

**STERLING INVESTMENTS LIMITED**

**Q1 2023**

# **Management Discussion & Analysis**

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Economic Highlights:

- Markets improving but still down from one year ago.
- Lower asset prices present buying opportunities.
- U.S. Recession predicted and bonds poised to outperform.

Global bond and stock markets remained depressed from the corresponding period in 2022

Year over Year: March 31, 2022 – March 31, 2023:

On a year over year basis, bond and stock markets broadly remained depressed. The S&P 500 and the Dow were both lower by 9% and 3% respectively between March 31, 2022 and March 31, 2023. The 10-year US Treasury bond was yielding 3.5% as at March 31, 2023, over 112 basis points higher than its 2.3% level as at March 31, 2022. Similarly, the 2-year US Treasury was yielding 4% as at March 31, 2023, over 169 basis points above its 2.3% level as at March 31, 2022.

Stock and bond markets improved in the first three months of 2023

**2023 Year to date:** In the first three (3) months of 2023, the S&P 500 rose by 7%, the Dow by 0.4% and the European Stoxx 600 by 7.8% while yields on sovereign debt declined with the 2-year

UST Treasury ending March 31, 2023 at 4.03%, the 10 year at 3.47% and the 30 year at 3.65%. This was largely driven by a slower pace of interest rate hikes from the U.S. Federal Reserve—The Fed opted for a 25-bps hike in February, down from a 50 bps hike in December. This could be viewed as a response to slowing inflation. The U.S. recorded Year on Year increases in the Consumer Price Index of 6.4% in January 2023 and 6% in February 2023. Core CPI was 5.5% in February 2023 (Down from 5.6% in January 2023). While these readings suggest slowing inflation, the rates are still significantly outside of the target range of the Federal Reserve (2%). As a result, The Federal Reserve has articulated its view that “additional policy firming may be appropriate to return to 2% inflation over time”. The Fed staff also project a recession later in 2023.

**Local:** With the exception of the BOJ CD, local interest rates continued their upward trend in 2023. BOJ Treasury bill yields ranged from 8.21% for 90 days to 8.31% for the 180-day tenor. The Bank of Jamaica’s benchmark interest rate remains at 7%. The year-over-year (YOY) inflation rate decelerated from 9.4% in December to 8.1% in January but remained above BOJ’s maximum target level of 6% for an 18th consecutive month dating back to August 2021. The JMD/ USD exchange rate as of March 31, 2023 was J\$150.91, representing a year to date appreciation of 0.75%. The Jamaica Stock Exchange has declined by 4.3% year to date.

OUTLOOK

Markets are behaving as expected and in line with Management’s predictions. We anticipate that we are close to the peak of the US hiking cycle and a recession in that economy is likely in the near term. Bonds tend to outperform other asset classes in a recession. SIL has historically thrived in times of crisis and is cautiously and patiently assessing the market for accretive investment opportunities.

FINANCIAL OVERVIEW

Highlights:

<b>Management’s predictions</b> regarding market movements continuing to prove correct	<b>US\$ investment portfolio</b> consistently generating steady income
<b>Declining asset prices worldwide</b> are providing good buying opportunities for Sterling Investments Limited	<b>JMD/USD appreciation</b> driving short term foreign exchange losses. This is unlikely to persist in the medium term

In sync with management’s outlook, asset prices are lower and interest rates are higher. While these events have had a broadly negative impact on the company’s CURRENT performance, it provides a wealth of buying opportunities for SIL and is likely to create value in the medium term as the company will be able to reinvest its funds in higher yielding instruments.



## Income Statement

### First Quarter of 2023 (January – March 2023)

Total revenue moved from J\$36.6 million in the first quarter of 2022 to J\$29.9 million in the same period of 2023. One contributor to this was a decline in total interest income. Total interest income declined 9.25% from J\$39.6 million in the first quarter of 2022 to J\$36 million in the first quarter of 2023. This was the result of the maturity of a bond within the portfolio which was not replaced. Management intentionally refrained from purchasing new assets, and instead opted to be patient and remain liquid, with the goal of purchasing assets at higher yields in the future. As the company purchases higher yielding securities in the coming year, interest income should increase. Profit for the first quarter of 2023 totalled J\$15.9 million versus J\$36.2 million for the same period in 2022. This reflects a decrease in unrealized gains on equity investments at fair value (the direct result of market price declines) and an increase in interest expense (the direct result of the increases in the Federal Reserve's

benchmark interest rates). Management anticipates that the unrealized gains will increase as inflation and interest rates decline. Similarly, interest expense is likely to be near its peak and should decline at the end of the current hiking cycle. 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

Market prices of stocks and bonds were broadly lower in March 2023 than they were in March

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**Management anticipates that the unrealized gains will increase as inflation and interest rates decline.**

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2022. As a result, the value of SIL's total asset base was also lower at March 31, 2023 than it was on the same date in 2022. SIL recorded total assets as at March 31, 2023 of J\$1.7 billion (from J\$2.1 billion as at March 31, 2022). This reflected the broad based, systemic downward market movements occurring in the global capital markets. The decline has presented a wide array of attractive buying opportunities for the company. However, management is patiently assessing the macro-economic data, credit spreads and liquidity conditions, to appropriately deploy the company's capital. Total liabilities declined by 23% to J\$514 million as at March 31, 2023, largely the result of declines in margin loans and other payables. Total equity declined to J\$1.2 billion, also a result of the lower market prices for the assets in the investment portfolio relative to March 2022. Management largely views the depressed asset prices as temporary and a consequence of the natural part of the economic cycle that the world is now experiencing.

Sterling Investments Limited

## Unaudited Balance Sheet

As at March 31, 2023

	3 months ended <b>Mar-23</b>	3 months ended <b>Mar-22</b>	Audited 12 months ended <b>Dec-22</b>
<b>ASSETS</b>			
Cash & Cash Equivalents	1,248,363	2,170,584	635,286
Accounts Receivable	49,954,003	43,825,147	38,036,808
Income Tax Recoverable	-	125,628	-
Investment Securities	1,686,473,387	2,056,759,644	1,708,031,139
<b>TOTAL ASSETS</b>	<b>1,737,675,753</b>	<b>2,102,881,004</b>	<b>1,746,703,233</b>
<b>LIABILITIES</b>			
Margin Loan Payables	489,122,735	585,445,665	460,199,349
Other Payables	14,517,996	45,400,674	9,030,916
Due to Related Company	10,523,528	37,999,683	4,477,711
Manager's Preference Shares	10,000	10,000	10,000
<b>TOTAL LIABILITIES</b>	<b>514,174,258</b>	<b>668,856,022</b>	<b>473,717,976</b>
<b>SHAREHOLDERS' NET EQUITY</b>			
Share Capital	1,066,988,761	1,034,846,563	1,066,915,010
Prepaid Share Reserve	3,957,455	2,523,953	997,970
Fair Value Reserve	(257,778,312)	(65,621,442)	(221,881,184)
Retained Earnings	410,333,591	462,275,908	426,953,461
	<b>1,223,501,495</b>	<b>1,434,024,981</b>	<b>1,272,985,257</b>



**Unaudited Income Statement**

for the period ended March 31, 2023

	Unaudited 3 months ended <b>Mar-23</b>	Unaudited 3 months ended <b>Mar-22</b>	Audited 12 months ended <b>Dec-22</b>
<b>Revenue:</b>			
Interest income calculated using the effective interest method	35,969,599	39,635,637	148,178,789
Foreign exchange loss	(5,970,865)	(7,985,741)	(30,272,790)
Net (loss)/gain on sale of debt investment securities at FVOCI	(121,398)	4,942,628	6,578,373
	<b>29,877,337</b>	<b>36,592,525</b>	<b>124,484,372</b>
<b>Expenses:</b>			
Interest	(5,209,039)	(3,526,823)	(16,475,080)
Impairment (loss)/gain on financial instruments	(1,580,056)	168,254	(2,519,421)
Unrealised fair value gain/(loss) on equity investment securities :	3,833,631	13,190,370	(17,572,048)
Other operating expenses	(11,069,228)	(10,780,683)	(45,937,615)
	<b>(14,024,693)</b>	<b>(948,881)</b>	<b>(82,504,164)</b>
<b>Operating Profit</b>	<b>15,852,644</b>	<b>35,643,644</b>	41,980,208
Other Income	9,493	521,523	<b>724,819</b>
<b>Profit Before Income tax</b>	<b>15,862,137</b>	<b>36,165,166</b>	<b>42,705,027</b>
<b>Profit for Period</b>	<b>15,862,137</b>	<b>36,165,166</b>	<b>42,705,027</b>
Other comprehensive income:			
<i>Item that will not be reclassified to profit or loss:</i>			
Change in fair value change of FVOCI equity investments, net	(372,520)	(470,552)	(1,973,703)
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
<b>Movement in fair value reserve :</b>			
Realised (loss)/gain on sale of FVOCI debt investment securities reclassified to profit or loss	(102,931)	6,009,903	(45,819)
Change in fair value of FVOCI debt instrument securities	(35,421,677)	(145,601,192)	(293,360,956)
Total other comprehensive loss for the period	(35,524,608)	(139,591,288)	(295,380,478)
Total comprehensive loss for the period	<b>(19,662,471)</b>	<b>(103,426,122)</b>	<b>(252,675,451)</b>
Shares outstanding	<b>429,637,632</b>	<b>418,720,828</b>	<b>424,734,523</b>
<b>Earnings per stock unit:</b>			
Basic and diluted earnings per stock unit	0.037	0.090	0.100

**Statement of Changes in Equity**

for the period ended March 31, 2023

	Share capital	Prepaid Share Reserve	Fair value reserve	Retained earnings	Total
Balance at December 31, 2022	1,066,915,010	997,970	(221,881,184)	426,953,461	1,272,985,257
Comprehensive income:					
Profit for period	-	-	-	15,862,137	15,862,137
Other comprehensive income:					
Fair value change in equity:			(372,520)		
Realised gain on disposal of FVOCI debt instrument securities reclassified to profit or loss			(102,931)		(102,931)
Change in fair value of FVOCI debt instrument securities	-	-	(35,421,677)		(35,421,677)
Total Other Comprehensive Income			(35,897,128)	-	(35,897,128)
Total comprehensive income	1,066,915,010	997,970	(257,778,312)	442,815,598	1,252,950,266
Transactions with owners:					
Share issued during the period	73,750	-	-	-	73,750
Transfer of prepayment of shares		(997,970)			(997,970)
Prepayments for shares		3,957,455			3,957,455
Dividends	-	-	-	(32,482,007)	(32,482,007)
	73,750	2,959,485	-	(32,482,007)	(29,448,772)
<b>Balance at March 31 2023</b>	<b>1,066,988,760</b>	<b>3,957,455</b>	<b>(257,778,312)</b>	<b>410,333,591</b>	<b>1,223,501,494</b>

  

	Share capital	Prepaid Share Reserve	Fair value reserve	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:					
Fair value change in equity			470,553	-	470,553
Realised gain on disposal of FVOCI debt instrument securities reclassified to profit or loss			6,009,903		6,009,903
Change in fair value of FVOCI debt instrument securities net	-	-	(145,601,192)		(145,601,192)
Total Other Comprehensive Income			(139,120,736)	36,165,166	(102,955,570)
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)
<b>Balance at March 31 2022</b>	<b>1,034,846,562</b>	<b>2,523,953</b>	<b>(65,621,442)</b>	<b>462,275,908</b>	<b>1,434,024,981</b>

**Unaudited Statement of Cash Flows**

for the period ended March 31, 2023

	March 31, 2023	March 31, 2022	Audited 'Dec 2022
<b>Cash flows from operating activities</b>			
Profit for the period	15,862,137	36,165,166	42,705,026
Adjustments for :			
Interest Income	(35,596,642)	(39,927,700)	(148,178,789)
Interest Expense	5,209,039	3,526,823	16,475,080
Impairment loss on FVOCI	1,580,056	(168,254)	2,519,421
Net gains on sale of debt investment securities at FVOCI	(121,398)	(7,985,741)	(6,578,373)
Unrealised fair value loss on quoted equities at FVTPL	(3,833,631)	(13,190,370)	17,572,048
Managers Preference Share Interest	-	32,806,454	-
	<b>(16,900,438)</b>	<b>11,226,377</b>	<b>(75,485,587)</b>
<b>Changes in operating assets:</b>			
Accounts Receivable	(2,176,279)	(1,889,606)	253,980
Margins Payable	28,923,386	(52,540,531)	(177,786,847)
Other Payables	5,487,080	(28,555,662)	687,488
Due to Related Company	6,045,817	7,079,263	(26,442,709)
Acquisition of investment securities	(17,982,003)	(17,007,009)	(76,596,296)
Net proceeds from acquisition/ (sale) of securities	6,017,599	82,787,400	299,987,991
	<b>9,415,160</b>	<b>1,100,233</b>	<b>(55,381,980)</b>
Interest Received	25,855,726	33,842,082	145,737,923
Interest Paid	(5,209,039)	(3,526,823)	(16,475,081)
Income Taxes Paid	-	(125,628)	-
<b>Net cash provided by operating activities</b>	<b>30,061,848</b>	<b>31,289,864</b>	<b>73,880,862</b>
<b>Cash flows from financing activities</b>			
Issue of Preference shares			
Issue of ordinary shares	73,751	350,911	32,419,359
Prepaid Share Reserve	2,959,485	1,792,589	266,606
Manager's preference shares interest paid			(32,806,453)
Dividend payment	(32,482,006)	(32,654,407)	(74,516,715)
<b>Net cash used by financing activities</b>	<b>(29,448,771)</b>	<b>(30,510,907)</b>	<b>(74,637,203)</b>
<b>Increase/(Decrease) in cash and cash equivalents during the period</b>	<b>613,077</b>	<b>778,957</b>	<b>(756,341)</b>
<b>Cash and cash equivalent at the beginning of period</b>	<b>635,286</b>	<b>1,391,627</b>	<b>1,391,627</b>
<b>Cash and cash equivalent at the end of period</b>	<b>1,248,363</b>	<b>2,170,584</b>	<b>635,286</b>

## 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, 2022 (‘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, 2022 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.

### Top Ten Shareholders as at March 31, 2023

Shareholder Name	% Ownership
ATL Group Pension Fund Trustees Nominee Limited	11.1%
GraceKennedy Pension Fund Custodian Ltd for GraceKennedy Pension Scheme	8.1%
VMWealth Equity Fund	7.7%
PAM - Pooled Equity Fund	7.1%
Claudine Murphy	5.4%
Cable and Wireless Jamaica Pension Fund	3.4%
Charles A. Ross	3.3%
Everton Lloyd McDonald	3.1%
Satyanarayana Parvataneni	2.8%
National Insurance Fund	2.3%

### Shareholdings of Directors as at March 31, 2023

Name	# Shares	% Ownership
Derek Jones	Nil	Nil
Michael Bernard	Nil	Nil
Maxim Rochester	Nil	Nil
Charles Ross	14,251,318	3.3%
Marian Ross	1,502,650	0.36%

### Shareholdings of Connected Parties as at March 31, 2023

Name	# of shares	% Ownership
Charles Ross	14,251,318	3.3%
Natalie A. Farrell-Ross	100,532	0.02%
Marian Ross	1,502,650	0.36%
Charles Andrew Ross	725,491	0.17%



Director



Director