

**STERLING INVESTMENTS LIMITED**

# **Management Discussion & Analysis**

**Q3 2022**



## Economic Highlights:

Stocks enter bear territory. High Inflation, Rising Interest Rates, driving prices lower.

**International:** The prices of most global asset classes recorded declines in the first 9 months of 2022 and major stock market indices entered a “bear market”. Year to date in 2022, the S&P 500 has declined by 24.8%, the Dow by 20.9% and the European Stoxx 600 by 20.5%. Russia’s war in Ukraine, rising inflation and 275 basis points of interest rate hikes by the U.S Federal Reserve helped to drive this performance. Central Banks across the world started increasing interest rates in response to higher inflation. The U.S Consumer Price Index increased by 8.2% between September 2021 and September 2022. As inflation rose, yields on sovereign debt followed. The yield on the 10-year US Treasury increased 232 bps from 1.51% in December 2021 to 3.83% in September 2022 while the 30-year yield rose 188 bps from 1.9% in December 2021 to 3.78% in September 2022. Perhaps most significant was the increase in yields on short-dated Treasuries– the 2-year US Treasury rose from a yield of 0.73% as at December 31, 2021 to a yield of 4.28% as at September 30, 2022. Oil prices continued to rise in 2022. WTI rose by 5.7% and Brent rose by 9.5% in the first 9 months of 2022. The US dollar appreciated against most other currencies, one of the few exceptions being the Jamaican dollar.

**Local:** Local interest rates have risen significantly on the year. During September, BOJ Treasury Bills yielded between 7.4% and 8.0% for 30 day to 180 day tenors respectively (up from 4.1% to 4.3% as at December 31, 2021). The BOJ has increased its benchmark rate by 600 Bps to 6.5% (since October 2021) in response to rising inflation. Point to Point Inflation in September 2022 was 9.3%, down from 10.2% in the previous month. The JMD/ USD exchange rate as at September 30, 2022 was J\$152.82/ US\$1, up 1.46% from the December 31, 2021 rate of J\$155.09. This is attributable to the high volumes of US\$ sold into the local foreign exchange market by the Bank of Jamaica. The Jamaica Stock Exchange Main index declined by 8.7% in the first 9 months of 2022. The JSE still has not recouped its 2020 losses. In 2020 the JSE declined by 22.4% and in 2021 it rose by 0.1%.

**OUTLOOK:** Markets are behaving as expected and in line with Management’s predictions. We anticipate that interest rates will continue to rise but we are nearer to the peak of the hiking cycle than before. While the probability of a recession has increased, this will present opportunities to purchase undervalued securities at attractive valuations for shareholders. SIL thrives in times of crisis and is cautiously and patiently assessing the market for accretive investment opportunities.

## FINANCIAL OVERVIEW

### Highlights:

**Management’s predictions** continuing to prove correct.

**US\$ investment portfolio** consistently generating steady income.

**Declining asset prices worldwide** are providing good buying opportunities for Sterling Investments Limited.

**JMD/USD appreciation** driving short term foreign exchange losses, are unlikely to persist in the medium term.

In Sync with management’s outlook, asset prices are lower and interest rates are higher. In the first quarter 2022 report, Management had stressed that it anticipated a significant increase in interest rates and a decline in the market prices of financial assets. This prediction has manifested itself. 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

### Third Quarter of 2022 (June - September 30, 2022)

Total revenue increased by 108% from J\$23.1 million in the third quarter of 2021 versus J\$48.1 million in the third quarter of 2022, reflecting an increase in foreign exchange gains. Foreign exchange losses totalled J\$23.1 million in the third quarter of 2021, versus gains of J\$12.2 million in the same period of 2022. Total operating expenses declined from J\$11.4 million in the third quarter of 2021 to J\$10.9 million in the same period of 2022. Profit for the third quarter of 2022 totalled J\$20.5 million versus J\$312,738 for the same period in 2021. Market movements in the local currency market are the primary driver for quarter-on-quarter volatility. 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\$ interest income it produces.

### First 9 months of 2022 (January - September 30, 2022)

Total Interest income increased 4.4% to J\$111.9 million in the first 9 months of 2022, reflecting continued growth in the income earning capacity

of the company. Net interest income increased by 4.0% from J\$97.0 million in the first 9 months of 2021 to J\$100.9 million for the first 9 months of 2022. Despite rising interest rates, management has been able to optimize the cost of funds available to the company. For the first 9 months, total operating expenses declined from J\$36.0 million in 2021 to J\$34.0 million in 2022. Unrealized foreign exchange losses totalled J\$20.5 million over the period, compared to gains of J\$54.6 million for the first 9 months of 2021. This was the direct result of an appreciation in the Jamaican dollar against the US dollar. The combined effect of these movements was a net profit of J\$27.7 million for the first 9 months of 2022.

### Balance Sheet

Market prices of stocks and bonds across the globe declined in the first 9 months of 2022. Similarly, SIL's total asset base declined to J\$1.7 billion as at September 30, 2022 (from J\$2.2 billion as at September 30, 2021). 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 capital. The company retains access to affordable funding to permit it to take advantage of market opportunities as they arise. Total liabilities declined by 17% to J\$535.5 million as at September 30, 2022, largely the result of a 19% decline in margin loans to J\$489 million. Total equity also declined to J\$1.2 billion, also a result of the lower market prices for the assets in the investment portfolio. Management largely views the depressed asset prices as temporary and a consequence of the economic cycle that the world is now experiencing.



## Sterling Investments Limited

**Unaudited Balance Sheet**

as at September 30, 2022

	Unaudited 9 months ended	Unaudited 9 months ended	Audited 12 months ended
	Sep-22	Sep-21	Dec-21
<b>ASSETS</b>			
<b>Cash Resources</b>			
Cash & Cash Equivalents	1,507,631	6,474,433	1,391,627
Accounts Receivable	43,431,379	36,722,766	35,849,924
Income Tax Recoverable	-	125,628	-
Investment Securities	1,656,964,505	2,126,159,462	2,240,316,407
<b>TOTAL ASSETS</b>	<b>1,701,903,515</b>	<b>2,169,482,289</b>	<b>2,277,557,958</b>
<b>LIABILITIES</b>			
Margin Loan Payables	489,096,651	604,957,667	637,986,196
Other Payables	34,400,665	14,772,582	41,149,882
Due to Related Company	12,014,770	22,882,138	30,920,420
Manager's Preference Shares	10,000	10,000	10,000
<b>TOTAL LIABILITIES</b>	<b>535,522,086</b>	<b>642,622,386</b>	<b>710,066,498</b>
<b>SHAREHOLDERS' NET EQUITY</b>			
Share Capital	1,063,380,347	1,023,667,442	1,034,495,652
Prepaid Share Reserve	4,073,706	7,375,032	731,364
Fair Value Reserve	-312,976,802	92,217,743	73,499,294
Retained Earnings	411,904,178	403,599,685	458,765,150
	<b>1,166,381,429</b>	<b>1,526,859,903</b>	<b>1,567,491,460</b>
	<b>1,701,903,515</b>	<b>2,169,482,289</b>	<b>2,277,557,958</b>

## Sterling Investments Limited

**Income Statement**

for the period ended September 30, 2022

	Unaudited 9 months ended Sep-22	Unaudited 9 months ended Sep-21	Unaudited 3 months ended Sep-22	Unaudited 3 months ended Sep-21	Audited 12 months ended Dec-21
<b>Revenue:</b>					
Interest income calculated using the effective interest method	111,958,008	107,233,112	35,984,657	36,454,389	145,258,401
Foreign exchange (loss)/gain	(20,461,637)	54,586,178	12,166,217	(23,123,866)	110,543,676
Net gain on sale of debt investment securities at FVOCI	6,053,738	23,120,684	-	9,811,599	37,688,252
Net (loss) on sale of equity investment securities at FVTPL	(524,603)	-	-	-	-
	<u>97,025,506</u>	<u>184,939,974</u>	<u>48,150,874</u>	<u>23,142,122</u>	<u>293,490,329</u>
<b>Expenses:</b>					
Interest	(11,031,507)	(10,208,748)	(4,174,092)	(3,551,384)	(14,153,207)
Impairment (loss) on financial instruments	(2,284,069)	(12,129,410)	(1,294,748)	(488,166)	(14,777,656)
Unrealised fair value (loss) on equity investment securities at FVTP	(22,738,651)	(12,116,870)	(11,303,729)	(4,719,157)	(22,729,391)
Other operating expenses	(34,046,008)	(36,008,436)	(10,887,084)	(11,398,621)	(48,269,872)
	<u>(70,100,235)</u>	<u>(70,463,464)</u>	<u>(27,659,652)</u>	<u>(20,157,328)</u>	<u>(99,930,126)</u>
<b>Operating Profit</b>	<b>26,925,271</b>	<b>114,476,510</b>	<b>20,491,222</b>	<b>2,984,794</b>	<b>193,560,203</b>
Other Income	730,472	190,096	19,794	100,215	282,686
Preference Dividend Expense	-	(8,795,635)	-	(2,422,716)	(32,806,453)
<b>Profit Before Income tax</b>	<b>27,655,743</b>	<b>105,870,971</b>	<b>20,511,015</b>	<b>662,293</b>	<b>161,036,436</b>
Income Tax Expense	-	(1,223,518)	-	(349,555)	(1,223,518)
<b>Profit for Period</b>	<b>27,655,743</b>	<b>104,647,453</b>	<b>20,511,015</b>	<b>312,738</b>	<b>159,812,918</b>
Other comprehensive income:					
Item that are or may be reclassified subsequently to profit or loss:					
Realised (loss) /gain on disposal of FVOCI debt investment	(2,549,936)	44,816,254	(1,157,863.50)	2,769,576	40,064,794
Change in fair value of FVOCI debt instrument securities	(383,926,160)	(9,508,829)	(84,275,052)	(35,099,359)	(23,475,819)
Total other comprehensive (loss)/gain income for the year	<u>(386,476,096)</u>	<u>35,307,424</u>	<u>(85,432,916)</u>	<u>(32,329,783)</u>	<u>16,588,975</u>
Total comprehensive (loss)/income for the year	<u>(358,820,353)</u>	<u>139,954,878</u>	<u>(64,921,901)</u>	<u>(32,017,045)</u>	<u>176,401,893</u>
Shares outstanding	423,089,808	376,143,523	423,089,808	411,700,893	413,442,100
<b>Earnings per stock unit:</b>	<b>0.07</b>	<b>0.25</b>	<b>0.05</b>	<b>0.00</b>	<b>0.39</b>

Sterling Investments Limited  
**Statement of Changes in Equity**  
for period ended September 30, 2022

	Share capital	Prepaid Share Reserve	Fair value	Retained earnings	Total
Balance at December 31, 2021	1,034,495,652	731,364	73,499,294	458,765,150	1,567,491,460
	1,034,495,652 -	731,364 -	73,499,294 -	458,765,150 -	1,567,491,460
Comprehensive income:					
Profit for period	-	-	-	27,655,743	27,655,743
Other comprehensive income:					
Realised gain on disposal of FVOCI debt instrument securities reclassified to profit or loss			(2,549,936)		(2,549,936)
Change in fair value of FVOCI debt instrument securities net	-	-	(383,926,160)		(383,926,160)
Total Other Comprehensive Income			(386,476,096)	27,655,743	(358,820,353)
Total comprehensive income	1,034,495,652	731,364	(312,976,802)	486,420,893	1,208,671,107
Transactions with owners:					
Share issued during the period	28,884,695	-	-	-	28,884,695
Transfer of prepayment of shares		(731,364)			(731,364)
Prepayments for shares		4,073,706			4,073,706
Dividends	-	-	-	-74,516,715	(74,516,715)
	28,884,695	3,342,342	-	(74,516,715)	(42,289,678)
<b>Balance at September 30, 2022</b>	<b>1,063,380,347</b>	<b>4,073,706</b>	<b>(312,976,802)</b>	<b>411,904,178</b>	<b>1,166,381,429</b>

**Sterling Investments Limited**  
**Statement of Cash Flows**  
for period ended September 30, 2022

	Period ended 'September 30, 2022	Period Ended 'September 30, 2021	Audited 12 months ended 'Dec 2021
<b>Cash flows from operating activities</b>			
Profit for the period	27,655,743	104,647,453	159,812,918
Adjustments for :			
Interest Income	(111,958,008)	(107,233,112)	(145,258,401)
Interest Expense	11,031,507	10,208,748	14,153,207
Impairment loss on FVOCI	2,284,069	12,129,410	14,777,656
Unrealised gain on quoted equities	22,738,651	12,116,870	22,729,391
Income Tax Expense	-	1,223,518	1,223,518
Managers Preference Share Interest	-	8,795,635	32,806,453
	<b>(48,248,038)</b>	<b>41,888,522</b>	<b>100,244,742</b>
<b>Changes in operating assets:</b>			
Accounts Receivable	(136,332)	(837,093)	(524,148)
Margins Payable	(148,889,545)	73,156,901	106,185,430
Other Payables	(6,749,217)	(22,548,870)	1,442,455
Due to Related Company	(18,905,650)	(982,349)	7,055,933
	<b>(222,928,782)</b>	<b>90,677,110</b>	<b>214,404,412</b>
Interest Received	104,512,885	98,467,018	137,052,208
Interest Paid	(11,031,507)	(10,208,748)	(14,153,207)
Income Taxes Paid	-	(1,223,518)	(1,097,890)
Net cash (used)/provided by operating activities	<b>(129,447,404)</b>	<b>177,711,863</b>	<b>336,205,523</b>
<b>Cash flows from investing activity</b>			
Investment securities, being net cash used by investing activity	171,853,085	(220,513,952)	(366,650,114)
Net cash provided/( used in) Investing activities	<b>171,853,085</b>	<b>(220,513,952)</b>	<b>(366,650,114)</b>
<b>Cash flows from financing activities</b>			
Issue of Preference shares			
Issue of ordinary shares	28,884,695	114,319,696	125,147,906
Prepaid Share Reserve	3,342,342	7,153,299	509,631
Manager's preference shares interest paid	-	-	(21,624,846)
Dividend payment	(74,516,715)	(73,649,982)	(73,649,982)
Net cash (used)/provided by financing activities	<b>(42,289,678)</b>	<b>47,823,013</b>	<b>30,382,709</b>
<b>Increase/(Decrease) in cash and cash equivalents during the period</b>	<b>116,003</b>	<b>5,020,924</b>	<b>(61,882)</b>
<b>Cash and cash equivalent at the beginning of period</b>	<b>1,391,627</b>	<b>1,453,509</b>	<b>1,453,509</b>
<b>Cash and cash equivalent at the end of period</b>	<b>1,507,631</b>	<b>6,474,434</b>	<b>1,391,627</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, 2021 (‘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, 2021 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, 2022

Shareholder Name	% Ownership
ATL Group Pension Fund Trustees Nominee Limited	11.2%
GraceKennedy Pension Fund Custodian Limited for GraceKennedy Pension Scheme	8.1%
VMWealth Equity Fund	7.8%
PAM - Pooled Equity Fund	6.3%
Claudine Murphy	5.3%
Cable and Wireless Jamaica Pension Fund	3.4%
Charles A. Ross	3.2%
Everton Lloyd McDonald	3.1%
Satyanarayana Parvataneni	2.8%
National Insurance Fund	2.4%

### Shareholdings of Directors as at September 30, 2022

Name	# Shares	% Ownership
Derek Jones	Nil	Nil
Michael Bernard	Nil	Nil
Maxim Rochester	Nil	Nil
Charles Ross	13,793,450	3.2%
Marian Ross	1,455,471	0.3%

### Shareholdings of Connected Parties as at September 30, 2022

Name	# of shares	% Ownership
Charles Ross	13,793,450	3.2%
Natalie A. Farrell-Ross	97,302	0.02%
Marian Ross	1,455,471	0.3%
Charles Andrew Ross	702,183	0.2%



Director



Director