

Sterling Investments Limited (SIL)

Summary

The book value of shares in Sterling Investments Limited was J\$135.40 per share as at September 30, 2014. Year to date the book value per share has grown by 12% or at an annualized rate of 15.42%. A dividend of J\$1.35 per share was paid to shareholders on record as at June 30, 2014. This represents a total dividend pay-out ratio of 40% as at June 30, 2014. The company listed on the Main Market of the Jamaica Stock Exchange on October 13, 2014.

Environment Overview

The third quarter of the year (June 2014 to September 2014) was characterized by a slight increase in volatility, due to positive economic growth from the USA but deteriorating European economic data. Asset prices benefitted from strong rallies across stock and bond markets in the first half of the year. The Federal Open Market Committee (FOMC) reiterated its intention to keep interest rates low for a “considerable period of time” and maintained its regular reduction of monetary stimulus. The U.S. economy grew by 4% in the second quarter and employment data has generally remained positive. In contrast, Euro area GDP grew by only 0.7% in the second quarter of the year or a 0.4% contraction from the previous quarter. As a result, the European Central Bank introduced negative interest rates and espoused its intention to pursue a bond purchase program. Towards the end of the quarter, the rally in asset prices has been dampened by the recent publication of even weaker Euro area data, geo political tensions, health care crises and the effect of these on global economic growth.

Balance Sheet Analysis

The total value of investment securities as at September 30, 2014 was recorded at J\$707,547,831, a minimal decrease of 1.49% from June 30, 2014. This change can be attributed to a slight decline in bond prices that occurred at the end of the quarter. These investments are comprised primarily of marketable USD denominated fixed income securities with coupons ranging from 6.5% to 12.50%. Most of the issuers maintain investment grade credit ratings. All marketable securities are marked to market and held as available for sale.

This line item also includes a holding of preference shares with a coupon of 8.0% per annum issued by Pelican Bay Limited (PBL). PBL is a St. Kitts incorporated company that is responsible for the development of a condominium hotel in St. Kitts. The condominiums are targeted to applicants of the St. Kitts “Citizenship by Investment Program”. This program permits foreigners to obtain citizenship in St. Kitts through the purchase of a piece of real estate on the island with a minimum value of US\$400,000. The project is being run by a team of experienced and seasoned international experts. With an on-site project manager and engineer as well as an ISO-9000 certified contractor with equity invested in the development, the project has been structured to minimize operational risk and maximise the return on investment. All approvals for the development have been obtained, and construction commenced in August 2014. This investment represents 7.7 % of total assets under management. This investment is valued at historical cost.

Margin Loans payable represent margin loans due to overseas brokers. These loans are secured by the bonds in SIL's portfolio which are custodied by international brokers. The prudent use of margin loans to finance investments helps to enhance the returns of the portfolio. The manager has conservatively used margin amounting to roughly 25.7% of the total portfolio as at September 30th 2014, approximately the same level of leverage as that of June 30, 2014. The Investment Management Committee is actively reducing its duration risk in order to structure the portfolio for the anticipated changes in U.S. monetary policy.

Total shareholder's equity declined modestly by roughly 1.8% from J\$553,666,684.8 in June 2014 to J\$543,553,579.26 in September 2014. This reflects the softening in bond prices that occurred towards the end of the quarter. This was reflected in the 36.6% quarter on quarter decline in the Fair Value Reserve which moved from J\$39,888,322 in June 2014 to J\$25,301,679 in September 2014. With the flight to safety that has occurred recently and the rally in the 10 year UST, the team anticipates a recovery in bond prices that will contribute to the continued growth of the company's equity.

Income Statement Analysis

For the year-to-date there was an operating profit of J\$49,646,080, a 19% increase from the June quarter. Interest income was the major source of income for the company and totalled J\$36,467,989 for the first 9 months of 2014. The investment manager adopted a prudent approach to trading and preserved the gains that had accumulated on the existing positions. The recent decline in bond prices has presented attractive buying opportunities for the portfolio.

Interest expense amounted to J\$2,722,750 and "other operating expenses" totalled J\$14,816,794. The largest components of "other operating expenses" include audit fees, manager's fees and Director's emoluments. The operating profit margin was recorded at 74%. The preference dividend expense was accrued at J\$4,663,203 and represented the indicative amount which may become payable to the investment manager for performance in excess of the hurdle rate. Even after taking the preference dividend expense into account, SIL's net profit margin was recorded at 72%.

**Unaudited Balance Sheet
As at September 30, 2014**

	Unaudited 9 months ended Sep-14	Unaudited 9 months ended Sep-13	Audited Year ended Dec-13
ASSETS			
Cash Resources			
Cash &Cash Equivalents	384,552	330,906	3,465,648
Accounts Receivable	18,560,247	10,589,003	9,711,165
Investment Securities	707,547,831	460,970,638	478,531,699
TOTAL CURRENT ASSETS	726,492,630	471,890,547	491,708,512
TOTAL ASSETS	726,492,630	471,890,547	491,708,512
LIABILITIES			
Margin Loan Payables	168,017,949	151,967,866	31,551,950
Other Payables	14,520,522	5,381,462	11,787,673
Due to Related Company	220,159	1,957,931	7,799,970
Preference Shares	10,000		10,000
Income Tax Payable	180,421		180,421
TOTAL LIABILITIES	182,949,050	159,307,259	51,330,014
SHAREHOLDERS' NET EQUITY			
Share Capital	437,296,904	271,786,230	387,469,691
Fair Value Reserve	25,301,679	2,744,089	10,818,949
Retained Earnings	80,944,996	38,052,969	42,089,858
	543,543,579	312,583,288	440,378,498
	726,492,630	471,890,547	491,708,512

Unaudited Statement of Income
September 30, 2014

	Unaudited 9 months ended Sep-14	Unaudited Quarter ended Sep-14	Unaudited 9 months ended Sep-13	Unaudited Quarter ended Sep-13	Audited Year ended Dec-13
Revenue:					
Interest Income	36,467,989	12,919,601	17,529,098	7,745,008	29,116,138
Foreign Exchange Gains	27,930,610	2,939,914	26,954,309	6,359,947	36,779,330
Gain on disposal of available-for-sale securities	2,787,025		2,795,071	1,368,592	3,915,580
	<u>67,185,624</u>	<u>15,859,515</u>	<u>47,278,478</u>	<u>15,473,547</u>	<u>69,811,048</u>
Expenses:					
Interest	(2,722,750)	(954,413)	(1,440,199)	(450,009)	(2,112,119)
Other operating expenses	(14,816,794)	(4,621,234)	(8,508,249)	(3,480,148)	(11,365,062)
	<u>(17,539,544)</u>	<u>(5,575,647)</u>	<u>(9,948,448)</u>	<u>(3,930,157)</u>	<u>(13,477,181)</u>
Operating Profit	49,646,080	10,283,867	37,330,030	11,543,390	56,333,867
Other Income	3,373,105	1,135,210	2,434,270	1,033,395	104,299
Preference Dividend Expense	(4,663,203)	(1,554,401)			(10,362,673)
Profit before Income Tax	<u>48,355,982</u>	<u>9,864,676</u>	<u>39,764,300</u>	<u>12,576,785</u>	<u>46,075,493</u>
Income Tax Expense					(180,421)
Profit for Period	<u>48,355,982</u>	<u>9,864,676</u>	<u>39,764,300</u>	<u>12,576,785</u>	<u>45,895,072</u>
Earnings Per Stock Unit J\$	16.06	4.01	19.81	4.95	14.98
Other Comprehensive Income:					
Items that may be reclassified to profit & loss:					
Change in fair value of available-for-sale securities	14,482,730	(12,210,904)	(8,074,860)	4,085,678	10,818,949
	<u>62,838,712</u>	<u>(2,346,228)</u>	<u>31,689,440</u>	<u>16,662,463</u>	<u>56,714,021</u>

Statement of Cash Flows
For period ended September 30, 2014

	Unaudited 9 months ended Sep - 2014	Unaudited 9 months ended Sep - 2013
Cash flows from operating activities		
Profit for the period	48,355,982	41,858,183
Adjustments for :		
Interest Income	(39,834,518)	(19,949,372)
Interest Expense	2,722,750	1,440,199
Income Tax Expense		
Managers Preference Share Interest	4,145,069	
	15,389,284	23,349,010
Changes in operating assets:		
Accounts Receivable	(33,923)	(1,344)
Margins Payable	136,465,999	151,957,866
Other Payables	(1,412,221)	5,382,806
Due to Related Company	(7,579,811)	1,957,931
	142,829,327	182,646,269
Interest Received	31,019,358	9,360,369
Interest Paid	(2,722,750)	(1,440,199)
Net cash provided by operating activities	171,125,935	190,566,439
Cash flows from investing activity		
Investment securities, being net cash used by investing activity	(214,533,401)	(458,226,549)
Cash flows from financing activities		
Issue of preference shares	0	10,000
Issue of ordinary shares	49,827,213	271,786,230
Dividend payment	(9,500,843)	(3,805,214)
Net cash provided by financing activities	40,326,370	267,991,016
Increase in cash and cash equivalents during the period	(3,081,096)	330,906
Cash and cash equivalent at the beginning of period	3,465,648	
Cash and cash equivalent at the end of period	384,552	330,906

Unaudited Statement of Changes in Equity
For period ended September 30, 2014

	Share capital	Fair value	Retained earnings	Total
Balance at December 31, 2013	387,469,691	10,818,949	42,089,858	440,378,498
Comprehensive income:				
Profit for period	-	-	48,355,982	48,355,982
Other comprehensive income:				
Unrealised gains in fair value of available- for-sale securities	-	14,482,730	-	14,482,730
Total comprehensive income	<u>387,469,691</u>	<u>25,301,679</u>	<u>90,445,840</u>	<u>503,217,210</u>
Transactions with owners:				
Share issued during the period	49,827,210	-	-	49,827,210
Dividends	-	-	(9,500,843)	(9,500,843)
	<u>49,827,210</u>	<u>-</u>	<u>(9,500,843)</u>	<u>40,326,367</u>
Balance at September 30, 2014	437,296,901	25,301,679	80,944,997	543,543,577

**Unaudited Statement of Changes in Equity
For period ended September 30, 2013**

	Share capital	Fair value	Retained earnings	Total
Comprehensive income:				
Profit for period	-	-	41,858,183	41,858,183
Other comprehensive income:				
Unrealised gains in fair value of available- for-sale securities	-	2,744,089	-	2,744,089
Total comprehensive income		2,744,089	41,858,183	44,602,272
Transactions with owners:				
Share issued during the period	271,786,230	-	-	271,786,230
Dividends	-	-	(3,805,214)	(3,805,214)
	<u>271,786,230</u>	<u>2,744,089</u>	<u>(38,052,970)</u>	<u>267,981,016</u>
Balance at September 30, 2013	271,786,230	2,744,089	38,052,970	312,583,288

Top Ten Shareholders as at September 30, 2014

	Number of shares	% of total
ATL Group Pension Fund Trustee Nominee Limited	1,000,000	24.9%
Mr. Stephen Gager	345,517	8.6%
PAM - Cable & Wireless Real Estate Pension Fund	300,000	7.5%
Grace Kennedy Pension Scheme	272,727	6.8%
Grace Kennedy Pension Fund	250,000	6.2%
Satya Parvataneni	193,763	4.8%
Mrs. Winnifred M. Mullings	184,276	4.6%
Mr. Charles Ross	173,782	4.3%
Mr. Everton McDonald	134,979	3.4%
Mr. Trevor Barrett	105,959	2.6%

Shareholdings of Directors as at September 30, 2014

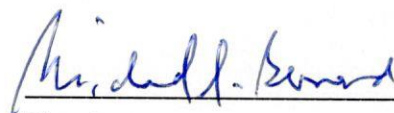
	Number of shares	% of total
Derek Jones	0	0%
Maxim Rochester	0	0%
Michael Bernard	0	0%
Charles Ross	173,782	4.3%

Notes

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. Statement of compliance and basis of preparation
 - a. Statement of compliance: The unaudited financial statements as at September 30, 2014 are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. The accounting policies and method of computation are consistent with the audited financial statements for year ended December 31, 2013
 - b. **Basis of measurement:** The financial statements are prepared on the historical cost basis, except for the inclusion at fair value of available-for-sale securities and financial assets at fair value through profit or loss.
 - c. **Functional and presentation currency:** The financial statements are presented in Jamaican dollars (J\$), which is the functional currency of the Company.



Director



Director