
**Sterling
Investments
Limited**

**Management,
Discussion
& Analysis**
Q1 2020

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Economic Overview

International

After rising spectacularly in 2019, asset prices declined modestly in January and February and then precipitously in March 2020. The price declines and increased market volatility are both attributed to global spread of the COVID 19 pandemic.

Prices declined in the first quarter 2020, but bonds fared better than stocks: During the first quarter of 2020, the S&P 500 fell by 20%, the Dow Jones Index fell by 23.2%, and the Stoxx 600 fell by 23%. U.S. treasuries however, benefited as the 10-year note increased in price by 12.5%. The 10-year US Treasury yield fell precipitously by 124.8 basis points in the quarter ended March 2020, closing at 0.67%. The decline in bond prices was significantly less than the decline in equity prices, rendering Sterling Investments Limited (SIL) relatively well positioned during this time. Between January and March 2020, The Bloomberg Barclays Investment Grade Corporate bond index fell by 3.6% and the Bloomberg Barclays High Yield Bond Index had a steeper fall, decreasing by 10.2%.

Prices rose in the second quarter as Governments and Central Banks announced aggressive “rescue” programs: Fortunately, bond prices rose from their March lows at the start of the second quarter. The market recovery observed in April has been attributed to aggressive fiscal stimulus packages and looser monetary policy announced by Governments and Central Banks across the globe. In particular, the U.S Federal Reserve (the Fed) cut interest rates twice in March and announced unlimited quantitative easing. Of note – the Fed agreed to buy the debt of “fallen angels” i.e. corporates that lost their investment grade credit ratings as a result of the COVID 19 economic fallout. This accompanies a wide array of programs designed to give U.S. corporations access to liquidity. US interest rates now stand at 0-0.25%. The US Senate also passed a \$2 trillion stimulus package. US GDP decreased by 4.8 % in Q1 2020 in sharp contrast to the 2.1% increase recorded in the fourth quarter of 2019. In March, the U.S. unemployment rate increased by 0.9% to 4.4%. This is the largest month-over-month increase in the rate since January 1975, when the increase was also 0.9%. The number of unemployed persons rose by 1.4 million to 7.1 million in March as numerous states implemented lockdown measures to contain the spread of the Covid-19 virus. To combat the economic fallout in Europe, the European Central Bank (ECB) announced the Pandemic Emergency Purchase Programme (PEPP), a €750 billion scheme which will be used to facilitate the purchase of government and corporate bonds for the duration of the Covid-19 crisis. An array of fiscal stimulus programs was announced by Governments throughout the E.U.

Oil prices were severely affected by the dramatic reduction in demand and sustained increases in supply (combined with a shortage of storage facilities). This resulted in a decrease of 66.5% for WTI (closed at US\$20.48) and a drop of 65.5% in Brent prices in the quarter ended March 2020.

Local: The JMD/USD exchange rate closed the March 2020 quarter at J\$135.39 / US\$1, which represents a depreciation of 2.1% since December 2019. The decline in inflows from remittances, tourism and alumina exports is likely to result in a depreciation of the exchange rate throughout the remainder of 2020. The JSE Index recorded a steeper fall than the S&P 500 and the Stoxx 600, falling by 25.6% over the first quarter ended March 2020. In April 2020, S&P affirmed

Jamaica’s B+ rating but changed the stable outlook to negative while Fitch changed Jamaica’s outlook to stable from positive. Fitch projects a 4% contraction in 2020 and a decline in tourism receipts of 20%.

COVID 19 IMPACT

The value of SIL’s investment strategy is particularly strong and relevant amidst times of crisis.

- **Steady Interest income and higher net interest margin:** SIL’s interest income has not been affected by the COVID19 pandemic. Investors will continue to benefit from the US dollar income SIL’s portfolio generates.
- **Lower interest rates to benefit bonds:** Lower interest rates are likely to increase the value of assets in SIL’s portfolio over time. It has also reduced the cost of SIL’s liabilities and improved the net interest margin.
- **High quality bonds reduce credit risk:** SIL shareholders are benefiting from its exposure to investment grade rated issuers. Over 72% of the bond portfolio is invested in instruments issued by investment grade rated companies. These companies are at relatively lower risk of default than companies or Governments rated below BBB-.
- **SIL well-positioned to benefit from Global economic recovery:** It is likely that the developed countries will lead the global economic recovery. Jamaica’s economic recovery is likely to lag the recovery in discretionary consumer spending in the US, UK and China. SIL’s exposure to the developed countries suggests that it will be among the first companies on the local stock exchange to benefit from a global economic recovery.

- **Sterling Investments Limited** has sufficient liquidity to prudently and cautiously purchase undervalued assets as appropriate.

Enhanced diligence amid COVID 19: The team acknowledges that the global market outlook is very uncertain, and the full extent of the economic fallout is not yet clear. As a result, the investment manager is closely watching all credits within the portfolio to ensure that it proactively identifies and responds to adverse changes in the environment or creditworthiness of the issuers. .

Financial Overview

Net Profit	J\$4.6 Million vs loss of J\$7.2 million March 2019
Increase in net interest income for period	34.6%
Total Assets	J\$1.41 billion vs. J\$1.42 billion March 2019
Foreign exchange gains	J\$12.3 million vs. loss of J\$20.5 million March 2019

Income Statement

Total revenue for the 3 months of 2020 was J\$49.3 million compared to J\$1.7 million for the same period in 2019. This was the result of increases in interest income and unrealized FX gains. Net Interest income totalled J\$24.9 million for the three months ended March 2020; 34.6% higher than the \$18.5 million recorded for the corresponding period in 2019. The net interest margin increased to 89.9%.

The Jamaican dollar depreciated against the US dollar by J\$2.82 or 2.1% for the three-month period ended March 2020, relative to the same period in 2019 when it appreciated by J\$1.25 or 1.0%. This led to unrealized foreign exchange gains for the three months ended March 2020 of J\$12.3 million compared to an unrealized loss of J\$20.5 million for the corresponding period in 2019.

Other Operating expenses for the three-month period ended March 2020 totalled J\$8.15 million or 0.6% lower than the J\$8.2 million of other operating expenses recorded for the corresponding period in 2019.

Due to the acquisition of structured notes within the portfolio, the full impact of price movements on these securities are put through the profit and loss statement. As at March 31, 2020 – market prices on these securities were near their lows. As a result, the unrealized fair value losses on these securities totalled J\$17.3 million while unrealized losses on equities amounted to \$15.6 million.

Net profit for the three-month period ended March 2020 increased to J\$4.6 million compared to a loss of J\$7.2 million recorded during the corresponding period in March 2019. Excluding the unrealized losses on the structured notes, net profit would have totalled J\$21.9 million.

Balance Sheet

Total equity decreased by 10.6% from J\$1.1 billion as at March 2019 to J\$956.6 million as at March 2020. This reflects the widespread and continuing impact of the Covid-19 pandemic on the prices of the assets held in the portfolio. This decline was proportionately less than the declines observed in the equity markets due to SIL's bond portfolio.

Total assets decreased by 1.0% from J\$1.42 billion as at March 2019 to J\$1.41 billion as at March 2020. As at March 2020, margin loans totalled J\$396.9 million and represented 29.2% of the total portfolio of investment securities compared to 23.7% for March 2019. 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 March 31, 2020

	Unaudited 3 months ended Mar-20	Unaudited 3 months ended Mar-19	Audited 12 months ended Dec-19
ASSETS			
Cash Resources			
Cash & Cash Equivalents	818,567	1,302,870	2,079,139
Accounts Receivable	52,988,662	46,924,945	44,061,124
Income Tax Recoverable	-	18,269	201,332
Investment Securities	1,357,049,534	1,376,284,213	1,587,657,599
TOTAL CURRENT ASSETS	1,410,856,763	1,424,530,297	1,633,999,194
TOTAL ASSETS	1,410,856,763	1,424,530,297	1,633,999,194
LIABILITIES			
Margin Loan Payable	396,914,541	326,559,112	350,839,368
Other Payables	28,849,047	5,679,927	13,058,853
Due to Related Company	28,507,653	22,781,494	41,445,974
Manager's Preference Shares	10,000	10,000	10,000
TOTAL LIABILITIES	454,281,241	355,030,533	405,354,195
SHAREHOLDERS' NET EQUITY			
Share Capital	906,425,229	899,311,930	905,042,146
Prepaid Share Reserve	518,500	2,857,289	316,841
Fair Value Reserve	(213,169,609)	(6,523,980)	52,990,498
Retained Earnings	262,801,402	173,854,524	270,295,514
TOTAL EQUITY	956,575,522	1,069,499,763	1,228,644,999
TOTAL LIABILITIES & EQUITY	1,410,856,763	1,424,530,297	1,633,999,194

Sterling Investments Limited

Income Statement

	Unaudited 3 months ended Mar-20	Unaudited 3 months ended Mar-19	Audited 12 months ended Dec-19
Revenue:			
Interest income calculated using the effective interest method	27,700,961	21,826,518	98,299,266
Foreign exchange gain/(loss)	12,308,970	(20,540,266)	43,867,988
Net gain/(loss) on sale of debt investment securities at FVOCI	9,321,220	381,343	4,336,249
Net gain/(loss) on sale of equity investment securities at FVTPL	-	-	1,869,517
	49,331,152	1,667,595	148,373,020
Expenses:			
Interest	(2,810,344)	(3,334,501)	(12,872,969)
Impairment (loss)/gain on financial instruments	(860,877)	2,494,900	1,184,399
Unrealised fair value (loss)/gain on equities and structured notes at FVTPL	(32,847,207)	465,430	9,651,783
Other operating	(8,153,234)	(8,200,068)	(37,739,363)
	(44,671,662)	(8,574,239)	(39,776,149)
Operating Profit	4,659,489	(6,906,644)	108,596,871
Other Income	212,690	142,859	423,956
Preference Dividend Expense	-	-	(7,225,475)
Profit Before Income tax	4,872,180	(6,763,785)	101,795,353
Income Tax Expense	(286,646)	(447,944)	(629,229)
Profit for Period	4,585,534	(7,211,729)	101,166,124
Other comprehensive income:			
Item that are or may be reclassified subsequently to profit or loss:			
Realised gains on disposal of FVOCI debt investment securities reclassified to profit or loss	(6,190,723)	(1,315,568)	(5,799,592)
Change in fair value of FVOCI debt investment securities	(259,969,384)	52,178,780	116,177,282
Total other comprehensive income/(loss) for the year	(266,160,107)	50,863,212	110,377,690
Total comprehensive income/(loss) for the year	(261,574,573)	43,651,483	211,543,814
Shares outstanding	375,684,339	351,312,161	367,264,726
Basic and diluted earnings per stock unit	0.01	(0.02)	0.28

Sterling Investments Limited

Statement of Cash Flows

	Period ended Mar. 31, 2020	Period ended Mar. 31, 2019	Audited Dec 2019
Cash flows from operating activities			
Profit for the period	4,585,534	(7,211,728)	101,166,124
Adjustments for:			
Interest Income	(27,700,961)	(21,826,518)	(98,299,266)
Interest Expense	2,810,344	3,334,501	12,872,969
Impairment loss on FVOCI	860,877	(2,494,900)	(1,184,399)
Unrealised (gain)/loss on quoted equities and structured notes	32,847,207	(465,430)	(9,651,783)
Income Tax Expense	286,646	447,944	629,229
Managers Preference Share Interest	7,225,474	-	7,225,475
	20,915,120	(28,216,131)	12,758,349
Changes in operating assets:			
Accounts Receivable	(1,713,552)	487,316	1,832,568
Margins Payable	46,075,173	(9,670,100)	14,610,156
Other Payables	8,564,719	(3,932,902)	(731,551)
Due to Related Company	(12,938,321)	5,283,944	23,948,424
	60,903,138	(36,047,873)	52,417,947
Interest Received	20,486,976	17,982,839	95,974,154
Interest Paid	(2,810,344)	(3,334,501)	(12,872,969)
Income Taxes Paid	(85,314)	(373,505)	(737,854)
Net cash provided/(used) by operating activities	78,494,456	(21,773,040)	134,781,278

	Period ended Mar. 31, 2020	Period ended Mar. 31, 2019	Audited Dec 2019
Cash flows from investing activity			
Investment securities, being net cash used by investing activity	(69,260,126)	(160,713,130)	(304,696,184)
Net cash used by Investing activities	(69,260,126)	(160,713,130)	(304,696,184)
Cash flows from financing activities			
Issue of Preference shares			
Issue of ordinary shares	1,383,083	200,037,543	202,436,110
Prepaid Share Reserve	201,659	2,813,968	273,520
Manager's preference shares interest paid			(3,047,900)
Dividend payment	(12,079,646)	(22,543,068)	(31,148,281)
Net cash used by financing activities	(10,494,905)	180,308,443	168,513,449
Increase) in cash and cash equivalents during the period	(1,260,574)	(2,177,727)	(1,401,456)
Cash and cash equivalent at the beginning of period	2,079,141	3,480,597	3,480,597
Cash and cash equivalent at the end of period	818,567	1,302,870	2,079,141

Sterling Investments Limited

Statement of Changes in Equity

For period ended March 31, 2020

	Share capital	Prepaid Share Reserve	Fair value	Retained earnings	Total
Balance at December 31, 2019	905,042,146	316,841	52,990,498	270,295,514	1,228,644,999
			-		-
	905,042,146	316,841	52,990,498	270,295,514	1,228,644,999
Comprehensive income:					
Profit for period	-	-	-	4,585,534	4,585,534
Other comprehensive income:					
Realised (gain)/ loss on disposal of FVOCI debt instrument securities reclassified to profit or loss			(6,190,723)		(6,190,723)
Change in fair value of FVOCI debt instrument securities net	-	-	(259,969,384)	-	(259,969,384)
Total Other Comprehensive Income			(266,160,107)	-	(266,160,107)
Total comprehensive income	905,042,146	316,841	(213,169,609)	274,881,048	967,070,426
Transactions with owners:					
Shares issued during the period	1,383,083	-	-	-	1,383,083
Transfer of prepayment of shares		(316,841)			(316,841)
Prepayments for shares		518,500			518,500
Dividends	-	-	-	(12,079,646)	(12,079,646)
	1,383,083	201,659	-	(12,079,646)	(10,494,904)
Balance at March 31, 2020	906,425,229	518,500	(213,169,609)	262,801,401	956,575,521

Sterling Investments Limited

Statement of Changes in Equity

For period ended March 31, 2020

	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			-		-
Adjusted balance as at December 31, 2018	699,274,387	43,321	(57,387,192)	203,609,320	845,539,836
Comprehensive income:					
Profit for period	-	-	-	(7,211,728)	(7,211,728)
Other comprehensive income:					
Realised gain on disposal of FVOCI debt instrument securities reclassified to profit or loss			(1,315,568)		(1,315,568)
Impairment loss on AFS securities reclassified to profit	-	-	(2,494,900)	-	(2,494,900)
Change in fair value of FVOCI debt instrument securities net	-		54,673,680	-	54,673,680
Total comprehensive income	699,274,387	43,321	(6,523,980)	196,397,592	889,191,320
Transactions with owners:					
Shares issued during the period	200,037,543	-	-	-	200,037,543
Prepaid share reserve		2,813,968			2,813,968
Dividends	-	-	-	(22,543,068)	(22,543,068)
	200,037,543	2,813,968	-	(22,543,068)	180,308,443
Balance at March 31, 2019	899,311,930	2,857,289	(6,523,980)	173,854,524	1,069,499,763

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, 2019 ('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, 2019 which was prepared in accordance with International Financial Reporting Standards (IFRS).



Director



Director

Top Ten Shareholders as at March 31, 2020

Name	Number of Shares	Percentage
ATL Group Pension Fund Trustees Nominee Limited	47,856,608	12.7%
GraceKennedy Pension Fund Custodian Ltd for GraceKennedy Pension Scheme	34,848,550	9.3%
Lloyd Badal	26,980,691	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	3.5%
Charles A. Ross	11,581,170	3.1%
Satyanarayana Parvataneni	10,839,506	2.9%
National Insurance Fund	10,080,645	2.7%
Winnifred Mullings	9,213,800	2.5%

Shareholdings of Directors as at March 31, 2020

Directors	Number of shares	Percentage of Total
Derek Jones		
Maxim Rochester		
Michael Bernard		
Charles Ross	11,581,170	3.1%

Shareholdings of Connected Parties as at March 31, 2020

Name	Number of Shares	Percentage
Marian A. Ross	1,266,509	0.34%
Charles Andrew Ross	625,711	0.17%
Sterling Asset Management Limited	93,500	0.02%
Natalie A. Farrell-Ross	85,804	0.02%