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When In Doubt, Think Alternative

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ANALYST INSIGHT

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Much has been made of how traditional asset classes of equities and fixed income securities have performed in 2020. From the over 30% decline in March, when the World Health Organization declared the COVID-19 a global health pandemic, traditional asset classes went into a tizzy. Today, much of that decline has been recouped globally due to extraordinary levels of support by governments, central banks and multinational agencies. When looking at the securities market, all would seem okay, but in truth, the health of the global economy is still in quite a precarious place. But, amidst all the confusion, asset classes classified as **Alternative Investments** have done quite well during this period. In this week's issue, we seek to explore the idea of alternative investments, their performance, the benefits of the inclusion of their portfolio and our outlook for this asset class.

Characteristics of Alternative Investments

Truthfully, there is no one fixed definition for this asset class. It is categorized as all forms of securities that are financial assets that do not fall into one of the conventional equity/income/cash categories. The simpler forms of alternative investments include Private Equity, Hedge Funds, Private Credit, Art and Antiques, Commodities and Real Estate. Empirically, alternative investments offer common features to an investor's portfolio, including:

- Low Correlation To Traditional Investments Like Stocks And Bonds
- Higher Return Potential Than Traditional Investments
- More Esoteric And Oftentimes Illiquid Assets
- Longer Lock-up Of Periods, Meaning Shares Or Interests May Not Be Able To Be Redeemed/Sold On A Daily Basis. This Helps Allow For Exposure To Less Liquid Assets
- Often Complex Investment Structures And Risk-return Profiles
- Typically, Higher Minimum Investment Requirements
- Unique Risk Profile That Should Be Understood Prior To Investing

Benefits of Alternative Investments In Your Portfolio

Given the characteristics of alternative investments, a survey completed by Ernst & Young (2019) found that 25% of Assets Under Management were allocated towards Alternative Investments. In 2019, over US$1.18 trillion worth of Alternatives fundraising occurred (US$1.14 trillion in 2018). As of August 2020, there has been US$488 billion in. Fundraising (US$259 billion in Private Equity, accounting for approximately 53% of fundraising). What this indicates that asset managers have increased their positions and risk tolerance for alternative investments. Thus far into the calendar year, the low correlation to traditional asset classes continue to hold firm, with yields within this space still outperforming those of equities and fixed income. In the context of the global investing landscape, alternatives will continue to be a necessary component of any investor's portfolio going forward.

How to Participate in Alternative Investments

While alternative investments are mainly for the more sophisticated investors, locally, average investors can participate in these securities through exchange-traded funds (ETF) and unit trusts products. These will allow investors to get indirect exposure to these securities also benefit from having diversification and even a hedge in your portfolio against bad times.

LOCAL EQUITIES MARKET

For the week ended Friday, our local stock market closed slightly lower week-over-week. The Main Market Index decreased by 0.28%, the JSE All Jamaican Composite Index decreased by 0.33%, the JSE Junior Market Index increased by 0.10%, the JSE Combined Index decreased by 0.25%, and the JSE USD Equities Index increased by 11.50%.

The biggest winner this week is Sterling Investments Limited rising by 41.38% to close at US$0.03. The biggest loser was Main Event Entertainment Group falling by 18.38% to close at J$3.02.

Year to date, all the major equity indexes are still down by high double digits (see, the table below); and three months since March, has been relatively flat.

Overall Market activity resulted from trading in 100 stocks of which 40 advanced, 50 declined and 10 traded firm.

Market volume amounted to 91,591,523 units valued at over $766,265,625.43. TransJamaican Highway Limited was the volume leader with 22,068,699 units (24.09%) followed by Wigton Windfarm Limited Ordinary Shares with 19,813,620 units (21.63%) and General Accident Insurance Company (JA) Limited with 4,768,024 units (5.21%) .

Renewable energy company Wigton Windfarm will definitely be returning to the equities market in the coming months to raise capital for its expansion plans, particularly in Jamaica.
http://www.jamaicaobserver.com/business-report-daily-biz/wigton-mulls-raising-more-capital-quarterly-dividend-payments-being-contemplated-to-calm-shareholders-concerns_206086?profile=1056

Regional gaming company Supreme Ventures Limited (SVL) is reporting profit of $1.6 billion for the nine-month period ended September 2020, a turnaround of its fortunes after having suffered severe financial haemorrhaging in its second quarter. As the global economy struggles to recover from the COVID-19-induced recession, its worst collapse in nearly a century, the IMF estimates that the global economy will shrink 4.4 per cent for 2020, which would represent the worst annual plunge since the Great Depression of the 1930s.
http://www.jamaicaobserver.com/sunday-finance/svl-rebounds-in-q3-from-covid-19-setbacks-gaming-firm-chalks-up-1-6-billion-profit_206649?profile=1056

Private credit firm Sygnus Credit Investments Limited (SCI) says it expects to grow its business significantly as more entities seek capital to navigate the uncertain waters charted by the spread of COVID-19.
http://www.jamaicaobserver.com/sunday-finance/sygnus-eyes-more-growth-amid-covid-crisis_206579?profile=1056

Caribbean Cement Company has done what several other listed companies have been failing to do, record increased profits and revenues in despite COVID-19 challenges.
http://www.jamaicaobserver.com/business-report/carib-cement-weathers-covid-19-storm-posts-good-earnings-and-profits-in-third-quarter_206477?profile=1056

Index	30/10/2020	23/10/2020	31/12/2019	Week/Week	Year-to-Date
JSE Main Market	375,386.39	376,431.65	509,916.44	-0.28%	-26.38%
JSE Junior Market	2,470.24	2,467.78	3,348.97	0.10%	-26.24%
JSE Combined Market	371,964.67	372,900.79	505,253.98	-0.25%	-26.38%
JSE USD Equities Market	197.42	177.06	226.23	11.50%	-12.73%

INTERNATIONAL DEVELOPMENTS

Equities suffered their worst weekly declines since March, as the resurgence in the coronavirus and election uncertainty weighed on sentiment. With the narrow exception of the S&P 500 Index, the major benchmarks fell into correction territory on Friday morning, or down over 10% from recent highs. The declines were broad-based, but information technology and consumer discretionary shares fell the most within the S&P 500. The small utilities, materials, and real estate sectors held up best, while the Cboe Volatility Index (VIX) reached its highest level since early June.
https://www.troweprice.com/personal-investing/resources/insights/global-markets-weekly-update.html#US

The week started off on a down note, with concerns over steeply rising coronavirus case counts in Europe and the U.S. weighing heavily on sentiment. T. Rowe Price traders noted that waning stimulus hopes also appeared to be a headwind despite already low expectations for a pre-election deal. On Tuesday, shares fell further as data showed COVID-19 hospitalizations had risen at least 10% in the past week in 32 states and the nation's capital. The pullback continued on Wednesday, as investors appeared to react to new shutdown measures in Europe. The accelerating coronavirus case count seemed to overshadow some positive vaccine news during the week, with AstraZeneca reporting early data showing that its vaccine candidate produced a robust immune response in elderly people.
https://www.troweprice.com/personal-investing/resources/insights/global-markets-weekly-update.html#US

The week's economic data contained some positive surprises and may have limited the declines. Stocks snapped their losing streak on Thursday, seemingly helped by news that U.S. gross domestic product (GDP) had increased at an annualized rate of 33.1% in the third quarter, above consensus expectations of around 31%. Investors also seemed encouraged by weekly jobless claims, which came in lower than forecast and reached a new pandemic low. Continuing claims were more in line with expectations but continued to fall sharply, from 8.5 million to 7.8 million.
https://www.troweprice.com/personal-investing/resources/insights/global-markets-weekly-update.html#US

Longer-term Treasury yields declined early in the week as surging coronavirus cases in Europe and the U.S. magnified uncertainty about the economic recovery. On Thursday, however, yields largely retraced earlier moves on better-than-expected economic data.
https://www.troweprice.com/personal-investing/resources/insights/global-markets-weekly-update.html#US

Investment-grade corporate bond spreads—the extra yield offered over Treasuries, and an inverse measure of the sector's relative appeal—moved wider, led by energy sector credits amid declining oil prices. Surging coronavirus cases, fiscal stimulus uncertainty, and the upcoming presidential election weakened macro sentiment.
https://www.troweprice.com/personal-investing/resources/insights/global-markets-weekly-update.html#US

Index	30/10/2020	23/10/2020	31/12/2019	Week/Week	Year-to-Date
Dow Jones	26,501.60	28,335.57	28,538.44	-6.47%	-7.14%
S&P 500	3,269.96	3,465.39	3,230.78	-5.64%	1.21%
NASDAQ 100	11,052.94	11,692.57	8,733.07	-5.47%	26.56%
FTSE 100	5,577.27	5,860.20	7,542.44	-4.83%	-26.05%
Euro Stoxx 50	2,958.21	3,198.86	3,745.15	-7.52%	-21.01%

Local Economic Conditions

USD Foreign Exchange Market

- The Jamaican Dollar appreciated against most major currencies last week. Our local currency appreciated by 1.18% against the U.S. Dollar week on week to settle at $145.00 as at close of trade Friday, relative to J$146.74 per US$1.00 at the end of the prior. Year to date depreciation has been 9.38%.

- Since the outbreak of the COVID-19, the Bank of Jamaica (BOJ) has been proactive in providing adequate liquidity support to our local institutions. However, this has been difficult especially seeing that manufacturers and importers have been demanding additional foreign exchange to purchase raw materials to carry out their business in preparations for the upcoming hurricane season, as well as market players engaging in precautionary purchasing.

- The BOJ recently reopened three tranches of Fixed Rate Benchmark Investment Notes with maturities in 2023, 2029 and 2034 (the "Notes").

- Collectively, the reopening of these Notes will raise approximately J$39 billion.

Currency Pair	30/10/2020	23/10/2020	31/12/2019	Week/Week	Year-to-Date
JMD: USD	145.00	146.74	132.57	1.18%	-9.38%
JMD:CAD	110.67	112.62	100.70	1.73%	-9.90%
JMD:GBP	185.12	193.12	170.64	4.14%	-8.49%

Unit Trust Performance

- The Money Market Fund increased 0.09% week-on-week, the FX Bond Portfolio had decreased by 0.24%, the F.X. Growth Portfolio decreased by 3.71% in value, and the Real Estate Portfolio increased by 0.08% in value. The Capital Growth Fund decreased by 2.36% week over week.

- Barita's Collective Investment Schemes ("CIS") offer the opportunity for investors to remain invested in the market at this delicate stage of the market cycle; moreover, there is a diversification benefit and opportunity to have a professional portfolio manager make the best-in-class professional judgements on your behalf.

- The F.X. Growth Fund, which is benchmarked against the S&P 500, has been in-line with it's benchmark with a 1.57% year to date performance relative to S&P 500's performance of 1.21% . This fund helps investors to gain exposure to the U.S. equities market, without taking on the risk of directly investing in a single company.

- The Capital Growth Fund suffered the same fate as our local equity market but remains above the year to date performance of the combined index. This is as attractive as securities were also oversold during the March sell-off and represented an attractive entry point to be capitalized on. The FX Bond Portfolio remains an attractive fixed-income portfolio, especially taking into consideration the large retreat from emerging market (E.M.) securities. With investors seeking "safe haven" in a more developed market (D.M.) securities and essentially selling down their positions in E.M. securities, opportunities were exposed for our fund managers to capitalize on.

"The fool wonders, the wise man asks"— Benjamin Disraeli

CONCLUSION

Unit Trust Fund	29/10/2020	21/10/2020	Week/Week Return	Year-to-Date Return	1 Year Return	Yield
Capital Growth	79.6643	81.59	-2.36%	-17.69%	-11.93%	-
Money Market	14.7938	14.7803	0.09%	2.98%	2.99%	2.05%
Income Portfolio	100.00	100.00	-	-	-	1.83%
FX Bond Portfolio (US$)	1.3097	1.3128	-0.24%	-2.42%	-1.38%	1.98%
Real Estate Portfolio	5,417.71	5,413.17	0.08%	5.30%	19.29%	-
FX Growth Portfolio	0.9098	0.9449	-3.71%	1.57%	4.81%	-

- Alternative investments offer common features to an investor's portfolio, including:

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- Higher Return Potential Than Traditional Investments
- More Esoteric And Oftentimes Illiquid Assets
- Longer Lock-up Of Periods, Meaning Shares Or Interests May Not Be Able To Be Redeemed/Sold On A Daily Basis. This Helps Allow For Exposure To Less Liquid Assets
- Often Complex Investment Structures And Risk-return Profiles
- Typically, Higher Minimum Investment Requirements
- Unique Risk Profile That Should Be Understood Prior To Investing

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- US Equities suffered their worst weekly declines since March, as the resurgence in the coronavirus and election uncertainty weighed on sentiment. With the narrow exception of the S&P 500 Index, the major benchmarks fell into correction territory on Friday morning, or down over 10% from recent highs. The declines were broad-based, but information technology and consumer discretionary shares fell the most within the S&P 500. The small utilities, materials, and real estate sectors held up best, while the Cboe Volatility Index (VIX) reached its highest level since early June.

- The week's US economic data contained some positive surprises and may have limited the declines. Stocks snapped their losing streak on Thursday, seemingly helped by news that U.S. gross domestic product (GDP) had increased at an annualized rate of 33.1% in the third quarter, above consensus expectations of around 31%. Investors also seemed encouraged by weekly jobless claims, which came in lower than forecast and reached a new pandemic low. Continuing claims were more in line with expectations but continued to fall sharply, from 8.5 million to 7.8 million.

Investment Playbook

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Equities

Stock Ticket	Stock Information (As at October 30, 2020)	Analyst Outlook
WISYNCO Wisynco Group Ltd	P/E: 21.94X P/B: 4.50X Price: J$15.58 Div Yield: 0.50%	**OVERWEIGHT** The local fiscal support to both households and businesses was instrumental in maintaining individuals' consumption capacity, particularly those furloughed and made redundant, which supported the demand for consumer staples distributed by manufacturers and distributors Wisynco. We expect that with continued fiscal support through either direct household support or government spend on projects to stimulate employment, Wisynco's business will thrive in this environment.
LASM Lasco Manufacturing	P/E: 13.82X P/B: 1.99X Price: J$3.41 Div Yield: 0%	**OVERWEIGHT** The local fiscal support to both households and businesses was instrumental in maintaining individuals' consumption capacity, particularly those furloughed and made redundant, which supported the demand for consumer staples distributed by manufacturers and distributors LASM. We expect that with continued fiscal support through either direct household support or government spend on projects to stimulate employment, LASM's business will thrive in this environment. Given that more restrictive curtailment measures do not seem likely, LASM is likely to perform better than in the April - June quarter. The national curfew measures were particularly restrictive and, therefore, negatively impacted LASM's revenue growth.
LASD Lasco Distributors	P/E: 13.03X P/B: 1.78X Price: J$3.03 Div Yield: 0%	**OVERWEIGHT** The local fiscal support to both households and businesses was instrumental in maintaining individuals' consumption capacity, particularly those who were furloughed and made redundant, which supported the demand for consumer staples distributed by manufacturers and distributors as LASD. We expect that with continued fiscal support through either direct household support or government spend on projects to stimulate employment, LASD's business will thrive in this environment.

Ratings Definitions

OVERWEIGHT/BUY
Exposure to this asset should be between 5% and 10% of your total portfolio

MARKETWEIGHT/HOLD
Exposure to the asset should be equal to 5% of your total portfolio

UNDERWEIGHT
Reduce exposure in your portfolio to less than 5% for this particular asset

SELL
Reduce exposure in your portfolio to zero

Investment Playbook

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Equities

Stock Ticker	Stock Information (As at October 30, 2020)	Analyst Outlook
KWL Kingston Wharves Ltd	P/E: 25.33X P/B: 2.53X Price: J$47.90 Div Yield: 0.65%	**MARKETWEIGHT** KWL had already made significant investments to capture more wallet share in international trade: KWL invested in a Global Auto Logistics Centre, which houses both new and used vehicles for domestic and international transporters. KWL also invested heavily in the Total Logistics Facility, which comprises international standard equipment to manage cargos' haulage. KWL also developed technological resources to improve the clearance and registering speed of cargos, allowing for comprehensive and adequate cargos management.
JBG Jamaica Broilers Group	P/E: 18.98X P/B: 1.95X Price: J$26.91 Div Yield: 1.37%	**OVERWEIGHT** JBG's main strategy moving forward is to continue to grow and diversify its food businesses abroad by gaining market share. The company sees opportunities in the USA (Wincorp International in Florida and International Poultry Breeders in Georgia and Arkansas) and continues to see opportunities to expand investments in the country. JBG continues to maintain a unique and strong position in the Jamaican market (Best Dressed, Hi-Pro and Reggae Jamin') and Haiti (Le Chic Poulet). The company has a fair presence in the Haitian market, and it is expanding within the United States especially under "The Best Dressed Chicken" brand which provides significant opportunities for growth as well supporting its operations in the Caribbean.
CCC Caribbean Cement Company	P/E: 18.65X P/B: 14.47X Price: J$55.59 Div Yield: 0%	**OVERWEIGHT** Their ability to generate revenues during this period will be based on CCCs ability to generate business outside of Jamaica (which accounts for the majority of revenue). The increased synergy between CCC and their ultimate parent company CEMEX S.A.B de C.V (Cemex), giving them access to a wider market, will become fruitful in the current downpour being experienced globally, especially in the context of the domestic economic fallout of COVID-19. This bodes well for the future growth prospects of CCC over the short and medium-term. The recent restructuring of the company to acquire additional assets from its parent company through debt while also repurchasing redeemable preference shares will be a drag on earnings with if revenue generation is impacted.

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