Mutual Funds	\$11.0709	1.21%	4.37%
JMD Income Distribution	Fixed Income	\$10.0777	1.37%	4.46%
USD Income Distribution	Fixed Income	\$0.9945	1.47%	3.69%

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.

FIXED INCOME INVESTMENT STRATEGY

As we enter the 3rd month of Donald Trump's presidency the bond markets have been a little uncertain in establishing a directional trend, especially as it relates to Emerging Market debts. President Trump's election campaign promises are becoming even harder to implement and this in itself creates an even greater amount of uncertainty for the financial markets. Despite Britain's formally advising the European Union of their exit earlier this week, this continues to weigh unfavourably on the markets as the terms and conditions remain unclear. Analysts are forecasting further interest rate increase from the US Fed and this coupled with the aforementioned factors have created the perfect storm of volatility in the bond markets.

Now more than ever portfolio diversification is key, managing your 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.

While it is understandable that temptation may exist to overweight portfolios in an assets based on attractive pricing and/or high coupon, it is important to note that bond prices (while market determined), are significantly impacted by the quality of the issue and overall outlook of that issue when compared to market. That is to say, not because a bond is priced at a discount means it is an absolutely good deal. This also applies to investment grade assets as outlooks can change with the passage of time and changes in the global economic environment. An asset can move from investment grade to speculative in a matter years; Barbados is one of the most recent examples.

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	5.57%	HOLD/MARKET WEIGHT
Sagikor Finance Ltd 2022	8.875%	\$116.25	5.36%	HOLD/MARKET WEIGHT
Govt. of Trinidad 2024	4.375%	\$103.50	3.79%	BUY
Grupo Unicomer 2024	7.875%	\$106.00	6.78%	BUY/OVERWEIGHT
Govt. of Dominican Republic 2024	5.875%	\$106.50	4.78%	BUY
Nat Road Operating & Constructing Co. (NROCC) 2024	9.375%	\$121.50	5.84%	BUY
Govt. of Jamaica 2025	7.625%	\$118.00	4.95%	BUY
Air Jamaica 2027	8.125%	\$110.00	6.77%	BUY
Govt. of Jamaica 2028	6.625%	\$113.50	5.14%	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

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 portfolio of CIS and Money market accounts managed by JMMB with allocation in the various accounts determined by the risk and returns objectives associated of the clients.

Below you will find the year to date performance of the various discretionary plans (plan 1) as at the end of February.

JMMB Graduate	Feb-17	Dec 2016 - Feb 2017	Actual Returns Feb 29, 2016- Feb 28, 2017 (Net of Management Fees)	Projected Long Term Return Per Annum
Short Term Conservative Graduate Fund	1.28%	3.63%	7.73%	7.40%
Medium Term Conservative Graduate Fund	1.96%	5.26%	10.72%	8.50%
Long Term Conservative Graduate Fund	2.60%	6.83%	13.67%	11.90%
Short Term Moderate Graduate Fund	1.94%	5.20%	10.62%	7.70%
Medium Term Moderate Graduate Fund	2.55%	6.70%	13.43%	8.60%
Long Term Moderate Graduate Fund	3.15%	8.17%	16.26%	11.90%
Short Term Aggressive Graduate Fund	2.55%	6.68%	13.41%	7.90%
Medium Term Aggressive Graduate Fund	3.12%	8.11%	16.15%	8.80%
Long Term Aggressive Graduate Fund	3.66%	9.47%	18.81%	11.90%
Long Term Aggressive Retirement Fund	3.99%	10.51%	19.99%	13.20%
JMMB Wealth Builder	Feb-17	Dec 2016 - Feb 2017	Actual Returns Feb 29, 2016- Feb 28, 2017 (Net of Management Fees)	Projected Long Term Return Per Annum
Short Term Conservative Wealth Builder Fund	1.05%	3.09%	6.72%	7.30%
Medium Term Conservative Wealth Builder Fund	2.05%	5.51%	11.14%	8.40%
Long Term Conservative Wealth Builder Fund	2.94%	7.70%	15.28%	11.80%
Short Term Moderate Wealth Builder Fund	1.71%	4.67%	9.60%	7.50%
Medium Term Moderate Wealth Builder Fund	2.66%	6.98%	13.91%	8.60%
Long Term Moderate Wealth Builder Fund	3.48%	9.03%	17.88%	11.80%
Short Term Aggressive Wealth Builder Fund	2.33%	6.16%	12.39%	7.80%
Medium Term Aggressive Wealth Builder Fund	3.22%	8.38%	16.62%	8.70%
Long Term Aggressive Wealth Builder Fund	3.99%	10.33%	20.45%	11.80%

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.

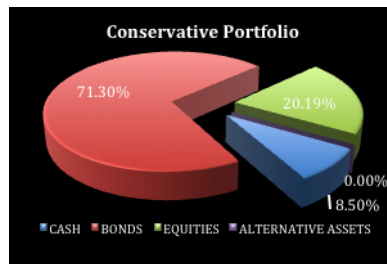
Income and Growth

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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