

Investor Update



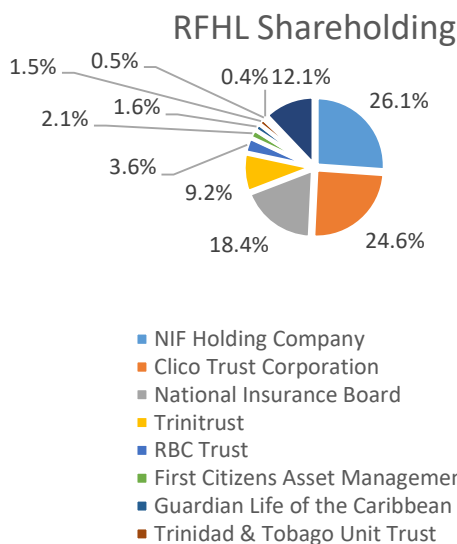
October 2019
David Paul
Investment Analyst
David_Paul@jmmb.com

CIF Vs RFHL

Where can investors get more value?

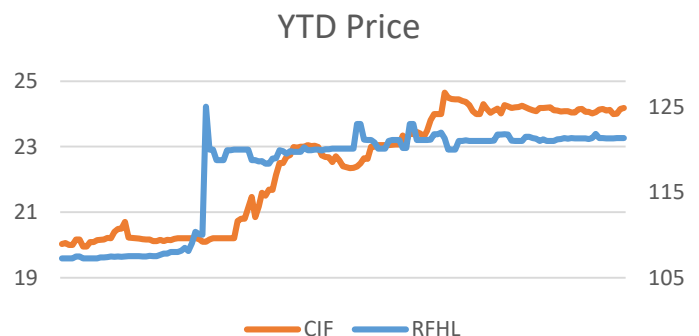
PLEASE SEE IMPORTANT DISCLOSURES

Clico Investment Fund (CIF) was established on 31 October, 2012 as a closed ended fund. The investment objective of the fund is to hold the initial assets and the additional Republic Financial Holdings (RFHL) shares, in the event that they become part of the depository property, for a period of ten (10) years subject to the terms described under clause 19 of the Declaration of Trust, "Termination of Fund". The Trustee of the fund, Clico Trust Corporation (CTC), holds 24.66% shareholding in RFHL. The Fund is the second largest shareholder of RFHL.



Company Facts		
Symbol:	RFHL	CIF
Target Price:	TT\$130.59	TT\$29.11
Sector:	Banking	Mutual Fund
Market Cap.:	\$19,810,861,207	\$4,910,280,000
Issued Capital:	162,637,396	204,000,000
Financial Year End:	30-Sep	31-Dec

Stock Performance		
Banking	YTD Price Change	Trailing Dividend Yield
RFHL	14.44%	3.6%
CIF	20.32%	4.2%



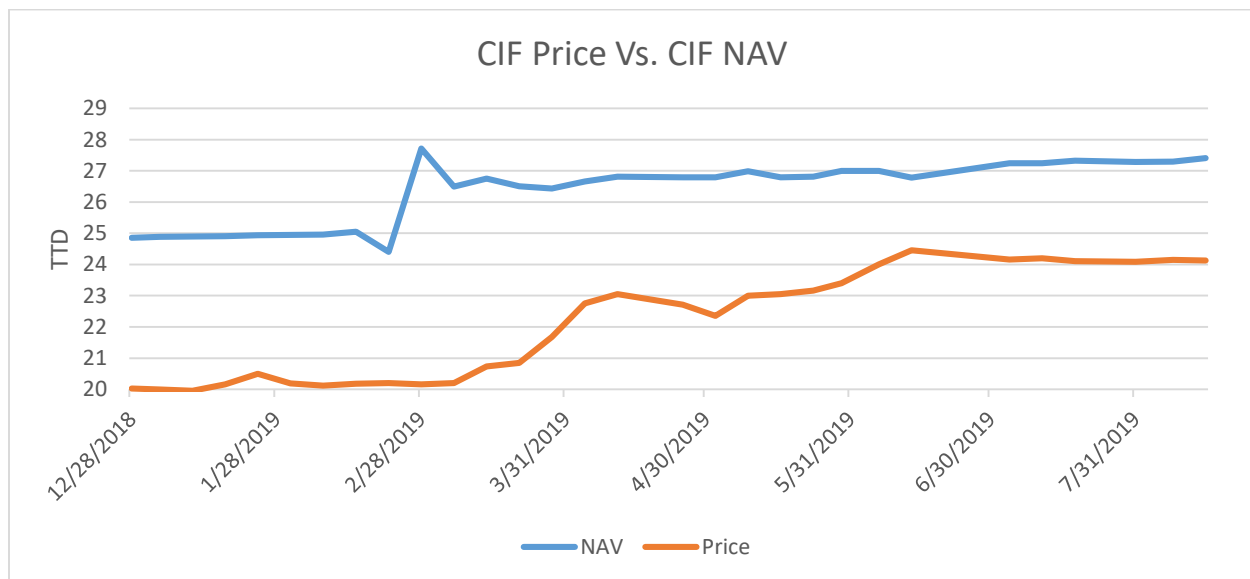
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CIF Overview

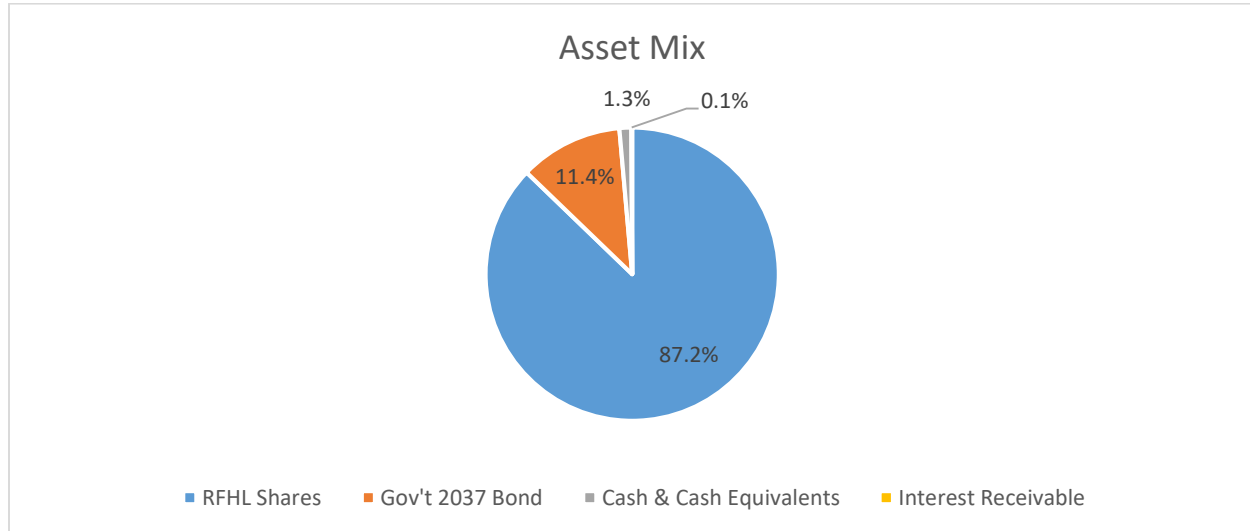
Initially, 70% of CIF was comprised of RFHL shares, with the remaining assets comprised of Government bonds with a coupon rate of 4.25%. Provision was made for the possibility of CIF comprising of 100% of RFHL shares. The objective of CIF is to hold these assets until the redemption date (January 2nd, 2023). Upon redemption, the Government shall distribute the RFHL shares and other assets in CIF to the unitholders. According to section 19.2.1 “Termination of Fund” of the Declaration of Trust document “the Trustee shall distribute the RBL shares, any other assets comprising the Deposited Property and any Fund income specie to the Unitholders; provided that the trustee shall be entitled to retain out of any monies in its hands as part of the Depository Property full provisions for all costs, debts, liabilities, charges, expenses, claims and demands.....Where the distribution in specie of the RBL shares would result in fractional shares being distributed to any Unitholder, the number of RBL shares shall be rounded down to avoid any absurd result”.

CIF Price Vs. CIF NAV

CIF’s traded price of \$24.07 represents a 11.8% discount to its published NAV of \$27.28. YTD the CIF’s NAV has increased by 9.8% while the price of CIF has increased by 20.2%; this indicates a continued conversion of the NAV and the price, as the discount at the start of the year was 19.4%.

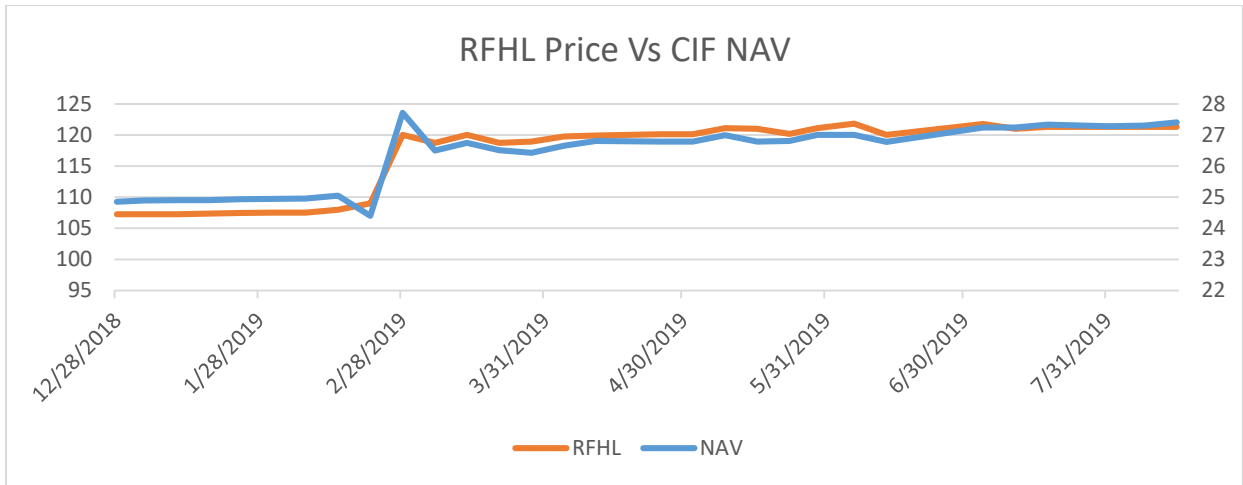


The fund manages an estimated TTD 5.7 billion in assets (as at 2019-06-30). RFHL shares accounts for the lion's share (87.2%) of total assets in the fund, the remaining assets comprise of government securities (11.4%) and cash & interest receivables (1.4%).

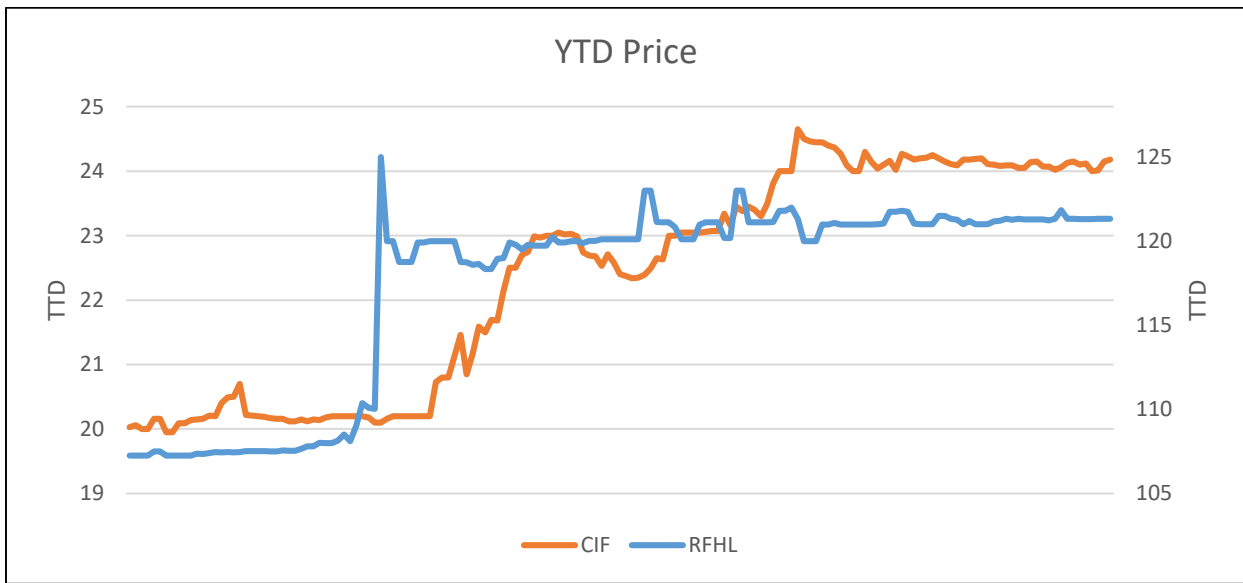


The increase in the NAV of CIF is largely due to the increase in the price of RFHL shares. The recent acquisition of Cayman National Corporation and the proposed acquisitions of Scotia Bank subsidiaries in the Eastern Caribbean and Guyana had resulted in a surge in the price of RFHL shares. RFHL has since received approval for the purchase of 7 of the Scotia subsidiaries in the Eastern Caribbean, but the sale of the Guyana and Antigua subsidiaries were blocked by the regulators in the respective countries.

As a result of this price increase many investors have been questioning whether there is more value in purchasing RFHL shares as opposed to acquiring CIF units which consists of 87.2% exposure to RFHL. This level of exposure has led to the CIF NAV being very correlated to the RFHL share price.



Consequently, the positive news concerning RFHL has also impacted the unit price of CIF, hence the 20.3% increase YTD vs the 14.4% increase in the RFHL share price.



So where do investors get more value as it stands?

RFHL shares or CIF units?

To answer this question, we would first need to know “how many CIF units gives investors exposure to 1 RFHL share?”.

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Clico NAV (15th October, 2019)	\$27.28
RFHL Market Value in CIF	\$4,918,073,256.27
CIF NAV Attributable to RFHL	\$24.11
# of CIF units for exposure to 1 RFHL Share	6 units (5.09 rounded to 6)
Market Value of 6 CIF units	\$144.42

Given section 19.2.1 of the trust deed (“Where the distribution in specie of the RBL shares would result in fractional shares being distributed to any Unitholder, the number of RBL shares shall be rounded down to avoid any absurd result”) we can conclude that a Unitholder has to possess 6 CIF units to get 1 RFHL share at the termination of the fund. At the current market price of \$24.07 (15th October, 2019) 6 CIF units will cost an investor \$144.42, while 1 RFHL share will cost an investor \$122.73.

Investors should note that they will also receive distributions from the remaining assets less liabilities of the fund. Other assets held in the fund as at June 2019 include a Government bond due 2037 and cash & cash equivalents. The face value of this Gov’t bond is \$702,866,700 and the market value of the bond according to the quarterly statement as at June 30th, 2019 is \$633,507,792 (This valuation was based on RFHL’s proprietary yield curve and not the CBTT yield curve).

Cash and cash equivalents	\$ 72,844,806
Interest receivable	\$ 5,135,059
Gov’t Bonds	\$ 633,507,792
Liabilities	\$ 5,611,184
NAV of Remaining Assets	\$3.46
Real Purchase Price Of RFHL shares through CIF (\$144.42 – 20.76)	\$123.66
Premium (\$123.66– 122.73)	\$0.93

Based on the current composition of the fund, investors will receive \$3.46 in distribution per CIF unit at the termination of the fund. Hence, if an investor holds 6 CIF units they will receive \$20.76 in cash back. In essence, investors are currently paying a premium of \$0.93 for each RFHL share when they purchase it through CIF.

Projected CIF Value in 2023

RFHL Fair Valuation Discounted From 2023	\$ 133.43
FV NAV of RFHL in CIF (2023)	\$ 26.21
GORTT 2037 Bond Fair Value in 2023	\$ 620,489,668.52
FV NAV of Bond in CIF (2023)	\$ 3.04
Projected Cash less liabilities in 2023	\$ 351,867,208.99
FV NAV of Cash less liabilities in 2023	\$ 1.72
Projected NAV of CIF on Termination	\$ 30.97

According to the CIF Trust Deed, the fund will be terminated on the January 2nd 2023. Hence, investors who are hoping to hold the share until maturity should be concerned with the value of the fund on the termination date. Based on the expected income and expenditure of the fund, a DDM valuation of the RFHL share price discounted from 2023 and the expected value of the GORTT bond at that date; the forecasted NAV of the fund is \$30.97 upon termination. The share is currently trading at \$24.07. If investors were to purchase CIF now they could expect capital appreciation of approximately 28.7% nearing termination of the fund, based on the implied growth of RFHL.

Liquidity

Investors who place a high value on liquidity maybe willing to overlook the premium being paid for RFHL through CIF because CIF is one of the most liquid stocks on the TTSE.

YTD, CIF was the 4th most liquid security on the Trinidad & Tobago Stock exchange in terms of volume traded and was ranked 2nd in terms of value traded. RFHL on the other hand, was ranked 17th in terms of volume traded and 4th in terms of value traded.

Rank	Security	Volume Traded	Value Traded
1	JMMBGL	14,240,493	\$ 29,385,366.63
2	GKC	8,033,298	\$ 26,055,814.97
3	SFC	7,634,678	\$ 73,231,491.29
4	CIF	5,697,623	\$ 126,222,314.68
5	NGL	4,642,456	\$ 129,855,372.34

Rank	Security	Volume Traded	Value Traded
1	NGL	4,642,456	\$ 129,855,372.34
2	CIF	5,697,623	\$ 126,222,314.68
3	MASSY	1,965,913	\$ 103,723,141.92
4	RFHL	710,304	\$ 82,094,939.11
5	SFC	7,634,678	\$ 73,231,491.29

How will the fund be allocated to unitholders on Termination?

- 2.9 In the event Additional RBL Shares shall become available for purchase from the Deposit Insurance Corporation or CLICO as the case may be, after the Closing Date, the Trustee shall, at the direction of the Fund Sponsor, purchase such amount of RBL Shares that are equal to the face value of the Government Securities which formed part of the Initial Assets in substitution for the Government Securities and such Additional RBL Shares shall form part of the Deposited Property.

In the Trust deed (Constitution of the Fund - section 2.9 (excerpt above)) provision was made for the fund to comprise of 100% RFHL shares through the purchase of additional RFHL shares from the Deposit Insurance Corporation or CLICO if they become available. If the fund were to become 100% comprised of RFHL shares, then the ratio would decrease for investors from 6:1 to 5:1. Which would mean that investors would be able to purchase RFHL shares at a discount of TTD 2.38.

Total Assets	5,560,235,863
Less Liabilities	5,611,184
Equity	5,554,624,679
RFHL Market Price	122.73
# Of RFHL Shares	45,258,899
NAV per CIF Unit	27.23
# of CIF units for exposure to 1 RFHL Share	5 (4.51 rounded to 5)
Market Value of 5 CIF units	120.35

Consequently, the Government of Trinidad and Tobago has used these additional shares from CLICO as collateral in the offer of the National Investment Fund (NIF) bonds. The question still remains how will the other assets (Gov't 2037 bond) be distributed to investors on termination of the fund?

The Fund Administrator (Republic Bank Trustee Services Division) was contacted concerning the distribution of assets on termination of the fund. They indicated that they were not sure what the rationale was behind having a bond with a longer tenor than the fund itself as part of the fund. They speculated that the bond could be redeemed or sold at the termination of the fund and cash could be distributed to investors.

The Investment division in the Ministry of Finance was also contacted on the matter. They indicated that the decision was not yet made by the key stakeholders, but they also speculated that the bond could be sold and cash distributed to unitholders. They then indicated that investors should receive an official update by March 2020.

Final Word

The choice between CIF units and RFHL shares depends on 2 things:

1. What will the composition of the fund be upon termination? Will it comprise 100% RFHL shares or will the current composition remain relatively unchanged? For now, we can only speculate as we are unaware of what the Government's plans are given the allocation of CLICO's shares to the NIF bond offering. If the fund becomes 100% comprised of RFHL shares, then unitholders at the current price are purchasing RFHL shares at a discount. If the fund remains at its' current composition, then unitholders at the current price are purchasing RFHL shares at a premium.
2. Do investors want to hold CIF to maturity or are they looking to trade before maturity? Currently RFHL is trading at a 6.0% discount to its' intrinsic value, while CIF is trading at a 17.3% discount to its' intrinsic value. Investors who are seeking to trade CIF before maturity have greater room for capital appreciation as it is trading at a greater discount than RFHL to its' intrinsic value.

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