

**Sterling
Investments
Limited**

**Management
Discussion
& Analysis**

Q1 2021

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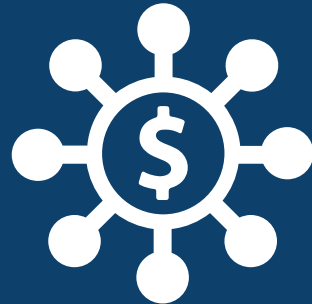


Financial Highlights

Total Assets up

44%

J\$2.033 billion



Total Equity up

52.6%

J\$1.46 billion

Total profit up

12x



Total Revenue up

63%

Economic Overview

International: Asset prices continued to rise in 2021.

During the first quarter of 2021, the S&P 500 rose by 5.2%, the Dow Jones by 3.22% and the Stoxx 600 by 2.22%. These gains were driven by positive risk-on sentiment resulting from the accelerated pace of vaccinations in the USA, a second round of stimulus cheques from the U.S. Government as well as a series of expansionary fiscal packages proposed by the Biden Administration.

The announcement of the fiscal stimulus package coupled with rising commodity prices in addition to shipping and supply chain challenges have led to a rise in inflation expectations. This was reflected in the increase in yields on US Treasuries over the period. The yield on the 10-year US Treasury rose 83 basis points to 1.74%, the 30 year Treasury rose 77 basis points to 2.41% and the 10-year German Bund rose 28 basis points to -0.29%. The Federal Reserve has articulated that it expects inflation to increase but expects this to be transitory and would be willing to let inflation run above its 2% target for some time given the fact that inflation has remained below this target for several years.

Oil prices rose in the first 3 months of 2021 as OPEC instituted cuts which outweighed the impact of new lockdowns in Europe resulting from a surge in COVID19 cases. West Texas Intermediate rose 21.9% while Brent rose 21.1% over the period.

Local: The JMD/USD exchange rate closed the March 2021 quarter at J\$146.58 / US\$1, up 2.8% from the December 31, 2020 rate of J\$142.65. The Jamaica Stock Exchange Main index rose by 4.8% in the first 3 months of 2021, suggesting improvements in liquidity and outlook. Inflation remained low at 0.7% for the calendar year to date.

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. The result was:

- **A 26.84% increase in interest income compared to the first quarter of 2020.** SIL purchased additional securities to increase the income available to its shareholders. Investors will continue to benefit from the US dollar income SIL's portfolio generates through dividend payments.
- **A 47% increase in the value of investment securities** held by the company. This was partially attributed to the rise in value of the existing portfolio and also the acquisition of new assets that have subsequently appreciated in price.
- **SIL is well-positioned to benefit from the 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 rate of 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 monitoring duration and positioning the portfolio to take advantage of future volatility that may arise. Central Banks in developed economies have committed to accommodative monetary and fiscal 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 improve shareholder value..

Income Statement

Revenue totalled J\$80.432 million for the first three months of 2021, or 63% higher compared to the same period in 2020 which was J\$49.331 million. This was driven by larger F/X gains, an increase in interest income and an increase in the gains on sale of debt securities. Net interest income rose by 29% YOY from J\$24.89 million in 1Q20 to J\$32.1 million in 1Q21. This reflects the reduction in U.S. interest rates by the Federal Reserve. Total foreign exchange gains rose from J\$12.308 million for March 31, 2020 to J\$28.406 million for the period ending March 31, 2021. The Jamaican dollar depreciated by 2.8% in the first quarter of 2021 moving from J\$142.10 per US\$1 as at December 31, 2020 to J\$146.58 as at March 31, 2021.

Net income totalled J\$55.231 million for 1Q21 compared to J\$4.585 million for the same period in 2020. The profit for the three months ending March 31, 2020 included a J\$32.847 million unrealized loss on structured notes and equity investments at fair value through profit and loss. This was the result of a dramatic decline in market prices in the early response to the COVID19 pandemic. For the first quarter of 2021, the unrealized loss on structured notes and equity investment securities at fair value through the profit and loss was J\$621,218. The improved market prices led to a substantially smaller unrealized loss and thus contributed to a much higher profit for the period.

Other operating expenses rose from J\$8.153 million in 1Q20 to J\$12.581 million in 1Q21, primarily a result of increased management fees.

Balance Sheet

Total assets increased 44% from J\$1.41 billion as at March 31, 2020 to J\$2.033 billion as at March 31, 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 30.17% from J\$396.914 million as at March 31 2020 to J\$516.701 million as at March 31, 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 size, profitability and value of the investment portfolio contributed to a 53% increase in total equity, from J\$956.575 million as at March 31, 2020 to J\$1.46 billion as at March 31, 2021. The share capital also rose due to inflows from the CSPP program that concluded in December 31, 2020.

Sterling Investments Limited Income Statement

	Unaudited 3 months ended Mar-21	Unaudited 3 months ended Mar-20	Audited 12 months ended Dec-20
Revenue:			
Interest income calculated using the effective interest method	35,134,801	27,700,961	120,294,499
Foreign exchange gain	28,406,168	12,308,970	79,153,974
Net gain on sale of debt investment securities at FVOCI	16,891,896	9,321,220	19,230,511
	<u>80,432,865</u>	<u>49,331,152</u>	<u>218,678,984</u>
Expenses:			
Interest	(3,030,836)	(2,810,344)	(11,414,398)
Impairment (loss) on financial instruments	(8,467,039)	(860,877)	(2,922,765)
Unrealised fair value (loss) on equity investment securities at FVTPL	(621,218)	(32,847,207)	(10,093,196)
Other operating	(12,581,921)	(8,153,234)	(37,825,562)
	<u>(24,701,015)</u>	<u>(44,671,662)</u>	<u>(62,255,921)</u>
Operating Profit	55,731,850	4,659,489	156,423,063
Other Income	19,250	212,690	459,598
Preference Dividend Expense	0	0	(21,624,845)
Profit Before Income tax	55,751,100	4,872,180	135,257,816
Income Tax Expense	(519,831)	(286,646)	(918,215)
Profit for Period	55,231,269	4,585,534	134,339,601
Other comprehensive income:			
Realised (loss)/gain on disposal of FVOCI debt investment securities reclassified to profit or loss	35,778,635.79	(6,190,722.61)	(17,681,582)
Change in fair value of FVOCI debt instrument securities	(45,325,544.76)	(259,969,384.33)	21,601,403
Total other comprehensive income/(loss) for the year	<u>(9,546,908.97)</u>	<u>(266,160,106.94)</u>	<u>3,919,821</u>
Total comprehensive income/(loss) for the year	<u>45,684,360.50</u>	<u>(261,574,573.14)</u>	<u>138,259,422</u>
Shares outstanding	403,276,876	375,684,339	376,510,131
Earnings per stock unit:			
Basic and diluted earnings per stock unit	0.14	0.01	0.36

Sterling Investments Limited
Unaudited Balance Sheet

	Unaudited 3 months ended Mar-21	Unaudited 3 months ended Mar-20	Audited 12 months ended Dec-20
ASSETS			
Cash Resources			
Cash & Cash Equivalents	1,728,888	818,567	1,453,509
Accounts Receivable	36,069,288	52,988,662	27,119,580
Income Tax Recoverable	125,628	-	125,628
Investment Securities	1,995,912,203	1,357,049,534	1,894,584,365
TOTAL CURRENT ASSETS	2,033,836,007	1,410,856,763	1,923,283,082
TOTAL ASSETS	2,033,836,007	1,410,856,763	1,923,283,082
LIABILITIES			
Margin Loan Payables	516,701,630	396,914,541	531,800,766
Other Payables	25,777,326	28,849,047	28,525,817
Due to Related Company	31,063,245	28,507,653	23,864,487
Manager's Preference Shares	10,000	10,000	10,000
TOTAL LIABILITIES	573,552,201	454,281,241	584,201,070
SHAREHOLDERS' NET EQUITY			
Share Capital	1,019,438,790	906,425,229	909,347,746
Prepaid Share Reserve	2,738,071	518,500	221,733
Fair Value Reserve	47,363,410	(213,169,609)	56,910,319
Retained Earnings	390,743,535	262,801,402	372,602,214
	1,460,283,805	956,575,522	1,339,082,012
	2,033,836,007	1,410,856,763	1,923,283,082

Sterling Investments Limited
Statement of Changes in Equity

	Share capital	Prepaid Share Reserve	Fair value	Retained earnings	Total
Balance at December 31, 2020	909,347,746	221,733	56,910,319	372,602,215	1,339,082,013
	909,347,746	221,733	56,910,319	372,602,215	- 1,339,082,013
Comprehensive income:					
Profit for period	-	-	-	55,231,269	55,231,269
Other comprehensive income:					
Realised gain on disposal of FVOCI debt instrument securities reclassified to profit or loss			35,778,636		35,778,636
Change in fair value of FVOCI debt instrument securities net	-	-	(45,325,545)	-	(45,325,545)
Total Other Comprehensive Income			(9,546,909)	-	(9,546,909)
Total comprehensive income	909,347,746	221,733	47,363,410	427,833,485	1,384,766,374
Transactions with owners:					
Share issued during the period	110,091,043	-	-	-	110,091,043
Transfer of prepayment of shares		(221,733)			(221,733)
Prepayments for shares		2,738,071			2,738,071
Dividends	-	-	-	(37,089,950)	(37,089,950)
	110,091,043	2,516,338	-	(37,089,950)	75,517,431
Balance at March 31 2021	1,019,438,789	2,738,071	47,363,410	390,743,535	1,460,283,805

	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	-	-	-	4,585,534	4,585,534
Other comprehensive income:					
Realised gain on disposal of FVOCI debt instrument securities reclassified to profit or loss			(6,190,723)		(6,190,723)
Change in fair value of FVOCI debt instrument securities net	-	-	(259,969,384)	-	(259,969,384)
Total Other Comprehensive Income			(266,160,107)	-	(266,160,107)
Total comprehensive income	905,042,146	316,841	(213,169,609)	274,881,048	967,070,426
Transactions with owners:					
Share issued during the period	1,383,083	-	-	-	1,383,083
Transfer of prepayment of shares		(316,841)			(316,841)
Prepayments for shares		518,500			518,500
Dividends	-	-	-	(12,079,646)	(12,079,646)
	1,383,083	201,659	-	(12,079,646)	(10,494,904)
Balance at March 31 2020	906,425,229	518,500	(213,169,609)	262,801,401	956,575,521

Sterling Investments Limited
Statement of Cash Flows

	Period ended March 31, 2021	Period ended March 31, 2020	Audited Dec 2020
Cash flows from operating activities			
Profit for the period	55,231,269	4,585,534	134,339,601
Adjustments for :			
Interest Income	(35,134,801)	(27,700,961)	(120,294,499)
Interest Expense	3,030,836	2,810,344	11,414,398
Impairment loss on FVOCI	8,467,039	860,877	2,922,765
Unrealised gain on quoted equities	621,218	32,847,207	11,170,000
Income Tax Expense	519,831	286,646	918,215
Managers Preference Share Interest	21,624,846	7,225,474	21,624,845
	54,360,239	20,915,120	62,095,325
Changes in operating assets:			
Accounts Receivable	(1,793,023)	(1,713,552)	170,331
Margins Payable	(15,099,136)	46,075,173	180,961,398
Other Payables	(24,373,336)	8,564,719	3,227,690
Due to Related Company	7,198,758	(12,938,321)	(17,581,486)
	20,293,502	60,903,138	228,873,258
Interest Received	27,978,116	20,486,976	137,065,711
Interest Paid	(3,030,836)	(2,810,344)	(11,414,398)
Income Taxes Paid	(519,831)	(85,314)	(842,510)
Net cash provided by operating activities	44,720,951	78,494,456	353,682,061
Cash flows from investing activity			
Investment securities, being net cash used by investing activity	(119,963,004)	(69,260,126)	(317,099,710)
Net cash used by Investing activities	(119,963,004)	(69,260,126)	(317,099,710)
Cash flows from financing activities			
Issue of Preference shares			
Issue of ordinary shares	110,091,044	1,383,083	1,743,919
Prepaid Share Reserve	2,516,338	201,659	(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	75,517,431	(10,494,905)	(37,207,981)
Increase/(Decrease) in cash and cash equivalents during the period	275,379	(1,260,574)	(625,630)
Cash and cash equivalent at the beginning of period	1,453,509	2,079,141	2,079,139
Cash and cash equivalent at the end of period	1,728,888	818,567	1,453,509

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).

Top Ten Shareholders as at March 31, 2021

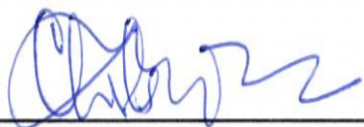
Name	Number of Shares	Percentage
ATL Group Pension Fund Trustees Nominee Limited	47,856,608	11.6%
GraceKennedy Pension Fund Custodian Ltd For GraceKennedy Pension Scheme	34,848,550	8.4%
VMWealth Equity Fund	32,872,136	8.0%
Lloyd Badal	22,093,090	5.3%
PAM - Pooled Equity Fund	22,025,175	5.3%
Cable and Wireless Jamaica Pension Fund	14,492,015	3.5%
Everton Lloyd McDonald	13,331,584	3.2%
Charles A. Ross	12,345,918	3.0%
Satyanarayana Parvataneni	11,134,784	2.7%
National Insurance Fund	10,080,645	2.4%

Shareholdings of Directors as at March 31, 2021

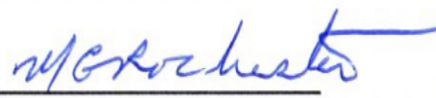
Directors	Number of Shares	Percentage of Total
Derek Jones		
Michael Bernard		
Maxim Rochester		
Charles Ross	12,345,918	3.0%

Shareholdings of Connected Parties as at March 31, 2021

Name	Number of Shares	Percentage
Marian Ross	1,335,182	0.32%
Charles Andrew Ross	642,756	0.2%
Natalie A. Farrell-Ross	89,068	0.022%



Director



Director