

**Sterling  
Investments  
Limited**

**Management,  
Discussion  
& Analysis**

**Q3 2019**

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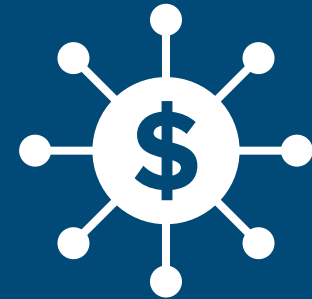


Other comprehensive  
income more than  
doubles from

J\$95.7m to  
**J\$199.3m**



**8.4%**  
Increase in book value  
per share to J\$3.34



Assets of  
**J\$1.59**  
billion



## Economic Overview

### International

Bond prices have increased significantly during the first 9 months of 2019. The Bloomberg Barclays Investment Grade bond index has risen by 15.8% and the Bloomberg Barclays High Yield Index appreciated by 11.4%. This performance substantiates SIL's investment thesis promoted at the end of 2018.

Global markets experienced ongoing uncertainty in the third quarter. However, this did not prevent the US equity markets from rising over the period, albeit at a modest pace. The S&P 500 and the Dow Jones Index each increased by 1.2% in the third quarter. The 10-year U.S. treasury yield continued to decline and fell 34 basis points, closing the quarter at 1.67%. The 10-year yield fell under 1.5% in August, which was briefly less than the two-year yield causing a temporary yield curve inversion.

The Fed cut interest rates twice (July and September) in the third quarter, citing slower global growth, trade policy uncertainty, and muted inflation. U.S. Corporate bond markets continued to benefit as credit spreads narrowed. U.S. GDP growth for Q2 2019 was 2.0%. The data revealed that business investment, net exports and other GDP components contracted slightly in the second quarter. The Fed appeared divided in their outlook for interest rates resulting in a median guidance of no further rate cuts for the remainder of 2019 and 2020. However, the market expects at least one more rate cut in 2019.

In European bond markets, 10-year bund (German government bond) yields continued to decline and fell by 24bps in the third quarter, closing at negative 0.57% at the end of the third quarter. At its September meeting, the European Central Bank (ECB) cut its deposit rate by 10bps to -0.5% and confirmed it would restart asset purchases in November to stimulate the economy. They further indicated that the asset purchases would

be open-ended with no set end date, reflecting dovish growth sentiment. The Eurozone grew by 0.2% in the second quarter versus the previous quarter, a slowdown from 0.4% percent in the first three months of 2019.

Oil prices fell further in the third quarter, continuing the decline that started in the second quarter. This resulted in a decrease of 7.5% (closed at US\$54.07) for WTI and a decrease of 8.67% in Brent prices in the third quarter. This was despite the brief spike observed in September, following the attack on the Saudi oil facilities. Instead, oil prices fell as a result of weaker demand due to lower forecasts of global growth.

### Local

During the first nine months of 2019, the Bank of Jamaica sold US\$235 million into the foreign currency market. These interventions reduced the JMD liquidity but did not prevent a 5.8% depreciation in the JMD/USD exchange rate (which moved from 127.72 to 135.16). The volatility in the foreign exchange market continued in the September quarter with the exchange rate hitting a peak weighted average sell rate of \$138.10 in mid-July before falling to \$135.16 at the end of September 2019. The JSE Index rose 35.9% in the first nine months of 2019, surpassing the 24.3% recorded during the same period in 2018.

### Outlook

SIL's portfolio has benefited from the rise in global asset prices (in USD terms). Prices of the assets in SIL's portfolio have increased considerably since the start of 2019. The manager has strategically positioned the portfolio to take advantage of changes in the economic cycle. The portfolio has generated attractive capital gains and income levels. The portfolio has also benefitted from a series of opportunistic equity investments on the Jamaica Stock Exchange. The team continues to look for profitable fixed income or equity opportunities in the global and local markets.

## Financial Overview

<b>Increase in net profit</b>	<b>10.9%</b>
<b>Increase in net interest income for period</b>	<b>12.4%</b>
<b>Total Assets</b>	<b>\$1.59 billion</b>
<b>Book value per share</b>	<b>\$3.34 vs. \$3.08 (Sep-18*)</b>

\*Adjusted for stock split

### Income Statement

Net Interest income totalled J\$61.6 million for the nine months ended September 2019; 12.4% higher than the \$54.8 million recorded for the corresponding period in 2018. The net interest margin increased to 86.2%. In addition, the changes in the fair value of FVOCI debt investment securities increased from J\$3.1 million to J\$104.3 million.

The Jamaican dollar depreciated against the US dollar by J\$7.44 or 5.8% for the nine-month period ended September 2019, relative to the same period in 2018 when it depreciated by J\$9.65 or 7.7%. This led to unrealized foreign exchange gains for the nine months ended September 2019 of J\$64.3 million compared to J\$73.5 million in September 2018.

Operating expenses for the nine months ended September 2019 totalled J\$28.9 million or 37.4% higher than the J\$21.0 million of operating expenses recorded for the corresponding period in 2018. Expenses grew due to increases in the charges associated with the purchases of local equities, audit fees and management fees. Net profit for the nine months ended September 2019 increased by 10.9% to J\$100.2 million compared to J\$90.4 million recorded during the corresponding period in September 2018. At 71%, the company maintains one of the highest net profit margins on the stock exchange due to its efficient corporate and organizational structure.

## Balance Sheet

Total equity increased by 31.9% from J\$922.1 million as at September 2018 to J\$1.22 billion as at September 2019. This reflects the significant increase in the prices of the assets held in the portfolio as well as the proceeds of the rights issue completed in early 2019.

Total assets increased by 24.9% from J\$1.27 billion as at September 2018 to J\$1.59 billion as at September 2019. This shows the growth in investment securities which increased by 25.0% over the same period in 2018. This was funded by the proceeds of the rights issue held in January 2019 and margin loans. As at September 2019, margin loans totalled J\$326.1 million and represented 21.3% of the total portfolio of investment securities compared to 25.5% for September 2018. The modest use of leverage increases shareholder returns above the net weighted average yield of the underlying portfolio.

## Sterling Investments Limited

### Balance Sheet

As at September 30, 2019

	Unaudited 9 months ended Sep-19	Unaudited 9 months ended Sep-18	Audited 12 months ended Dec-18
<b>ASSETS</b>			
Cash Resources			
Cash & Cash Equivalents	6,766,496	1,384,478	3,480,597
Accounts Receivable	45,461,071	42,127,887	43,568,581
Income Tax Recoverable	18,269	-	92,707
Investment Securities	1,533,813,078	1,226,757,925	1,161,747,542
<b>TOTAL CURRENT ASSETS</b>	<b>1,586,058,913</b>	<b>1,270,270,291</b>	<b>1,208,889,427</b>
<b>TOTAL ASSETS</b>	<b>1,586,058,913</b>	<b>1,270,270,291</b>	<b>1,208,889,427</b>
<b>LIABILITIES</b>			
Margin Loan Payables	326,065,984	313,041,747	336,229,212
Other Payables	9,183,444	21,863,811	9,612,829
Due to Related Company	34,722,526	13,236,002	17,497,550
Manager's Preference Shares	10,000	10,000	10,000
<b>TOTAL LIABILITIES</b>	<b>369,981,955</b>	<b>348,151,560</b>	<b>363,349,591</b>
<b>SHAREHOLDERS' NET EQUITY</b>			
Share Capital	902,537,156	696,589,430	699,274,387
Prepaid Share Reserve	2,504,990	134,540	43,321
Fair Value Reserve	41,694,656	(25,228,738)	(57,387,192)
Retained Earnings	269,340,157	250,623,499	203,609,320
<b>TOTAL EQUITY</b>	<b>1,216,076,958</b>	<b>922,118,731</b>	<b>845,539,836</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>1,586,058,913</b>	<b>1,270,270,291</b>	<b>1,208,889,427</b>

# Sterling Investments Limited

## Income Statement

For Period Ended September 30, 2019

	Unaudited 9 months ended Sep-19	Unaudited 9 months ended Sep-18	Unaudited 3 months ended Sep-19	Unaudited 3 months ended Sep-18	Audited 12 months ended Dec-18
<b>Revenue:</b>					
Interest income calculated using the effective interest method	71,441,167	62,615,728	25,341,713	20,959,652	82,200,785
Foreign exchange gain/(loss)	64,309,047	73,540,796	35,473,531	35,142,694	23,005,258
Net gain/(loss) on sale of debt investment securities at FVOCI	3,320,455	(339,777)	1,478,427	(107,560)	2,602,419
Net gain/(loss) on sale of equity investment securities at FVTPL	1,869,518	(1,927,903)	1,869,518	59,787	2,637,457
	<b>140,940,186</b>	<b>133,888,845</b>	<b>64,163,189</b>	<b>56,054,573</b>	<b>110,445,919</b>
<b>Expenses:</b>					
Interest	(9,828,629)	(7,785,248)	(3,236,794)	(2,982,971)	(10,993,501)
Impairment (loss)/gain on financial instruments	(4,999,848)	4,022,737	(3,943,370)	956,771	(9,443,180)
Unrealised fair value (loss)/gain on equity investment securities at FVTPL	8,794,262	-	2,332,619	-	(4,142,723)
Other operating	(28,870,570)	(21,005,524)	(10,831,154)	(6,749,484)	(28,797,668)
	<b>(34,904,785)</b>	<b>(24,768,035)</b>	<b>(15,678,699)</b>	<b>(8,775,684)</b>	<b>(53,377,072)</b>
<b>Operating Profit</b>	106,035,400	109,120,809	48,484,489	47,278,889	57,068,847
Other Income	324,790	103,490	151,619	44,109	252,709
Preference Dividend Expense	(5,337,131)	(18,278,002)	(5,337,131)	(8,672,642)	(3,049,900)
<b>Profit Before Income tax</b>	101,023,059	90,946,297	43,298,977	38,650,356	54,271,656
Income Tax Expense	(812,293)	(545,356)	(217,852)	-	(452,648)
<b>Profit for Period</b>	<b>100,210,766</b>	<b>90,400,941</b>	<b>43,081,125</b>	<b>38,650,356</b>	<b>53,819,008</b>
<b>Other Comprehensive Income:</b>					
Items that may be reclassified to profit & loss:					
Realised loss/(gains) on disposal of FVOCI debt investment (2017:available-for-sale securities) reclassified to profit or loss	(5,237,680)	2,173,906	(7,318,928)	92,658	4,660,724
Impairment loss on available-for-sale securities reclassified to profit for the year	-	-	-	-	-
Changes in fair value (of FVOCI debt investment securities)	104,319,528	3,089,050	32,393,773	5,366,580	(80,192,905)
	<b>199,292,614</b>	<b>95,663,897</b>	<b>68,155,969</b>	<b>44,109,595</b>	<b>(21,713,173)</b>
Shares outstanding	364,451,795	59,808,494	364,451,795	59,808,494.47	83,759,951
Earning Per Share	0.27*	1.51	0.12	0.65	0.64

\*Adjusted for 5:1 stock split (November 2018)

Sterling Investments Limited  
**Statement of Cash Flows**

For period ended September 2019

	Period ended Sep-19	Period ended Sep-18	Audited Dec 2018
<b>Cash flows from operating activities</b>			
Profit for the period	100,210,766	90,400,941	53,819,008
Adjustments for :			
Interest Income	(71,379,397)	(62,615,728)	(82,200,785)
Interest Expense	9,828,629	7,785,248	10,993,501
Impairment loss on FVOCI	1,456,163	(4,022,737)	9,443,180
Unrealised gain on quoted equities	2,029,778	1,927,903	4,142,723
Income Tax Expense	812,293	545,356	452,648
Managers Preference Share Interest	5,337,131	18,278,002	3,049,900
	<b>48,295,363</b>	<b>52,298,986</b>	<b>-299,825</b>
Changes in operating assets:			
Accounts Receivable	1,554,608	7,172,086	(1,829,904)
Margins Payable	(10,163,228)	38,227,014	61,414,479
Other Payables	(4,672,752)	(3,101,666)	1,777,001
Due to Related Company	16,131,212	(6,619,269)	(2,357,721)
	<b>51,145,203</b>	<b>87,977,150</b>	<b>58,704,029</b>
Interest Received	67,932,299	55,777,836	82,917,024
Income Taxes Paid	(737,854)	(753,707)	(748,543)
Interest Paid	(9,828,629)	(7,785,248)	(10,993,501)
Net cash provided by operating activities	<b>108,511,019</b>	<b>135,216,031</b>	<b>129,879,010</b>

	Period ended Sep-19	Period ended Sep-18	Audited Dec 2018
<b>Cash flows from investing activity</b>			
Investment securities, being net cash used by investing activity	(276,469,629)	(152,803,629)	(139,929,077)
Net cash used by Investing activities	<b>(276,469,629)</b>	<b>(152,803,629)</b>	<b>(139,929,077)</b>
<b>Cash flows from financing activities</b>			
Issue of Preference shares			
Issue of ordinary shares	203,262,769	27,135,754	24,562,577
Prepaid Share Reserve	2,461,669	(2,060,654)	(2,151,873)
Manager's preference shares interest paid	-	-	(1,899,545)
Dividend payment	(34,479,930)	(20,799,518)	(21,676,989)
Net cash provided /(used) by financing activities	<b>171,244,508</b>	<b>4,275,583</b>	<b>(1,165,830)</b>
<b>Increase/(decrease) in cash and cash equivalents during the period</b>	<b>3,285,898</b>	<b>(13,312,016)</b>	<b>(11,215,897)</b>
<b>Cash and cash equivalent at the beginning of period</b>	<b>3,480,597</b>	<b>14,696,494</b>	<b>14,696,494</b>
<b>Cash and cash equivalent at the end of period</b>	<b>6,766,495</b>	<b>1,384,479</b>	<b>3,480,597</b>

# Sterling Investments Limited

## Statement of Changes in Equity

For period ended September 30, 2019

	Share capital	Prepaid Share Reserve	Fair value	Retained earnings	Total
Balance at December 31, 2018	699,274,387	43,321	(57,387,192)	203,609,320	845,539,836
Adjustment on initial application of IFRS 9, net of tax			-		-
<b>Adjusted balance as at December 31, 2018</b>	<b>699,274,387</b>	<b>43,321</b>	<b>(57,387,192)</b>	<b>203,609,320</b>	<b>845,539,836</b>
Comprehensive income:					
Profit for period	-	-	-	100,210,766	100,210,766
Other comprehensive income:					
Realised gain on disposal of available-for-sale securities reclassified to profit for the year			(5,237,680)		(5,237,680)
Impairment loss on AFS securities reclassified to profit	-	-	4,999,848	-	4,999,848
Unrealised gains in fair value of available-for-sale securities	-		99,319,680	-	99,319,680
<b>Total comprehensive income</b>	<b>699,274,387</b>	<b>43,321</b>	<b>41,694,656</b>	<b>303,820,086</b>	<b>1,044,832,449</b>
Transactions with owners:					
Share issued during the period	203,262,769	-	-	-	203,262,769
Transfer of prepayment of shares		(43,320)			(43,320)
Prepayments for shares		2,504,990			2,504,990
Dividends	-	-	-	(34,479,930)	(34,479,930)
	203,262,769	2,461,670	-	(34,479,930)	171,244,509
<b>Balance at September 30, 2019</b>	<b>902,537,156</b>	<b>2,504,991</b>	<b>41,694,656</b>	<b>269,340,156</b>	<b>1,216,076,958</b>
Balance at December 31, 2017	669,453,676	2,195,194	(30,491,694)	225,362,118	866,519,294
Adjustment on initial application of IFRS 9, net of tax			-	(44,340,043)	(44,340,043)
<b>Adjusted balance as at December 31, 2017</b>	<b>669,453,676</b>	<b>2,195,194</b>	<b>(30,491,694)</b>	<b>181,022,075</b>	<b>822,179,251</b>
Comprehensive income:					
Profit for period	-	-	-	90,400,941	90,400,941
Other comprehensive income:					
Realised gain on disposal of available-for-sale securities reclassified to profit for the year			2,173,906		2,173,906
Impairment loss on AFS securities reclassified to profit	-	-	(4,022,737)	-	(4,022,737)
Unrealised gains in fair value of available-for-sale securities	-		7,111,787	-	7,111,787
<b>Total comprehensive income</b>	<b>669,453,676</b>	<b>2,195,194</b>	<b>(25,228,738)</b>	<b>271,423,016</b>	<b>917,843,148</b>
Transactions with owners:					
Share issued during the period	27,135,754	-	-	-	27,135,754
Prepaid share reserve		(2,060,654)			(2,060,654)
Dividends	-	-	-	(20,799,518)	(20,799,518)
	27,135,754	(2,060,654)	-	(20,799,518)	4,275,582
<b>Balance at September 30, 2018</b>	<b>696,589,430</b>	<b>134,540</b>	<b>(25,228,738)</b>	<b>250,623,498</b>	<b>922,118,731</b>

# Sterling Investments Limited

## Notes to Financial Statements

### 1. Identification

Sterling Investments Limited ("the Company") was incorporated on August 21, 2012 in St. Lucia under the International Business Companies Act and commenced operations on December 1, 2012. The Company's registered office is located at 20 Micoud Street, Castries, St. Lucia. The principal activities of the Company are holding and trading of tradable and other securities and other investments.

### 2. Basis of preparation

These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Company's last annual financial statements as at and for the year ended December 31, 2018 ("last annual financial statements"). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the company's financial position and performance since the last annual financial statements.

These interim financial statements are presented in Jamaican dollars, which is the Company's functional currency.

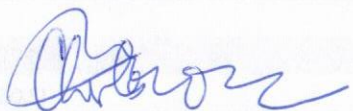
### 3. Use of judgements and estimates

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

### 4. Significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the Company's financial statements as at and for the year ended December 31, 2018 which was prepared in accordance with International Financial Reporting Standards (IFRS).



Charles Ross, Director



Maxim Rochester, Director

### Top Ten Shareholders as at September 30, 2019

Name	Number of Shares	Percentage
ATL Group Pension Fund Trustees Nominee Limited	47,856,608	12.8%
GraceKennedy Pension Fund Custodian Ltd for GraceKennedy Pension Scheme	34,848,550	9.3%
Lloyd Badal	27,123,691	7.2%
Pam - Pooled Equity Fund	22,025,175	5.9%
Cable and Wireless Jamaica Pension Fund	14,492,015	3.9%
Everton Lloyd McDonald	13,331,584	3.6%
Charles A. Ross	11,431,108	3.0%
Satyanarayana Parvataneni	10,726,843	2.9%
National Insurance Fund	10,080,645	2.7%
JNBS Pension Trustees Nominee Ltd.	8,912,355	2.4%

### Shareholdings of Directors as at September 30, 2019

Directors	Number of shares	Percentage of Total
Derek Jones		
Maxim Rochester		
Michael Bernard		
Charles Ross	11,431,108	3.0%

### Shareholdings of Connected Parties as at September 30, 2019

Name	Number of Shares	Percentage
Marian A. Ross	1,253,345	0.33%
Charles Andrew Ross	619,207	0.17%
Sterling Asset Management Limited	93,500	0.02%
Natalie A. Farrell-Ross	85,804	0.02%