

Initial Public Offering: QWI Investments Limited

Company Description

QWI Investments Limited (QWI), was incorporated in Jamaica by Jamaica Teas Limited on the 13th of December 2018 for the primary purpose of holding tradable securities of other companies, “public equity”, for investment purposes and for the pursuit of private equity opportunities. The leadership of QWI is inviting investors to subscribe and purchase up to two hundred and seventy million (270,000,000) shares in the investment vehicle.

Jamaican Teas, which is a manufacturer of Tetley Tea and Caribbean Dreams, had ownership in real estate assets and acquired a stock portfolio through a 42% acquisition of KIW bought from the government of Jamaica in 2017. The leadership of JTL sold the real estate assets and used the proceeds to build out the stock portfolio. These stocks are all listed on the Jamaica Stock Exchange (JSE). In March 2019, the stock portfolios of JTL and KIW were transferred to QWI to create a core vehicle for the holdings of the affiliates.

Analysts Opinion

Basics about Investment Funds

Investment Funds are formed by bringing the financial resources of different investors together to create a pool. The investment manager then uses that pool of funds to buy assets based on the goal of the fund. For instance, the pool may be used to buy stocks if it is a stock fund, a bond if it is a bond fund or real estate if it is a real estate fund. Typically speaking, investment funds may be “passively” managed or “actively” managed. QWI and Mayberry Jamaican Equities are examples of actively managed funds.

Active Management vs Passive Management

Actively managed funds typically have a benchmark such as the S&P 500 index or the Jamaica Stock Exchange Main Market Index that the fund manager seeks to outperform. In this case the benchmark being used by QWI is the MSCI ACWI ALL CAP Index. An index is a grouping of securities based on similar characteristics and can be the subset of a larger market or can represent an entire market. This means that if the fund produces a higher return than the benchmark within the stated timeline, then that manager is seen as successful and compensated accordingly. This requires asset allocation and security selection skills and the fund manager charges fees for the application of those skills. Examples of actively managed funds would include Hedge Funds, Mutual Funds or Unit Trusts.

Passively managed funds typically don't seek to "outperform" a benchmark, but rather to "match" or "track" that benchmark instead. For instance, the Sagicor Select Fund has the goal of tracking the performance and composition of the Jamaica Stock Exchange Financial Index. Thus, as the index moves upward or downward, so does the fund. ETFs such as the Sagicor Select Index can be expected to move in a similar pattern.

An Initial Public Offering (IPO) describes the process where shares in an entity are being offered to the public and will be traded on an exchange for the first time. The main investment positives are for enhanced diversification and a desire for an equivalent exposure to the equities in the portfolio. Meanwhile, the risks include increased volatility and potentially diluted returns. **For those investors who are seeking greater stock diversification and the ability to increase the overall exposure to the JSE Combined Market, the QWI Investments could be a suitable buy.**

Summary of Offer

QWI Investments Ltd. is seeking to raise a minimum of **J\$787M** from subscriptions in 600 Million shares. The Company has stated that funds will be used to purchase additional shares in local markets as well as equities on international markets.

Issuer	QWI Investments Ltd
Arranger and Lead broker	NCB Capital Markets Jamaica Ltd
Exchange	Jamaica Stock Exchange, Main Market
Offer Period	Opening Date: September 16, 2019 at 9 am Closing Date: September 30, 2019 at 4:30pm
Securities	Up to 270,000,00 Shares to the general public 330,000,000 Reserved shares for special partners 600,000,000 Shares in Total
Pricing	J\$1.35 Per share to the General Public and \$1.25 for Reserved Shares. Payments must be made at the time of application with a J\$163.10 Processing Fee.
Use of Proceeds	The proceeds are to be invested in equities in both local and foreign markets.
Proposed Dividend Policy	An amount up to 50% of distributable profits of the Fund is to be paid to shareholders by way of dividend beginning in 2020.
Minimum Purchase	10,000 Ordinary Shares and for further amounts, multiples of 1,000.

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Company	Symbol	Weighting (%)
Caribbean Cement	CCC	17.402%
NCB Financial Group	NCBFG	16.724%
Wisynco Group	WISYNCO	16.360%
Barita Investments Ltd	BIL	7.788%
Seprod Ltd	SEP	6.825%
Stationery and Office Supplies Ltd	SOS	5.548%
General Accident Insurance Company	GENAC	2.447%
Lasco Manufacturing	LASM	2.422%
Dolphin Cove	DCOVE	2.352%
Jamaica Broilers Group	JBG	1.898%
Elite Diagnostics	Elite	1.833%
Sygnus Credit Investments	SCIJA	1.817%
Grace Kennedy	GK	1.591%
Berger Paints Ltd	BRG	1.453%
VM Investments Ltd	VMIL	1.446%
Sagikor Group Jamaica	SJ	1.420%
Caribbean Producers Jamaica Ltd	CPJ	1.324%
Fontana Ltd	FTNA	1.045%
Caribbean Cream Ltd	KREMI	0.854%
Lasco Financial	LASF	0.824%
Jamaica Stock Exchange Ltd	JSE	0.816%
Scotia Group Jamaica Ltd	SGJ	0.695%
JMMB Group Ltd	JMMBGL	0.689%
Jetcon Ltd	JETCON	0.634%
Honey Bun 1982 Ltd	HONBON	0.610%
Paramount Trading Ltd	PTL	0.534%
Access Financial Services Ltd	AFS	0.518%
Carreras Ltd	CAR	0.440%
Mayberry Investments Ltd	MIL	0.271%
AMG Paper and Packaging	AMG	0.258%
Express Catering Ltd	ECL	0.200%
Lasco Distributors	LASD	0.199%
CAC 2000 Ltd	CAC 2000	0.190%
Caribbean Flavours and Fragrances Ltd	CFF	0.179%
Mayberry Jamaican Equities Ltd	MJEL	0.139%
Jamaica Producers Ltd	JP	0.092%
Ttech Ltd	TTECH	0.072%
Iron Rock Insurance Ltd	ROC	0.045%
Fosrich Ltd	FOSRICH	0.035%
Supreme ventures Ltd	SVL	0.006%
Main Event Entertainment Group	MEEG	0.005%
TOTAL		100%

Fund Composition

QWI holds 1.1 Billion Shares in the portfolio currently. The proceeds received by QWI, will be used to purchase more equities and to venture into new types of assets including private equity opportunities. **NB:** The data in this table is as at July 2019.

QWI's investment portfolio is concentrated in local equities presently with 22 of the stocks being Junior market companies while 19 of the companies are listed on the main market of the Jamaica Stock Exchange. However, in this portfolio, 67% of the top 10 stocks in terms of weighting are main market firms while 12.77% of the top 10 are listed on the junior market.

It is assumed that during the years 2019 to 2023 QWI portfolio will invest approximately 75% in the JSE and 25% in markets overseas. Additionally, the Investment Committee will assess other profitable opportunities which may exist from time to time in other asset classes with the goal of realizing a positive return within three years.

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Top 10 Holdings

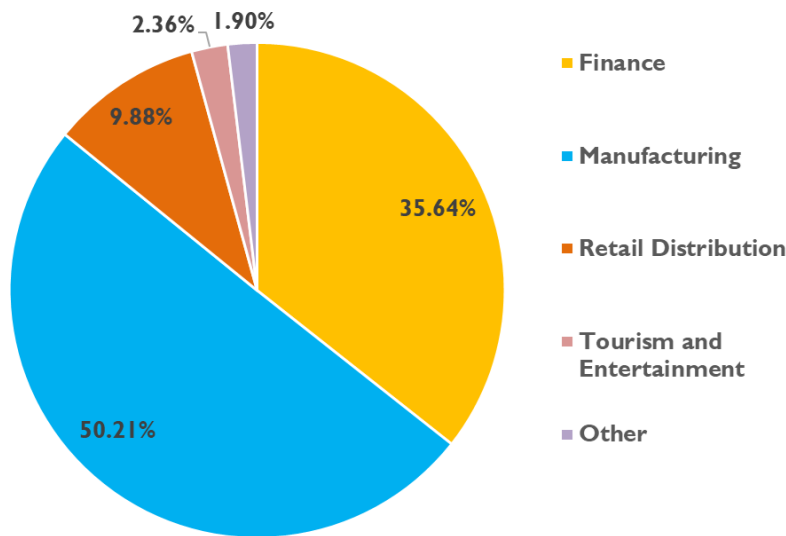
QWI's Top 10 Holdings as at July 31, 2019

QWI's Top 10 Holding	Symbol	Weighting (%)
Caribbean Cement	CCC	17.402%
NCB Financial Group	NCBFG	16.724%
Wisynco Group	WISYNCO	16.360%
Barita Investments Ltd	BIL	7.788%
Seprod	SEP	6.825%
Stationery and Office Supplies	SOS	5.548%
General Accident	GENAC	2.447%
Lasco Manufacturing Ltd	LASM	2.422%
Dolphin Cove	DCOVE	2.352%
Jamaica Broilers	JBG	1.898%
Total		79.766%

QWI's Top 10 stocks have a **79.77%** weighting, with the top 5 stocks alone being **65.01%**. The top 5 include Caribbean Cement, NCB Financial Group, Wisynco Group, Barita Investments and Seprod. These companies are fast growing firms in their respective industries and typically trade at a higher price because of the expectations around future growth. For instance, Barita Investments has entered investment banking activity, grew fee income significantly and has rebranded to drive growth. Wisynco Group is expected to experience

strong growth in profits from the success of WATA and other flagship products while Carib Cement enjoys strong demand for cement as the construction and infrastructure segments of Jamaica's economy continue to expand.

QWI Portfolio Weighting July 2019



NB: "Other" includes Elite Diagnostics and Ttech Ltd

QWI's portfolio has the largest sector exposure to manufacturing with a weighting of **50.21%**, followed by Finance at **35.64%** then retail distribution at **9.88%**. Tourism and Entertainment's sector weighting is **2.36%** while other stands at **1.9%**. Though QWI's portfolio is diversified, much of the portfolio's heavily weighted stocks are sensitive to the growth of Jamaica's economy.

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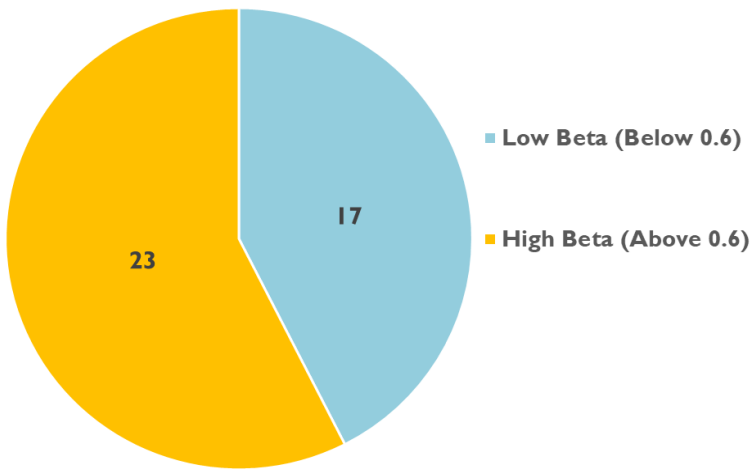
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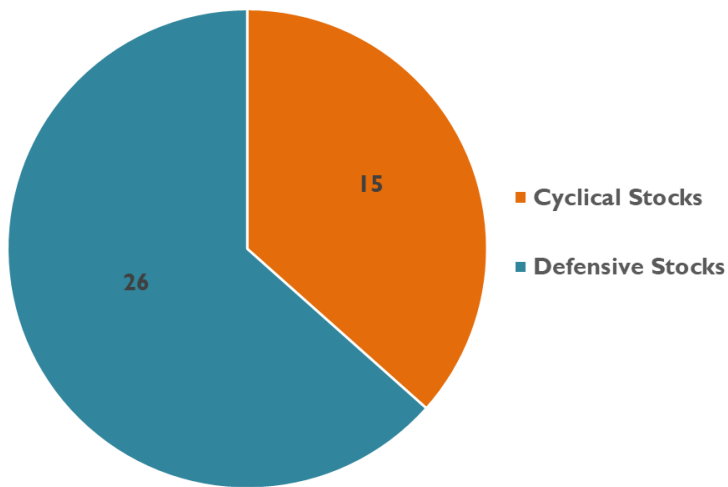
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High Beta vs Low Beta Stocks



Beta is a measure of how closely a stock moves with the market. Stocks with higher betas are more volatile but have the possibility of producing higher returns relative to those with lower betas. Stocks that have a beta of 1, moves extremely closely to the movements of the market and goes up when the market goes up. It is also possible for stocks to have negative beta, which means when the market goes up, the stock goes down. The weighted average beta of QWI’s portfolio is **0.887** which indicates very close movement to the combined market of the Jamaica stock exchange.

Cyclical Stocks vs Defensive Stocks



A Cyclical stock is one that is sensitive to the conditions of the broader economy. This means they perform notably worse when there is a recession and perform notably better when there is a boom in the economy such as Jetcon and Carib Cement. On the other hand, defensive stocks are not as sensitive to these movements and have a sense of resilience during periods of economic difficulty. These include pharmaceutical stocks, large players in the food industry and suppliers of essentials such as Wisynco Group and Grace Kennedy. QWI’s portfolio has **26** defensive stocks relative to **15** cyclical stocks. However, the weighting of the stocks tilts the portfolio toward the cyclical stocks such as Carib Cement and Dolphin Cove relative to defensive stocks such as NCB

Financial Group and Wisynco.

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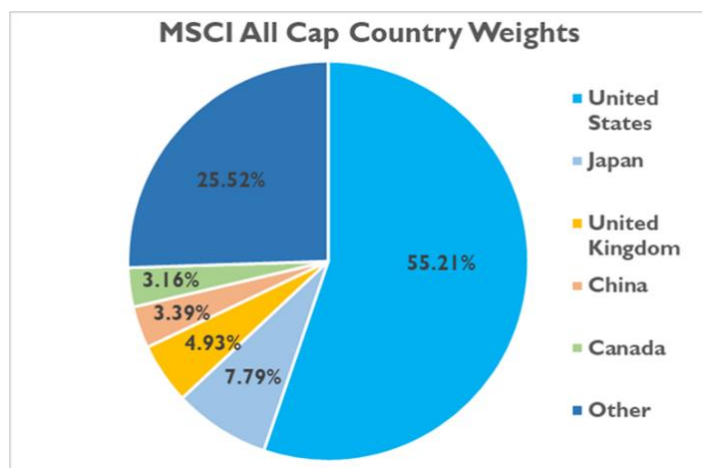
Weighted Average P/E

The weighted average Price to Earnings ratio (P/E) of QWI’s portfolio excluding companies with negative earnings is **25.10X** while the overall P/E for the combined market is **27.93X**. This suggests that based on the weighting of the portfolio, investors could continue to experience further growth, relative to the market, in at least the short term.

QWI’s Benchmark Analysis

Choosing an appropriate benchmark is essential for providing investors with a basis for evaluating QWI’s success over the long-term.

QWI intends to benchmark its performance against the MSCI ACWI ALL CAP Index. This index captures large mid, small and micro-cap representations across 23 developed market countries and large mid and small cap representations across 24 emerging market countries. While the index is comprehensive with 14,639 constituents it does not cover equities listed on the JSE or any exchange in the Caribbean. QWI currently has **100%** of its equities listed on JSE and is expected to hold **~75%** JSE listed stocks up to 2023.



As at August 31, 2019 the MSCI ACWI ALL CAP Index was dominated by equities listed on developed markets exchanges. Based on our calculation, the portfolio had a tilt at least 71% towards the developed markets.

The MSCI ACWI ALL CAP Index is reviewed quarterly in February, May, August and November with the objective of reflecting change in the underlying equity markets in a timely manner while limiting undue index turnover. Over the last five years (2014-2018) the index has seen a cumulative return of **26.58%** while the JSE return has been over **200%**. In 2017 the MSCI ACWI All Cap index realized its best performance over the period with a **24.63%** return, which is not surprising due to the concentration of the portfolio to US equities. In 2017, the return on S&P 500 was **~21.83%**². In 2017 the JSE return was **~63.65%**.

Benchmark Returns	
Year	MSCI ACWI All Cap
2014	4.30%
2015	-1.65%
2016	9.00%
2017	24.63%
2018	-9.70%

² Source – S&P 500 Index Analysis - Bloomberg

We acknowledge that some investment strategies are difficult to benchmark due to their unique strategies and objectives and in QWI's case its market exposure. We however believe that the MSCI ALL Cap Index is not an appropriate benchmark for QWI's investment portfolio. To better match its focus, size of each constituents and concentration a more appropriate index would therefore be a **blended benchmark**. A blended benchmark is created by combining multiple market indexes.³ QWI's benchmark in this case might be constructed by weighting the Jamaica Stock Exchange Combined Index and another global index tracking stocks in the countries QWI expects to seek exposure in, in the proportion of the company's strategic allocation.

Economic Analysis

Under the guidance of the International Monetary Fund (IMF), since 2013 Jamaica's economy continues to exhibit improving fundamentals characterised by a downward trend in public debt, improving fiscal accounts and a sustained expansion in credit. Consequently, Jamaica's economic progress has transitioned into improving international investor confidence, increased capital market activities and foreign direct investment inflows, and improved overall domestic consumer and business confidence. Despite slow movement, Jamaica's economic growth continues to trend in the right direction. Jamaica's economy grew by 1.0% for Q1 April to June 2019 according to data released by STATIN and this growth represents the eighteenth consecutive quarter of positive growth for the country. This expansion was driven mainly by the services industry which rose by 1.4% while the goods-producing industry remained flat over the quarter.

In addition to economic growth, the Government's fiscal accounts have also seen improvements, with successive quarters of fiscal surpluses. The Government of Jamaica (GOJ) recorded a primary surplus of J\$49.3B for the first four months of the fiscal year, exceeding the budget of J\$43.7B. The period's performance was largely attributable to higher than budgeted tax revenues on local production and consumption and international trade. Jamaica's tax revenues continue to display a high level of buoyancy which is attributable to the high business and consumer confidence, reduction in unemployment (7.8%, April 2019), and a general improvement in the macroeconomic position of the country.

³ CFA Institute – Global Investment Performance Standards

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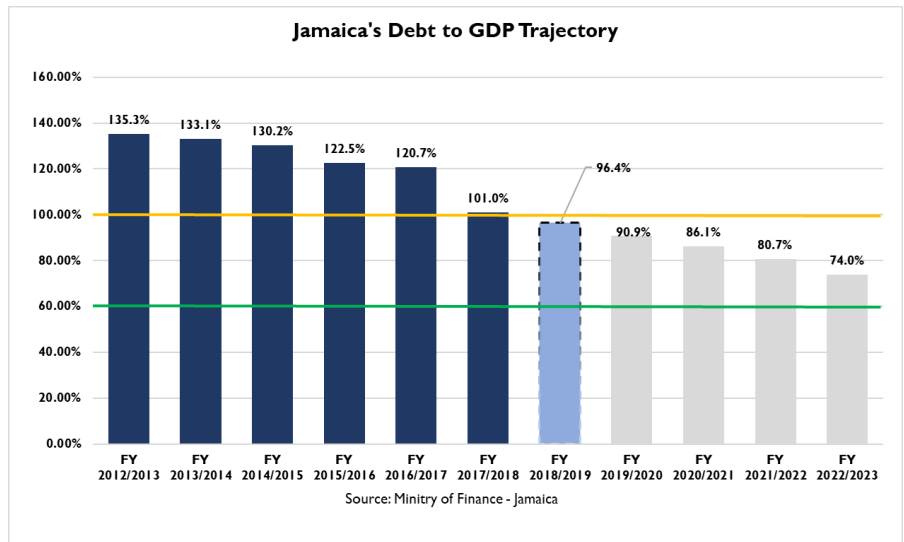
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The country’s level of public sector debt has also seen a sustained reduction and is currently below 100% of GDP and on track to reaching the 60% sustainable debt target by fiscal year 2025/26.

The Bank of Jamaica reduced the policy rate from 0.75% to 0.5% in August 2019. This reduction is expected to stimulate greater growth in private sector credit, which should increase domestic demand and inflation. Jamaica’s point-to-point

inflation stood at 4.3% in July, while the calendar and fiscal year to date inflation stood at 2.5% and 1.8% respectively.

Jamaica’s fiscal and macroeconomic performance is expected to continue through to the end of 2019 but the risk to global growth, surrounding trade and geopolitical tensions, increases uncertainty. Despite these uncertainties, through its strong fiscal discipline, Jamaica's economy has become more resilient. Overall, with Jamaica’s improving macroeconomic fundamentals, the country is better able to withstand possible external shocks to the economy.



Stock Market Performance

Typically, in a low interest rate climate, risk seeking investors turn to equities and other non-interest-bearing assets in order to create value for their investment portfolios, specifically enhanced risk-adjusted returns. Against this background we have observed that at the time of this report, (JSE) has increased by **138,292** points or **38.92%** since the beginning of 2019.

Additionally, over the last five years ending in 2018, the (JSE) benchmark index gained over **233%**. The five-year performance was over 2.5 times above the second-top performer, Vietnam’s Ho Chi Minh Stock Index (**86%**), and 3 times above the S&P 500 index (**73%**) according to Bloomberg. As a result, the JSE has been recognized as the world’s top performing stock market on a returns basis in 2015 and 2018 by Bloomberg. Though historical returns are not direct signals of future performance, we acknowledge that the level of activity on the market could persist, within the context of an improving economy, increased Jamaican dollar liquidity, increase business and consumer confidence and increasing investor participation. On this basis we expect the performance of the index to be within the targeted return given that the macroeconomic environment continues to improve.

Fee Structure

Under an Administrative Management Agreement, QWI will pay JTL an annual fee equal to one point two per cent (1.2%) of the average monthly assets owned by QWI. This agreement which QWI entered with JTL in 2019 has an initial term of ten years and renewable for a further two terms of eight years each. Both parties have the option of terminating the agreement upon giving six months' notice to the other.

Additionally, the members of the Investment Committee are entitled to incentive fees based on the company's Investment Incentive Plan (IPP). The IPP stipulates that Committee members are entitled to receive 10% of the Net Investment Returns (NIR) above the **hurdle rate**⁴. The NIR is explained as the total realized and unrealized gains of the company's investment portfolio. However, it was not clear from the prospectus the frequency at which the incentive fee will be charged each year.

Based on the projections presented by QWI the annual expense ratio will range from **2.20%** in 2019 to approximately **2.5%** in 2023.

QWI Leadership

Investment Committee

All investments will be based on the strategic guidance and management of the Investment Committee appointed by the Board of Directors. QWI's Investment Committee is led by John Jackson, David Stephens and Cameron Burnett. The Investment Committee is responsible for managing QWI's portfolio of investments. It is also stated that the Investment Committee will also retain or rely on external advisors when needed.

Board of Directors

⁴ The Hurdle – QWI's hurdle rate is the return on the MSCI ACWI All Cap Index for the same period under review.

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- **John Jackson** is a chartered accountant and founder of the chartered accounting firm Crooks Jackson. He is the founder of IC Insider and Investor's Choice Magazine. Mr Jackson is the chairman of Jetcon Ltd, a director of the Development Bank of Jamaica and Jamaica Deposit Insurance Corporation. Mr Jackson served as chairman of KIW International and Chairman of the investment committee of Eagle Unit Trust.
- **John Mahfood** is the CEO of Jamaican Teas Limited and is a Certified Public Accountant. Previously Mr Mahfood served as Chief Operating Officer of Grace Kennedy's retail and trading division.
- **Cameron Burnett** is the Chief Financial Officer of Jamaican Teas Limited. He is a Chartered Accountant with 30 years experience in food processing and hotel groups locally and overseas,
- **David Stephens** is the founder of Apex Perimeter Protection Ltd, a supplier of residential and commercial security and construction products throughout the Caribbean. Mr Stephens recently founded Infinity Capital Partners Ltd which targets mid-size growth companies and real estate opportunities in the Caribbean. Mr Stephens was a director of KIW International Limited and Agriculture Credit Board.
- **Malcolm McDonald** is an attorney who has 53 years of practice in Jamaica, USA and England. He is a founding partner of McDonald Milligen which is a practice focused on estate planning, taxation, banking and conveyancing. Formerly he served at Manton & Hart, McDonald, Judah, Desnoes & Co.
- **Carl Carby** is the Executive Chairman of Carlong Publishers and Chairman of Sangsters Book Stores Ltd. Mr Carby is a management accountant who worked at Colgate Palmolive Ltd as a director and financial controller for the Caribbean.

Track Record and Performance

The track record of QWI Investments Ltd. is relatively short having been created in under one year with the combination of the JTL portfolio and KIW portfolios. It is noted that both the JTL and KIW portfolios outperformed the JSE Combines Index over the five year, but it is unclear as to the level of risk the portfolios were exposed to achieve the return. While the performance of the portfolios prior to the combination (QWI) may appear impressive, it must be noted that the five-year period is a relatively short period of time to truly assess the capabilities of a manager especially as over the five years the financial markets has been abnormal. Specifically, the period was characterized by historically low interest rates, high JMD liquidity and a 5-year long bull market in Jamaica.

QWI appears to have a very broad strategy, as it has stated that it intend to invest in value, growth and or income stocks. It is unclear if the company has an intent to 'buy and hold' these stocks or take more short-term investment positions to generate returns. The Company has stated that it does not "intend" to engage into speculative practices and has outlined that the Investment Committee has guidelines to follow which include:

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1. Limits on the percentage of the portfolio that may be allocated to a single security
2. Limits on the percentage of the portfolio that can be allocated to any sector
3. Geographical limits and target for each security and market in which the Company participates.

It is important for QWI to articulate a clear strategy as the absence of this exposes the fund to 'style drift' which can derail investment objectives, particularly in challenging times such as an economic downturn or in other stressful market scenarios during which stock markets may underperform.

It is also important to mention that alternative investments such as mezzanine credit, real estate and private equity requires specialized skill and these have different characteristics from that of listed equities. This is due to the alternative asset class having a longer earnings cycle, a much lower liquidity profile and other unique risk factors that are linked to these vastly different asset classes. While it is outlined that the Investment Committee will evaluate some of these opportunities, it is likely that if QWI were to venture into these assets, they may need to seek external expertise which could lead to increased fees on the fund.

NAV vs IPO Price

When valuing an investment fund such as QWI, the most appropriate measure is to assess the fund's Net Asset Value (NAV). The NAV is the assets minus liabilities of the fund divided by total shares outstanding. As at September 13, 2019, assuming the same stock holdings as at July 31, 2019, the NAV stands at **J\$1.43**. The IPO price of **J\$1.32** represents a discount of **8.33%**.

Investment Positives and Risks

Positives

- **Diversification Benefit-** QWI has a broad selection of equities across various sectors and sizes which creates value for investors from a diversification standpoint. The company intends to have 75% allocation to JSE and 25%

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allocation to external markets. Therefore this may provide investors who were otherwise limited to investments in Jamaica to gain exposure through investment in QWI when it ventures into international equities.

- **Minimum Investment Required** – QWI Investments is currently priced at \$1.35 and has a minimum entry point of 10,000 units. This allows investors to participate in a ‘one stock portfolio’ at a relatively low cost which could be ideal for less experienced investors.
- **Dividend Opportunity** – QWI intends to pay out 50% of its distributable profits as dividends. This will be beneficial for investors who are interested in assets generating income in their portfolios.

Risks

- **Lack of clear investment strategy**- QWI hasn’t articulated a specific investment strategy or risk management process for the fund. An investment strategy shares an emphasis on buying and holding assets or taking more short-term positions and speaks to whether the fund will focus more on dividend paying stocks, growth stocks or value stocks. A lack of this subjects the fund to “style drift” which could pose a challenge during periods of stress in financial markets.
- **Lack of Appropriate benchmark**- We are of the view that the utilization of MSCI ACWI All Cap Index is more suited for a global investment portfolio as opposed to a fund holding more than 70% of its holdings in local equities. A blended benchmark would be more suited.
- **Short Track Record** – QWI Investments has a track record of less than five years which is especially important in a market going through a period of unprecedented gains due to structural improvements in Jamaica’s macroeconomy.
- **Lack of Fund Management Experience** – QWI’s investment team has experience as professionals in a variety of fields which strengthens perspective. However, experience directly related to managing capital in the context of an investment fund seems to be limited. The company has stated that it intends to seek the assistance of outside expertise when it believes its necessary.

Conclusion

As at of July 31, 2019 QWI reported that its NAV was **\$1.52**. As the IPO price is at **\$1.35** this represents a discount of **~11.2%** assuming the NAV has not changed materially since July 2019. Based on our calculation, assuming there is no change to the securities in the portfolio between July 31, 2019 and September 13, 2019 the discount is now approximately **~8.33%**.

We are of the view that given the relatively low minimum requirement of less than **~\$14,000** QWI provides an investment opportunity to clients looking for a low cost, diverse, actively managed local equity portfolio. Investors who are seeking a

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diversified exposure to the local and international stock markets, particularly beginners, who have an interest in receiving periodic dividends, and those who may have limited capital, QWI may be a suitable option to capitalize on this opportunity.

However, we believe investors could see greater risk adjusted returns by investing into other funds locally that have displayed a clearer strategy, risk management framework and track record extending beyond the current local market bull run.

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