

**STERLING INVESTMENTS LIMITED**  
FIRST 6 MONTHS OF 2023

**Management  
Discussion  
& Analysis**

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## Economic Summary:

### Year over Year: June 30, 2022 to June 30, 2023:

On a year over year basis, stock markets improved but bond markets remained subdued. Between June 2022 and June 2023, The S&P 500 and the Dow were both higher by 17.5% and 11.8% respectively. The 10-year US Treasury bond was yielding 3.8% as at June 30, 2023, over 80 basis points higher than its 3% level as at June 30, 2022. Similarly, the 2-year US Treasury was yielding 4.9% as at June 30, 2023, roughly 200 basis points above its 2.9% level as at June 30, 2022.

### Stock markets improved but bond yields rose in the first six months of 2023.

**2023 Year to date:** In the first six (6) months of 2023, the S&P 500 rose by 16%, the Dow by 4% and the European Stoxx 600 by 8% while yields on sovereign debt rose slightly with the 2-year US Treasury ending June 30, 2023 at 4.9%, the 10 year at 3.8% and the 30 year at 3.8%. This was largely driven by the acceleration of interest rate hikes from the U.S. Federal Reserve – The Fed opted for two additional 25 basis point hikes during the second quarter of the year.

**Local:** Local benchmark interest rates ranged from 9.98% for 30 day BOJ CD's to 7.89% for the 180-day T-Bill. Bank of Jamaica's policy interest rate remains at 7%. The year-over-year (YOY) inflation rate decelerated from 9.4% in December 2022 to 6.3% in June 2023, slightly above the BOJ's maximum target level of 6%. The JMD/ USD exchange rate as of June 30, 2023 was J\$154.62, representing a year to date depreciation of 1.7%. The Jamaica Stock Exchange has declined by 6.7% year to date.

## Outlook:

Markets are behaving as expected and in line with Management's predictions. We anticipate that we are at or near the peak of the US hiking cycle and there is a brief window of opportunity to capitalize on the undervalued assets that remain in the fixed income market.

## FINANCIAL OVERVIEW

### Highlights:

- Total revenue increased 105% year on year.
- Net profit up 11.6x
- Management's predictions regarding market movements continuing to prove correct.
- US\$ investment portfolio consistently generating steady income.
- Recovering asset prices driving gains in parts of the portfolio

The market conditions as at June 30, 2023 were quite different from those in June 2022. Last year, the hiking cycle had just begun, and inflation was still increasing well outside the Fed's target range. Since then, the Fed has hiked by over 500 basis points and inflation has started to decline. The U.S. economic output remained resilient in the face of Fed hikes, sending stocks higher. However, a hawkish Federal Reserve sent bond yields higher.

## Income Statement

### First Half of 2023 (January – June 2023)

Total revenue increased 105% from J\$49.4 million in the first half of 2022 to J\$101.3 million in the same period of 2023.

The primary driver was a J\$29 million foreign exchange gain in 2023 compared to a J\$32.6 million foreign exchange loss recorded in the first half of 2022. This reflected the movement in the Jamaican / United States dollar exchange rate from J\$152.05/US\$1 as at December 31, 2022 to J\$154.62/ US\$1 as at June 30, 2023.

Total expenses declined from J\$42.4 million in the first half of 2022 to J\$18.7 million in the first half of 2023. This was the result of an improvement in the value of the structured notes in the company's portfolio. As at June 30, 2022 – these notes had generated a fair value loss of J\$11.4 million compared to a gain of J\$18.7 million recorded in the same period to June 30, 2023. Interest expense increased from J\$6.9 million to J\$13.4 million, reflecting the significant increase in margin rates on the company's notes payable.

Higher revenue and lower expenses resulted in an increase in net profit which increased from J\$7.1 million for the first half of 2022 to J\$83 million for the first half of 2023.

## Quarter on Quarter: March to June 2023 vs. March to June 2022

Total revenue increased by more than 400% from J\$12.8 million for the three months ended June 30, 2022 compared to J\$71.4 million in the second quarter of 2023. This was the result of foreign exchange gains which totalled J\$35 million in the second quarter of 2023 versus a loss of J\$24.6 million in the same period of 2022. Similarly, total expenses for the second quarter of 2023 totalled J\$4.1 million versus J\$41.5 million in 2022. This was the result of a reversal of losses on the company's structured note portfolio.

The unrealized fair value gain/loss on equity investments at FVTPL recorded a loss of J\$24.6 million in second quarter 2022 but a gain of J\$14.9 million in the second quarter of 2023. This was a result of the improvement in the U.S equity markets.

Net profit moved from a loss of J\$29 million in the second quarter of 2022 to a profit of J\$67.3 million in the second quarter of 2023. This was the result of lower expenses and higher revenue driven by increases in the market value of the assets in the portfolio.

### Balance Sheet

SIL recorded total assets as at June 30, 2023 of J\$1.8 billion, roughly the same as the total asset base as at June 30, 2022. Total liabilities declined by 7% to J\$500 million as at June 30, 2023, largely the result of declines in margin loans and other payables. Total equity amounted to J\$1.3 billion, roughly the same as the June 2022 outturn. The fair value reserve moved from negative J\$227.5 million as at June 30, 2022 to negative J\$264.9 million as at June 30, 2023. This reflects a worsening in some bond prices over the period which was expected given the continued increase in interest rates by the world's largest central banks. Management views this as an opportunity to continue to purchase good quality assets with attractive yields.

## Sterling Investments Limited Unaudited Balance Sheet for the six months ended June 30, 2023

	Unaudited 6 months ended <b>Jun-23</b>	Unaudited 6 months ended <b>Jun-22</b>	Audited 12 months ended <b>Dec-22</b>
<b>ASSETS</b>			
Cash & Cash Equivalents	533,670	24,821,243	635,286
Accounts Receivable	40,863,593	37,465,123	38,036,808
Income Tax Recoverable	-	125,628	
Investment Securities	1,742,702,559	1,740,365,139	1,708,031,139
<b>TOTAL ASSETS</b>	<b>1,784,099,822</b>	<b>1,802,777,133</b>	<b>1,746,703,233</b>
<b>LIABILITIES</b>			
Margin Loan Payables	471,607,158	497,811,741	460,199,349
Other Payables	11,570,034	32,489,146	9,030,916
Due to Related Company	16,869,386	5,754,020	4,477,711
Manager's Preference Shares	10,000	10,000	10,000
<b>TOTAL LIABILITIES</b>	<b>500,056,578</b>	<b>536,064,907</b>	<b>473,717,976</b>
<b>SHAREHOLDERS' NET EQUITY</b>			
Share Capital	1,070,327,878	1,044,858,301	1,066,915,010
Prepaid Share Reserve	998,150	16,142,341	997,970
Fair Value Reserve	(264,914,449)	(227,543,886)	(221,881,184)
Retained Earnings	477,631,664	433,255,470	426,953,461
	<b>1,284,043,243</b>	<b>1,266,712,225</b>	<b>1,272,985,257</b>
	<b>1,784,099,822</b>	<b>1,802,777,133</b>	<b>1,746,703,233</b>



Sterling Investments Limited  
**Unaudited Income Statement**  
for the six months ended June 30, 2023

	Unaudited 6 months ended Jun-23	Unaudited 6 months ended Jun-22	Unaudited 3 months ended Jun-23	Unaudited 3 months ended Jun-22	Audited 12 months ended Dec-22
<b>Revenue:</b>					
Interest income calculated using the effective interest method	72,404,425	75,973,351	36,434,826	36,337,714	148,178,789
Foreign exchange gain/(loss)	29,004,311	(32,627,854)	34,975,176	(24,642,114)	(30,272,790)
Net (loss)/gain on sale of debt investment securities at FVOCI	(121,398)	6,053,738	-	1,111,110	6,578,373
<b>Total Revenue</b>	<b>101,287,338</b>	<b>49,399,235</b>	<b>71,410,001</b>	<b>12,806,711</b>	<b>124,484,372</b>
<b>Expenses:</b>					
Interest expense calculated using the effective interest method	(13,443,847)	(6,857,415)	(8,234,808)	(3,330,593)	(16,475,080)
Impairment (loss)/gain on financial instruments	(215,513)	(989,322)	1,364,544	(1,157,576)	(2,519,421)
Fair value gain/(loss) on equity investment securities at FVTPL	18,725,804	(11,434,922)	14,892,173	(24,625,292)	(17,572,048)
Other operating expenses	(23,207,439)	(23,158,924)	(12,138,212)	(12,378,240)	(45,937,615)
<b>Total Expenses</b>	<b>(18,140,996)</b>	<b>(42,440,583)</b>	<b>(4,116,303)</b>	<b>(41,491,701)</b>	<b>(82,504,164)</b>
<b>Operating Profit</b>	<b>83,146,342</b>	<b>6,434,050</b>	<b>67,293,698</b>	<b>(29,209,594)</b>	<b>41,980,208</b>
Other Income	13,868	710,678	4,375	189,156	724,819
Manager's preference share interest expense	-	-	-	-	-
<b>Profit Before taxation</b>	<b>83,160,211</b>	<b>7,144,728</b>	<b>67,298,074</b>	<b>(29,020,438)</b>	<b>42,705,027</b>
<b>Taxation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Profit for Period</b>	<b>83,160,211</b>	<b>7,144,728</b>	<b>67,298,074</b>	<b>(29,020,438)</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	(2,084,805)	(2,169,766)	(1,712,285)	(1,699,214)	(1,973,703)
<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	(102,931)	777,694	-	(6,173,313)	(45,819)
Change in fair value of FVOCI debt instrument securities	(40,845,529)	(299,651,108)	(5,423,852)	(154,049,916)	(293,360,956)
Total other comprehensive loss for the period	(43,033,265)	(301,043,180)	(7,136,137)	(161,922,444)	(295,380,478)
<b>Total comprehensive income/(loss) for the period</b>	<b>40,126,946</b>	<b>(293,898,453)</b>	<b>60,161,937</b>	<b>(190,942,882)</b>	<b>(252,675,451)</b>
Shares outstanding	430,219,744	420,383,504	430,219,744	420,383,504	424,734,523
<b>Earnings per stock unit:</b>					
Basic and diluted earnings per stock unit	0.19	0.02	0.16	(0.07)	0.10



**Unaudited Statement of Cash Flows**

for the six months ended June 30, 2023

	Period ended June 30, 2023	Period ended June 30, 2022	Audited Dec 2022
<b>Cash flows from operating activities</b>			
Profit for the period	83,160,211	7,144,728	42,705,026
Adjustments for :			
Interest income	(72,404,425)	(75,973,351)	(148,178,789)
Interest expense	13,443,847	6,857,415	16,475,080
Impairment loss on investment securities	215,513	989,322	2,519,421
Net (loss)/gains on sale of debt investment securities at FVOCI	(121,398)	11,434,922	(6,578,373)
Unrealised fair value loss on quoted equities at FVTPL	(18,725,804)	-	17,572,048
Managers Preference Share Interest	-	26,602,937	-
	<b>5,567,944</b>	<b>(22,944,027)</b>	<b>(75,485,587)</b>
<b>Changes in:</b>			
Accounts Receivable	(1,334,557)	(1,719,224)	253,980
Margins loans payable	11,407,809	(140,174,455)	(177,786,847)
Other payables	2,539,118	(35,263,673)	687,488
Due to related company	12,391,675	(25,166,400)	(26,442,709)
Acquisition of investment securities	(65,240,997)	(24,145,437)	(76,596,296)
Proceeds from sale of investment securities	6,168,000	210,629,282	299,987,991
	<b>(28,501,007)</b>	<b>(38,783,935)</b>	<b>(55,381,980)</b>
Interest received	70,912,197	76,077,376	145,737,923
Interest paid	(13,443,847)	(6,857,415)	(16,475,081)
Tax paid	-	(125,628)	-
<b>Net cash provided by operating activities</b>	<b>28,967,343</b>	<b>30,310,398</b>	<b>73,880,862</b>
<b>Cash flows from financing activities</b>			
Issue of ordinary shares	3,412,868	10,362,649	32,419,359
Complementary share purchase programme	180	15,410,977	266,606
Manager's preference shares interest paid	-	-	(32,806,453)
Dividend paid	(32,482,007)	(32,654,408)	(74,516,715)
<b>Net cash used in financing activities</b>	<b>(29,068,959)</b>	<b>(6,880,782)</b>	<b>(74,637,203)</b>
<b>(Decrease) / increase in cash and cash equivalents</b>	<b>(101,616)</b>	<b>23,429,616</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>533,670</b>	<b>24,821,243</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 June 30, 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	3.4%
Everton Lloyd McDonald	3.1%
Satyanarayana Parvataneni	2.9%
National Insurance Fund	2.4%

## Shareholdings of Directors as at June 30, 2023

Name	# Shares	% Ownership
Derek Jones	Nil	Nil
Michael Bernard	Nil	Nil
Maxim Rochester	Nil	Nil
Charles Ross	14,626,876	3.4%
Marian Ross	1,541,348	0.36%

## Shareholdings of Connected Parties as at June 30, 2023

Name	# of shares	% Ownership
Charles Ross	14,626,876	3.4%
Natalie A. Farrell-Ross	103,181	0.02%
Marian Ross	1,541,348	0.36%
Charles Andrew Ross	744,609	0.2%



Director



Director