

**Sterling
Investments
Limited**

**Management
Discussion
& Analysis**

Q3 2021

sterlinginvestmentsltd.com
sil@sterlinginvestmentsltd.com



Financial Highlights

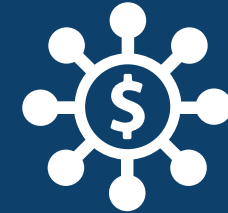


Fixed Income
US\$ Portfolio Yield*

9.7%
in US\$ terms

Total Assets up

27.7%
J\$2.2 billion
as at September 30, 2021



Total Equity up

25.9%
J\$1.5 billion
as at September 30, 2021

Total profit up

10.9%
To J\$104.6 million
for the 9 months ending
September 30, 2021



Total Revenue up

8.6%
to J\$184.9 million
for the 9 months ending
September 30, 2021



*The levered weighted average yield of SIL's US\$ portfolio of fixed income securities is 9.7% and over 55% of the portfolio is issued by investment grade rated issuers.

Economic Overview

International: Asset prices exhibited more volatility in the third quarter of 2021 as uncertainty impacted investor sentiment: During the first 9 months of 2021, the S&P 500 rose by 14.7%, the Dow Jones by 10.6% and the Stoxx 600 by 14.0%. These gains were generated primarily in the first half of the year, driven by positive risk on sentiment around the global economic recovery. However, the third quarter witnessed a moderation in the pace of gains experienced earlier in the year. During the quarter, the S&P 500 rose by 0.2%, the Dow fell by 1.91% and the Stoxx 600 increased by 0.4%. The comparatively modest market performance in the third quarter reflected the impact of rising COVID19 cases and variants as well as uncertainty around the sustainability of a recovery in global demand. Oil prices continued to rise in the third quarter of the year albeit at a more modest pace. Year to date WTI has risen by 54.6% and Brent by 51.2%.

Year to date, the yield of the 10-year UST has risen by 58 basis points to 1.49%, the 30 year yield has increased by 41 basis points to 2.05% and the 10-year German Bund yield has risen by 37 basis points to (0.2)%. These movements underscored the increase in risk-on sentiment in the global markets. During the third quarter the U.S. Federal Reserve indicated that it would consider beginning to taper its asset purchase program with a view to concluding it in mid-2022.

Local: The JMD/USD exchange rate closed the September 2021 quarter at J\$147.24/ US\$1, up 3.2% from the December 31, 2020, rate of J\$142.65 or down 1% from the JMD/USD exchange rate as at June 30, 2021 (148.52). The Jamaica Stock Exchange Main index rose by 4.9% in the first 9 months of 2021, a moderation of gains observed earlier in the year as the BOJ indicated a rate rise could be warranted in response to higher inflation.

COVID 19 IMPACT & OUTLOOK:

Throughout 2020, Sterling Investments Limited (SIL) was able to generate significant increases in its income, US\$ dividends and capital gains. During the first 9 months of 2021, SIL took advantage of spikes in volatility, took profits on strategic positions, and positioned itself for a shift in monetary policy by the U.S. Federal Reserve. The company continues to earn steady interest income and maintains attractive capital gains on its investment portfolio. The result was:

- **A 27.5% 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 10.87% YOY increase in profit resulting from:**
 - **A 20.7% YOY rise in interest income**, reflecting the year on year growth in the size of the portfolio
 - **A substantial increase in the realised gains on sale of debt instruments**
- **SIL's investment portfolio is exposed to higher growth economies and 100% of the company's revenue is denominated in US dollars.** By focusing on the global capital markets, SIL is able to achieve higher returns at lower risk levels than its local competitors.

OUTLOOK: The investment manager remains focused on minimizing duration and positioning the portfolio to take advantage of future volatility that may arise. In the event that U.S. inflation persists beyond current expectations and interest rates begin to 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.

FINANCIAL OVERVIEW

Fixed Income US\$ Portfolio Yield*	9.7% in US\$ terms
Total Assets Up 27.7%	J\$2.2 billion as at September 30, 2021
Total Equity up 25.9%	J\$1.5 billion as at September 30, 2021
Total Revenue up 8.6%	To J\$184.9 million for the 9 months ended September 30, 2021
Total profit up 10.9%	To J\$104.6 million for the 9 months ended September 30, 2021
Earnings Per Share	J\$0.25

*The levered weighted average yield of SIL's US\$ portfolio of fixed income securities is 9.7% and over 55% of the portfolio is issued by investment grade rated issuers.

Income Statement

First nine (9) months of 2021

Revenue totalled J\$184.9 million for the first nine months of 2021, or 8.6% higher than revenue of J\$170.3 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 declined year on year, from J\$80.3 million for the 9 month period ended September 30, 2020 to J\$54.6 million for the 9 month period ended September 30, 2021. The Jamaican dollar depreciated by 3.2% in the first 9 months of 2021 moving from J\$142.65 per US\$1 as at December 31, 2020 to J\$147.24 as at September 30, 2021. Net income totalled J\$104.6 million for the first 9 months of 2021, 10.9% higher than the J\$94.4 million for the same period in 2020. Total expenses for this period increased from J\$59.2 million to J\$70.5 million due to higher management fees and interest expense, a result of the larger size of the investment portfolio.

Third quarter of 2021

Net interest income rose by 16.3% year on year from J\$28.3 million in the third quarter of 2020 to J\$32.9 million in the third quarter of 2021. Revenue totalled J\$23.1 million for the 3 months ended September 30, 2021, 40.7% lower than the J\$39 million generated in the third quarter of 2020. This was the result of foreign exchange losses experienced in the third quarter of 2021. Foreign exchange gains totalled J\$16 million for the third quarter of 2020 versus losses of J\$23.1 million during the same period in 2021. For the third quarter of 2021, the company recorded total profit of J\$312,738 vs. J\$20 million for the same period in 2020. This was primarily the result of unrealized foreign exchange losses driven by a 0.9% appreciation in the Jamaican dollar during the third quarter of 2021. This contrasts with a depreciation of 1.5% in the corresponding period of 2020.

Balance Sheet

Total assets increased 27.7% from J\$1.7 billion as at September 30, 2020 to J\$2.2 billion as at September 30, 2021 reflecting the growth in value of the existing portfolio and the acquisition of assets. Total margin loans increased 34.2% from J\$450.1 million as at September 30, 2020 to J\$605 million as at September 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 25.9% increase in total equity, from J\$1.2 billion as at September 30, 2020 to J\$1.5 billion as at September 30, 2021. The share capital also rose due to inflows from the CSPP and DRIP programmes that concluded on June 30, 2021.

Sterling Investments Limited Unaudited Balance Sheet as at September 30, 2021

	Unaudited 9 months ended Sep-21	Unaudited 9 months ended Sep-20	Audited 12 months ended Dec-20
ASSETS			
Cash & Cash Equivalents	6,474,433	1,188,427	1,453,509
Accounts Receivable	36,722,766	29,503,020	27,119,580
Income Tax Recoverable	125,628	-	125,628
Investment Securities	2,126,159,462	1,668,052,637	1,894,584,365
TOTAL CURRENT ASSETS	2,169,482,289	1,698,744,083	1,923,283,082
TOTAL ASSETS	2,169,482,289	1,698,744,083	1,923,283,082
LIABILITIES			
Margin Loan Payables	604,957,667	450,670,020	531,800,766
Other Payables	14,772,582	18,373,014	28,525,817
Due to Related Company	22,882,138	17,143,476	23,864,487
Manager's Preference Shares	10,000	10,000	10,000
TOTAL LIABILITIES	642,622,386	486,196,510	584,201,070
SHAREHOLDERS' NET EQUITY			
Share Capital	1,023,667,442	909,089,739	909,347,746
Prepaid Share Reserve	7,375,032	258,007	221,733
Fair Value Reserve	92,217,743	(29,451,341)	56,910,319
Retained Earnings	403,599,685	332,651,168	372,602,214
	1,526,859,903	1,212,547,573	1,339,082,012
	2,169,482,289	1,698,744,083	1,923,283,082

Sterling Investments Limited
Unaudited Income Statement
for the period ended September 30, 2021

	Unaudited 9 months ended Sep-21	Unaudited 9 months ended Sep-20	Unaudited 3 months ended Sep-21	Unaudited 3 months ended Sep-20	Audited 12 months ended Dec-20
Revenue:					
Interest income calculated using the effective interest method	107,233,112	88,818,474	36,454,389	31,115,062	120,294,499
Foreign exchange gain/(loss)	54,586,178	80,281,453	(23,123,866)	15,991,194	79,153,974
Net gain/(loss) on sale of debt investment securities at FVOCI	23,120,684	(730,486)	9,811,599	(10,051,706)	19,230,511
Net gain on sale of equity investment securities at FVTPL	-	1,939,304	-	1,939,000	-
	184,939,974	170,308,745	23,142,122	38,993,549	218,678,984
Expenses:					
Interest	(10,208,748)	(8,224,842)	(3,551,384)	(2,812,370)	(11,414,398)
Impairment gain (loss) on financial instruments	(12,129,410)	(1,350,643)	(488,166)	528,725	(2,922,765)
Unrealised fair value loss on equity investment securities at FVTPL	(12,116,870)	(21,685,484)	(4,719,157)	(9,955,446)	(10,093,196)
Other operating	(36,008,436)	(27,938,821)	(11,398,621)	(10,043,801)	(37,825,562)
	(70,463,464)	(59,199,790)	(20,157,328)	(22,282,891)	(62,255,921)
Operating Profit	114,476,510	111,108,955	2,984,794	16,710,658	156,423,063
Other Income	190,096	(2,876,951)	100,215	97,908	459,598
Preference Dividend Expense	(8,795,635)	(12,799,606)	(2,422,716)	3,437,934	(21,624,845)
Profit Before Income tax	105,870,971	95,432,398	662,293	20,246,501	135,257,816
Income Tax Expense	(1,223,518)	(1,043,842)	(349,555)	(268,316)	(918,215)
Profit for Period	104,647,453	94,388,556	312,738	19,978,184	134,339,601
Other comprehensive income:					
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	44,816,254	787,313	2,769,576	6,978,036	(17,681,582)
Change in fair value of FVOCI debt instrument securities	(9,508,829)	(83,229,152)	(35,099,359)	35,683,389	21,601,403
Total other comprehensive income/(loss) for the year	35,307,424	(82,441,839)	(32,329,783)	42,661,425	3,919,821
Total comprehensive income/(loss) for the year	139,954,878	11,946,717	(32,017,045)	62,639,609	138,259,422

Sterling Investments Limited
Statement of Cash Flows

For period ended September 30, 2021

	Period ended 9/30/2021	Period ended 9/30/2020	Audited 12/31/2020
Cash flows from operating activities			
Profit for the period	104,647,453	94,388,556	134,339,601
Adjustments for :			
Interest Income	(107,233,112)	(88,818,474)	(120,294,499)
Interest Expense	10,208,748	8,224,842	11,414,398
Impairment loss on FVOCI	12,129,410	1,350,643	2,922,765
Unrealised gain on quoted equities	12,116,870	21,685,484	11,170,000
Income Tax Expense	1,223,518	1,043,842	918,215
Managers Preference Share Interest	8,795,635	12,799,606	12,239,274
	41,888,522	50,674,499	52,709,754
Changes in operating assets:			
Accounts Receivable	(837,093)	(94,677)	170,331
Margins Payable	73,156,901	99,830,652	180,961,398
Other Payables	(22,548,870)	(7,485,445)	3,227,690
Due to Related Company	(982,349)	(24,302,498)	(17,581,486)
	90,677,110	118,622,531	219,487,687
Interest Received	98,467,018	103,471,255	137,065,711
Interest Paid	(10,208,748)	(8,224,842)	(11,414,398)
Income Taxes Paid	(1,223,518)	(842,510)	(842,510)
Net cash provided by operating activities	177,711,863	213,026,433	344,296,490
Cash flows from investing activities			
Investment securities	(220,513,952)	(185,873,004)	(317,099,710)
Net cash used by Investing activities	(220,513,952)	(185,873,004)	(317,099,710)
Cash flows from financing activities			
Issue of Preference shares			
Issue of ordinary shares	114,319,696	4,047,593	1,743,919
Prepaid Share Reserve	7,153,299	(58,834)	(95,108)
Preference share interest paid	-	-	-
Dividend payment	(73,649,982)	(32,032,902)	(29,471,221)
Net cash (used) provided by financing activities	47,823,013	(28,044,142)	(27,822,410)
Increase/(Decrease) in cash and cash equivalents during the period	5,020,924	(890,713)	(625,630)
Cash and cash equivalents at the beginning of period	1,453,509	2,079,140	2,079,139
Cash and cash equivalents at the end of period	6,474,434	1,188,428	1,453,509

Sterling Investments Limited
Statement of Changes in Equity
for period ended September 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
	909,347,746 -	221,733 -	56,910,319 -	372,602,214 -	1,339,082,012
Comprehensive income:					
Profit for period	-	-	-	104,647,453	104,647,453
Other comprehensive income:					
Realised loss on disposal of FVOCI debt instrument securities reclassified to profit or loss			44,816,254		44,816,254
Change in fair value of FVOCI debt instrument securities net	-	-	(9,508,829)	-	(9,508,829)
Total Other Comprehensive Income			35,307,424	104,647,453	139,954,878
Total comprehensive income	909,347,746	221,733	92,217,743	477,249,668	1,479,036,890
Transactions with owners:					
Shares issued during the period	114,319,696	-	-	-	114,319,696
Transfer of prepayment of shares		(221,733)			(221,733)
Prepayments for shares		7,375,032			7,375,032
Dividends	-	-	-	(73,649,982)	(73,649,982)
	114,319,696	7,153,299	-	(73,649,982)	47,823,013
Balance at September 30 2021	1,023,667,442	7,375,032	(92,217,743)	403,599,685	1,526,859,903

Period ended September 30, 2020	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
	905,042,146 -	316,841 -	52,990,498 -	270,295,514 -	1,228,644,999
Comprehensive income:					
Profit for period	-	-	-	94,388,556	94,388,556
Other comprehensive income:					
Realised gain on disposal of FVOCI debt instrument securities reclassified to profit or loss			787,313		787,313
Change in fair value of FVOCI debt instrument securities net	-	-	(83,229,152)	-	(83,229,152)
Total Other Comprehensive Income			(82,441,839)	-	(82,441,839)
Total comprehensive income	905,042,146	316,841	(29,451,341)	364,684,070	1,240,591,716
Transactions with owners:					
Share issued during the period	4,047,593	-	-	-	4,047,593
Transfer of prepayment of shares		(316,841)			(316,841)
Prepayments for shares		258,007			258,007
Dividends	-	-	-	(32,032,902)	(32,032,902)
	4,047,593	(58,834)	-	(32,032,902)	(28,044,143)
Balance at September 30 2020	909,089,739	258,007	(29,451,341)	332,651,168	1,212,547,573

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.

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.

Top Ten Shareholders as at September 30, 2021

Shareholder Name	% Ownership
ATL Group Pension Fund Trustees Nominee Limited	11.4%
GraceKennedy Pension Fund Custodian Ltd For GKPS	8.3%
VMWealth Equity Fund	7.9%
PAM – Pooled Equity Fund	7.3%
Cable And Wireless Jamaica Pension Fund	3.5%
Mr. Everton McDonald	3.2%
Mr. Charles Ross	3.1%
Satyanarayana Parvataneni	2.8%
Mr. Lloyd Badal	2.4%
National Insurance Fund	2.4%

Shareholdings of Directors as at September 30, 2021

Name	# Shares	% Ownership
Derek Jones	Nil	Nil
Michael Bernard	Nil	Nil
Maxim Rochester	Nil	Nil
Charles Ross	12,975,276	3.1%

Shareholdings of Connected Parties as at September 30, 2021

Name	# of shares	% Ownership
Natale Farrell-Ross	92,217	0.02%
Marian Ross	1,440,501	0.3%
Charles Andrew Ross	665,477	0.2%



Director



Director