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Decentralized Finance Rising As an Asset Class

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ANALYST INSIGHT

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Decentralized Finance Rising As An Asset Class

Crypto currency and block chain technology have garnered plenty of media attention in the past 2 years, particularly due to the incredible bull run of Bitcoin. Block chain technology, which underpins crypto currencies can be considered as a digital ledger, which records and validates transactions and has been touted as a disrupter of intermediary roles played by the traditional financial sector. One such application of this technology is De-Fi or decentralized finance.

From our assessment, our conclusion on De-Fi is that the technology is currently in initial stages and as such there exists little regulation or oversight through which to protect the average investor. This coupled with the number of high-profile hacks and protocol vulnerabilities on several De-Fi applications means that this is not an investment venture that would be recommended to the unsophisticated investor, particularly ones that are new to the cryptocurrency market. Let's explore the arguments supporting this conclusion.

Decentralized Finance (De-Fi)
De-Fi is a fin-tech protocol that allows users to utilize financial services such as borrowing, lending, trading, buying insurance and scheduling payments without the need for the traditional intermediaries. De-Fi gained prominence in 2015 when the application MakerDAO allowed users to get loans in their own "DAI", which is a stable coin cryptocurrency that is pegged to the US dollar. The mechanism through which De-Fi works is the utilization of "smart contracts" written on a block chain network that executes coded instructions once specific conditions are met. Imagine you wish to establish a fund that pays out a monthly allowance once the beneficiary turns 18. De-fi applications (Dapps) would be able to validate the current date to ascertain the age of the dependent and to schedule payment to the beneficiary through the block chain, eliminating the need for a third-party and the associated fees; in other words, this could disrupt the role of traditional custody services providers, both in the context of the administration of Trusts as well as in the context of registrar services for financial securities .

Another popular use of Dapps is the ability to "yield farm". Holders of cryptocurrencies such as Ether for example, may commit their coins to a liquidity pool, becoming liquidity providers, who are paid a portion of the fees charged by platforms that use this pool to facilitate lending, borrowing, and exchanging of tokens by other users. According to De-Fi pulse (A De-Fi analytics provider) the total value committed to lending pools, in the top three lending Dapps (Maker, Aave and Compound) was US$25.91 billion as of May 26th with yields as high as 8.45% per annum. Other common popular uses of De-Fi protocols include the collateralization and tokenization of assets, derivative trading, and lottery and auction systems.

Pros and Cons
There are several touted benefits of the De-Fi applications. This includes them being immutable (that is they cannot be changed), transparent (smart contracts code can easily be audited), durable (they are active and available for as long as the blockchain remains running) and inclusive. Technically anyone with an internet connection would be able to deploy capital into a Dapp either with the intention to invest or to make payments.

Despite these benefits there are also several drawbacks. Firstly, the immutability of the contract means that the code will only be as good as the coder. Errors are difficult to correct and when a system of Dapps interacts with each other, this can compound and cause larger disruptions. A high-profile example of this was a one-line coding error that caused the Yield Farm Dapp, YAM, and its associated crypto currency falling from a market Cap of US$65 million to US$0 in a couple of hours in August 2020. A Second major consideration is that the transparency of the code makes Dapps targetable by hackers looking for vulnerabilities. This is inclusive of several attacks in 2020 on De-Fi protocols that involved code exploits. Lastly there exists risks associated with the transparency/identity of founders in some De-Fi projects as well as the rules underlying their protocols. According to Cipher trace, De-Fi related hacks in 2021 already exceeds the entirety of 2020 with "rug pull" attacks making up 47.4% of major fraud and misappropriation thus far. A rug pull is a maneuver in the crypto industry whereby developers abandon a project and illegally appropriate users' funds. Currently the largest news in the De-Fi space which involves transparency is the current audit of the Dapp Tether which provides the USDT stable coin which was allegedly backed 100% by reserves of US dollars. After an investigation by the New York Attorney General, this was proven to be false, with the tether stable coin being backed by only 75.9% Cash and Cash equivalents, of which only 3.87% was Cash.

Going Forward
De-Fi is not likely to replace traditional finance in the near term; in fact, traditional players are looking to incorporate these technologies to disrupt themselves from within. But fundamentally, the primary reason is that currently De-Fi cannot compete with the security and potential recourse/redress that is afforded by traditional finance. This security includes both legislative/legal protection for participants in the financial market and the existence of regulation, which offers some protection from fraudulent schemes. The real-life use cases for De-Fi however remains relevant as shown by several active applications and will likely continue to grow in the future. With widescale adoption and acceptance by financial Intermediaries them selves De-fi can serve to integrate with traditional banking services to offer more efficient solutions to issues. This is a space in which only sophisticated investors should tread carefully; beginner investors should, at this stage, invest in their learning and understanding of the space.

LOCAL EQUITIES MARKET

For the week ended Friday, our local stock market decreased week-over-week. The JSE Combined Index decreased by 0.79%, the Main Market Index decreased by 0.87%, the JSE All Jamaican Composite Index grew by 0.61%, the JSE Junior Market Index improved by 0.08%, and the JSE USD Equities Index declined by 2.36%.

During the week, Palace Amusement Company Limited was the largest gainer, rising by 15.90% to close at J$972.92. The biggest loser was The Limners and Bards Limited which fell by 14.07% to close at J$2.87

Year to Date, The Junior Market Index (+25.96% YTD) continues to outpace its Main Market counterpart (+6.69% YTD.)

As of Friday May 28th, 2021, Overall Market activity resulted from trading in 103 stocks of which 40 advanced, 51 declined and 12 traded firm. Market volume amounted to 202,297,917 units valued at over $1,742,003,774.77. Sagicor Select Funds Limited Manufacturing $ Distribution was the volume leader with 108,723,469 units (53.74%) followed by Sagicor Select Funds Limited – Financial with 23,749,109 units (11.74%) and Future Energy Source Company Ltd Ordinary Shares with 9,890,854 units (4.89%)

Revisiting relevant news during the week:

The Bank of Jamaica (BOJ) has missed its inflation target for the 12 months leading up to April 2021. Jamaica's inflation for the 12 months leading up to April 2021 was 3.8 per cent.
https://www.jamaicaobserver.com/sunday-finance/boj-misses-inflation-target-governor-to-provide-report-to-the-finance-minister-explaining-why_222138?profile=1056

GUARDIAN Holdings Limited, which recently cross-listed on the Jamaica Stock Exchange (JSE), could execute a stock split sometime in the future.
https://www.jamaicaobserver.com/sunday-finance/guardian-holdings-open-to-stock-split_222594?profile=1056

GraceKennedy (GK) is ramping up its mergers and acquisitions in furtherance of creating another record profitable year for the Jamaican conglomerate.
https://www.jamaicaobserver.com/business-report-daily-biz/gracekennedy-ramping-up-mergers-and-acquisitions-j-can-conglomerate-looks-to-continue-phenomenal-growth-from-2020_222536?profile=1056

Following the collapse in asset prices in March 2020, Panjam Investments Limited saw its bottom line return to normal levels as net profit attributable to shareholders came in at $1.01 billion for the first quarter, compared to the $4.91 million generated in the prior period.
https://www.jamaicaobserver.com/business-observer-corporate-listing/panjam-s-fortunes-turn-positive-as-earnings-recover-from-covid-19-shock_222208?profile=1056

Fresh from closing a major real estate deal in Costa Rica, real estate development and private equity outfit First Rock Capital Holdings has acquired commercial property in Cross Roads, St Andrew.
https://www.jamaicaobserver.com/business-observer/first-rock-capital-holdings-buying-more-property-latest-acquisition-is-commercial-space-in-cross-roads_222209?profile=1056

Index	28/5/2021	21/5/2021	31/12/2020	Week/Week	Year-to-Date
JSE Main Market	422,066.55	424,303.18	395,614.93	-0.53%	6.69%
JSE Junior Market	3,329.50	3,324.08	2,643.38	0.16%	25.96%
JSE Combined Market	424,190.62	426,201.24	392,435.92	-0.47%	8.09%
JSE USD Equities Market	204.45	208.05	186.30	-1.73%	9.74%

INTERNATIONAL DEVELOPMENTS

Stocks recorded solid gains for the week, bringing the large-cap S&P 500 Index to within roughly 0.5% of the all-time intraday high it established on May 7 and leaving it with a small gain for the month. T. Rowe Price traders noted that trading volumes were especially light, however, with Monday marking the fifth-lowest turnover in a non-holiday session since the pandemic began. The technology-heavy Nasdaq Composite and small-cap Russell 2000 indexes performed best.

Growth shares handily outperformed their value counterparts; Facebook and Google parent Alphabet helped communication services stocks outperform within the S&P 500, and a rebound in Tesla boosted consumer discretionary shares. The light trading volumes came in advance of the long Memorial Day weekend, with U.S. markets scheduled to be closed Monday, May 31.

Fed officials stress that inflation pressures should prove temporary. Consumer confidence data pulled back from recent highs, with many polled citing inflation concerns. Indeed, some evidence emerged during the week that consumers were postponing purchases in response to rising prices, particularly in the housing sector—pending home sales fell 4.4% in April, defying expectations for a small gain. According to the S&P CoreLogic Case-Shiller Index, average home prices in major metropolitan areas rose 13.2% in the year ended in March, up from a 12.0% annual rate the prior month and the highest rate of growth since December 2005. The Commerce Department reported that the median price of a new home sold in April was up 20.1% from a year earlier, the strongest annual gain since 1988. week's gains.
https://www.troweprice.com/personal-investing/resources/insights/global-markets-weekly-update.html#US

Top 5 Things to Watch in Markets in the Week Ahead

1. May jobs report could echo April weakness - Friday's May jobs report will indicate whether the unexpected weakness seen in the April jobs report was a one-off or the start of a more persistent slowdown the labor market recovery.

2. ISM PMIs Fed speakers - ISM manufacturing data is scheduled for release on Tuesday, followed by ISM services data on Thursday. Both readings are expected to be strong, but to highlight supply chain issues that are leading to shortages and higher prices.

3. Wary Stock Market - Stock market investors will be closely watching economic data and comments from Fed officials amid ongoing concerns the central bank may begin to pull back on its massive stimulus measures as price pressures ris.

4. Euro zone inflation data - The euro zone is to release what will be closely watched flash inflation figures on Tuesday. Inflation in the bloc is fast approaching the ECB's 2% target, but like their counterparts in the U.S. central bank officials are arguing that this is likely temporary.

5. OPEC+ meeting - The Organization of the Petroleum Exporting Countries and allies, including Russia, a group known as OPEC+, is likely to stick to the existing pace of gradually easing oil supply curbs at its upcoming meeting on Tuesday, amid hopes for a strong recovery in demand.

https://www.investing.com/news/economy/top-5-things-to-watch-in-markets-in-the-week-ahead-2518825

Index	28/5/2021	21/5/2021	31/12/2020	Week/Week	Year-to-Date
Dow Jones	34,529.45	34,430.92	30,606.48	0.29%	12.82%
S&P 500	4,204.11	4,203.46	3,756.07	0.02%	11.93%
NASDAQ 100	13,686.51	13,664.16	12,888.28	0.16%	6.19%
FTSE 100	7,022.61	7,051.59	6,460.52	-0.41%	8.70%
Euro Stoxx 50	4,070.56	4,035.73	3,552.64	0.86%	14.58%

Local Economic Conditions

Local Foreign Exchange Market

- Our local currency appreciated by 0.16% against the U.S. Dollar week on week to settle at $149.55 as at close of trade Friday, relative to $149.79 per US$1.00 at the end of the prior week. Year to date, the Jamaican dollar has depreciated by approximately 4.84%.

Interest Rates and Inflation

- Since the onset of the pandemic in March 2020, market volatility has declined significantly. Notwithstanding, the BOJ maintains its position; supportive of the wider economy and continues to hold the policy rate at 0.50%.

- At this rate, based on its assessment, the BOJ notes that inflation will generally continue to remain within the target of 4.0% to 6.0% over the next two years.

- As at April 2021, point-to-point was recorded at 3.8%.

Currency Pair	28/5/2021	21/5/2021	31/12/2020	Week/Week	Year-to-Date
JMD: USD	149.55	149.79	142.65	0.16%	-4.84%
JMD:CAD	124.99	125.14	111.41	0.13%	-12.19%
JMD:GBP	213.67	213.15	193.66	-0.24%	-10.33%

Unit Trust Performance

- Year to Date, The Money Market Fund has increased by 1.43%, the FX Bond Portfolio has decreased by 0.02%, the F.X. Growth Portfolio increased by 2.49%, the Real Estate Portfolio has decreased by 1.87% and the Capital Growth Fund has grown by 8.77%.

- 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 increased by 2.49% year to date.

- As at May 28th, 2021, the Capital Growth Fund has delivered a YTD return of 8.77% relative to the JSE Combined and Main Market Indices which posted returns of 8.09% and 6.69%, respectively.

- The FX Bond Portfolio remains an attractive fixed-income portfolio, particularly when viewed within the context of global interest rates which have declined significantly as central banks maintain low policy rates to drive the economic recovery.

> **"The individual investor should act consistently as an investor and not as a speculator."**
>
> **— Ben Graham**

Unit Trust

Unit Trust Fund	26/5/2021	20/5/2021	Week/ Week Return	Year-to-Date Return	1 Year Return	Yield
Capital Growth	92.08	92.58	-0.54%	8.50%	17.60%	-
Money Market	15.0199	15.0168	0.02%	1.65%	3.81%	2.41%
Income Portfolio	100.00	100.00	-	-	-	2.56%
FX Bond Portfolio (US$)	1.3573	1.3546	0.20%	0.08%	6.70%	2.23%
Real Estate Portfolio	5,784.39	5,599.92	3.29%	-0.87%	-17.07%	-
FX Growth Portfolio	1.0234	0.9956	2.79%	2.49%	17.83%	-

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Equities

Stock Ticket	Stock Information (As at May 28th, 2021)	Analyst Outlook
WISYNCO Wisynco Group Ltd	P/E: 21.39 P/B: 3.91x Price: J$15.40 Div Yield: 1.23%	**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: 18.50x P/B: 3.03x Price: J$5.49 Div Yield: 1.11%	**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: 15.91x P/B: 2.26x Price: J$4.18 Div Yield: 1.22%	**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
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Reduce exposure in your portfolio to less than 5% for this particular asset

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SEP Seprod Limited	P/E: 18.88x P/B: 3.21x Price: J$74.02 Div Yield: 0.81%	**OVERWEIGHT** Seprod has undergone significant structural changes within the last 5-years aimed at improving the underlying performance of the company. Within this period, particular emphasis has been placed on optimizing the distribution, warehousing and logistics capabilities of the company. This gradual, multi-year, improvement was accomplished through reinvestment within the organization coupled with strategic acquisitions aimed at increasing the distribution reach and quality of the company. Another major change was the closure of the Group's loss-making sugar division; a move that enhanced shareholder value. These changes have positioned Seprod to deliver robust growth through an expansive product mix and access to consumer markets both locally and regionally.
PROVENJMD Proven Investments Limited	P/E: 17.53x P/B: 3.21x Price: $35.08 Div Yield: 2.25%	**OVERWEIGHT** Given the current economic environment, characterized by low interest rates and increased uncertainty, PIL has shifted from the carry trade business to more private equity and real estate ventures, thereby allowing for diversification benefits to be realized - particularly as it relates to the "spreading" of risk. Given the business model of PIL wherein capital is used to acquire strategic assets, this APO is expected and should make the stock accessible to a wider pool of investors. At present, only a small subset of listed companies pursue private equity investments which makes PIL an attractive security for investors who want the liquidity the stock market provides as well as exposure to non-listed companies that can provide value.

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PROVENUS Proven Investments Limited	P/E: 18.30x P/B: 1.17x Price: US$0.25 Div Yield: 3.07%	**OVERWEIGHT** Given the current economic environment, characterized by low interest rates and increased uncertainty, PIL has shifted from the carry trade business to more private equity and real estate ventures, thereby allowing for diversification benefits to be realized - particularly as it relates to the "spreading" of risk. Given the business model of PIL wherein capital is used to acquire strategic assets, this APO is expected and should make the stock accessible to a wider pool of investors. At present, only a small subset of listed companies pursue private equity investments which makes PIL an attractive security for investors who want the liquidity the stock market provides as well as exposure to non-listed companies that can provide value.
SCIJMD Sygnus Credit Investments	P/E: 13.27x P/B: 0.29x Price: J$15.13 Div Yield: 2.37%	**OVERWEIGHT** Sygnus provides funding to Mid-Size firms within the lending market, which is considered to have a higher risk and generally overlooked by providers of traditional financing forms. This provides a largely untapped/under-tapped niche market within the Caribbean lending space for Sygnus, a few direct competitors. The flexibility in the financing terms offered by the Company is a clear advantage to borrowers, and it allows SCI to manage its credit risk to generate double-digit risk-adjusted returns on investments, which, consequently, bolsters shareholder value.
SCIUSD Sygnus Credit Investments	P/E: 19.34x P/B: 0.39x Price: US$0.15 Div Yield: 1.69%	**OVERWEIGHT** Sygnus provides funding to Mid-Size firms within the lending market, which is considered to have a higher risk and generally overlooked by providers of traditional financing forms. This provides a largely untapped/under-tapped niche market within the Caribbean lending space for Sygnus, a few direct competitors. The flexibility in the financing terms offered by the Company is a clear advantage to borrowers, and it allows SCI to manage its credit risk to generate double-digit risk-adjusted returns on investments, which, consequently, bolsters shareholder value.

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CCC Caribbean Cement Company	P/E: 23.55x P/B: 5.77x Price: J$88.53 Div Yield: 0.00%	**OVERWEIGHT** Throughout the COVID-19 pandemic, all industries have been affected by what has been a significant downturn in aggregate demand as the pandemic has created a need for persons to reduce travelling and physical interaction. Despite this setback which predominantly materialized in Q2 of 2020, the construction industry has rebounded significantly (7.0% in Q3 2020 and 6.2% in Q4 2020), ahead of many other industries and well ahead of the overall economy. This strong growth over the last two reported quarters has been a significant tailwind for Caribbean Cement and the company has consequently seen a significant increase in the demand for its product, well in excess of previous years. On the heels of what has been a great year for the company, management expects demand to increase further, fuelled by upcoming government projects that will require substantial cement deposits. The recent government budget lends to this expectation as one of the main components of the government's SERVE Programme is infrastructure development. With that said, the company is positioning itself to meet this demand while maintaining its more efficient cost structure which was displayed in 2020, chief among these was the reduction of debt, which in turn reduced the company's cost of debt.
LAB The Limners and Bards Limited	P/E: 19.13x P/B: 5.88x Price: J$2.87 Div Yield: 2.58%	**OVERWEIGHT** The Lab provides a unique opportunity for investors to get exposure to the first and only advertising and film production company listed on the Jamaica Stock Exchange (JSE). The Lab's business model is built on providing innovative solutions to clients through its main services including its brand/communication strategy, campaign concepts & execution, media buying, and film production. Throughout the pandemic, the company has repositioned its business to meet the demand of clients who needed digital solutions. Consequently, while many industries and companies faltered in 2020, The Lab reported strong top and bottom-line growth of 44.30% and 34.13%, respectively. This growth has continued into 2021, reflecting significant double-digit growth in two of the company's three operating segments. Against the backdrop of a strong, stable business model coupled with robust financial performance, we have issued an OVERWEIGHT recommendation for The Limners and Bards Limited.

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CPFV Eppley Caribbean Property Fund SCC	P/E: 28.21x P/B: 0.72x Price: J$42.00 Div Yield: 6.43%	**Overweight** Since Eppley became the investment manager of the fund, there has been a material improvement both in portfolio's country exposure and type of real estate structures. This has led to a steady increase in the total square feet of the portfolio and increase Net Asset Value (NAV) with diversification. The Fund's pivot towards introducing Jamaican assets, especially in the industrial space will have a positive material impact on the company's long-term performance. This as the Manufacturing and Distribution (M&D) and construction industry have shown material resilience to the impact of COVID-19. As such, the continued focus on improving value to shareholders through divesting away from Barbados and retail properties will act as a positive tailwind for the long-term performance of CPFV.
Mailpac Mailpac Group Limited	P/E: 20.78X P/B: 17.81x Price: J$3.74 Div Yield: 4.01%	**Overweight** The company was able to generate $1.7 billion in revenue during 2020 is demonstrative of the management's agility and competence of the company's leadership. They were able to pivot in building both scale and capacity, which are likely to sustain Mailpac's performance prospectively, given the likely scenario that e-commerce is likely to become more ensconced among Jamaica consumers, across various social classes. Without any major barriers to entry, the space could attract additional capital and therefore further competition that may constrain Mailpac's revenue and earnings growth. Notwithstanding, the company's leadership has implemented some key initiatives and strategies, that could offer some revenue and earnings protection over the medium term.

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