

**Sterling
Investments
Limited**

**Management,
Discussion
& Analysis**

Q3 2020

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Net Interest Income
Increase of **31%**

Foreign Exchange
gains increase of
24.8%



9.6%
Leveraged weighted
average yield on
the portfolio



Assets of
J\$1.7
billion



Book value
J\$3.22

Economic Overview

International

U.S. Equities enjoyed a strong quarter, bond prices increased modestly: During the third quarter of 2020, the S&P 500 rose by 8.5%, achieving an all-time high on September 2nd, the Dow Jones Index increased by 7.63%, and the Stoxx 600 increased by 0.2%. However, market sentiment was risk-off late in the quarter due to a combination of a resurgence in European Covid-19 cases, questions over additional fiscal stimulus measures and great political uncertainty regarding the outcome of the U.S. election. High yield bonds outperformed investment grade bonds in the third quarter as the Bloomberg Barclays Investment Grade Corporate bond index increased by 1.54% and the Bloomberg Barclays High Yield Bond Index increased by 4.02%. In addition, U.S. treasuries rose marginally as the yield on the 10-year note decreased by 2 basis points.

The US economy's gradual recovery continued, and the Federal Reserve's (Fed) remained accommodative. The Fed implemented average inflation targeting (AIT) which seeks to achieve an average inflation rate over a specific period of time. This means that the Fed would be willing to let inflation run above its current 2% target for some time. The U.S. unemployment rate declined by 0.5% to 7.9% in September, and the number of unemployed persons fell by 1.0 million to 12.6 million. Both measures have declined for five consecutive months but remain elevated over February levels. The €750 billion of bond purchases promised by the ECB president improved sentiment toward the region. Eurozone annual inflation was negative at -0.2% in August compared to 0.4% in July.

Oil prices doubled in the second quarter of 2020 after bottoming out in April, this was partly due to sharp oil supply cuts by OPEC. However, there was only a small increase in prices in the third quarter as they remain

over 30% below pre-covid levels. This resulted in an increase of 2.4% for WTI (closed at US\$40.22) and an increase of 2.5% in Brent prices in the third quarter ended September 2020.

Local

The JMD/USD exchange rate closed the September 2020 quarter at J\$142.10 / US\$1, which represents a depreciation of 1.5% since June 2020. The borders and hotels reopened in the third quarter; however, tourism inflows are still well below pre-covid levels. The JSE Index declined by 0.9% over the third quarter in contrast to the single digit increases recorded by the S&P 500 and the Stoxx 600.

COVID 19 IMPACT

SIL's investment continues to reap success for its shareholders, despite the challenges being faced by other companies during this time.

- **SIL increased the dividend payout ratio by 60% to shareholders in the third quarter:** The company increased the dividend payout ratio from 50% to 80%. SIL is providing US dollar liquidity to its shareholders at the height of the pandemic. The company pays dividends twice a year in hard currency as a result of its holdings of US dollar denominated assets.
- **30.8% Year on Year Rise in Net Interest income:** SIL's net interest income increased by 30.8% year on year due to a combination of lower interest expense and continued growth in the size of the portfolio. SIL is generating more income post COVID19 than it was before. Investors will continue to benefit from the US dollar income SIL's portfolio generates through dividend payments.
- **SIL well-positioned to benefit from Global economic recovery:** It is evident that the developed countries will lead the global economic recovery. Jamaica's economic recovery is likely to lag the recovery in discretionary consumer spending in the US, Europe and China. 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.

Enhanced diligence amid COVID 19: As the fallout from the Covid-19 pandemic continues, SIL continues to perform enhanced due diligence as it monitors the credits held by the portfolio and hunts for undervalued securities to enhance shareholder value. .

Financial Overview

Increase of 30.80% in net interest income	J\$80.59m vs. J\$61.61m September 2019
Foreign exchange gains increase of 24.84%	J\$80.28m vs. J\$64.31m September 2019
Total assets increase of 7.10%	J\$1.70b vs. J\$1.59b June 2019
Leveraged weighted average yield on portfolio	9.58%
Dividend yield as September 30, 2020	2.84%
Earnings per share	J\$0.25

Income Statement

Total revenue for the first nine months of 2020 was J\$170.31 million, 20.84% higher compared to J\$140.94 million for the same period in 2019. This was driven by higher interest income and unrealised FX gains. Net Interest income totalled J\$80.59 million for the nine months ended September 2020; 30.8% higher than the \$61.61 million recorded for the corresponding period in 2019. The net interest margin increased to 90.74%. The net interest margin continues to improve as interest rates remain low.

Net income decreased by 5.81% from J\$100.21 million for the nine months ended September 30, 2019 to J\$94.39 million for the nine months ended September 30, 2020. The decrease in net income was primarily due to an

increase in unrealised held for trading revaluation losses \$21.65 million, compared to a gain of J\$8.79 million for the same period in 2019. Other operating expenses for the nine-month period ended September 30, 2020 totalled J\$27.94 million or 3.23% lower than the J\$28.87 million of other operating expenses recorded for the corresponding period in 2019.

The Jamaican dollar depreciated against the US dollar by J\$9.54 or 7.19% for the nine-month period ended September 30, 2020, relative to the same period in 2019 when it depreciated by J\$7.44 or 5.83%. This led to an increase in unrealised foreign exchange gains for the nine months ended September 30, 2020 of J\$80.28 million compared to J\$64.31 million for the corresponding period in 2019.

Balance Sheet

Total equity decreased by 0.29% from J\$1.22 billion as at September 2019 to J\$1.21 billion as at September 2020. This is due to a reduction in the fair value reserve due to a brief market sell-off in global markets that occurred at the end of September.

Total assets increased by 7.1% from J\$1.59 billion as at September 2019 to J\$1.70 billion as at September 30, 2020. As at September 30, 2020, margin loans totalled J\$450.67 million and represented 27.02% of the total portfolio of investment securities compared to 21.26% for September 2019. The weighted average yield is enhanced by the use of leverage and has resulted in a yield of 9.58% on the US dollar denominated fixed income portion of the portfolio.

Sterling Investments Limited Balance Sheet

As at September 30, 2020

	Unaudited 9 months Sept-20	Unaudited 9 months Sept-19	Audited 12 months Dec-19
ASSETS			
Cash Resources			
Cash & Cash Equivalents	1,188,427	6,764,479	2,079,139
Accounts Receivable	29,503,020	45,461,071	44,061,124
Income Tax Recoverable	-	18,269	201,332
Investment Securities	1,668,052,637	1,533,813,078	1,587,657,599
TOTAL CURRENT ASSETS	1,698,744,083	1,586,056,896	1,633,999,194
TOTAL ASSETS	1,698,744,083	1,586,056,896	1,633,999,194
LIABILITIES			
Margin Loan Payables	450,670,020	326,065,984	350,839,368
Other Payables	18,373,014	9,183,444	13,058,853
Due to Related Company	17,143,476	34,722,526	41,445,974
Manager's Preference Shares	10,000	10,000	10,000
TOTAL LIABILITIES	486,196,510	369,981,955	405,354,195
SHAREHOLDERS' NET EQUITY			
Share Capital	909,089,739	902,537,156	905,042,146
Prepaid Share Reserve	258,007	2,504,990	316,841
Fair Value Reserve	(29,451,341)	41,694,656	52,990,498
Retained Earnings	332,651,168	269,338,140	270,295,514
	1,212,547,573	1,216,074,941	1,228,644,999
	1,698,744,083	1,586,056,896	1,633,999,194

Sterling Investments Limited

Income Statement

For Period Ended September 30, 2020

	Unaudited 9 months ended Sep-20	Unaudited 9 months ended Sep-19	Unaudited 3 months ended Sep-20	Unaudited 3 months ended Sep-19	Audited 12 months ended Dec-19
Revenue:					
Interest income calculated using the effective interest method	88,818,474	71,441,167	31,115,062	25,341,713	98,299,266
Foreign exchange gain/(loss)	80,281,453	64,309,047	15,991,194	35,473,531	43,867,988
Net gain/(loss) on sale of debt investment securities at FVOCI	(730,486)	3,320,455	(10,051,706)	1,478,427	4,336,249
Net gain/(loss) on sale of equity investment securities at FVTPL	1,939,304	1,869,518	1,939,000	1,869,518	1,869,517
	170,308,745	140,940,186	38,993,549	64,163,189	148,373,020
Expenses:					
Interest	(8,224,842)	(9,828,629)	(2,812,370)	(3,236,794)	(12,872,969)
Impairment (loss)/gain on financial instruments	(1,350,643)	(4,999,848)	528,725	(3,943,370)	1,184,399
Unrealised fair value (loss)/gain on equity investment securities at FVTPL	(21,685,484)	8,794,262	(9,955,446)	2,332,619	9,651,783
Other operating	(27,938,821)	(28,872,587)	(10,043,801)	(10,831,154)	(37,739,363)
	(59,199,790)	(34,906,802)	(22,282,891)	(15,678,699)	(39,776,149)
Operating Profit	111,108,955	106,033,383	16,710,658	48,484,489	108,596,871
Other Income	(2,876,951)	324,790	97,908	151,619	423,956
Preference Dividend Expense	(12,799,606)	(5,337,131)	3,437,934	(5,337,131)	(7,225,475)
Profit Before Income tax	95,432,398	101,021,042	20,246,501	43,298,977	101,795,353
Income Tax Expense	(1,043,842)	(812,293)	(268,316)	(217,852)	(629,229)
Profit for Period	94,388,556	100,208,749	19,978,184	43,081,125	101,166,124
Other comprehensive income:					
Item 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	787,313	(5,237,680)	6,978,036	(7,318,928)	(5,799,592)
Change in fair value of FVOCI debt instrument securities	(83,229,152)	104,319,528	35,683,389	32,393,773	116,177,282
Total other comprehensive income/(loss) for the year	(82,441,839)	99,081,848	42,661,425	25,074,845	110,377,690
Total comprehensive income/(loss) for the year	11,946,717	199,290,597	62,639,609	68,155,969	211,543,814
Shares outstanding	376,100,791	364,451,795	376,100,791	364,451,795	367,080,940
Earnings per stock unit	0.25	0.27	0.05	0.12	0.28
Basic and diluted earnings per stock unit					

Sterling Investments Limited

Statement of Cash Flows

For period ended September 30, 2020

	Period ended Sep-20	Period ended Sep-19	Audited Dec 2019
Cash flows from operating activities			
Profit for the period	94,388,556	100,210,766	101,166,124
Adjustments for:			
Interest Income	(88,818,474)	(71,379,397)	(98,299,266)
Interest Expense	8,224,842	9,828,629	12,872,969
Impairment loss on FVOCI	1,350,643	1,456,163	(1,184,399)
Unrealised loss on embedded derivative			
Unrealised gain on quoted equities	21,685,484	2,029,778	(9,651,783)
Income Tax Expense	1,043,842	812,293	629,229
Managers Preference Share Interest	12,799,606	5,337,131	7,225,475
	50,674,499	48,295,363	12,758,349
Changes in operating assets:			
Accounts Receivable	(94,677)	1,554,608	1,832,568
Margins Payable	99,830,652	(10,163,228)	14,610,156
Other Payables	(7,485,445)	(4,672,752)	(731,551)
Due to Related Company	(24,302,498)	16,131,212	23,948,424
	118,622,531	51,145,203	52,417,947
Interest Received	103,471,255	67,932,299	95,974,154
Interest Paid	(8,224,842)	(9,828,629)	(12,872,969)
Income Taxes Paid	(842,510)	(737,854)	(737,854)
Net cash provided by operating activities	213,026,433	108,511,020	134,781,278

	Period ended Sep-20	Period ended Sep-19	Audited Dec 2019
Cash flows from investing activity			
Investment securities, being net cash used by investing activity	(185,873,004)	(276,469,629)	(304,696,184)
Net cash used by Investing activities	(185,873,004)	(276,469,629)	(304,696,184)
Cash flows from financing activities			
Issue of ordinary shares	4,047,593	203,262,769	202,436,110
Prepaid Share Reserve	(58,834)	2,461,669	273,520
Manager's preference shares interest paid	-	-	(3,047,900)
Dividend payment	(32,032,902)	(34,479,930)	(31,148,281)
Net cash (used) provided by financing activities	(28,044,142)	171,244,508	168,513,449
Decrease) in cash and cash equivalents during the period	(890,712)	3,285,899	(1,401,456)
Cash and cash equivalent at the beginning of period	2,079,140	3,480,597	3,480,597
Cash and cash equivalent at the end of period	1,188,428	6,766,495	2,079,141

Sterling Investments Limited

Statement of Changes in Equity

For 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)	(28,044,142)
Balance at September 30 2020	909,089,739	258,007	(29,451,341)	332,651,168	1,212,547,573
Balance at December 31, 2018	699,274,387	43,321	(57,387,192)	203,609,320	845,539,836
Adjustment on initial application of IFRS 9, net of tax			-		-
Adjusted balance as at December 31, 2018	699,274,387	43,321	(57,387,192)	203,609,320	845,539,836
Comprehensive income:					
Profit for period	-	-	-	100,210,766	100,210,766
Other comprehensive income:					
Realised gain on disposal of available-for-sale securities reclassified to profit for the year			(5,237,680)		(5,237,680)
Impairment loss on AFS securities reclassified to profit	-	-	4,999,848	-	4,999,848
Unrealised gains in fair value of available-for-sale securities	-	-	99,319,680	-	99,319,680
Total comprehensive income	699,274,387	43,321	41,694,656	303,820,086	1,044,832,449
Transactions with owners:					
Share issued during the period	203,262,769	-	-	-	203,262,769
Transfer of prepayment of shares		(43,320)			(43,320)
Prepayments for shares		2,504,990			2,504,990
Dividends	-	-	-	(34,479,930)	(34,479,930)
	203,262,769	2,461,670	-	(34,479,930)	171,244,509
Balance at September 30, 2019	902,537,156	2,504,991	41,694,656	269,340,156	1,216,076,958

Sterling Investments Limited

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, 2019 ('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, 2019 which was prepared in accordance with International Financial Reporting Standards (IFRS).



Director



Director

Top Ten Shareholders as at September 30, 2020

Name	Number of Shares	Percentage
ATL Group Pension Fund Trustees Nominee Limited	47,856,608	12.7%
GraceKennedy Pension Fund Custodian Ltd for GraceKennedy Pension Scheme	34,848,550	9.3%
Lloyd Badal	26,730,809	7.1%
Pam - Pooled Equity Fund	22,025,175	5.9%
Cable and Wireless Jamaica Pension Fund	14,492,015	3.9%
Everton Lloyd McDonald	13,331,584	3.5%
Charles A. Ross	11,938,034	3.2%
Satyanarayana Parvataneni	10,944,206	2.9%
National Insurance Fund	10,080,645	2.7%
JN Fund Managers Limited for JN Pooled Pension Local Equity Fund	8,912,355	2.4%

Shareholdings of Directors as at September 30, 2020

Directors	Number of shares	Percentage of Total
Derek Jones		
Maxim Rochester		
Michael Bernard		
Charles Ross	11,938,034	3.2%

Shareholdings of Connected Parties as at September 30, 2020

Name	Number of Shares	Percentage
Marian A. Ross	1,312,914	0.35%
Charles Andrew Ross	631,755	0.17%
Sterling Asset Management Limited	93,500	0.02%
Natalie A. Farrell-Ross	87,544	0.02%