STARLIGHT GLOBAL INFRASTRUCTURE FUND

Infrastructure outperforms global and U.S. equities in May

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Key takeaways

- Year-to-date global infrastructure generated a total return of 13.1%[1]
- In May, global infrastructure outperformed global equities and U.S. equities (-0.5%, -4.9% and -5.6% total returns[2], respectively)
- Top contributor to Fund performance in May was Polaris Infrastructure Inc with a total return of 22%[3]

Macroeconomic update

In our January commentary we spoke about elevated volatility in equity markets driven by positive economic fundamentals (low unemployment, wage growth) contrasting with deteriorating economic output trends (GDP growth, earnings growth). We also expressed the opinion that policy risks remain the greatest risks to the market in 2019. So far, our thesis has been correct as market volatility has been driven by the on-going trade dispute between the U.S. and China. The U.K.'s inability to establish the terms of its exit from the European Union has added to market volatility. Both conflicts put global growth in jeopardy as 60% of global GDP growth is tied to global trade. The concerns around global growth have seen global treasuries yields collapse as German and U.S. 10-year bond yields have dropped to -0.2% and 2.1% respectively. Given this development it is no surprise that the market is now pricing in a 50% probability of a rate cut in June rising to a 99% probability of a rate cut in December.

After a strong start to the year, the S&P 500 fell 5.6% over the month of May. Much of this decline was tied to increasing U.S. and China trade tensions. More recently, the U.S. has threatened to extend tariffs to Mexico and the European Union, putting additional downward pressure on global growth forecasts. In April, the International Monetary Fund (IMF) cut it's forecast for global GDP growth for the fourth time in nine months to 3.3%. In May, the World Bank followed suit, cutting its forecast for global GDP growth for the third time in six months, to 2.6%.

[1] As of May 31, 2019. Source: Bloomberg LP. Global Infrastructure represented by S&P Global Infrastructure Index (CAD).
[2] As of May 31, 2019. Source: Bloomberg LP. Global infrastructure, global equities, and U.S. equities represented by the S&P Global Infrastructure Index (CAD), MSCI World Index (CAD) and S&P 500 Index (CAD), respectively.
[3] Source: Bloomberg LP.

As expected, May global Purchasing Managers Indices (PMIs) continued their downward trajectory, with the Composite at 52.1 but Manufacturing falling to 49.8. Given the Federal Reserve Bank increased the Federal Funds Rate by 100 bps last year, we anticipated continued PMI weakness in 2019. U.S. Manufacturing PMI fell to 52.1 but this was concentrated in Inventories, while Services PMI rose to 56.9. Eurozone PMIs were flat with Manufacturing at 47.7 and Services at 52.9 and the periphery continuing to lead the core. Chinese PMIs were also flat but with the tremendous amount of stimulus taking place since June of 2018, including rate cuts, PMIs should begin to recover in the second half of the year.

Q1 S&P 500 EPS growth came in at 2.7% and the 2019 full year EPS growth forecast has moved to 3.9%. However, the Q2 EPS growth forecast is -0.3% as Energy and Materials drag the average down. The 2020E P/E multiple for the S&P 500 has come down to 15.3x and the current dividend yield is 2.0%. Mid to high single digit total returns from this point would seem to be in order, but with a continued uptick in market volatility. A strategic allocation to lower volatility, higher yielding real assets would seem to add positive diversification to the portfolio in that market environment.

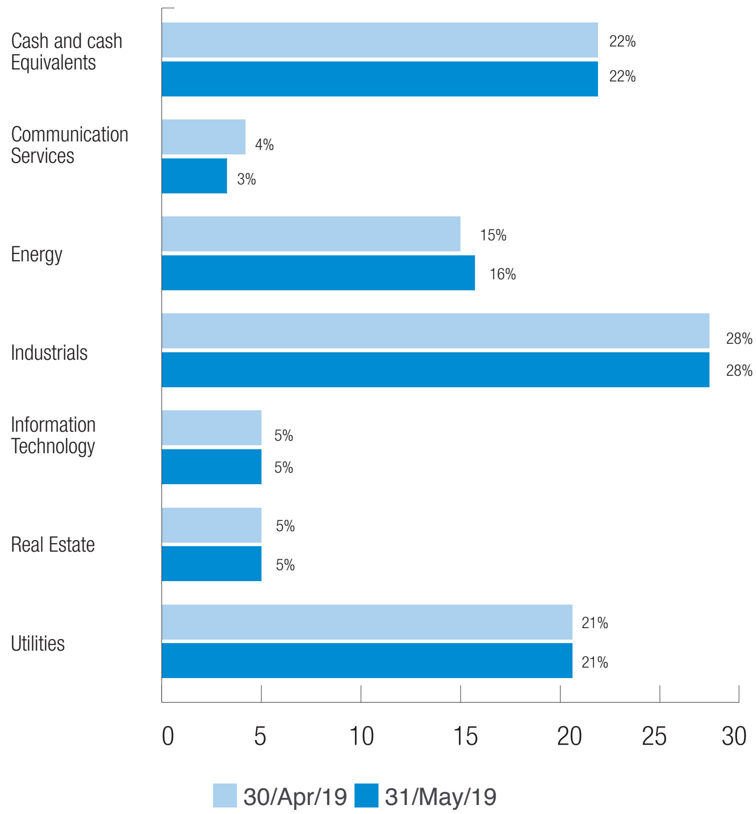
In May, global infrastructure outperformed global equities and U.S. equities (-0.5%, -4.9% and -5.6% total returns[4], respectively). This continues the long-term trend of global infrastructure outperformance and underscores the need for advisors to have a strategic allocation to infrastructure in their clients' portfolios.

Starlight Global Infrastructure Fund Overview

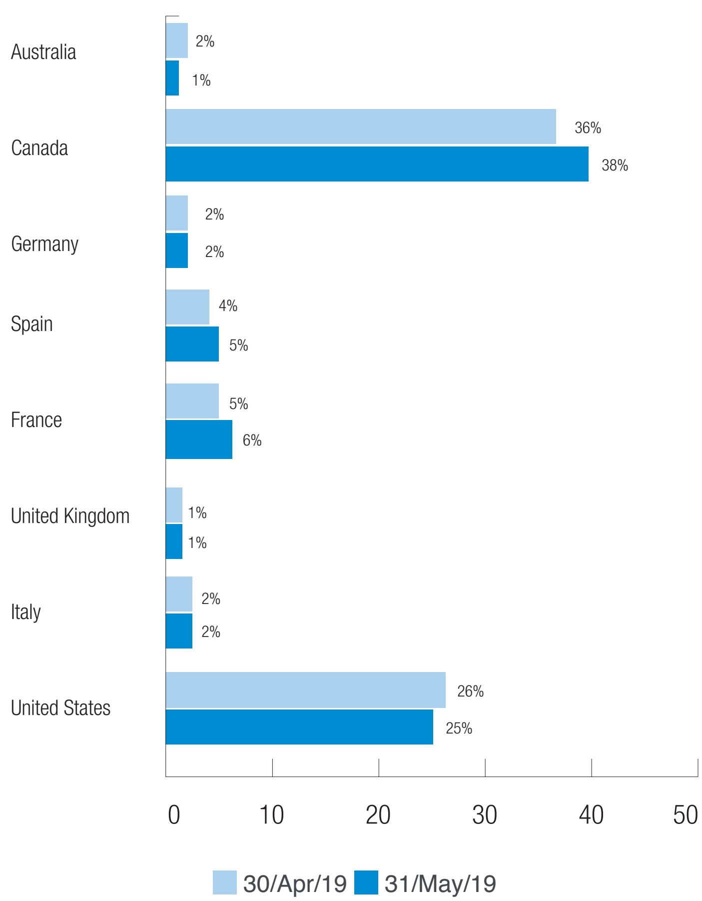
The Fund's geographic and sector allocations are shown (adjacent) here. Assets Under Management (AUM) increased 13.3% in May. Incremental new capital was allocated to existing positions, with portfolio allocations remaining largely the same. No new positions were eliminated or added during the month. The Fund's cash weighting reflects our lag in deploying lumpy capital inflows as the market continued to rise.

[4] As of May 31, 2019. Source: Bloomberg LP. Global infrastructure, global equities, and U.S. equities represented by the S&P Global Infrastructure Index (CAD), MSCI World Index (CAD) and S&P 500 Index (CAD), respectively.

Starlight Global Infrastructure Fund – Sector Allocation (%)



Starlight Global Infrastructure Fund – Geographic Allocation (%)*



*excludes cash & cash equivalents

Portfolio review

Two of the top contributors to Fund performance in May were Polaris Infrastructure Inc. ("Polaris") with a total return of 22%, and Northland Power, with a total return of 5.2%[5].

Polaris is a Toronto-based renewable energy company engaged in the operation, acquisition and development of renewable energy projects in Latin America. The company's flagship asset is the San Jacinto geothermal energy plant in Nicaragua. In April 2018, protests against President Daniel Ortega began, putting the country of Nicaragua into an extended period of unrest. As a result, Polaris shares had a sharp negative reaction. However, during this period of unrest, Polaris has reported strong results, with record production and cash flow generation, demonstrating the stability of its asset. The company is also expanding into hydroelectric energy in Peru, which will help diversify the company with a high-quality asset in a stable jurisdiction. We initiated our position after the sharp decline in the share price, as the protests had ceased, and negotiations were underway with the government. However, in light of the very strong performance, we have taken profits and reduced our position.

Northland Power is a Canadian independent power producer, with assets in Canada, the U.S. and Germany. The company's assets produce electricity from clean-burning natural gas and renewable energy sources, including solar, wind and biomass. The company currently has operating facilities generating 2,429 MW (gross) of energy, with more than 1,000 MW (gross) in advanced development. We believe Northland's early entry into the offshore wind market several years ago was a smart strategic decision, as their offshore wind assets are producing strong free cash flow, while the pipeline for further offshore wind development continues to grow. We continue to hold the name and would review increasing our position on any pronounced share price weakness.

Year-to-date, 21 companies in the **Starlight Global Infrastructure Fund** have increased their dividends or distributions by an average 9.8%.

The top detractor from Fund performance in May was Deutsche Post AG, Europe's largest postal service as well as one of the world's leading providers of express delivery, freight transport and supply chain management. In Germany, its post-eCommerce-parcel (PeP) division delivers more than 55 million letters and 5.0 million packages per day. The company reported mixed results in Q4-2018, with a slight miss on EBIT but strong performance from the PeP division, particularly on parcel pricing. The company maintained its guidance for 2019 and 2020, which should see free cash flow generation improve substantially. The company has also sold-off on worries of a global trade war given its exposure to shipments and business activity. We continue to hold the name as we believe the valuation is compelling and the company is positioned well to benefit from growing eCommerce penetration, but we have reduced our weight to account for macro risk.

Year-to-date, 21 companies in the Starlight Global Infrastructure Fund have increased their dividends or distributions by an average of 9.8%.

[5] Source: Bloomberg LP.

Portfolio outlook

The Starlight Global Infrastructure Fund holds 38 positions, unchanged from April. Longer-term the portfolio should reach a targeted strategic allocation of 30% each to Europe, the U.S. and Canada supplemented by opportunistic investments in Asia, Australia and Latin America. As Europe works through its legislative calendar, we will increase allocations to European infrastructure companies.

Data centres have delivered strong results this year and all of our holdings in this sector have generated double-digit total returns. We focus on data centre companies that concentrate on interconnection and co-location services in highly dense geographies, as these assets tend to possess better pricing power and strategic value. We believe data centres represent compelling value over the long-term as demand for data and connectivity continues to grow however, stock selection will remain key within the space.

We remain optimistic with respect to the energy infrastructure space, despite the weakness in oil prices experienced in May. We focus on energy companies that operate in the midstream sector, as most revenues are contractual, reducing commodity price sensitivity. We believe the growth pipeline for several of these companies is not currently reflected in valuations.

Conversely, we remain cautious around the utility sector, particularly in the U.S., as valuations remain elevated and growth opportunities are limited, particularly for pure-play regulated utilities. Our strategy is to invest in utilities with strong growth outside of the regulated franchise, whether it be midstream assets, renewable energy or emerging markets.

Overall, we believe the Fund is well positioned to participate in continued up-markets while providing downside protection. We will closely monitor the investment environment and actively manage the Fund's positioning by carefully selecting individual businesses in-line with Starlight Capital's proven investment philosophy.

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