

# MANAGEMENT DISCUSSION & ANALYSIS



**STERLING INVESTMENTS LIMITED**  
FIRST 3 MONTHS OF 2024

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## Economic Summary:

The U.S. stock market continued its ascent in the first quarter of 2024 on hints of interest rate cuts by the Federal Reserve. This ascent started to reverse itself in late March and early April as inflation data has surprised to the upside and the Federal Reserve's stance became more aggressive.



**Year over Year - March 31, 2023 to March 31, 2024:** On a year over year basis, stock markets were higher in March 2024 than March 2023. However, US Treasury bond yields were higher (i.e. prices were lower) over the same period. Despite the higher Treasury yields, corporate bond prices were broadly higher over the same period on expectations of imminent rate cuts by the Federal Reserve. The S&P 500 and the Dow Jones Index were both higher by 27.5% and 20%, respectively between March 31, 2023 and March 31, 2024. The 10-year US Treasury bond was yielding 4.2% as at March 31, 2024, over 73 basis points higher than the 3.5% yield as at March 31, 2023. Similarly, the 2-year US Treasury was yielding 4.6% as at March 31, 2024, over 59 basis points higher than the 4.03% yield as at March 31, 2023.

**2024 Year to Date:** In the first three (3) months of 2024, the S&P 500 rose by 10.2%, the Dow by 5.5% and the European Stoxx 600 by 7.1%. Yields on sovereign debt were modestly higher in the quarter with the 2-year US Treasury ending March 31, 2024 at 4.62%, the 10 year at 4.2% and the 30 year at 4.3%. The strong stock market rally was primarily the result of sustained economic growth and the prospect of policy easing from the Federal

Reserve which predicted 3 interest rate cuts for 2024. Just after the end of the quarter, market sentiment began to soften as a third consecutive month of higher-than-expected inflation data was published. The U.S. recorded Year on Year increases in the CPI Index of 3.1% in January, 3.2% in February and 3.5% in March 2024. The Core Consumer Price Index recorded increases of 3.9% in January 2024, and 3.8% in both February and March 2024. Higher than expected inflation combined with more cautious comments from the Federal Reserve led the market lower in early April.

**Local:** Tight Jamaican dollar liquidity and higher Treasury Bill yields (except for the 270 day) were observed in 2023 and YTD 2024. For the first 3 months of 2024, BOJ Treasury bill yields ranged from 8.37% for 90 days to 9.47% for the 270-day tenor. The 30 day BOJ CD yielded 11.13% as at March 2024. The Bank of Jamaica's benchmark interest rate remains at 7%. The year-over-year (YOY) inflation rate decelerated to 5.6% year on Year as at March 2024. The JMD/USD exchange rate as of March 31, 2024 was J\$154.70, representing a year to date appreciation of 0.2%. The Jamaica Stock Exchange has increased by 0.6% year to date as at March 31, 2024.

### Outlook:

Management anticipates that interest rates will remain higher for longer than expected. Inflation risks remain skewed to the upside due to increases in the money supply and the prospect of a reduction in the scale of the Federal Reserve's quantitative tightening program. The recent market decline has created additional buying opportunities for the company.

## FINANCIAL OVERVIEW

### Highlights:



Higher interest rates generating higher interest income



US\$ investment portfolio consistently generating steady income. Strong portfolio quality and performance



Management's predictions regarding market movements continuing to prove correct.



JMD/USD appreciation is driving short-term foreign exchange losses. This is unlikely to persist in the medium term.

Consistent with management's outlook, asset prices have recovered from 2023 lows, the JMD/USD exchange rate appreciated in the first quarter of the 2024 calendar year and interest rates are likely to remain higher for longer. While these events have had both positive and negative impacts on the company's current performance, it provides a wide array of opportunities for the company to increase future earnings and value.

### Income Statement

#### First Quarter of 2024 (January - March 2024)

Total revenue in the first quarter was roughly the same year on year at J\$29.9 million. Total interest income increased 4% from J\$36.0 million in the first quarter of 2023 to J\$37.4 million in the first quarter of 2024. This was the result of the acquisition of new assets with higher interest rates. The increase in interest income was offset primarily by an increase in the net loss on sale of debt investment securities at FVOCI. In the first quarter of 2023, the company generated a loss of J\$3.9 million on the sale of debt securities held at fair value through OCI. This was the result of a partial call

on a municipal bond holding and the strategic sale of securities that were due to mature or be called later in 2024. This created flexibility to acquire higher yielding assets. The new assets that were acquired to replace these securities had higher interest rates and higher current yields. Additionally, these replacement assets were purchased at yields which mostly compensated for any losses incurred. Total expenses moved from J\$14 million in 1Q23 to J\$20.8 million in 1Q24 primarily due to a significant increase in audit fees paid to external auditors. This is a phenomenon being experienced across the auditing industry. Profit for the first quarter of 2024 totalled J\$9.2 million versus J\$15.9 million for the same period in 2023. This reflects increased audit fees and losses on the sale of debt securities at FVOCI (which were replaced with higher yielding assets). Management anticipates that the benefit of these portfolio rotations will be realized in future quarters. 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 higher in March 2024 than they were in March 2023. As a result, the value of SIL's total asset base was also higher at March 31, 2024 than it was on the same date in 2023. SIL recorded total assets as at March 31, 2024 of J\$1.85 billion, 6.5% above the J\$1.74 billion as at March 31, 2023. This reflected the broad based, upward market movements occurring in the global capital markets. The prices of the existing and new assets in the portfolio increased year on year. Total liabilities declined by 15.5% to J\$434 million (vs. J\$514.2 million as at March 31, 2023). This was primarily the result of declines in margin loans and other payables. Total equity increased to J\$1.4 billion, also a result of the higher market prices for the assets in the investment portfolio relative to March 2023. This has provided credence to management's prediction in the first quarter of 2023 that the depressed asset prices at the time, were a natural part of the economic cycle and would remedy themselves in due course.

## Sterling Investments Limited Unaudited Balance Sheet as at March 31, 2024

	Unaudited 3 months ended <b>Mar-24</b>	Unaudited 3 months ended <b>Mar-23</b>	Audited 12 months ended <b>Dec-23</b>
<b>ASSETS</b>			
<b>Cash Resources</b>			
Cash & Cash Equivalents	2,003,354	1,248,363	2,837,517
Accounts Receivable	57,308,655	49,954,003	45,251,950
Investment Securities	1,791,473,675	1,686,473,387	1,774,723,514
<b>TOTAL ASSETS</b>	<b>1,850,785,684</b>	<b>1,737,675,753</b>	<b>1,822,812,981</b>
<b>LIABILITIES</b>			
Margin Loan Payables	418,222,472	489,122,735	430,148,792
Other Payables	13,083,914	14,517,996	17,281,716
Due to Related Company	3,077,952	10,523,528	7,163,482
Manager's Preference Shares	10,000	10,000	10,000
<b>TOTAL LIABILITIES</b>	<b>434,394,337</b>	<b>514,174,258</b>	<b>454,603,990</b>
<b>SHAREHOLDERS' NET EQUITY</b>			
Share Capital	1,074,153,601	1,066,988,761	1,072,990,211
Prepaid Share Reserve	3,510,549	3,957,455	2,030,463
Fair Value Reserve	(114,466,333)	(257,778,312)	(175,612,742)
Retained Earnings	453,193,530	410,333,591	468,801,059
	<b>1,416,391,347</b>	<b>1,223,501,495</b>	<b>1,368,208,991</b>
	<b>1,850,785,684</b>	<b>1,737,675,753</b>	<b>1,822,812,981</b>

**Sterling Investments Limited**  
**Unaudited Income Statement**  
for the Period ended March 31, 2024

	Unaudited 3 months ended <b>Mar-24</b>	Unaudited 3 months ended <b>Mar-23</b>	Audited 12 Months ended <b>Dec-23</b>
<b>Revenue:</b>			
Interest income calculated using the effective interest method	37,425,884	35,969,599	146,468,374
Foreign exchange (loss)/gain	(3,549,141)	(5,970,865)	30,030,360
Net loss on sale of debt investment securities at FVOCI	(3,905,083)	(121,398)	(42,647,291)
	<u>29,971,659</u>	<u>29,877,337</u>	<u>133,851,443</u>
<b>Expenses:</b>			
Interest expense calculated using the effective interest method	(7,180,627)	(5,209,039)	(30,582,761)
Impairment (loss)/gain on financial instruments	(777,014)	(1,580,056)	33,995,452
Fair value gain on equity investment securities at FVTPL	5,334,593	3,833,631	14,830,223
Other operating expenses	(18,140,914)	(11,069,228)	(44,867,070)
	<u>(20,763,962)</u>	<u>(14,024,693)</u>	<u>(26,624,156)</u>
<b>Operating Profit</b>	<b>9,207,697</b>	<b>15,852,644</b>	<b>107,227,287</b>
Other (Loss)/ Income	(1,396)	9,493	183,613
Manager's preference share interest expense	-	-	(4,499,486)
<b>Profit Before Income tax</b>	<b>9,206,300</b>	<b>15,862,137</b>	<b>102,911,414</b>
<b>Profit for Period</b>	<b>9,206,300</b>	<b>15,862,137</b>	<b>102,911,414</b>
<b>Other comprehensive income:</b>			
<i>Item that will not be reclassified to profit or loss:</i>			
Change in fair value of FVOCI equity investments, net	(235,276)	(372,520)	2,130,554
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Movement in fair value reserve			
Realised (loss)/gain on sale of FVOCI debt investment securities reclassified to profit or loss	(61,761)	(102,931)	46,464,461
Change in fair value of FVOCI debt instrument securities	61,443,446	(35,421,677)	(2,326,573)
Total other comprehensive income/( loss) for the period	61,146,409	(35,524,608)	46,268,442
Total comprehensive income/(loss) for the period	<u><b>70,352,710</b></u>	<u><b>(19,662,471)</b></u>	<u><b>149,179,856</b></u>
Shares outstanding	<b>432,214,087</b>	<b>429,647,632</b>	<b>430,784,747</b>
<b>Earnings per stock unit:</b>			
Basic and diluted earnings per stock unit	0.02	0.04	0.24

**Sterling Investments Limited**

**Unaudited Statement of Changes in Equity**

For period ended March 31, 2024

	Share capital	Prepaid Share Reserve	Fair value	Retained earnings	Total
Balance at December 31, 2023	<u>1,072,990,211</u>	<u>2,030,463</u>	<u>(175,612,742)</u>	<u>468,801,059</u>	<u>1,368,208,991</u>
Comprehensive income:					
Profit for period	-	-	-	9,206,300	9,206,300
Other comprehensive income:					
Fair value change in equity			(235,276)		(235,275.84)
Realised gain on disposal of FVOCI debt instrument securities reclassified to profit or loss			(61,761)		(61,761)
Change in fair value of FVOCI debt instrument securities net	-	-	61,443,446		61,443,446
Total Other Comprehensive Income			61,146,409	-	61,146,409
Total comprehensive income	1,072,990,211	2,030,463	(114,466,333)	478,007,359	1,438,561,701
Transactions with owners:					
Share issued during the period	1,163,390	-	-	-	1,163,390
Transfer of prepayment of shares		(2,030,463)			(2,030,463)
Prepayments for shares		3,510,549			3,510,549
Dividends	-	-	-	(24,813,830)	(24,813,830)
	<u>1,163,390</u>	<u>1,480,086</u>	<u>-</u>	<u>(24,813,830)</u>	<u>(22,170,354)</u>
<b>Balance at March 31 2024</b>	<b><u>1,074,153,601</u></b>	<b><u>3,510,549</u></b>	<b><u>(114,466,333)</u></b>	<b><u>453,193,530</u></b>	<b><u>1,416,391,346</u></b>
	Share capital	Prepaid Share Reserve	Fair value	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)		(372,520.08)
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 net	-	-	(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)
	<u>73,750</u>	<u>2,959,485</u>	<u>-</u>	<u>(32,482,007)</u>	<u>(29,448,772)</u>
<b>Balance at March 31 2023</b>	<b><u>1,066,988,760</u></b>	<b><u>3,957,455</u></b>	<b><u>(257,778,312)</u></b>	<b><u>410,333,591</u></b>	<b><u>1,223,501,494</u></b>

**Sterling Investments Limited**  
**Unaudited Statement of Cash Flows**  
For 3 Months ended March 31, 2024

	Unaudited 3 months ended Mar-24	Unaudited 3 months ended Mar-23	Audited 12 Months ended Dec-23
<b>Cash flows from operating activities</b>			
Profit for the period	9,206,300	15,862,137	102,911,414
Adjustments for :			
Interest Income	(37,425,884)	(35,596,642)	(146,554,201)
Interest Expense	7,180,627	5,209,039	30,582,761
Impairment loss on FVOCI	777,014	1,580,056	(33,995,452)
Net gains on sale of debt investment securities at FVOCI	(3,905,083)	(121,398)	42,647,291
Unrealised fair value loss on quoted equities at FVTPL	(5,334,593)	(3,833,631)	(14,830,223)
Managers Preference Share Interest	-	-	4,499,486
	<b>(29,501,617)</b>	<b>(16,900,438)</b>	<b>(14,738,924)</b>
<b>Changes in :</b>			
Accounts Receivable	(2,337,621)	(2,176,279)	(570,883)
Margins Payable	(11,926,320)	28,923,386	(30,050,557)
Other Payables	(4,197,802)	5,487,080	3,751,314
Due to Related Company	(4,085,530)	6,045,817	2,685,771
Acquisition of investment securities	(91,737,688)	(17,982,003)	(282,248,610)
Net proceeds from sale of securities	144,596,598	6,017,599	268,003,243
	<b>810,019</b>	<b>9,415,160</b>	<b>(53,168,646)</b>
Interest Received	27,706,799	25,855,726	139,909,760
Interest Paid	(7,180,627)	(5,209,039)	(30,582,761)
<b>Net cash provided by operating activities</b>	<b>21,336,191</b>	<b>30,061,848</b>	<b>56,158,353</b>
<b>Cash flows from financing activities</b>			
Issue of Preference shares			
Issue of ordinary shares	1,163,390	73,751	6,075,201
Prepaid Share Reserve	1,480,086	2,959,485	1,032,493
Manager's preference shares interest paid			
Dividend payment	(24,813,830)	(32,482,006)	(61,063,816)
<b>Net cash used by financing activities</b>	<b>(22,170,354)</b>	<b>(29,448,771)</b>	<b>(53,956,122)</b>
<b>(Decrease) / Increase in cash and cash equivalents during the period</b>	<b>(834,163)</b>	<b>613,077</b>	<b>2,202,231</b>
<b>Cash and cash equivalent at the beginning of period</b>	<b>2,837,517</b>	<b>635,286</b>	<b>635,286</b>
<b>Cash and cash equivalent at the end of period</b>	<b>2,003,354</b>	<b>1,248,363</b>	<b>2,837,517</b>

## 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, 2023 (‘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, 2023, which was prepared in accordance with International Financial Reporting Standards (IFRS).



Director

## Top Ten Shareholders

as at March 31, 2024

Shareholder Name	# Shares	% Ownership
ATL Group Pension Fund Trustees Nominee Ltd.	47,856,608	11.07%
GraceKennedy Pension Fund Custodian Ltd. for GraceKennedy Pension Scheme	34,848,550	8.06%
VM Wealth Equity Fund	31,687,362	7.33%
PAM - Pooled Equity Fund	30,653,869	7.09%
Claudine Murphy	25,595,555	5.92%
Charles A. Ross	14,998,691	3.47%
Cable and Wireless Jamaica Pension Fund	14,492,015	3.35%
Everton Lloyd McDonald	13,331,584	3.08%
Satyanarayana Parvataneni	12,891,905	2.98%
National Insurance Fund	10,080,645	2.33%

## Shareholdings of Directors

as at March 31, 2024

Name	# Shares	% Ownership
Derek Jones	Nil	Nil
Michael Bernard	Nil	Nil
Maxim Rochester	Nil	Nil
Charles Ross	14,998,691	3.47%
Marian Ross-Ammar	1,579,660	0.37%

## Shareholdings of Connected Parties

as at March 31, 2024

Name	# Shares	% Ownership
Charles Ross	14,998,691	3.47%
Marian Ross-Ammar	1,579,660	0.37%
Charles Andrew Ross	763,537	0.18%
Natalie Farrell-Ross	105,803	0.02%