

MANAGEMENT DISCUSSION & ANALYSIS

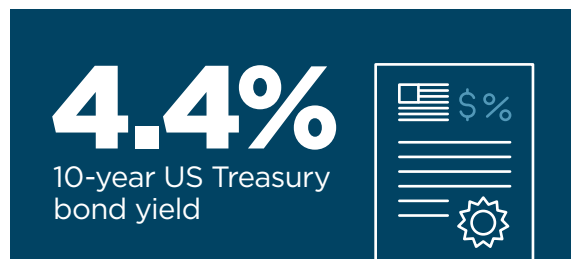


STERLING INVESTMENTS LIMITED
FIRST 6 MONTHS OF 2024

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Economic Summary:

The U.S. stock market continued its ascent in the first half of 2024 albeit punctuated by bouts of volatility and short-lived declines. Yields on Treasury securities remained higher on the year but declined in the second quarter on softening inflation and jobs data in the US.



2024 Year to Date: In the first six (6) months of 2024, the S&P 500 rose by 14.5%, the Dow by 7.7% and the European Stoxx 600 by 7.1%. Yields on sovereign debt were modestly higher in the first half of the year with the 2-year US Treasuries ending June 30, 2024 at 4.75%, the 10 year at 4.4 % and the 30 year at 4.6%. The U.S. recorded Year on Year increases in the CPI Index of 3.3% in May and 3.4% in April (relative to the Fed's long run target of 2%). The Core Consumer Price Index recorded YOY increases of 3.3% in May and 3.6% in April. Lower than expected inflation combined with softening jobs numbers buoyed the market in the first half of the year. The market has consistently priced AHEAD of the interest rate cuts. This has effectively shortened the windows of opportunity to capture higher yielding, undervalued assets.

Local: As at June 30, 2024, BOJ Treasury bill yields ranged from 8.23% for 90 days to 8.43% for the 180-day tenor. The Bank of Jamaica's benchmark interest rate remains at 7%. The year-over-year (YOY) inflation rate decelerated to 5.2% in May 2024. The JMD/ USD exchange rate as of June 30, 2024 was J\$156.30, representing a year to date depreciation of

0.87%. The Jamaica Stock Exchange has declined by 2.1% year to date. Jamaican dollar liquidity remains relatively tight as the Bank of Jamaica continues CD issuance under its program of Open Market Operations. The BOJ 30 CD rate was 9.88% at the end of June 2024.

FINANCIAL OVERVIEW

Highlights:



US\$ investment portfolio consistently generating steady income.



Management's predictions regarding market movements are continuing to prove correct.



JMD/USD volatility is driving a reduction in short-term foreign exchange gains. This is unlikely to persist in the long term.



Expected Interest rate declines could drive capital appreciation in existing portfolio

Consistent with management's outlook, asset prices have recovered from 2023 lows and future interest rate cuts are already being priced into the market. While these events have had both positive and negative impacts on the company's current performance, it provides opportunities for the company to increase future earnings and value.

First Half of 2024 (January – June 2024)

Income Statement: Total revenue in the first half of 2024 totalled J\$72.15 million compared to J\$101.3 million in 2023. This was primarily the result of lower foreign exchange gains and a one-off decline in interest income. Management

anticipates that F/X gains will be muted in the short and medium term but interest income will increase in subsequent financial years as liquid resources are optimally deployed. The "fair value gain on debt securities at FVTPL" moved from J\$18.7 million in the first half of 2023 to J\$972,328 in the first half of 2024. This was primarily due to maturities and price movements in the portfolio of structured notes. Other operating expenses also increased 39% to J\$32.3 million mostly as a result of higher audit fees. The combined effect of both these movements resulted in an increase in total expenses from J\$18.1 million in the first half of 2023 to J\$46.4 million in the first half of 2024. These market forces resulted in a net profit of J\$25.7 million in the first 6 months of 2024.

Balance Sheet: SIL recorded total assets as at June 30, 2024 of J\$1.8 billion, roughly the same as June 30, 2023. Total liabilities declined by 25.5% to J\$372.5 million (vs. J\$500.1 million as at June 30, 2023). This was primarily the result of declines in the margin loan payable. Total equity increased to J\$1.4 billion as at June 30, 2024 (vs. J\$1.3 billion as at June 30, 2023). This was primarily the result of an improvement in the revaluation reserve driven by higher bond prices. This has provided credence to management's prediction in the first quarter of 2023 that the depressed asset prices at the time, were a natural part of the economic cycle and would remedy themselves in due course.

Quarter on Quarter: June 30, 2023 to June 30, 2024

Total revenue for the second quarter of 2024 totalled J\$42.2 million compared to J\$71 million in the same period of 2023. This was primarily driven by lower foreign exchange gains in 2024 and a one off reduction in interest income. Total expenses moved from J\$4.1

million in the second quarter of 2023 to J\$25.7 million in 2024. This was the result of the movement in the fair value gain/loss on debt securities at FVTPL which declined over the period. The decline reflected maturities and price movements of structured notes in the portfolio. The combined impact of these factors resulted in a net profit movement from J\$67.3 million in the second quarter of 2023 to J\$16.5 million in the second quarter of 2024.

Outlook:

Management anticipates that future interest rate cuts by the Federal Reserve will drive capital appreciation in the existing securities within the portfolio. This may occur between late 2024 and 2025..

Sterling Investments Limited
Unaudited Balance Sheet
as at June 30, 2024

	Unaudited 6 months ended Jun-24	Unaudited 6 months ended Jun-23	Audited 12 months ended Dec-23
ASSETS			
Cash Resources			
Cash & Cash Equivalents	1,688,749	533,670	2,837,517
Accounts Receivable	34,636,956	40,863,593	45,251,950
Investment Securities	1,761,580,922	1,742,702,559	1,774,723,514
TOTAL CURRENT ASSETS	1,797,906,628	1,784,099,822	1,822,812,981
LIABILITIES			
Margin Loan Payables	345,505,594	471,607,158	430,148,792
Other Payables	16,824,366	11,570,034	17,281,716
Due to Related Company	10,200,877	16,869,386	7,163,482
Manager's Preference Shares	10,000	10,000	10,000
TOTAL LIABILITIES	372,540,836	500,056,578	454,603,990
SHAREHOLDERS' NET EQUITY			
Share Capital	1,077,085,791	1,070,327,878	1,072,990,211
Prepaid Share Reserve	976,257	998,150	2,030,463
Fair Value Reserve	(122,395,863)	(264,914,449)	(175,612,742)
Retained Earnings	469,699,607	477,631,664	468,801,059
	1,425,365,792	1,284,043,243	1,368,208,991
	1,797,906,628	1,784,099,822	1,822,812,981



Sterling Investments Limited
Income Statement
for the period ending June 30, 2024

	Unaudited 6 months ended Jun-24	Unaudited 6 months ended Jun-23	Unaudited 3 months ended Jun-24	Unaudited 3 months ended Jun-23	Audited 12 months ended Dec-23
Revenue:					
Interest income calculated using the effective interest method	61,752,462	72,404,425	24,326,579	36,434,826	146,468,374
Foreign exchange gain	12,229,393	29,004,311	15,778,534	34,975,176	30,030,360
Net (loss)/gains on sale of debt investment securities at FVOCI	(1,831,775)	(121,398)	2,073,308	-	(42,647,291)
	<u>72,150,080</u>	<u>101,287,338</u>	<u>42,178,421</u>	<u>71,410,001</u>	<u>133,851,443</u>
Expenses:					
Interest expense calculated using the effective interest method	(14,135,673)	(13,443,847)	(6,955,046)	(8,234,808)	(30,582,761)
Impairment (loss)/gain on financial	(983,273)	(215,513)	(206,258)	1,364,544	33,995,452
Fair value gain/(loss) on debt securities at	971,328	18,725,804	(4,363,265)	14,892,173	14,830,223
Other operating expenses	(32,288,859)	(23,207,439)	(14,147,945)	(12,138,212)	(44,867,070)
	<u>(46,436,477)</u>	<u>(18,140,996)</u>	<u>(25,672,514)</u>	<u>(4,116,303)</u>	<u>(26,624,156)</u>
Operating Profit	25,713,603	83,146,342	16,505,906	67,293,698	107,227,287
Other (loss) / Income	(1,225)	13,868	171	4,375	183,613
Manager's preference share dividend	-	-	-	-	(4,499,486)
Profit Before taxation	25,712,378	83,160,210	16,506,077	67,298,073	102,911,414
Income Tax Expense	-	-	-	-	-
Profit for Period	25,712,378	83,160,210	16,506,077	67,298,073	102,911,414
Other comprehensive income:					
<i>Item that will not be reclassified to profit or loss:</i>					
Change in fair value of FVOCI equity investments, net	862,678	(2,084,805)	1,097,954	(1,712,285)	2,130,554
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Movement in fair value reserve					
Realised gain/(loss) on sale of FVOCI debt investment securities reclassified to profit or loss	1,364,012	(102,931)	1,425,773	-	46,464,461
Change in fair value of FVOCI debt instrument securities	50,990,188	(40,845,529)	(10,453,258)	(5,423,852)	(2,326,573)
Total other comprehensive income/(loss) for the period	53,216,879	(43,033,265)	(7,929,530)	(7,136,137)	46,268,442
Total comprehensive income/(loss) for the period	78,929,257	40,126,946	8,576,547	60,161,937	149,179,856
Shares outstanding	432,850,300	430,219,744	432,850,300	430,219,744	430,784,747
Earnings per stock unit:					
Basic and diluted earnings per stock unit	0.06	0.19	0.04	0.16	0.24

Sterling Investments Limited
Statement of Cash Flows
For the period ending June 30, 2024

	Unaudited 6 months ended Jun-24	Unaudited 6 months ended Jun-23	Audited 12 months ended Dec-23
Cash flows from operating activities			
Profit for the period	25,712,378	83,160,211	102,911,414
Adjustments for :			
Interest Income	(61,752,462)	(72,404,425)	(146,554,201)
Interest Expense	14,135,673	13,443,847	30,582,761
Impairment loss on investment securities	983,273	215,513	(33,995,452)
Net gains on sale of debt investment securities at FVOCI	(1,831,775)	(121,398)	42,647,291
Unrealised fair value loss on quoted equities at FVTPL	(971,328)	(18,725,804)	(14,830,223)
Managers preference share dividend	-	-	4,499,486
	(23,724,241)	5,567,944	(14,738,924)
Changes in :			
Accounts Receivable	(1,252,456)	(1,334,557)	(570,883)
Margins Payable	(84,643,198)	11,407,809	(30,050,557)
Other Payables	(457,350)	2,539,118	3,751,314
Due to Related Company	3,037,395	12,391,675	2,685,771
Acquisition of investment securities	(139,718,191)	(65,240,997)	(282,248,610)
Net proceeds from sale of securities	207,897,491	6,168,000	268,003,243
	(38,860,551)	(28,501,007)	(53,168,646)
Interest Received	73,619,912	70,912,197	139,909,760
Interest Paid	(14,135,673)	(13,443,847)	(30,582,761)
Net cash provided by operating activities	20,623,688	28,967,343	56,158,353
Cash flows from financing activities			
Issue of ordinary shares	4,095,580	3,412,868	6,075,201
Complementary share purchase programme	(1,054,206)	180	1,032,493
Manager's preference shares dividend paid	0	0	0
Dividend paid	(24,813,830)	(32,482,007)	(61,063,816)
Net cash used by financing activities	(21,772,455)	(29,068,959)	(53,956,122)
(Decrease) / Increase in cash and cash equivalents during the period	(1,148,768)	(101,616)	2,202,231
Cash and cash equivalent at the beginning of the period	2,837,517	635,286	635,286
Cash and cash equivalent at end of period	1,688,749	533,670	2,837,517

Sterling Investments Limited
Statement of Changes in Equity
For period ended June 30, 2024

	Share capital	Prepaid share reserve	Fair value reserve	Retained earnings	Total
Balance at December 31, 2023	1,072,990,211	2,030,463	(175,612,742)	468,801,059	1,368,208,991
Comprehensive income:					
Profit for period	-	-	-	25,712,378	25,712,378
Other comprehensive income:					
Fair value change on equity investment, net			862,678		862,678
Realised gain on disposal of FVOCI debt instrument securities reclassified to profit or loss			1,364,012		1,364,012
Change in fair value of FVOCI debt instrument securities net	-	-	50,990,188		50,990,188
Total Other Comprehensive Income			53,216,879	25,712,378	78,929,257
Total comprehensive income/(loss)	1,072,990,211	2,030,463	(122,395,863)	494,513,437	1,447,138,248
Transactions with owners:					
Share issued during the period	4,095,580	-	-	-	4,095,580
Transfer of prepayment of shares		(2,030,463)			(2,030,463)
Prepayments for shares		-			-
Dividends	-	976,257	-	(24,813,830)	(23,837,573)
Total transactions with owners	4,095,580	(1,054,206)	-	(24,813,830)	(21,772,456)
Balance at June 30, 2024	1,077,085,791	976,257	(122,395,863)	469,699,607	1,425,365,792
	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	-	-	-	83,160,211	83,160,211
Other comprehensive income:					
Fair value change on equity investment, net			(2,084,805)		(2,084,805)
Realised gain on disposal of FVOCI debt instrument securities reclassified to profit or loss			(102,931)		(102,931)
Change in fair value of FVOCI debt instrument securities net	-	-	(40,845,529)		(40,845,529)
Total Other Comprehensive Income			(43,033,265)	83,160,211	40,126,946
Total comprehensive income	1,066,915,010	997,970	(264,914,449)	510,113,672	1,313,112,203
Transactions with owners:					
Share issued during the period	3,412,868	-	-	-	3,412,868
Transfer of prepayment of shares		(997,970)			(997,970)
Prepayments for shares		998,150			998,150
Dividends	-	-	-	(32,482,007)	(32,482,007)
Total transactions with owners	3,412,868	180	-	(32,482,007)	(29,068,959)
Balance at June 30, 2023	1,070,327,878	998,150	(264,914,449)	477,631,664	1,284,043,244

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, 2023 (‘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, 2023, which was prepared in accordance with International Financial Reporting Standards (IFRS).



Director

Top Ten Shareholders

as at June 30, 2024

Shareholder	# Shares	% Ownership
ATL Group Pension Fund Trustees Nominee Limited	47,856,608	11.0%
GraceKennedy Pension Fund Custodian Ltd for GraceKennedy Pension Scheme	34,848,550	8.0%
VMWealth Equity Fund	31,687,362	7.3%
PAM - Pooled Equity Fund	30,653,869	7.1%
Claudine Murphy	25,737,306	5.9%
Charles A. Ross	15,355,637	3.5%
Cable and Wireless Jamaica Pension Fund	14,492,015	3.3%
Everton Lloyd McDonald	13,331,584	3.1%
Satyanarayana Parvataneni	13,198,713	3.0%
National Insurance Fund	10,080,645	2.3%

Shareholdings of Directors

as at June 30, 2024

Name	# Shares	% Ownership
Derek Jones	0	0
Michael Bernard	0	0
Maxim Rochester	0	0
Charles Ross	15,355,637	3.5%
Marian Ross	1,616,400	0.4%

Shareholdings of Connected Parties

as at June 30, 2024

Name	# Shares	% Ownership
Charles Ross	15,355,637	3.5%
Marian Ross	1,616,400	0.4%
Charles Andrew Ross	781,708	0.2%
Natalie Farrell-Ross	108,320	0.03%