

**Sterling  
Investments  
Limited**

**Management  
Discussion  
& Analysis**  
Q2 2021

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# Financial Highlights



Fixed Income  
US\$ Portfolio Yield\*

**9.8%**  
in US\$ terms

Total Assets up

**33.5%**

**J\$2.23 billion**  
as at June 30, 2021



Total Equity up

**35.9%**

**J\$1.59 billion**  
as at June 30, 2021

Total profit up

**40.2%**

**To J\$104.33 million**  
for the 6 months  
ending June 30, 2021



Total Revenue up

**23%**

**to J\$161.8 million**  
for the 6 months  
ending June 30, 2021



\*The levered weighted average yield of SIL's US\$ portfolio of fixed income securities is 9.8% and over 65% of the portfolio is issued by investment grade rated entities.

## Economic Overview

**International: Asset prices continued to rise in the second quarter of 2021:** During the first half of 2021, the S&P 500 rose by 14.4%, the Dow Jones by 12.7% and the Stoxx 600 by 13.7%. These gains were driven by positive, risk on sentiment resulting from tangible signs of economic recovery in China and the USA – increasing customer demand and falling unemployment.

A rise in inflation across the globe was observed in the first half of 2021. Part of the increase was attributed to “base effects” of the drop in prices that occurred in the first half of 2020. In the U.S., the May Consumer Price Index rose 5% year on year, while Core CPI inflation was 3.8% over the same period. The Federal Reserve increased its expectations of inflation in 2021 (as well as their GDP growth expectations) but maintained its view that the increase in inflation is likely to be transitory. It observed that the largest contributors to the increase in inflation were sectors affected by supply bottlenecks or sectors where price levels were rebounding from pandemic lows.

Year to date, the yield of the 10-year UST rose 56 basis points to 1.5%, the 30 year rose 45 basis points to 2.09% and the 10-year German Bund rose 36 basis points to (0.2)%. These yields were slightly lower than their March 31 2021 levels, reflecting some concern around the slowing pace of U.S. job growth and the rise in the Delta variant COVID cases.

Oil prices rose in the first 6 months of 2021 as some large economies re-opened and markets anticipated a rise in end user demand. WTI rose 51.4% while Brent rose 45% over the period.

**Local:** The JMD/USD exchange rate closed the June 2021 quarter at J\$148.52 / US\$1, up 4.1% from the December 31, 2020 rate of J\$142.65. The Jamaica Stock Exchange Main index rose by 7.6% in the first 6 months of 2021, suggesting improvements in liquidity and outlook.

## COVID 19 IMPACT & OUTLOOK:

Throughout 2020, SIL was able to generate significant increases in its income, US\$ dividends and capital gains. During the first quarter of 2021, SIL took advantage of brief spikes in volatility and intermittent market declines to acquire attractive assets and lock in good income and yields for the future. However, during the second quarter of 2021 SIL remained patient and prudent in its portfolio positioning. The company slowed the pace of asset acquisition and took profits on some positions in the portfolio. The result was:

- **A 33.52% Year-On-Year (YOY) increase in the value of investment securities** held by the company. This was primarily the result of continued appreciation in the value of securities in the portfolio and new asset purchases.
- **A 40% YOY increase in profit resulting from:**
  - **A 23% YOY rise in interest income**, reflecting the year on year growth in the size of the portfolio as well as the devaluation of the Jamaican dollar.
  - **A 43% increase in realised gains on sale of debt instruments**
  - **A low cost of funding**
- **SIL is well-positioned to benefit from Global economic recovery:** The U.S. economy is projected to grow at a rate of 6.4% in 2021. Jamaica’s economic recovery is likely to lag the recovery in discretionary consumer spending in North America. 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.

**OUTLOOK:** The investment manager remains focused on minimizing duration and positioning the portfolio to take advantage of future volatility that may arise. Central Banks in developed economies have committed to accommodative monetary policy for the near term. This is likely to continue to drive asset prices higher

as investors hunt for yield. In the event that inflation or interest rates rise, the portfolio is well positioned to take advantage of the resultant opportunities.

**Enhanced diligence amid COVID 19:** As the battle against COVID-19 continues, the company continues to exercise caution and diligence in its activities. SIL performs enhanced due diligence on the credits within the portfolio and hunts for undervalued securities to enhance shareholder value.

## Income Statement

### First 6 months of 2021

Revenue totalled J\$161.8 million for the first six months of 2021, or 23% higher compared to profit of J\$131.3 million for the same period in 2020. This was driven primarily by increases in interest income and gains on sale of debt investment securities, the latter a result of increased profit taking in the portfolio. Total foreign exchange gains rose from J\$64.3 million for the 6 month period ending June 30, 2020 to J\$77.7 million for the 6 month period ending June 30, 2021. The Jamaican dollar depreciated by 4% in the first half of 2021 moving from J\$142.10 per US\$1 as at December 31, 2020 to J\$148.51 as at June 30, 2021. Net income totalled J\$104.3 million for the first 6 months of 2021, 40% higher than the J\$74.4 million for the same period in 2020. Total expenses for this period increased from J\$36.92 million to J\$50.31 million as a result of higher management fees, owing to the increase in value of the asset base and higher professional fees.

### Second quarter of 2021

Net interest income rose by 23% year on year from J\$52.3 million in the second quarter of 2020 to J\$64.1 million in the second quarter of 2021. This reflects the benefits of a lower cost of margin which is the direct result of a reduction in U.S. interest rates by the Federal Reserve. Revenue totalled J\$81.4 million for the 3 months ending June 30, 2021, 0.76% lower than the J\$81.9 million generated in the second quarter of 2020. This was the result of a 5.15% decline in foreign exchange gains quarter on quarter. Foreign exchange

gains declined from J\$51.9 million in the 3 months ending June 30, 2020 to J\$49.3 million for the same period in 2021. For the second quarter of 2021, the company recorded total profit of J\$49.1 million vs. J\$69.8 million for the same period in 2020. This was primarily the result of unrealized fair value losses on investment securities through profit and loss which totalled (J\$6.8 million) for the second quarter of 2021 compared to gains of J\$21.1 million in the same period of 2020. The unrealized fair value losses observed in the second quarter of 2021 were primarily the result of temporary declines in the marked to market prices of structured note investments. These securities are generally held until maturity or call at 100.

#### Balance Sheet

Total assets increased 34% from J\$1.7 billion as at June 30, 2020 to J\$2.2 billion as at June 30, 2021 reflecting the growth in value of the existing portfolio and the acquisition of additional assets during the COVID 19 downturn. Total margin loans increased 31% from J\$471.5 million as at June 30, 2020 to J\$617 million as at June 30, 2021. The company increased its use of low-cost margin to finance the acquisition of attractive fixed income assets over the period.

The growth in the value and profitability of the investment portfolio contributed to a 35.9% increase in total equity, from J\$1.2 billion as at June 30, 2020 to J\$1.6 billion as at June 30, 2021. The share capital also rose due to inflows from the CSPP and DRIP programmes that concluded on March 31, 2021..

## Sterling Investments Limited Unaudited Balance Sheet as at June 30, 2021

	Unaudited 6 months ended <b>Jun-21</b>	Unaudited 6 months ended <b>Jun-20</b>	Audited 12 months ended <b>Dec-20</b>
<b>ASSETS</b>			
Cash & Cash Equivalents	2,154,545	1,767,587	1,453,509
Accounts Receivable	35,990,246	30,379,663	27,119,580
Income Tax Recoverable	125,628	0	125,628
Investment Securities	2,192,364,143	1,638,511,415	1,894,584,365
<b>TOTAL CURRENT ASSETS</b>	<b>2,230,634,563</b>	<b>1,670,658,666</b>	<b>1,923,283,082</b>
<b>TOTAL ASSETS</b>	<b>2,230,634,563</b>	<b>1,670,658,666</b>	<b>1,923,283,082</b>
<b>LIABILITIES</b>			
Margin Loan Payables	617,006,163	471,525,401	531,800,766
Other Payables	11,196,386	20,542,730	28,525,817
Due to Related Company	15,162,025	10,687,713	23,864,487
Manager's Preference Shares	10,000	10,000	10,000
<b>TOTAL LIABILITIES</b>	<b>643,374,574</b>	<b>502,765,844</b>	<b>584,201,070</b>
<b>SHAREHOLDERS' NET EQUITY</b>			
Share Capital	1,022,176,861	907,274,629	909,347,746
Prepaid Share Reserve	688,623	117,811	221,733
Fair Value Reserve	124,547,526	(72,112,766)	56,910,319
Retained Earnings	439,846,979	332,613,148	372,602,214
	<b>1,587,259,989</b>	<b>1,167,892,822</b>	<b>1,339,082,012</b>
	<b>2,230,634,563</b>	<b>1,670,658,666</b>	<b>1,923,283,082</b>

Sterling Investments Limited  
**Unaudited Income Statement**  
for the 6 month period ending June 30, 2021

	Unaudited 6 months ended Jun-21	Unaudited 6 months ended Jun-20	Unaudited 3 months ended Jun-21	Unaudited 3 months ended Jun-20	Audited 12 months ended Dec-20
<b>Revenue:</b>					
Interest income calculated using the effective interest method	70,778,723	57,703,412	35,643,922	30,002,450	120,294,499
Foreign exchange gains	77,710,044	64,290,259	49,303,875	51,981,289	79,153,974
Net gain/(loss) on sale of debt investment securities at FVOCI	13,309,086	9,321,220	(3,582,810)	0	19,230,511
Net gain on sale of equity investment securities at FVTPL	-	304.40	-	304.40	
	<u>161,797,852</u>	<u>131,315,196</u>	<u>81,364,987</u>	<u>81,984,044</u>	<u>218,678,984</u>
			-0.76%		
			-5.15%		
<b>Expenses:</b>					
Interest	(6,657,364)	(5,412,472)	(3,626,528)	(2,602,128)	(11,414,398)
Impairment loss on financial instruments	(11,641,244)	(1,879,369)	(3,174,205)	(1,018,492)	(2,922,765)
Unrealised fair value (loss)/gain on investment securities at FVTPL	(7,397,713)	(11,730,038)	(6,776,495)	21,117,169	(10,093,196)
Other operating	(24,609,815)	(17,895,020)	(12,027,894)	(9,741,786)	(37,825,562)
	<u>(50,306,137)</u>	<u>(36,916,899)</u>	<u>(25,605,122)</u>	<u>7,754,763</u>	<u>(62,255,921)</u>
<b>Operating Profit</b>	<b>111,491,716</b>	<b>94,398,297</b>	<b>55,759,866</b>	<b>89,738,807</b>	<b>156,423,063</b>
Other Income	89,880	(2,974,860)	70,630	(3,187,550)	459,598
Preference Dividend Expense	(6,372,918)	(16,237,540)	(6,372,918)	(16,237,540)	(21,624,845)
<b>Profit Before Income tax</b>	<b>105,208,678</b>	<b>75,185,897</b>	<b>49,457,577</b>	<b>70,313,717.35</b>	<b>135,257,816</b>
Income Tax Expense	(873,962)	(775,526)	(354,132)	(488,880.03)	(918,215)
<b>Profit for Period</b>	<b>104,334,715</b>	<b>74,410,371</b>	<b>49,103,446</b>	<b>69,824,837</b>	<b>134,339,601</b>
			(0.30)		
<b>Other Comprehensive Income:</b>					
Items 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	42,046,677	(6,190,723)	6,268,042	-	(17,681,582)
Change in fair value of FVOCI debt instrument securities	25,590,530	(118,912,541)	70,916,075	141,056,843.33	21,601,403
Total other comprehensive income/(loss) for the period	<u>67,637,207</u>	<u>(125,103,264)</u>	<u>77,184,116</u>	<u>141,056,843.33</u>	<u>3,919,821</u>
Total comprehensive income/(loss) for the period	<u>171,971,923</u>	<u>(50,692,892)</u>	<u>126,287,562</u>	<u>210,881,681</u>	<u>138,259,422</u>
Shares outstanding	409,290,629	376,003,035	409,290,629	376,003,035	376,510,131
<b>Earnings per stock unit:</b>					
Basic and diluted earnings per stock unit	0.25	0.20	0.12	0.19	0.36

**Sterling Investments Limited**  
**Statement of Cash Flows**

	Period ended June 30, 2021	Period ended June 30, 2020	Audited Dec 2020
<b>Cash flows from operating activities</b>			
Profit for the period	104,334,715	74,410,371	134,339,601
Adjustments for :			
Interest Income	(70,778,723)	(57,703,412)	(120,294,499)
Interest Expense	6,657,364	5,412,472	11,414,398
Impairment loss on FVOCI	11,641,244	1,879,369	2,922,765
Unrealised gain on quoted equities	7,397,713	11,730,038	11,170,000
Income Tax Expense	873,962	775,526	918,215
Managers Preference Share Interest	6,372,918	16,237,540	21,624,845
	<b>66,499,194</b>	<b>52,741,904</b>	62,095,325
<b>Changes in operating assets:</b>			
Accounts Receivable	(1,311,091)	(1,063,360)	170,331
Margins Payable	85,205,397	120,686,033	180,961,398
Other Payables	(23,702,350)	(14,303,491)	3,227,690
Due to Related Company	(8,702,462)	(25,208,434)	(17,581,486)
	<b>117,988,688</b>	<b>132,852,652</b>	228,873,258
Interest Received	63,219,148	72,448,233	137,065,711
Interest Paid	(6,657,364)	(5,412,472)	(11,414,398)
Income Taxes Paid	(873,962)	(574,194)	(842,510)
Net cash provided by operating activities	<b>173,676,510</b>	<b>199,314,219</b>	353,682,061
<b>Cash flows from investing activity</b>			
Investment securities, being net cash used by investing activity	(249,181,529)	(189,566,486)	(317,099,710)
Net cash used by Investing activities	<b>(249,181,529)</b>	<b>(189,566,486)</b>	(317,099,710)
<b>Cash flows from financing activities</b>			
Issue of Preference shares			
Issue of ordinary shares	112,829,115	2,232,483	1,743,919
Prepaid Share Reserve	466,890	(199,030)	(95,108)
Manager's preference shares interest paid	-	-	(9,385,571)
Dividend payment	(37,089,950)	(12,079,646)	(29,471,221)
Net cash (used) provided by financing activities	<b>76,206,054</b>	<b>(10,046,193)</b>	(37,207,981)
<b>Increase/(Decrease) in cash and cash equivalents during the period</b>	<b>701,036</b>	<b>(298,461)</b>	(625,630)
<b>Cash and cash equivalent at the beginning of period</b>	<b>1,453,509</b>	<b>2,079,140</b>	2,079,139
<b>Cash and cash equivalent at the end of period</b>	<b>2,154,545</b>	<b>1,780,679</b>	1,453,509

Sterling Investments Limited  
**Statement of Changes in Equity**  
for period ended June 30, 2021

	Share capital	Prepaid Share Reserve	Fair value	Retained earnings	Total
Balance at December 31, 2020	909,347,746	221,733	56,910,319	372,602,214	1,339,082,012
	<u>909,347,746</u>	<u>221,733</u>	<u>56,910,319</u>	<u>372,602,214</u>	<u>1,339,082,012</u>
Comprehensive income:					
Profit for period	-	-	-	104,334,715	104,334,715
Other comprehensive income:					
Realised gain on disposal of FVOCI debt instrument securities reclassified to profit or loss			42,046,677		42,046,677
Change in fair value of FVOCI debt instrument			25,590,530		25,590,530
Total Other Comprehensive Income			<u>67,637,207</u>		<u>67,637,207</u>
Total comprehensive income	<u>909,347,746</u>	<u>221,733</u>	<u>124,547,526</u>	<u>476,936,930</u>	<u>1,511,053,935</u>
Transactions with owners:					
Share issued during the period	112,829,114	-	-	-	112,829,114
Transfer of prepayment of shares		(221,733)			(221,733)
Prepayments for shares		688,623			688,623
Dividends				(37,089,950)	(37,089,950)
	<u>112,829,114</u>	<u>466,890</u>	<u>-</u>	<u>(37,089,950)</u>	<u>76,206,054</u>
<b>Balance at June 30 2021</b>	<b><u>1,022,176,860</u></b>	<b><u>688,623</u></b>	<b><u>124,547,526</u></b>	<b><u>439,846,979</u></b>	<b><u>1,587,259,989</u></b>

	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
	<u>905,042,146</u>	<u>316,841</u>	<u>52,990,498</u>	<u>270,295,514</u>	<u>1,228,644,999</u>
Comprehensive income:					
Profit for period	-	-	-	-	-
Other comprehensive income:					
Realised gain on disposal of FVOCI debt instrument securities reclassified to profit or loss			-		-
securities net			-		-
Total Other Comprehensive Income			<u>-</u>		<u>-</u>
Total comprehensive income	<u>905,042,146</u>	<u>316,841</u>	<u>52,990,498</u>	<u>270,295,514</u>	<u>1,228,644,999</u>
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				0	0
	<u>2,232,483</u>	<u>(199,029)</u>	<u>-</u>	<u>0</u>	<u>2,033,454</u>
<b>Balance at June 30 2020</b>	<b><u>907,274,629</u></b>	<b><u>117,812</u></b>	<b><u>52,990,498</u></b>	<b><u>270,295,514</u></b>	<b><u>1,230,678,453</u></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, 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.

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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, 2020 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.

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Director

### Top Ten Shareholders as at June 30, 2021

Name	Percentage
ATL Group Pension Fund Trustees Nominee Limited	11.5%
GraceKennedy Pension Fund Custodian Ltd for GraceKennedy Pension Scheme	8.4%
VMWealth Equity Fund	8.0%
PAM - Pooled Equity Fund	5.3%
Lloyd Badal	4.3%
Cable and Wireless Jamaica Pension Fund	3.5%
Everton Lloyd McDonald	3.2%
Charles A. Ross	3.1%
Satyanarayana Parvataneni	2.8%
National Insurance Fund	2.4%
JN Fund Managers Limited for JN Pooled Pension Local Equity Fund	2.2%

### Shareholdings of Directors as at June 30, 2021

Directors	Number of Shares	Percentage of Total
Derek Jones	Nil	Nil
Michael Bernard	Nil	Nil
Maxim Rochester	Nil	Nil
Charles Ross	12,775,276.	3.1%

### Shareholdings of Connected Parties as at June 30, 2021

Name	Number of Shares	Percentage
Marian Ross	1,381,173.	0.3%
Charles Andrew Ross	665,477.	0.2%
Natalie A. Farrell-Ross	92,217.	0.02%