

# Investor Update



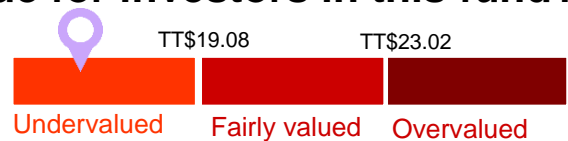
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David Paul  
Investment Analyst  
David\_Paul@jmmb.com

## The Calypso Macro Index Fund (CALYP)

Trading 30% below its NAV....Is there value for investors in this fund?

PLEASE SEE IMPORTANT DISCLOSURES

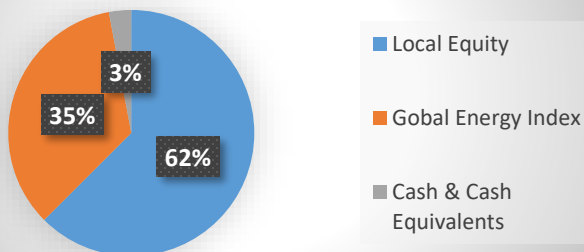
CALYP is a closed-end mutual fund, denominated in TT dollars, which was launched on January 8, 2016 and is scheduled to terminate on November 30, 2025. Twenty million (20,000,000) units were offered to the public at an offer price of TT\$25.00 per unit.



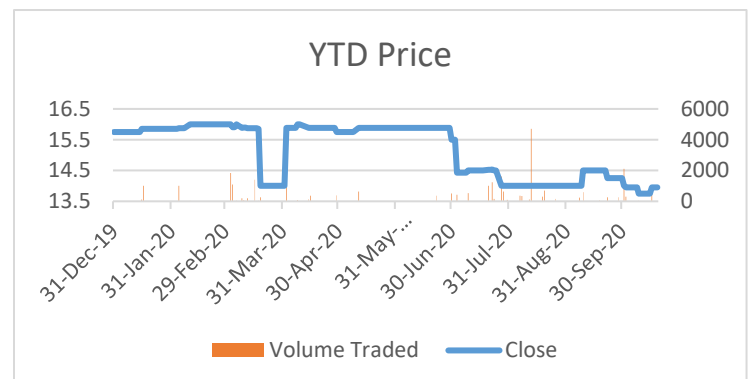
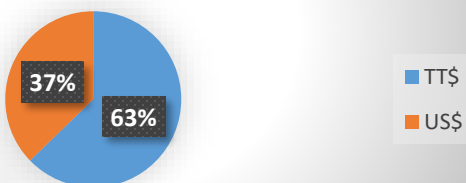
Fund Facts	
Symbol:	CALYP
Current Price:	\$13.95
Current NAV:	\$19.68
Target Price:	\$21.20
Sector:	Mutual Fund
Market Cap.:	\$281,790,000
Issued Capital:	20,200,000

Stock Performance		
Banking	YTD Price Change	Trailing Dividend Yield
CALYP	-11.43%	5.1%
CIF	-11.37%	4.0%

### CALYP Asset Allocation



### CALYP Currency Breakdown



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## **Context**

Recently, there has been considerable discussions in the market concerning Clico Investment Fund (CIF) and the opportunity that it offers investors because it is trading at a significant discount to its Net Asset Value (NAV). Conversely, there has been very little discussion about CALYP, which trades at a more significant discount to its NAV than CIF. Why has the market been so quiet regarding CALYP? Is there an opportunity for investors in the medium-term?

## **Why do closed-end funds trade at discounts?**

There are many reasons that influence whether a closed-end fund trades at a discount. It could be something fundamental, such as the underlying assets of that fund falling in and out of favor with the market; or it could be the up and down fluctuations in supply and demand for the stock. The mysterious nature of when and why closed-ended mutual funds trade at a discount can often confuse investors. Nevertheless, this is very common, as we have noticed with both CIF and CALYP trading on the TTSE.

This goes against the principles of investing, where we expect that investors will sell an asset for a higher value. However, discounts in closed-end funds may actually be an advantage in disguise. These discounts create opportunities for earning high dividend yields which are greater than the yields on the underlying assets. Both CIF and CALYP have dividend yields of 4.0% and 5.1% respectively, which are above average on the TTSE.

In cases where a closed-end fund is trading at a steep discount to its NAV as a result of an out of favor asset class that could potentially reverse in favor, it may be the most opportune time to take advantage of closed-end fund strategies. This is especially true if the fund is also paying income, which is the case with both CALYP and CIF.

While discounts can be an attractive feature, it should not be the only reason investors buy into a closed-end fund. Sometimes there are funds that are cheap for a specific reason. They trade at perennial discounts to asset value. This could mean there are governance issues with the fund, and an investor can end up in a closed-end fund trap.

## **About the Fund?**

CALYP allows investors access to the local stock market and to global energy companies. According to the fund's prospectus, the fund uses an indexing strategy that involves investing in a cross-section of securities that collectively have an investment profile similar to that of the All T&T Index (TTALL) and the Global Energy Index (GEI). Hence, the underlying is a weighted combination of the equity securities of the TTALL and the GEI. In the case of the TTALL equities, their Market Capitalization must represent greater than 0.5% of the overall Market Capitalization of the TTALL. In the case of the energy exchange traded funds, they will have a Market Capitalization greater than US\$250 million. The target weighting of the fund is 65% TTALL and 35% GEI.

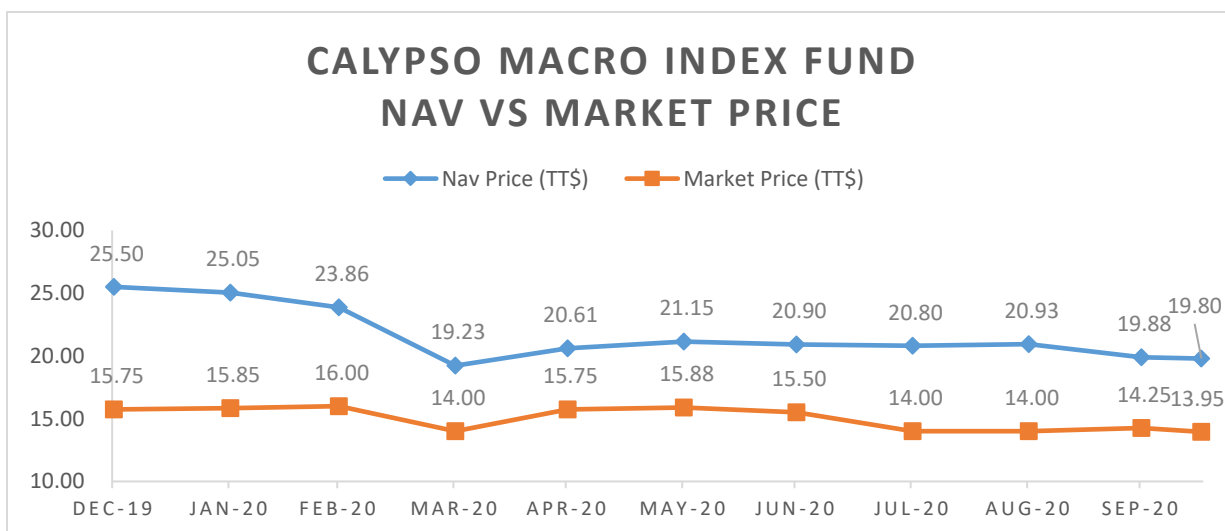
According to the prospectus, rebalancing of the fund will be determined on a quarterly basis. Rebalancing may also be undertaken as needed to account for changes in relative economic importance of non-energy and energy-based income for Trinidad & Tobago (T&T); to take advantage of economic, industry and financial market conditions; or to make adjustments that will optimize the portfolio's risk adjusted returns. The rebalancing of the portfolio will also take into account the basis set out for selecting the securities in the fund. If a security exceeds 0.5% of the Market Capitalization for over 90 days, the Investment Manager will use its best commercial endeavors to acquire that security to be part of the fund. To the extent that a security, which is part of the fund, falls below 0.5% of the Market Capitalization, the Investment Manager will use its best commercial endeavors to rebalance in respect of that security.

As at June 30, 2020, the top ten holdings in CALYP were as follows:

Security	Market Value	% of Total Fund
Republic Financial Holdings Limited	62,304,606.00	14.69%
First Citizens Bank Limited	40,112,241.68	9.45%
Energy Select Sector SPDR ETF	34,125,115.55	8.04%
Scotiabank Trinidad and Tobago Limited	33,714,423.99	7.95%
Vanguard Energy ETF	32,985,159.39	7.77%
iShares US Energy ETF	32,190,590.43	7.59%
ANSA McAI Limited	30,628,324.44	7.22%
British American Tobacco PLC - ADR	28,198,194.66	6.65%
Massy Holdings Limited	19,287,432.00	4.55%
iShares Global Energy ETF	19,165,187.02	4.52%

## Performance of the fund

Year to date (October 16, 2020), the NAV of the fund has declined by ~22% while the market price has declined by ~11%. These declines were due to sharp declines in both the local and international equity markets brought about by the COVID-19 pandemic. In addition to the COVID-19 pandemic, the energy ETFs in the fund were further impacted by geopolitical tensions and excessive oil inventories that led to the rapid decline in oil prices earlier in the year. We have since seen a slight recovery in energy prices, but energy ETF prices remain depressed.



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As at October 16, 2020, CALYP's NAV stands at TT\$19.80, while its market price is TT\$13.95. This means that CALYP is trading at ~30% discount to its NAV. This discount is significantly greater than the discount between CIF's NAV versus its market price (~18%). So why is there such a vast difference in market sentiment between the two exchange-traded mutual funds?

### **Are the Energy ETFs the “out of favor” assets in the fund?**

Given that the fund comprises ~35% of international energy sector exposure through Energy ETFs, one reason for the disparity between the NAV and price maybe the current uncertainty surrounding the energy sector. According to the IEA World Energy Outlook, global energy demand is set to drop by 5% in 2020. They indicated that the impact varies by fuel type. They estimated falls of 8% in oil demand and 7% in coal use in sharp contrast to a slight rise in the contribution of renewables. They estimate a reduction in natural gas demand by around 3% for the year. These declines in demand has been largely due to the impact of the COVID-19 pandemic, which has led to lockdowns across the world. These lockdowns have caused reduced economic activity across the globe leading to lower demand for fuel. Supply remains a major issue as there remains a glut in the energy market. However, oil production is being slashed quickly, putting less pressure on constrained storage capacity, and demand appears to be stabilizing as economies are reopening.



It appears that investors have incorporated a worst-case scenario, as the Energy Select Sector SPDR fund is still down almost 50% for the year. The pattern is similar with the other energy ETFs in the fund.

Since the introduction of S&P sector SPDRs at the end of 1998, the Energy Select fund has never been cheaper compared to the S&P 500 index.



Nevertheless, even with the energy sector ETFs trading at record lows, CALYP's market price still trades at a significant discount to its NAV.

## Risks

- The fund has ~35% exposure to the international energy sector, which is an extremely volatile sector with heightened levels of uncertainty.
- The Trinidad and Tobago economy is heavily exposed to the energy sector. Hence, swings in the energy sector will affect economic activity and the companies listed on the TTSE.
- Trading liquidity for the fund is low.

## Positives

- CALYP is a diversified fund; it tracks the TTALL index and the GEI (no single security currently makes up 15% or more of the fund).
- The fund provides a hedge against a possible devaluation of the TT dollar as 37% of the fund is currently invested in US dollar based investments.

- The stock is trading significantly below its NAV. This gives investors significant cushion for possible price appreciation.
- The fund has flexibility. The investment manager can make adjustments to the fund that will optimize the portfolio's risk adjusted returns.

## **Valuation**

JMMB internal valuations were utilized for the holdings in the TTALL and a simple P/B valuation method for the holdings in the GEI.

## **Recommendation**

Our model gave a fair value price of \$21.20. We apply a margin of error of 10% to the weighted price to give a fair value range of \$19.08 - \$23.32. This compared to the current market price of \$13.95. We recommend CALYP with an OUTPERFORM rating.

The OUTPERFORM rating is given on the following basis:

- CALYP offers significantly above average dividend yield to investors at its current price.
- CALYP provides a hedge against a possible devaluation of the TT dollar as 37% of the fund is invested in US dollar denominated securities.
- The fund is trading at a 30% discount to its NAV.

## APPENDIX

### IMPORTANT DISCLOSURES

**Abstract**— as a part of our new portfolio strategy, we are recommending strict adherence to the following portfolio allocation **definitions/recommendations**.

**PLEASE NOTE** THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 10% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER/ INVESTMENT ADVISOR OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY, THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

**OUTPERFORM** - up to 10% of your portfolio

**MARKETPERFORM** - 5% of your portfolio

**UNDERPERFORM** - 2.5% to 4.9% of your portfolio

**STRONGLY UNDERPERFORM** - less than 2.5% of your portfolio

**SELL** - 0% of your portfolio