

**Sterling  
Investments  
Limited**

**Management  
Discussion  
& Analysis**

**Q3 2021**

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# Financial Highlights

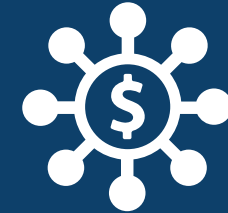


Fixed Income  
US\$ Portfolio Yield\*

**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

|   |   |
|---|---|
| <b>Fixed Income US\$ Portfolio Yield*</b> | 9.7% in US\$ terms  |
| <b>Total Assets Up 27.7%</b>              | J\$2.2 billion as at September 30, 2021                       |
| <b>Total Equity up 25.9%</b>              | J\$1.5 billion as at September 30, 2021                       |
| <b>Total Revenue up 8.6%</b>              | To J\$184.9 million for the 9 months ended September 30, 2021 |
| <b>Total profit up 10.9%</b>              | To J\$104.6 million for the 9 months ended September 30, 2021 |
| <b>Earnings Per Share</b>                 | 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<br>months ended<br><b>Sep-21</b> | Unaudited 9<br>months ended<br><b>Sep-20</b> | Audited 12<br>months ended<br><b>Dec-20</b> |
|---------------------------------|--|--|---|
| <b>ASSETS</b>                   |  |  |   |
| 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                               |
| <b>TOTAL CURRENT ASSETS</b>     | <b>2,169,482,289</b>                         | <b>1,698,744,083</b>                         | <b>1,923,283,082</b>                        |
| <b>TOTAL ASSETS</b>             | <b>2,169,482,289</b>                         | <b>1,698,744,083</b>                         | <b>1,923,283,082</b>                        |
| <b>LIABILITIES</b>              |  |  |   |
| 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                                      |
| <b>TOTAL LIABILITIES</b>        | <b>642,622,386</b>                           | <b>486,196,510</b>                           | <b>584,201,070</b>                          |
| <b>SHAREHOLDERS' NET EQUITY</b> |  |  |   |
| 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                                 |
|                                 | <b>1,526,859,903</b>                         | <b>1,212,547,573</b>                         | <b>1,339,082,012</b>                        |
|                                 | <b>2,169,482,289</b>                         | <b>1,698,744,083</b>                         | <b>1,923,283,082</b>                        |

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

|   | Unaudited 9<br>months ended<br>Sep-21 | Unaudited 9<br>months ended<br>Sep-20 | Unaudited 3<br>months ended<br>Sep-21 | Unaudited 3<br>months ended<br>Sep-20 | Audited 12<br>months ended<br>Dec-20 |
|---|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|--------------------------------------|
| <b>Revenue:</b>   |                                       |                                       |                                       |                                       |                                      |
| 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                          |
| <b>Expenses:</b>  |                                       |                                       |                                       |                                       |                                      |
| 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)                         |
| <b>Operating Profit</b>   | <b>114,476,510</b>                    | <b>111,108,955</b>                    | <b>2,984,794</b>                      | <b>16,710,658</b>                     | <b>156,423,063</b>                   |
| 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)                         |
| <b>Profit Before Income tax</b>   | <b>105,870,971</b>                    | <b>95,432,398</b>                     | <b>662,293</b>                        | <b>20,246,501</b>                     | <b>135,257,816</b>                   |
| Income Tax Expense  | (1,223,518)                           | (1,043,842)                           | (349,555)                             | (268,316)                             | (918,215)                            |
| <b>Profit for Period</b>  | <b>104,647,453</b>                    | <b>94,388,556</b>                     | <b>312,738</b>                        | <b>19,978,184</b>                     | <b>134,339,601</b>                   |
| 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                            |
| <b>Total comprehensive income/(loss) for the year</b>   | <b>139,954,878</b>                    | <b>11,946,717</b>                     | <b>(32,017,045)</b>                   | <b>62,639,609</b>                     | <b>138,259,422</b>                   |

Sterling Investments Limited  
**Statement of Cash Flows**  
For period ended September 30, 2021

|   | Period ended<br>9/30/2021 | Period ended<br>9/30/2020 | Audited<br>12/31/2020 |
|---|---------------------------|---------------------------|-----------------------|
| <b>Cash flows from operating activities</b>                               |                           |                           |                       |
| 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            |
|   | <b>41,888,522</b>         | <b>50,674,499</b>         | <b>52,709,754</b>     |
| <b>Changes in operating assets:</b>                                       |                           |                           |                       |
| 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)          |
|   | <b>90,677,110</b>         | <b>118,622,531</b>        | <b>219,487,687</b>    |
| 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                                 | <b>177,711,863</b>        | <b>213,026,433</b>        | <b>344,296,490</b>    |
| <b>Cash flows from investing activities</b>                               |                           |                           |                       |
| Investment securities   | (220,513,952)             | (185,873,004)             | (317,099,710)         |
| Net cash used by Investing activities                                     | <b>(220,513,952)</b>      | <b>(185,873,004)</b>      | <b>(317,099,710)</b>  |
| <b>Cash flows from financing activities</b>                               |                           |                           |                       |
| 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                          | <b>47,823,013</b>         | <b>(28,044,142)</b>       | <b>(27,822,410)</b>   |
| <b>Increase/(Decrease) in cash and cash equivalents during the period</b> | <b>5,020,924</b>          | <b>(890,713)</b>          | <b>(625,630)</b>      |
| <b>Cash and cash equivalents at the beginning of period</b>               | <b>1,453,509</b>          | <b>2,079,140</b>          | <b>2,079,139</b>      |
| <b>Cash and cash equivalents at the end of period</b>                     | <b>6,474,434</b>          | <b>1,188,428</b>          | <b>1,453,509</b>      |

**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           |
| <b>Balance at September 30 2021</b>  | <b>1,023,667,442</b> | <b>7,375,032</b>      | <b>(92,217,743)</b> | <b>403,599,685</b> | <b>1,526,859,903</b> |

| 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)         |
| <b>Balance at September 30 2020</b>  | <b>909,089,739</b> | <b>258,007</b>        | <b>(29,451,341)</b> | <b>332,651,168</b> | <b>1,212,547,573</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, 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.



Director

### 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.



Director

### 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%        |