

# Sterling Investments Limited Financial Highlights- Unaudited results for 1Q21

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Throughout 2020 and 2021, SIL was able to generate significant increases in its income, US\$ dividends and capital gains. During the first quarter of 2022, SIL continued to prepare for rising interest rates and a shift in the economic cycle. Rising interest rates and higher volatility present new opportunities for the company but will likely be preceded by some challenges. During the first quarter of 2022, SIL experienced:

- **A 12.4% increase in net interest income compared to the first quarter of 2021.** The company continues to benefit from the larger portfolio and the higher yields it locked in during 2021. Investors will continue to benefit from the US dollar income SIL's portfolio generates through dividend payments.
- **An 18.3% increase in retained earnings** which was evidence of the outsized profit generated in 2021.
- **Foreign Exchange losses of J\$ 8 million:** This was the result of the 0.8% appreciation in the Jamaican dollar relative to the U.S. dollar
- **SIL is well-positioned to take advantage of the market declines and rising interest rates:** SIL's portfolio of short dated securities allows it to reinvest its capital at higher interest rates in the short term. Additionally, SIL maintains access to liquidity that will facilitate the opportunistic purchase of undervalued securities during market declines.

## **Income Statement**

Net interest income increased 12.4% from J\$32.1 million in the first quarter of 2021 to J\$36.1 million in the first quarter of 2022. The company is continuing to benefit from a larger portfolio and the higher yields it locked in during the 2020 and 2021 market volatility. Unrealised Foreign exchange losses totalled J\$8.0 million as a result of a 0.8% appreciation in the Jamaican dollar to the U.S. dollar over the period (compared to gains of J\$28.4 million in the first quarter of 2021). Total operating expenses declined 14.3% from J\$12.6 million to J\$10.8 million on account of lower administrative expenses. The first quarter of 2022 also recorded a J\$13.2 million unrealized fair value gain on equity investment securities versus a loss of J\$621,218 in the same period of 2021. This was the net result of the re-pricing of structured note investments during the quarter. Net income fell from J\$55.2 million in the first quarter of 2021 to J\$36.2 million in the first quarter of 2022 as a result of the unrealised foreign exchange losses borne by the company. 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\$ dividend income it produces.

## **Balance Sheet**

Total assets increased by 3.4% year on year from J\$2.0 billion in March 2021 to J\$2.1 billion in March 2022. Total liabilities increased by 16.6% - largely the result of a 13.3% increase in margin loans from J\$516.7 million to J\$585.4 million. Total equity declined by 1.8% from J\$1.5 billion to J\$1.4 billion due to a decline in the fair value reserve from a surplus of J\$47.4 million to a deficit of J\$65.6 million. The fall in the fair value reserve reflects the decline in market prices of the assets in the portfolio. This was consistent

with the broad decline in financial asset prices observed globally. Partially offsetting this decline was an 18.3% increase in retained earnings from J\$390.7 million to J\$462.3 million. This was evidence of the outsized profit generated in 2021.

**OUTLOOK:** The investment manager has actively reduced the duration of the investment portfolio and maintains a strong liquidity position. Interest rates are expected to rise significantly over the next few months and the market prices for many financial assets are likely to decline. This will create buying opportunities for investors and the company. SIL thrives in times of crisis and is cautiously and patiently assessing the market for undervalued investments.

**ABOUT STERLING INVESTMENTS LIMITED:** Sterling Investments Limited is an investment holding company that invests primarily in fixed income investments across the globe. SIL continues to preserve and grow the capital of its shareholders which include pension funds and long- term investors.