

**Daniel Thompson – Manager, Client Portfolio and Investment Strategies**

Jamaica Money Market Brokers Ltd. | Market Research

Jamaica, West Indies | Friday, 7 July 2017

## JMMB's Portfolio Management Services CLIENT PORTFOLIO RECOMMENDATIONS

### GLOBAL REVIEW AND OUTLOOK

- June 19th 2017 saw the commencement of the BREXIT negotiations. These negotiations will see the UK meet with the other 27 countries remaining in the EU to formally arrange a seamless exit from the Union. Amidst fears that the result of the recent UK snap election would impact the talks German Chancellor Angela Merkel has stated that she doesn't expect the election results to impact the negotiations. The snap election, which is generally used to describe an election called earlier than expected, saw Britain's conservative party failing to secure a majority in parliament. The BREXIT negotiations comes one year after Britain voted to exit the EU.
- Oil prices continue to slide as investor worries about the world's stubbornly persistent glut of crude erased most of the gains that followed last year's OPEC's output cut. Despite OPEC's attempt to curb production supply remains a concern
- Consistent with market expectations the Federal Open Market Committee (FOMC) continued on its interest rate increase path, moving up its benchmark rate another 25 basis points (0.25%) on Wednesday June 14<sup>th</sup>.

### LOCAL REVIEW AND OUTLOOK













- The GOJ conjunction with Citibank has embarked on a non-deal road show on the 6<sup>th</sup>, 8<sup>th</sup> and 9<sup>th</sup> of June. A non-deal roadshow (NDR) is a series of meetings across different cities in which top executives from a company have the opportunity to talk with current or potential investors for informational purposes, rather than to participate in a specific capital markets issuance or opportunity. Despite being a non-deal roadshow show market participants are of the impression that a GOJ deal may be on the horizon.
- The sovereign's macro-fiscal fundamentals remain positive despite slight upward adjustment in inflation reflecting normalisation of prices, in particular crude oil price. Consumer and producer confidence remain high, reflecting strong support for the Government of Jamaica's (GOJ) economic programme.
- As expected JISCO resumed production of alumina at the production facility in Nain, St. Elizabeth. This is a fillip to the Mining and Quarrying sector which is projected to expand by 15% in 2017. The growth rate in the sector is heavily predicated on alumina production in Nain. Real GDP is expected to expand by 1.5%.

- Real GDP is projected to have expanded by 1.1% in FY 2016/17 but was relatively flat in Q1:17 compare to Q1:16. During Q1:17 the Service Industry expanded by 0.5% while the Goods Producing Industry contracted by 1.1%. Reduction of output in the Goods Producing Industry reflected declines in Mining & Quarrying (10.8%) and Agriculture, Forestry & Fishing industries (2.5%), which outweighed increases in the Manufacture industry (1.1%) and the Construction industry (0.8%).
- The month-on-month inflation rate in May was 0.1%. The calendar year-to-date inflation rate was 1.4%, the 12-month rate 4.6% and the fiscal year-to-date 0.4%.
- The Jamaica dollar traded at an exchange rate of J\$128.62 to US\$1 at end-June. When compared to May, the J-dollar appreciated by \$1.46 or 1.1% resulting in the 12-month depreciation rate plummeting to 1.8%. Matched against the similar period in 2016, the pace of depreciation of the domestic currency fell by 6.2%. The appreciation in June help to reverse the cumulative depreciation for the two months prior, as the rate of exchange at end-Q2:17 was relatively unchanged relative to the end-Q1:17.

### REGIONAL REVIEW AND OUTLOOK

- The macro-fiscal outlook for Trinidad and Tobago is likely to remain relatively stable through to 2018. This view reflects improvement in real GDP due to expected positive shift in hydrocarbon output and stronger prices relative to 2016. Full scale resumption of work at plants that were shuttered for maintenance overhaul and new production facilities at the Juniper oil field that are due to come on stream are the main factors informing this outlook. Fiscal consolidation efforts are expected to continue which should help to cauterize the deficit. This coupled with improved economic growth and low depreciation of the domestic currency are expected to lead to stabilization in the debt to GDP ratio.
- The sovereign has been facing economic challenges culminating with the fallout in hydrocarbon prices and declining output from maturing oil fields. In addition to that subdued economic growth in some Caribbean territories, particular Barbados has led to low export growth in Non-petroleum output. Notwithstanding, there is a ray of optimism that real economic growth will increase to around 2% per annum over the medium-term while unemployment is expected to rise marginally over the similar period.

### Market Pulse

INDEX/ITEM	LEVEL/PRICE	TREND
JSE Main	236,382.44	
JSE JNR	3133.00	
ALL TTSE	1,790.02	
S&P 500	2,425.50	
BOJ 90 DAY T-BILL	6.13%	
T&T REPO RATE	4.75%	
T&T DEBT/GDP	61.10%	
GOJ DEBT/GDP	117%	
US\$:T&T\$	\$6.76	
US\$:J\$	\$128.62	
OIL (PER BARREL)	US\$44.23	
GOLD (PER OUNCE)	US\$1,213.20	

Market activities has slowed a bit in the 2<sup>nd</sup> Quarter 2017 as the combined indices grew by approximately 5% for the period April to June. As we enter the summer consumption period the market is expected to remain relatively flat and we may see some consolidation. The most recent earning season saw mixed results with some of the more established companies posting good results well while others saw slower earnings growth when compared to the same period in the previous year.

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 get equities and within the past two (2) weeks, two companies have announced their intention to go public, Productive Business Solutions Limited (PBS), Stationery and Office Supplies Limited (SOS) and Express Catering Limited. 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.

### **Scotia Group Jamaica Limited (SGJ) - \$42.46**

- 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) - \$88.60**

- 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) - \$70.31**

- 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) - \$18.18**

- 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) - \$9.50**

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

### **Major Market Updates**

- Scotia Investments Limited (SIJL):The Board of SIJL Accepts Recommendation to Support Scotia Group's Proposal to take SIJL Private
- Seprod Limited (SEP) has advised of the following changes to their Executive Management Team:Mr. Devon Francis joined as General Manager of Serge Island Dairies Limited effective May 7, 2017.Mrs. Donna-Kaye Sharpe resigned from the post of General Manager of Industrial Sales Limited effective May 31, 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 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	\$19.62	2.38%	4.34%
Income and Growth	Equity	\$15.06	16.04%	28.57%
Optimum Capital	Real Estate	\$27.80	9.11%	16.15%
JMD Bond Fund	Fixed income	\$11.2822	2.96%	4.80%
JMD Real Value Fund	Mutual Funds	\$11.1105	1.57%	3.41%
JMD Income Distribution	Fixed Income	\$10.1146	2.34%	4.83%
USD Income Distribution	Fixed Income	\$1.0093	3.39%	4.24%

### 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

The second quarter of 2017 has been pretty much the same as 1<sup>st</sup> as the bond market has given no clear indication of any directional trend. Trading has been relatively flat over the last month particularly as it relates to Emerging Market debts. Consistent with Analysts' forecasts the US Fed has increased rates for the 3<sup>rd</sup> consecutive quarters with the possibility of further rate hikes this year. Locally, the GOJ enlisted Citibank to embark on 'non-deal' roadshow which despite the message from the GOJ has market participants speculating whether or not there is a GOJ deal on the horizon.

We continue to emphasize the importance of portfolio diversification as 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.

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%	\$107.50	5.94%	HOLD/MARKET WEIGHT
Sagicor Finance Ltd 2022	8.875%	\$114.50	5.58%	HOLD/MARKET WEIGHT
Govt. of Trinidad 2024	4.375%	\$102.25	3.98%	BUY
Grupo Unicomer 2024	7.875%	\$109.00	6.22%	BUY/OVERWEIGHT
Govt. of Dominican Republic 2024	5.875%	\$108.00	4.50%	BUY
Nat Road Operating & Constructing Co. (NROCC) 2024	9.375%	\$125.25	5.20%	BUY
Govt. of Jamaica 2025	7.625%	\$119.50	4.69%	BUY
Air Jamaica 2027	8.125%	\$110.00	5.77%	BUY
Govt. of Jamaica 2028	6.625%	\$116.25	4.81%	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.

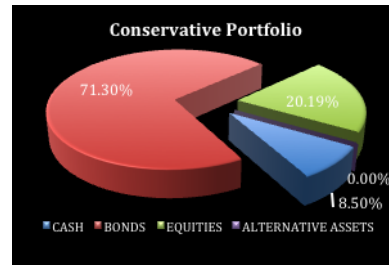
### Income and Growth

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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