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**Sterling  
Investments  
Limited**

**Management,  
Discussion  
& Analysis**  
Q2 2020

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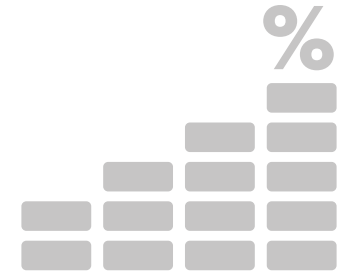
↑ **30%**

NET PROFIT



↑ **123%**

FX GAINS



↑ **32%**

NET INTEREST INCOME



**1.67**  
**BILLION J\$**  
ASSETS



↑ **25%**

EARNINGS PER SHARE



**9.8%**

LEVERAGED WEIGHTED  
AVERAGE YIELD ON  
THE PORTFOLIO

## Economic Overview

### International

Equity and credit markets rebounded in the second quarter, as lockdowns eased, and new rounds of fiscal and monetary stimulus were announced. In addition, some improvement in employment and retail sales data added to the market rally.

Bond and equity prices rebounded as risk-on sentiment returned to the market: During the second quarter of 2020, the S&P 500 rose by 20%, the Dow Jones Index increased by 17.8%, and the Stoxx 600 increased by 12.6%. Corporate bonds also recovered. Between March and June 2020, the Bloomberg Barclays Investment Grade Corporate bond index increased by 9.0% and the Bloomberg Barclays High Yield Bond Index increased by 11.5%. In addition, U.S. treasuries rose modestly as the yield on the 10-year note decreased by 1 basis point.

The data released at the start of the quarter confirmed the harsh economic impact of the lockdown measures introduced in various parts of the world. However, the measures employed to alleviate the impact of the pandemic which included ongoing loose monetary policy from Central Banks across the world and in some cases, aggressive fiscal stimulus, helped to fuel broad equity market gains. Weekly claims for unemployment insurance in the US slowed substantially and retail sales rebounded strongly from April to May. The U.S. unemployment rate declined by 2.2% to 11.1% in June, and the number of unemployed persons fell by 3.2 million to 17.8 million. In spite of the improvement in the unemployment numbers in May and June, the jobless rate and the number of unemployed have increased by 7.6% and 12 million since February. European equities also posted strong gains in the second quarter as countries began to lift lockdown restrictions. The European Central Bank (ECB) expanded its pandemic emergency purchase programme to €1.35 trillion. The European Commission president called for the power to borrow €750 billion in addition to a €540 billion rescue package agreed in April.

Oil prices partially recovered during the second quarter but continued to be in loss territory year to date. The partial recovery was aided by the production cuts agreed on by Russia and OPEC, as well as US dollar weakness against most of the major currencies. This resulted in an increase of 91.7% for WTI (closed at US\$39.27) and an increase of 81.0% in Brent prices in the quarter ended June 2020.

### Local

The JMD/USD exchange rate closed the June 2020 quarter at J\$140.01 / US\$1, which represents a depreciation of 3.4% since March 2020. The decline in inflows from remittances, tourism and alumina exports is likely to increase the upward pressure on the exchange rate throughout the remainder of 2020. The JSE Index lagged the double digit increases of the S&P 500 and the Stoxx 600, with an increase of 1.2% over the second quarter ended June 2020..

### COVID 19 IMPACT

The value of SIL's investment strategy is particularly strong and relevant amidst times of crisis as evidenced by the following results.

- 64% YOY increase in operating profit and 30% Year on Year Rise in Net income: SIL's net interest income has increased by over 32% year on year due to a decline in interest expense and growth in the size of the portfolio. SIL is generating more income post COVID 19 than it was before. Investors will continue to benefit from the US dollar income SIL's portfolio generates through dividend payments.
- Capital gains generated from opportunistic asset purchases: Due to the company's modest use of leverage, it was able to prudently purchase bonds in the market sell off that have since appreciated in value.
- Higher asset prices: Lower interest rates have led to an increase in the price of bonds in Sterling Investments Limited's portfolio. This helped to significantly reduce the unrealized losses that were recorded as at March 31, 2020.
- High quality bonds reduce credit risk: SIL shareholders are benefiting from its exposure to investment grade rated issuers. There were no issuer defaults in the portfolio during the market sell off.
- SIL well-positioned to benefit from Global economic recovery: It is evident 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, Europe 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.

**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 increase of 30.25%	J\$74.41 million vs. J\$57.13 million June 2019
Increase of 32.36% in net interest income	J\$52.29 million vs. J\$39.51 million June 2019
Foreign exchange gains increase of 122.96%	J\$64.29 million vs. J\$28.84 million June 2019
Increase of 25.00% in earnings per share	J\$0.20 vs. J\$0.16 June 2019
Total assets increase of 11.78%	J\$1.67 billion vs. J\$1.49 billion June 2019
Leveraged weighted average yield on portfolio	9.80%
Dividend yield as at June 30, 2020	2.24%

### Income Statement

Total revenue for the first six months of 2020 was J\$131.32 million compared to J\$76.78 million for the same period in 2019. This was driven by higher interest income and unrealized FX gains. Net Interest income totalled J\$52.29 million for the six months ended June 2020; 32.36% higher than the J\$39.51 million recorded for the corresponding period in 2019. The net interest margin increased to 90.62%. This was the result of lower interest rates which benefitted the company's net interest margin.

Net income increased by 30.25% from J\$57.13 million for the six months ended June 2019 to J\$74.41 million for the six months ended June 2020. This was the combined result of increases in interest income and unrealized FX gains. Other operating expenses for the six-month period ended June 2020 totalled J\$17.90 million or 0.80% lower than the J\$18.04 million of other operating expenses recorded for the corresponding period in 2019.

The Jamaican dollar depreciated against the US dollar by J\$7.44 or 5.61% for the six-month period ended June 2020, relative to the same period in 2019 when it depreciated by J\$3.35 or 2.62%. This led to unrealized foreign exchange gains for the six months ended June 2020 of J\$64.29 million compared to J\$28.84 million for the corresponding period in 2019.

### Balance Sheet

Total equity increased by 0.91% from J\$1.16 billion as at June 2019 to J\$1.17 billion as at June 2020. This reflects higher retained earnings but reflects the fact that some asset prices are still below levels as at June 2019.

Total assets increased by 11.78% from J\$1.49 billion as at June 2019 to J\$1.67 billion as at June 2020. As at June 2020, margin loans totalled J\$471.53 million and represented 28.8% of the total portfolio of investment securities compared to 21.05% for June 2019. The use of leverage increases shareholder returns above the net weighted average yield of the underlying portfolio.

# Sterling Investments Limited

## Balance Sheet

As at June 30, 2020

	Unaudited 6 Months ended Jun - 20	Unaudited 6 Months ended Jun- 19	Audited 12 Months ended Dec - 19
<b>ASSETS</b>			
<b>Cash Resources</b>			
Cash & Cash Equivalents	1,780,679	1,341,550	2,079,139
Accounts Receivable	30,379,663	44,288,243	44,061,124
Income Tax Recoverable	-	18,270	201,332
Investment Securities	1,638,511,415	1,448,932,284	1,587,657,599
<b>TOTAL CURRENT ASSETS</b>	<b>1,670,671,757</b>	<b>1,494,580,346</b>	<b>1,633,999,194</b>
<b>TOTAL ASSETS</b>	<b>1,670,671,757</b>	<b>1,494,580,346</b>	<b>1,633,999,194</b>
<b>LIABILITIES</b>			
Margin Loan Payable	471,525,401	305,063,338	350,839,368
Other Payables	14,992,903	3,592,127	13,058,853
Due to Related Company	16,237,540	28,562,021	41,445,974
Manager's Preference Shares	10,000	10,000	10,000
<b>TOTAL LIABILITIES</b>	<b>502,765,844</b>	<b>337,227,486</b>	<b>405,354,195</b>
<b>SHAREHOLDERS' NET EQUITY</b>			
Share Capital	907,274,629	902,201,457	905,042,146
Prepaid Share Reserve	117,811	335,699	316,841
Fair Value Reserve	(72,112,766)	16,619,811	52,990,498
Retained Earnings	332,626,239	238,195,893	270,295,514
<b>TOTAL EQUITY</b>	<b>1,167,905,914</b>	<b>1,157,352,860</b>	<b>1,228,644,999</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>1,670,671,757</b>	<b>1,494,580,346</b>	<b>1,633,999,194</b>

# Sterling Investments Limited

## Income Statement

For Period Ended June 30, 2020

	Unaudited 6 months ended Jun-20	Unaudited 6 months ended Jun-19	Unaudited 3 months ended Jun-20	Unaudited 3 months ended Jun-19	Audited 12 months ended Dec-19
<b>Revenue:</b>					
Interest income calculated using the effective interest method	57,703,412	46,099,454	30,002,450	24,272,936	98,299,266
Foreign exchange gain/(loss)	64,290,259	28,835,516	51,981,289	49,375,782	43,867,988
Net gain/(loss) on sale of debt investment securities at FVOCI	9,321,220	1,842,027	-	1,460,684	4,336,249
Net gain/(loss) on sale of equity investment securities at FVTPL	304		304	-	1,869,517
	<b>131,315,196</b>	<b>76,776,997</b>	<b>81,984,044</b>	<b>75,109,402</b>	<b>148,373,020</b>
<b>Expenses:</b>					
Interest	(5,412,472)	(6,591,835)	(2,602,128)	(3,257,334)	(12,872,969)
Impairment (loss)/gain on financial instruments	(1,879,369)	(1,056,478)	(1,018,492)	(3,551,378)	1,184,399
Unrealised fair value (loss)/gain on equity & investment securities at FVTPL	(11,730,038)	6,461,643	21,117,169	5,996,213	9,651,783
Other operating	(17,895,020)	(18,039,416)	(9,741,786)	(9,839,349)	(37,739,363)
	(36,916,899)	(19,226,086)	7,754,763	(10,651,848)	(39,776,149)
<b>Operating Profit</b>	<b>94,398,297</b>	<b>57,550,911</b>	<b>89,738,807</b>	<b>64,457,554</b>	<b>108,596,871</b>
Other Income	(2,974,860)	173,171	(3,187,550)	30,312	423,956
Preference Dividend Expense	(16,237,540)		(16,237,540)	-	(7,225,475)
<b>Profit Before Income tax</b>	<b>75,185,897</b>	<b>57,724,082</b>	<b>70,313,717</b>	<b>64,487,866</b>	<b>101,795,353</b>
Income Tax Expense	(775,526)	(594,441)	(488,880)	(146,497)	(629,229)
<b>Profit for Period</b>	<b>74,410,371</b>	<b>57,129,641</b>	<b>69,824,837</b>	<b>64,341,369</b>	<b>101,166,124</b>
<b>Other comprehensive income:</b>					
Item that are or may be reclassified subsequently to profit or loss:					
Realised loss/(gain) on disposal of FVOCI debt investment securities reclassified to profit or loss	(6,190,723)	2,081,248	(6,190,723)	4,835,656	(5,799,592)
Change in fair value of FVOCI debt instrument securities	(118,912,541)	71,925,755	(118,912,541)	18,308,135	116,177,282
Total other comprehensive income/(loss) for the year	(125,103,264)	74,007,003	(125,103,264)	23,143,791	110,377,690
<b>Total comprehensive income/(loss) for the year</b>	<b>(50,692,892)</b>	<b>131,136,644</b>	<b>(55,278,426)</b>	<b>87,485,160</b>	<b>211,543,814</b>
Shares outstanding					
Earnings per stock unit	376,003,035	359,195,690	376,003,035	359,195,690	367,264,726
Basic and diluted earnings per stock unit	0.20	0.16	0.19	0.18	0.28



Sterling Investments Limited  
**Statement of Cash Flows**  
For period ended June 30, 2020

	Period ended Jun-20	Period ended Jun-19	Audited Dec 2019
<b>Cash flows from operating activities</b>			
Profit for the period	74,410,371	57,129,641	101,166,124
Adjustments for :			
Interest Income	(57,703,412)	(46,099,453)	(98,299,266)
Interest Expense	5,412,472	6,591,835	12,872,969
Impairment loss on FVOCI	1,879,369	1,056,478	(1,184,399)
Unrealised loss on embedded derivative		-	
Unrealised gain on quoted equities	11,730,038	(6,461,643)	(9,651,783)
Income Tax Expense	775,526	594,441	629,229
Managers Preference Share Interest	16,237,540	-	7,225,475
	<b>52,741,904</b>	<b>12,811,299</b>	<b>12,758,349</b>
Changes in operating assets:			
Accounts Receivable	(1,063,360)	1,017,882	1,832,568
Margins Payable	120,686,033	(31,165,874)	14,610,156
Other Payables	(14,303,491)	(6,054,470)	(731,551)
Due to Related Company	(25,208,434)	11,098,239	23,948,424
	<b>132,852,652</b>	<b>(12,292,923)</b>	<b>52,417,947</b>
Interest Received	72,448,233	44,361,909	95,974,154
Interest Paid	(5,412,472)	(520,002)	(12,872,969)
Income Taxes Paid	(574,194)	(6,591,835)	(737,854)
Net cash provided/(used) by operating activities	<b>199,314,219</b>	<b>24,957,149</b>	<b>134,781,278</b>

	Period ended Jun-20	Period ended Jun-19	Audited Dec 2019
<b>Cash flows from investing activity</b>			
Investment securities, being net cash used by investing activity	(189,566,486)	(207,772,574)	(304,696,184)
Net cash used by Investing activities	<b>(189,566,486)</b>	<b>(207,772,574)</b>	<b>(304,696,184)</b>
<b>Cash flows from financing activities</b>			
Issue of ordinary shares	2,232,483	200,653,823	202,436,110
Prepaid Share Reserve	(199,030)	292,378	273,520
Manager's preference shares interest paid	-	-	(3,047,900)
Dividend payment	(12,079,646)	(20,269,822)	(31,148,281)
Net cash (used) provided by financing activities	<b>(10,046,193)</b>	<b>180,676,379</b>	<b>168,513,449</b>
<b>(Decrease) in cash and cash equivalents during the period</b>	<b>(298,461)</b>	<b>(2,139,046)</b>	<b>(1,401,456)</b>
<b>Cash and cash equivalent at the beginning of period</b>	<b>2,079,140</b>	<b>3,480,597</b>	<b>3,480,597</b>
<b>Cash and cash equivalent at the end of period</b>	<b>1,780,679</b>	<b>1,341,551</b>	<b>2,079,141</b>

# Sterling Investments Limited

## Statement of Changes in Equity

For period ended June 30, 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
	<b>905,042,146</b>	<b>316,841</b>	<b>52,990,498</b>	<b>270,295,514</b>	<b>1,228,644,999</b>
Comprehensive income:					
Profit for period	-	-	-	74,410,371	74,410,371
Other comprehensive income:					
Realised gain 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	-	-	118,912,541	-	118,912,541
Total Other Comprehensive Income			125,103,264	-	125,103,264
<b>Total comprehensive income</b>	<b>905,042,146</b>	<b>316,841</b>	<b>178,093,762</b>	<b>344,705,885</b>	<b>1,428,158,634</b>
Transactions with owners:					
Share issued during the period	2,232,483	-	-	-	2,232,483
Transfer of prepayment of shares		(316,841)			(316,841)
Prepayments for shares		117,811			117,811
Dividends	-	-	-	(12,079,646)	(12,079,646)
	2,232,483	(199,029)	-	(12,079,646)	(10,046,192)
<b>Balance at June 30 2020</b>	<b>907,274,629</b>	<b>117,812</b>	<b>178,093,762</b>	<b>332,626,239</b>	<b>1,418,112,441</b>



## Sterling Investments Limited

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
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	-	-	-	57,129,641	57,129,641
Other comprehensive income:					
Realised gain on disposal of available-for-sale securities reclassified to profit for the year			(2,754,408)		(2,754,408)
Impairment loss on AFS securities reclassified to profit	-	-	1,056,478	-	1,056,478
Unrealised gains in fair value of available-for-sale securities	-		75,704,933	-	75,704,933
<b>Total comprehensive income</b>	<b>699,274,387</b>	<b>43,321</b>	<b>16,619,811</b>	<b>260,738,961</b>	<b>976,676,480</b>
Transactions with owners:					
Share issued during the period	202,927,070	-	-	-	202,927,070
Transfer of prepayment of shares		(43,321)			(43,321)
Prepayments for shares		335,699			335,699
<b>Dividends</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(22,543,068)</b>	<b>(22,543,068)</b>
	<b>202,927,070</b>	<b>292,378</b>	<b>-</b>	<b>(22,543,068)</b>	<b>180,676,380</b>
<b>Balance at June 30, 2019</b>	<b>902,201,457</b>	<b>335,699</b>	<b>16,619,811</b>	<b>238,195,893</b>	<b>1,157,352,860</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, 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 June 30, 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	11,868,034	3.2%
Satyanarayana Parvataneni	10,944,206	2.9%
National Insurance Fund	10,080,645	2.7%
JN Fund Managers Limited for JN Pooled Pension Local Equity Fund	8,912,355	2.4%

### Shareholdings of Directors as at June 30, 2020

Directors	Number of shares	Percentage of Total
Derek Jones		
Maxim Rochester		
Michael Bernard		
Charles Ross	11,868,034	3.2%

### Shareholdings of Connected Parties as at June 30, 2020

Name	Number of Shares	Percentage
Marian A. Ross	1,312,914	0.35%
Charles Andrew Ross	631,755	0.17%
Sterling Asset Management Limited	93,500	0.02%
Natalie A. Farrell-Ross	87,544	0.02%