

STERLING INVESTMENTS LIMITED

Management Discussion & Analysis

Q1 2022



Financial Highlights

Total Interest income



Up

13%

to **J\$36.1 million**

Total Retained Earnings



Up

18.3%

to **J\$462.3 million**

Earnings Per Share



0.08

Economic Overview

International: Many global asset classes recorded declines in the first quarter of 2022. U.S. equities recorded their worst quarterly performance since the pandemic sell-off in early 2020. During the period, the S&P 500 declined by 4.9%, the Dow by 4.57% and the European Stoxx 600 by 6.5%. Russia's invasion of Ukraine, rising inflation and the anticipation of a faster pace of monetary policy tightening in the U.S were cited as the primary drivers of the negative performance. The U.S Consumer Price Index increased by 7.9% between March 2021 and March 2022. As inflation rose, yields on sovereign debt followed. The yield on the 10 year US Treasury increased 132 bps in the quarter from 1.51% to 2.83% while the 30 year yield rose 55 bps from 1.9% to 2.45%. Perhaps most significant was the increase in yields on short-dated Treasuries- the 5 year US Treasury rose from a yield of 1.263% as at December 31, 2021 to a yield of 2.46% as at March 31, 2022. Oil prices continued to ascend in 2022. WTI rose by 33.3% and Brent rose by 34.6% in the first quarter of 2022.

Local: The BOJ increased its benchmark rate by 150 Bps to 4% in response to rising inflation. Point to Point Inflation in February 2022 was 10.7% and the Central Bank anticipates that inflation will continue to exceed its range of 4%- 6% over the next 8-10 months. The JMD/USD exchange rate closed the March 2022 quarter at J\$153.78/ US\$1, down 0.8% from the December 31, 2021 rate of J\$155.09. The Jamaica Stock Exchange Main index declined by 1.2% in the first 3 months of 2022.

OUTLOOK: Interest rates are expected to continue to rise in response to higher inflation, locally and internationally. In combination with geopolitical risks, this will bring continued market volatility and further declines in asset prices in the short term. This will present opportunities to purchase undervalued securities at attractive valuations for shareholders. .

FINANCIAL OVERVIEW

Total Interest income	Up 13% to J\$36.1 million
Total Retained Earnings	Up 18.3% to J\$462.3 million
Earnings Per Share	0.08

Income Statement

First three (3) months of 2022

Net interest income increased 12.4% from J\$32.1 million in the first quarter of 2021 to J\$36.1 million in the first quarter of 2022. The company is continuing to benefit from a larger portfolio and the higher yields it locked in during the 2020 and 2021 market volatility. Foreign exchange losses totalled J\$8.0 million as a result of a 0.8% appreciation in the Jamaican dollar to the U.S. dollar over the period (compared to gains of J\$28.4 million in the first quarter of 2021). Total operating expenses declined 14.3% from J\$12.6 million to J\$10.8 million on account of lower administrative expenses. The first quarter of 2022 also recorded a J\$13.2 million unrealized fair value gain on equity investment securities versus a loss of J\$621,218 in the same period of 2021. This was

the net result of the re-pricing of structured note investments during the quarter. Net income fell from J\$55.2 million in the first quarter of 2021 to J\$36.2 million in the first quarter of 2022 as a result of the foreign exchange losses borne by the company. Management maintains that shareholders will benefit in the medium and long term from the high-quality US\$ assets in the portfolio and the steady stream of US\$ dividend income it produces.

Balance Sheet

Total assets increased by 3.4% year on year from J\$2.0 billion in March 2021 to J\$2.1 billion in March 2022. Total liabilities increased by 16.6% - largely the result of a 13.3% increase in margin loans from J\$516.7 million to J\$585.4 million. Total equity declined by 1.8% from J\$1.5 billion to J\$1.4 billion due to a decline in the fair value reserve from J\$47.4 million to a loss of J\$65.6 million. The fair value reserve loss reflects the decline in market prices of the assets in the portfolio. This was consistent with the broad market performance observed globally. Partially offsetting this decline was an 18.3% increase in retained earnings from J\$390.7 million to J\$462.3 million. This was evidence of the outsized profit generated in 2021.

OUTLOOK: The investment manager has actively reduced the duration of the investment portfolio and maintains a strong liquidity position. Interest rates are expected to rise significantly over the next few months and the market prices for many financial assets are likely to decline. This will create buying opportunities for investors and the company. SIL thrives in times of crisis and is cautiously and patiently assessing the market for undervalued investments.

Sterling Investments Limited
Income Statement
for the period ending March 31, 2022

	Unaudited 3 months ended Mar-22	Unaudited 3 months ended Mar-21	Audited 12 months ended Dec-21
Revenue:			
Interest income calculated using the effective interest method	39,635,637	35,134,801	145,258,401
Foreign exchange gain/(loss)	(7,985,741)	28,406,168	110,543,676
Net gain on sale of debt investment securities at FVOCI	4,942,628	16,891,896	37,688,252
	<u>36,592,525</u>	<u>80,432,865</u>	<u>293,490,329</u>
Expenses:			
Interest	(3,526,823)	(3,030,836)	(14,153,207)
Impairment loss on financial instruments	168,254	(8,467,039)	(14,777,656)
Unrealised fair value (loss)/gain on equity investment securities at FVTPL	13,190,370	(621,218)	(22,729,391)
Other operating	(10,780,683)	(12,581,921)	(48,269,872)
	<u>(948,881)</u>	<u>(24,701,015)</u>	<u>(99,930,126)</u>
Operating Profit	35,643,644	55,731,850	193,560,203
Other Income	521,523	19,250	282,686
Manager's preference share interest expense	-	-	(32,806,453)
Profit Before Income tax	36,165,166	55,751,100	161,036,436
Income Tax Expense	-	(519,831)	(1,223,518)
Profit for Period	36,165,166	55,231,269	159,812,918
Other comprehensive income:			
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	6,480,455	35,778,636	40,064,794.00
Change in fair value of FVOCI debt instrument securities	(145,601,192)	(45,325,545)	(23,475,819.00)
Total other comprehensive income/(loss) for the year	(139,120,736)	(9,546,909)	16,588,975
Total comprehensive income/(loss) for the year	<u>(102,955,570)</u>	<u>45,684,361</u>	<u>176,401,893</u>
Shares outstanding	432,664,459	403,276,876	413,442,100
Earnings per stock unit:			
Basic and diluted earnings per stock unit	0.08	0.14	0.39

Sterling Investments Limited
Unaudited Balance Sheet
as at March 31, 2022

	Unaudited 3 months ended Mar-22	Unaudited 3 months ended Mar-21	Audited 12 months ended Dec-21
ASSETS			
Cash Resources			
Cash & Cash Equivalents	2,170,584	1,728,888	1,391,627
Accounts Receivable	43,825,147	36,069,288	35,849,924
Income Tax Recoverable	125,628	125,628	-
Investment Securities	2,056,759,644	1,995,912,203	2,240,316,407
TOTAL CURRENT ASSETS	2,102,881,004	2,033,836,007	2,277,557,958
TOTAL ASSETS	2,102,881,004	2,033,836,007	2,277,557,958
LIABILITIES			
Margin Loan Payables	585,445,665	516,701,630	637,986,196
Other Payables	45,400,674	25,777,326	41,149,882
Due to Related Company	37,999,683	31,063,245	30,920,420
Manager's Preference Shares	10,000	10,000	10,000
TOTAL LIABILITIES	668,856,022	573,552,201	710,066,498
SHAREHOLDERS' NET EQUITY			
Share Capital	1,034,846,563	1,019,438,790	1,034,495,652
Prepaid Share Reserve	2,523,953	2,738,071	731,364
Fair Value Reserve	(65,621,442)	47,363,410	73,499,294
Retained Earnings	462,275,908	390,743,535	458,765,150
Total Equity	1,434,024,981	1,460,283,805	1,567,491,460
Total Liabilities and Equity	2,102,881,004	2,033,836,007	2,277,557,958

Sterling Investments Limited
Statement of Cash Flows

For period ended March 31, 2022

	Period ended March 31, 2022	Period Ended March 31, 2021	Audited Dec 2021
Cash flows from operating activities			
Profit for the period	36,165,166	55,231,269	159,812,918
Adjustments for :			
Interest Income	(39,927,700)	(35,134,801)	(145,258,401)
Interest Expense	3,526,823	3,030,836	14,153,207
Impairment loss on FVOCI	(168,254)	8,467,039	14,777,656
Unrealised gain on quoted equities	(13,190,370)	621,218	22,729,391
Income Tax Expense	-	519,831	1,223,518
Managers Preference Share Interest	32,806,454	21,624,846	32,806,453
	19,212,118	54,360,239	100,244,742
Changes in operating assets:			
Accounts Receivable	(1,889,606)	(1,793,023)	(524,148)
Margins Payable	(52,540,531)	(15,099,136)	106,185,430
Other Payables	(28,555,662)	(24,373,336)	1,442,455
Due to Related Company	7,079,263	7,198,758	7,055,933
	(56,694,417)	20,293,502	214,404,412
Interest Received	33,842,082	27,978,116	137,052,208
Interest Paid	(3,526,823)	(3,030,836)	(14,153,207)
Income Taxes Paid	(125,628)	(519,831)	(1,097,890)
Net cash provided by/(used in) operating activities	(26,504,786)	44,720,951	336,205,523
Cash flows from investing activity			
Investment securities, being net cash used by investing activity	57,794,650	(119,963,004)	(366,650,114)
Net cash provided by / (Used by) investing activities	57,794,650	(119,963,004)	(366,650,114)
Cash flows from financing activities			
Issue of Preference shares			
Issue of ordinary shares	350,911	110,091,044	125,147,906
Prepaid Share Reserve	1,792,589	2,516,338	509,631
Manager's preference shares interest paid			(21,624,846)
Dividend payment	(32,654,407)	(37,089,950)	(73,649,982)
Net cash provided by (used in) financing activities	(30,510,907)	75,517,431	30,382,709
Increase/(Decrease) in cash and cash equivalents during the period	778,957	275,379	(61,882)
Cash and cash equivalent at the beginning of period	1,391,627	1,453,509	1,453,509
Cash and cash equivalent at the end of period	2,170,585	1,728,888	1,391,627

Statement of Changes in Equity

for period ended March 31, 2022

	Share capital	Prepaid Share Reserve	Fair value	Retained earnings	Total
Balance at December 31, 2021	1,034,495,652	731,364	73,499,294	458,765,150	1,567,491,460
Comprehensive income:					
Profit for period	-	-	-	36,165,166	36,165,166
Other comprehensive income:					
Realised gain on disposal of FVOCI debt instrument securities reclassified to profit or loss			6,480,455		6,480,455
Change in fair value of FVOCI debt instrument securities net	-	-	(145,601,192)		(145,601,192)
Total Other Comprehensive Income			(139,120,736)	-	(139,120,736)
Total comprehensive income	1,034,495,652	731,364	(65,621,442)	494,930,316	1,464,535,890
Transactions with owners:					
Share issued during the period	350,910	-	-	-	350,910
Transfer of prepayment of shares		(731,364)			(731,364)
Prepayments for shares		2,523,953			2,523,953
Dividends	-	-	-	(32,654,408)	(32,654,408)
	350,910	1,792,589	-	(32,654,408)	(30,510,909)
Balance at March 31 2022	1,034,846,562	2,523,953	(65,621,442)	462,275,909	1,434,024,981
Balance at December 31, 2020	909,347,746	221,733	56,910,319	372,602,214	1,339,082,012
Comprehensive income:					
Profit for period	-	-	-	55,231,269	55,231,269
Other comprehensive income:					
Realised gain on disposal of FVOCI debt instrument securities reclassified to profit or loss			-		-
Change in fair value of FVOCI debt instrument securities net	-	-	(9,546,909)	-	(9,546,909)
Total Other Comprehensive Income			(9,546,909)	-	(9,546,909)
Total comprehensive income	909,347,746	221,733	47,363,410	427,833,484	1,384,766,373
Transactions with owners:					
Share issued during the period	110,091,044	-	-	-	110,091,044
Transfer of prepayment of shares		(221,733)			(221,733)
Prepayments for shares		2,738,071			2,738,071
Dividends	-	-	-	(37,089,950)	(37,089,950)
	110,091,044	2,516,338	-	(37,089,950)	75,517,432
Balance at March 31 2021	1,019,438,790	2,738,071	47,363,410	390,743,534	1,460,283,805

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, 2020 (‘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.

Director

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, 2021 which was prepared in accordance with International Financial Reporting Standards (IFRS).

5. Important changes to the Tax and Economic Substance regime in St. Lucia

The company is currently conducting an evaluation on the change in requirements relating to tax and economic substance in St. Lucia. Appropriate advice is being sought by professionals in the region and updates will be provided as more clarity is obtained.

Director

Top Ten Shareholders as at March 31, 2022

Shareholder Name	% Ownership
ATL Group Pension Fund Trustees Nominee Limited	11.4%
GraceKennedy Pension Fund Custodian Ltd for GraceKennedy Pension Scheme	8.3%
VMWealth Equity Fund	7.9%
PAM - Pooled Equity Fund	6.5%
Cable and Wireless Jamaica Pension Fund	3.5%
Charles A. Ross	3.2%
Everton Lloyd McDonald	3.2%
Satyanarayana Parvataneni	2.8%
National Insurance Fund	2.4%
JN Fund Managers Limited for JN Pooled Pension Local Equity Fund	2.1%

Shareholdings of Directors as at March 31, 2022

Name	# Shares	% Ownership
Derek Jones	Nil	Nil
Michael Bernard	Nil	Nil
Maxim Rochester	Nil	Nil
Charles Ross	13,460,373	3.2%
Marian Ross	1,421,151	0.3%

Shareholdings of Connected Parties as at March 31, 2022

Name	# of shares	% Ownership
Charles Andrew Ross	685,227	0.2%
Natalie A. Farrell-Ross	94,953	0.02%