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Jamaica Money Market Brokers Ltd. | Market Research

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JMMB's Portfolio Management Services CLIENT PORTFOLIO RECOMMENDATIONS

GLOBAL REVIEW AND OUTLOOK

- Following the UK's historic exit from the European Union (BREXIT) we have seen increased uncertainty in the global markets, consequently a downward revision of global growth forecasts by the IMF. For 2016, the IMF revised global growth downwards by 0.1% and growth for 2017 revised downwards by 0.2% with suggestions that growth could be negatively impacted by as much as 0.3% and 0.5% for 2016 and 2017 respectively. In the month following Brexit (June 23 to July 23) the Pound Sterling (£) was down 13% to the US\$ and 8.5% to the Euro (€) making the Pound the worse performing currency of 2016 overtaking the Argentine Peso. The downward revision of growth should primarily affect the more advanced European economies (Germany etc.) with minimal impact to other economies like China and the US.
- The first half of 2016 showed gradual recovery in the oil market which was moderately above expectations. There were reductions in the excess supply due to a gradual cutback in production by non-OPEC producers and supply disruptions in Nigeria and Canada to name a few.
- The decision by the US Federal Reserve to delay its monetary tightening resulted in a boost in the financial markets. With this move, the Fed signalled that the US economy was not as strong and it allowed investors to put liquidity into sovereign debt which kept yields and borrowing costs low.

LOCAL REVIEW AND OUTLOOK

- On August 9, 2016 the Government of Jamaica announced a tender that saw holders of the GOJ 2017 and GOJ 2019 global bonds exchanging their holdings in the assets for cash or the longer dated GOJ 2039. The GOJ 2039 was not a new issue but rather a re-tap of an existing offer. The Government of Jamaica used this offer as a way of improving the maturity profile of its debt. The government effectively bought back short dated securities in exchange for longer dated maturities.
- The domestic inflation rate has trended down over the past 18-months due in part to low commodity and oil prices, which have transmitted through to subdued













electricity, transportation and food prices. In June the 12-month inflation rate was 2.5% however the month-on-month inflation rate was 0.9%, up a 5-month moving average of -0.3% in the previous month. Higher tax on fuel arising from the GOJ Budget in FY 2016/17 is expected to push the 12-month inflation rate towards 4% by end-December.

- After depreciating by 4.8% at end-December 2015, the pace of depreciation of the domestic currency accelerated during the first half of 2016 to 8% at end-June, despite reduction in the current account deficit and the central bank holding a relatively high NIR, US\$2.3 billion at end June. The domestic currency lost 3.7% in Q2 2016 due in part to several US-dollar financial transactions in the market and transition in the board at the central bank. The pace of depreciation of the domestic currency slowed marginally to 7.6% at end-July. While the macro-fiscal conditions remain stable, the foreign currency market is likely to remain unbalanced through to the rest of the calendar year, and as such the depreciation rate is likely to remain relatively elevated.
- At end-July, yields on the 3-month and 6-month were 5.77% and 5.94% which were 67 basis points (bps) and 66 bps lower than in July 2015.

REGIONAL REVIEW AND OUTLOOK

- The Employee Retirement System of the Government of the Commonwealth of Puerto Rico (EMPGEN) recently announced that it will be suspending monthly coupon payments from August 1, 2016 through to January 31, 2017. The suspension is a technical default and will result in a modification to the rights of security holders. However, no individual or entity may take any legal action or commence any proceedings against Puerto Rico to accelerate payment based on the recent laws signed by US President Barack Obama.
- The Government of Trinidad and Tobago recently issued a new 10 year global bond with a coupon rate of 4.5%

Market Pulse

INDEX/ITEM	LEVEL/PRICE	TREND
JSE Main	158,427.63	
JSE JNR	2,200.27	
ALL TTSE	1,820.31	
S&P 500	2,174.64	
BOJ 90 DAY T-BILL	5.77%	
T&T REPO RATE	4.75%	
T&T DEBT/GDP	42.10%	
GOJ DEBT/GDP	122.50%	
US\$:T&T\$	\$6.69	
US\$:J\$	\$126.80	
OIL (PER BARREL)	US\$47.04	
GOLD (PER OUNCE)	US\$1,327.05	

EQUITY REVIEW

Having registered strong performance in 2015 the market has cooled off a bit in the first half of 2016 with only modest appreciation in the major indices. Notwithstanding there are still several companies trading above their intrinsic values.

Taking gains on these assets may not be a reflection on the company's prospect but simply prudent portfolio management as the proceeds from the sale may be used to take positions in other companies that are more attractively priced. 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.

Please see a list of companies below that have exceeded their target prices significantly and that warrant a serious look for profit taking at this time

COMPANY NAME	SYMBOL	MARKET PRICE	TARGET PRICE	% ABOVE TARGET PRICE
Sagicor Life Jamaica Limited	SJ	\$21.08	\$10.07	109%
Knutsford Express Limited	KEX	\$23.24	\$6.08	282%
Berger Paints	BRG	\$5.00	\$2.25	122%
Ttech Limited		\$4.98	\$2.41	106%
Caribbean Cement Company Limited	CCC	\$26.41	\$4.48	489%
CAC 2000 Limited		\$6.00	\$4.30	40%

Target price is based on most recent fundamental assessment of the respective company's intrinsic value.

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 that the funds realized from selling those above could be channelled into. 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)

- 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)

- 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)

- 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

Jamaica Producers Group (JPG)

- Diversified conglomerate with local and international manufacturing and distribution operations
- Low valuation dynamics relative to industry and market peers

Major Market Updates

- Grace Kennedy and Jamaica Producers recently completed stock splits 3-1 and 5-1 respectively
- Cargo handlers Limited has announced an upcoming 2-1 stock split

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	\$18.90	3.99%	6.09%
Income and Growth	Equity	\$11.81	16.62%	44.76%
Optimum Capital	Real Estate	\$24.19	12.74%	25.72%
JMD Bond Fund	Fixed income	\$18.129	4.22%	6.29%
JMD Real Value Fund	Mutual Funds	\$10.8833	4.13%	5.73%
JMD Income Distribution	Fixed Income	\$10.0584	1.56%	2.34%
USD Income Distribution	Fixed Income	\$1.0093	5.93%	3.41%

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

Portfolio diversification continues to be our main emphasis, seeking exposure on the short end of the yield curve and building out laddered portfolio is the prescribed strategy for fixed income securities. With continued increase in US interest rates, the UK's exit from the EU (BREXIT) and the slowdown in China's economy sustained levels of volatility is expected to continue throughout the Emerging Markets. Hence, our bias is still skewed towards building out laddered portfolios to include high quality issuers. As outlined above, it would be extremely prudent as well to ensure that these fixed income portfolios have a relatively short duration as this will help reduce portfolio volatility as prices adjust. This should be within the context of what is appropriate given the client's risk and return objectives.

Bond	Coupon Rate	Indicative Price	Indicative yield	Recommendation
Petroleum Company of Trinidad and Tobago 2019	9.75%	\$113.50	4.82%	HOLD/MARKET WEIGHT
Govt. of Jamaica Amortised Bond 2021B	8.50%	\$111.75	5.86%	BUY
Sagicor Finance Ltd 2022	8.875%	\$116.00	5.67%	HOLD/MARKET WEIGHT
Govt. of Trinidad 2024	4.375%	\$108.00	3.15%	BUY
Govt. of Dominican Republic 2024	5.875%	\$111.25	4.14%	BUY
Nat Road Operating & Constructing Co. (NROCC) 2024	9.375%	\$119.50	6.30%	BUY
Govt. of Jamaica 2025	7.625%	\$118.00	5.08%	BUY
Air Jamaica 2027	8.125%	\$110.25	6.77%	BUY
Govt. of Jamaica 2028	6.625%	\$114.25	5.11%	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 is that no individual asset in a portfolio should have a weighting greater than **10%** and you should be guided at all times by our official recommendation on each asset. 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 available in both USD and JMD:

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 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 consist 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 our USD discretionary plans (both plan 1 and plans 2) as at the end of July.

US\$ Wealth Bulider (Plan 1)	Jul-16	May - July 2016	Actual Returns Apr 1, 2015- July 2016 (Net of Management Fees)	Projected Long Term Return Per Annum
US\$ High Net Worth Short Term Conservative Wealth Builder	2.75%	4.74%	6.33%	4.40%
US\$ High Net Worth Short Term Moderate Wealth Builder	2.61%	4.52%	7.03%	4.40%
US\$ High Net Worth Short Term Aggressive Wealth Builder	2.90%	4.96%	5.10%	4.50%
US\$ High Net Worth Medium Term Conservative Wealth Builder	2.03%	5.22%	7.22%	5.60%
US\$ High Net Worth Medium Term Moderate Wealth Builder	1.94%	4.99%	7.49%	5.80%
US\$ High Net Worth Medium Term Aggressive Wealth Builder	2.12%	5.45%	5.38%	5.90%
US\$ High Net Worth Long-term Conservative Wealth Builder	2.39%	6.06%	8.89%	6.70%
US\$ High Net Worth Long Term Moderate Wealth Builder	2.28%	5.80%	8.34%	6.90%
US\$ High Net Worth Long Term Aggressive Wealth Builder	2.47%	6.26%	5.70%	7.00%
Fund Strategy (Plan 2)	Jul-16	May - July 2016	Actual Returns Apr 1, 2015- July 2016 (Net of Management Fees)	Projected Long Term Return Per Annum
Short Term Graduate	1.72%	2.44%	3.70%	4.00%
Medium Term Graduate	1.72%	2.44%	3.70%	5.00%
Long Term Graduate	1.72%	2.44%	3.70%	6.00%
Short Term Emergency	0.38%	0.96%	3.91%	4.00%
Medium Term Emergency	0.38%	0.96%	3.91%	5.00%
Long Term Emergency	0.38%	0.96%	3.91%	6.00%
Short Term Retirement	1.72%	2.44%	3.70%	4.00%
Medium Term Retirement	1.72%	2.44%	3.70%	5.00%
Long Term Retirement	1.72%	2.44%	3.70%	6.00%
Short Term Wealth Builder	1.72%	2.44%	3.70%	4.00%
Medium Term Wealth Builder	1.72%	2.44%	3.70%	5.00%
Long Term Wealth Builder	1.72%	2.44%	3.70%	6.00%

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.

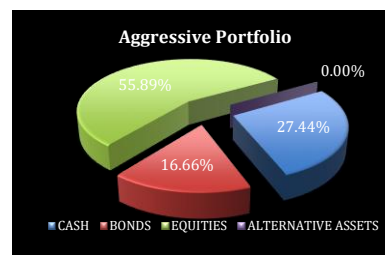
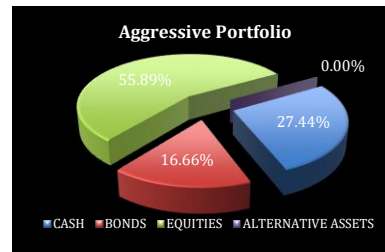
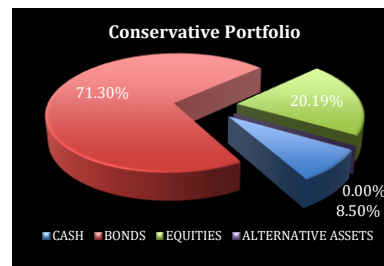
Income and Growth

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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