

STERLING INVESTMENTS LIMITED
FIRST 9 MONTHS OF 2023

**Management
Discussion
& Analysis**

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Economic Summary:

2023 Year to date: In the first nine (9) months of 2023, the S&P 500 rose by 11.7%, the Dow by 1.1% and the European Stoxx 600 by 6%. Yields on sovereign debt rose with the 2-year US Treasury ending September 30, 2023 at 5%, the 10 year at 4.6% and the 30 year at 4.7%. This was largely driven by the hawkish stance from the U.S. Federal Reserve.

Local: Local benchmark interest rates ranged from 9.2% for 30 day on BOJ CD's to 7.8% for the 180-day T-Bill. Bank of Jamaica's policy interest rate remains at 7%. The year-over-year (YOY) inflation rate decelerated from 9.4% in December 2022 to 5.9% in September 2023, slightly below the BOJ's maximum target level of 6%. The JMD/USD exchange rate as of September 30, 2023 was J\$ 155.48, representing a year to date depreciation of 2.3%. The Jamaica Stock Exchange has declined by 8.1% year to date.

Outlook:

Markets are behaving as expected and in line with Management's predictions. We anticipate that we are at or near the peak of the US hiking cycle and there is a brief window of opportunity to capitalize on the undervalued assets that remain in the fixed income market.

FINANCIAL OVERVIEW

Highlights:

- Total revenue increased 44% year on year.
- Net profit increased by 186% year on year
- Management's predictions regarding market movements continuing to prove correct.
- US\$ investment portfolio consistently generating steady income.
- Recovering asset prices driving gains in parts of the portfolio

Income Statement

First 9 months of 2023 (January – September 30, 2023)

Total revenue increased 44% from J\$97 million in the first 9 months of 2022 to J\$139.7 million in the same period of 2023.

The primary driver was a J\$34.4 million foreign exchange gain in 2023 compared to a J\$20.5 million foreign exchange loss recorded in the first 9 months of 2022. Net profit increased by more than 186% from J\$27.7 million in the first 9 months of 2022 to J\$79.1 million for the same period in 2023.

Total expenses declined from J\$70.1 million in the first 9 months of 2022 to J\$60.7 million in the same period of 2023. This was the result of an improvement in the value of the structured notes in the company's portfolio. As at September 30, 2022 – these notes had generated an unrealised fair value loss of J\$22.7 million compared to an unrealised loss of J\$4.7 million recorded in the same period to September 30, 2023. Interest expense increased from J\$11 million to J\$21.8

million, reflecting the significant increase in margin rates on the company's notes payable.

Higher revenue and lower expenses resulted in an increase in net profit which moved from a profit of J\$27.6 million during the first 9 months of 2022 to a profit of J\$79.1 million for the same period in 2023.

Quarter on Quarter: June to September 2023 vs. June to September 2022

The economic environment and market conditions in the third quarter of 2023 were more challenging than the same period in 2022.

Total revenue moved from J\$48.2 million in 3Q22 to J\$38.4 million in 3Q23. This was the result of lower foreign exchange gains (J\$12.2 million in 3Q22 vs. J\$5.4 million in 3Q23) and a net loss of J\$4 million on the sale of investment securities. The company sold securities to purchase undervalued higher yielding bonds. These bonds are likely to earn 20% - 30% more return than the old positions. Total expenses rose quarter on quarter from J\$27.6 million in 3Q22 to J\$42.4 million in 3Q23 due to a change in the market price of structured note securities and an increase in interest expense. The unrealized fair value gain/loss on equity investments at FVTPL recorded a loss of J\$11.3 million in the third quarter of 2022 versus a loss of J\$23.4 million in the third quarter of 2023. This was a result of the decline in the U.S equity markets. Net profit for the quarter moved from J\$20.5 million in 3Q22 to a loss of J\$4 million in 3Q23. This was the result of the lower market prices on the structured notes which resulted in higher expenses and lower net revenue.

Balance Sheet

Total equity increased by 6% from J\$1.2 billion as at September 30 2022 to J\$1.24 billion as at September 30, 2023. SIL recorded total assets as at September 30, 2023 of J\$1.7 billion, roughly the same as the total asset base as at September 30, 2022. Total liabilities declined by 12% to J\$472.5 million as at September 30, 2023, largely the result of declines in margin loans and other payables. Total equity amounted to J\$1.2 billion, roughly the same as the September 2022 outturn. The fair value reserve moved from negative J\$313 million as at September 30, 2022 to negative J\$280.3 million as at September 30, 2023. This reflects an improvement in some bond prices over the period.

Sterling Investments Limited			
Unaudited Balance Sheet			
as at September 30, 2023			
	9 months ended Sep-23	9 months ended Sep-22	Audited 12 months ended Dec-22
ASSETS			
Cash Resources			
Cash & Cash Equivalents	634,847	1,507,631	635,286
Accounts Receivable	48,706,640	43,431,379	38,036,808
Investment Securities	1,661,904,661	1,656,964,505	1,708,031,139
TOTAL ASSETS	1,711,246,148	1,701,903,515	1,746,703,233
LIABILITIES			
Margin Loan Payables	435,974,085	489,096,651	460,199,349
Other Payables	13,562,080	34,400,665	9,030,916
Due to Related Company	22,988,600	12,014,770	4,477,711
Manager's Preference Shares	10,000	10,000	10,000
TOTAL LIABILITIES	472,534,765	535,522,086	473,717,976
SHAREHOLDERS' NET EQUITY			
Share Capital	1,070,464,072	1,063,380,347	1,066,915,010
Prepaid Share Reserve	3,468,254	4,073,706	997,970
Fair Value Reserve	(280,257,096)	(312,976,802)	(221,881,184)
Retained Earnings	445,036,153	411,904,178	426,953,461
	1,238,711,383	1,166,381,429	1,272,985,257
	1,711,246,148	1,701,903,515	1,746,703,233

Sterling Investments Limited
Unaudited Income Statement

	9 Months Ended Sep-23	9 Months Ended Sep-22	3 Months Ended Sep-23	3 Months Ended Sep-22	Audited 12 Months Ended Dec-22
Revenue:					
Interest income using the effective interest method	109,440,955	111,958,008	37,036,530	35,984,657	148,178,789
Foreign exchange gain/(loss)	34,424,370	(20,461,637)	5,420,059	12,166,217	(30,272,790)
Net (loss)/gains on sale of debt investment securities at FVOCI	(4,208,696)	6,053,738	(4,087,298)	-	6,578,373
Net (loss) on sale of equity investment securities at FVTPL	-	(524,603.29)	-	-	-
	139,656,628	97,025,506	38,369,290	48,150,874	124,484,372
Expenses:					
Interest	(21,812,864)	(11,031,507)	(8,369,017)	(4,174,092)	(16,475,080)
Impairment (loss) on financial instruments	(1,242,073)	(2,284,069)	(1,026,560)	(1,294,748)	(2,519,421)
Unrealised fair value (loss) on equity investments at FVTPL	(4,662,011)	(22,738,651)	(23,387,814)	(11,303,729)	(17,572,048)
Other operating expenses	(32,811,345)	(34,046,008)	(9,603,906)	(10,887,084)	(45,937,615)
	(60,528,293)	(70,100,235)	(42,387,297)	(27,659,652)	(82,504,164)
Operating Profit	79,128,336	26,925,271	(4,018,007)	20,491,222	41,980,208
Other Income	18,172	730,472	4,304	19,794	724,819
Preference Dividend Expense	-	-	-	-	-
Profit Before Income tax	79,146,508	27,655,743	(4,013,703)	20,511,015	42,705,027
Taxation	0	-	0	-	-
Profit/(Loss) for Period	79,146,508	27,655,743	(4,013,703)	20,511,015	42,705,027
Other comprehensive income:					
<i>Item that will not be reclassified to profit or loss:</i>					
Change in fair value of FVOCI equity investments, net	(2,457,325)	(1,280,946)	(372,520)	888,820	(1,973,703)
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Movement in fair value reserve					
Realised (loss) on sale of FVOCI debt investment securities reclassified to profit or loss	(3,970,491)	(2,549,936)	(3,867,560)	(1,157,864)	(45,819)
Change in fair value of FVOCI debt instrument securities	(51,948,095)	(382,645,214)	(11,102,567)	(85,163,872)	(293,360,956)
Total other comprehensive loss for the period	(58,375,912)	(386,476,096)	(15,342,647)	(85,432,916)	(295,380,478)
Total comprehensive income/(loss) for the period	20,770,596	(358,820,353)	(19,356,350)	(64,921,901)	(252,675,451)
Shares outstanding	430,434,459	423,089,808	430,434,459	423,089,808	424,734,523
Earnings per stock unit:					
Basic and diluted earnings per stock unit	0.18	0.07	(0.01)	0.05	0.10

Unaudited Statement of Cash Flows

for 9 months ended September 30, 2023

	Period ended September 30, 2023	Period ended September 30, 2022	Audited Dec 2022
Cash flows from operating activities			
Profit for the period	79,146,508	27,655,743	42,705,026
Adjustments for :			
Interest income	(109,440,955)	(111,958,008)	(148,178,789)
Interest expense	21,812,864	11,031,507	16,475,080
Impairment loss on investment securities	1,242,073	2,284,069	2,519,421
Net (loss) on sale of debt investment securities at FVOCI	(4,208,696)	-	(6,578,373)
Unrealised gain on quoted equities	4,662,011	22,738,651	17,572,048
	(6,786,195)	(48,248,038)	(75,485,587)
Changes in:			
Accounts Receivable	(486,408)	(136,332)	253,980
Margins loans payable	(24,225,264)	(148,889,545)	(177,786,847)
Other payables	4,531,164	(6,749,217)	687,488
Due to related company	18,510,889	(18,905,650)	(26,442,709)
Acquisition of investment securities	(163,931,654)	(48,234,806)	(76,596,296)
Proceeds from sale of investment securities	149,986,833	220,087,892	299,987,991
	(22,400,636)	(51,075,697)	(55,381,980)
Interest received	99,257,531	104,512,885	145,737,923
Interest paid	(21,812,864)	(11,031,507)	(16,475,081)
Net cash provided by operating activities	55,044,032	42,405,681	73,880,862
Cash flows from financing activities			
Issue of ordinary shares	3,549,062	28,884,695	32,419,359
Complementary share purchase programme	2,470,284	3,342,342	266,606
Manager's preference shares interest paid	-	-	(32,806,453)
Dividend paid	(61,063,816)	(74,516,715)	(74,516,715)
Net cash used in financing activities	(55,044,470)	(42,289,678)	(74,637,203)
(Decrease) / increase in cash and cash equivalents	(439)	116,003	(756,341)
Cash and cash equivalent at the beginning of period	635,286	1,391,627	1,391,627
Cash and cash equivalent at the end of period	634,847	1,507,631	635,286

Sterling Investments Limited
Statement of Changes in Equity
for nine months ended September 30, 2023

	Share capital	Prepaid share reserve	Fair value reserve	Retained earnings	Total
Balance at December 31, 2022	1,066,915,010	997,970	(221,881,184)	426,953,461	1,272,985,257
Comprehensive income:					
Profit for period	-	-	-	79,146,508	79,146,508
Fair value change in equity			(2,457,325)		(2,457,325)
Other comprehensive income:					
Realised gain on disposal of FVOCI debt instrument securities reclassified to profit or loss			(3,970,491)		(3,970,491)
Change in fair value of FVOCI debt instrument securities net	-	-	(51,948,095)		(51,948,095)
Total Other Comprehensive Income			(58,375,912)	79,146,508	20,770,596
Total comprehensive income	1,066,915,010	997,970	(280,257,096)	506,099,969	1,293,755,853
Transactions with owners:					
Share issued during the period	3,549,062	-	-	-	3,549,062
Transfer of prepayment of shares		(997,970)			(997,970)
Prepayments for shares		3,468,254			3,468,254
Dividends	-	-	-	(61,063,816)	(61,063,816)
	3,549,062	2,470,284	-	(61,063,816)	(55,044,470)
Balance at September 30, 2023	1,070,464,072	3,468,254	(280,257,096)	445,036,153	1,238,711,383

for period ended September 30, 2022

	Share capital	Prepaid Share Reserve	Fair value	Retained earnings	Total
Balance at December 31, 2021	1,034,495,652	731,364	73,499,294	458,765,150	1,567,491,460
Comprehensive income:					
Profit for period	-	-	-	27,655,743	27,655,743
Fair value change in equity			(1,280,946)		(1,280,946)
Other comprehensive income:					
Realised gain on disposal of FVOCI debt instrument securities reclassified to profit or loss			(2,549,936)		(2,549,936)
Change in fair value of FVOCI debt instrument securities net	-		(382,645,214)		(382,645,214)
Total Other Comprehensive Income			(386,476,096)	27,655,743	(358,820,353)
Total comprehensive income	1,034,495,652	731,364	(312,976,802)	486,420,893	1,208,671,107
Transactions with owners:					
Share issued during the period	28,884,695	-	-	-	28,884,695
Transfer of prepayment of shares		(731,364)			(731,364)
Prepayments for shares		4,073,706			4,073,706
Dividends	-	-	-	(74,516,715)	(74,516,715)
	28,884,695	3,342,342	-	(74,516,715)	(42,289,678)
Balance at September 30, 2022	1,063,380,347	4,073,706	(312,976,802)	411,904,178	1,166,381,429

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, 2022 (‘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, 2022 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 conducted an evaluation on the change in requirements relating to tax and economic substance in St. Lucia. The company has sought to ensure that it is in conformity with the regulations as they have been implemented.

Top Ten Shareholders as at September 30, 2023

Shareholder Name	# Shares	% Ownership
ATL Group Pension Fund Trustees Nominee Ltd.	47,856,608	11.10%
GraceKennedy Pension Fund Custodian Ltd. for GraceKennedy Pension Scheme	34,848,550	8.10%
VM Wealth Equity Fund	31,687,362	7.40%
PAM - Pooled Equity Fund	30,653,869	7.10%
Claudine Murphy	25,438,005	5.90%
Cable and Wireless Jamaica Pension Fund	14,492,015	3.40%
Charles A. Ross	14,626,876	3.40%
Everton Lloyd McDonald	13,331,584	3.10%
Satyanarayana Parvataneni	12,572,317	2.90%
National Insurance Fund	10,080,645	2.30%

Shareholdings of Directors as at September 30 2023

Name	# Shares	% Ownership
Derek Jones	Nil	Nil
Michael Bernard	Nil	Nil
Maxim Rochester	Nil	Nil
Charles Ross	14,626,876	3.40%
Marian Ross	1,541,348	0.36%

Shareholdings of Connected Parties as at September 30 2023

Name	# Shares	% Ownership
Charles Ross	14,626,876	3.40%
Natalie A. Farrell-Ross	103,181	0.02%
Marian Ross	1,541,348	0.36%
Charles Andrew Ross	744,609	0.20%



Director



Director