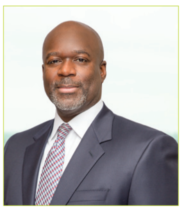
STARLIGHT GLOBAL REAL ESTATE FUND

Real estate equities continue to outperform



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Key takeaways

- Year-to-date, global real estate has generated a total return of 12.7%[1]
- Consensus estimates are now for 4.4% EPS growth in 2019 and 5.9% in 2020
- Global Purchasing Managers' Indices (PMIs) continued to climb in March with the Composite at 52.8, up from 52.6

Macroeconomic Update

Earnings season has ended, and analyst EPS expectations have troughed in positive territory for the year, further reducing the risk of an EPS recession. Consensus estimates are now for 4.4% EPS growth in 2019 and 5.9% in 2020, which completes the mean reversion of EPS back to the long-term average of 6%. Equities were buoyed by the benign completion of the Mueller probe and continued progress towards a trade deal between the U.S. and China. While Brexit remains a quagmire, the extension of the withdrawal date and subsequent veto of a "No Deal" Brexit continues the inexorable march towards a negotiated solution in the spring.

The Federal Reserve Bank has executed a complete 180 degree turn in outlook and the market has switched from pricing in a single 25 bps hike in 2019 to pricing in 25 bps cuts in 2019 and 2020. The U.S. yield curve inverted at the short-end during March however, the overall 2-year to 10-year curve remains steep, if below long-term averages. Regardless, this indicator of potential recession is not overly accurate or timely in predicting recessions and is not supported by other recession indicators. Consensus is that the current hiking cycles in the U.S. and Canada are complete with the U.S. 10-year bond yield dipping below 2.4% by month-end.

[1] As of March 29, 2019. Source: Bloomberg LP. Global real estate represented by FTSE EPRA NAREIT Developed Total Return Index (CAD).

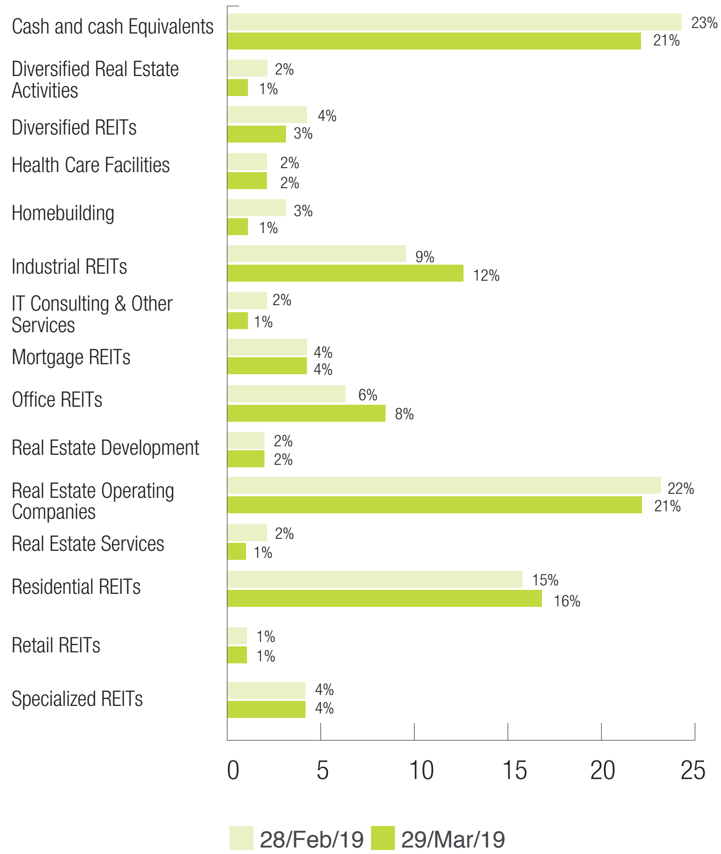
Global Purchasing Managers' Indices (PMIs) continued to climb in March with the Composite at 52.8, up from 52.6. Services PMI growth to 53.7 and Manufacturing PMI flat at 50.6 indicate that the global economy continues to expand. China was the big mover with both Manufacturing and Services PMIs rising and Manufacturing back above 50. Clearly the current massive stimulus program is beginning to have positive effects and the outlook is for continued PMI gains. Eurozone PMI data was mixed with Services strong and Manufacturing weak in the core (Germany, France and Italy) and strong in the periphery (U.K., Spain, Ireland, Netherlands and Greece). The implementation of the European Central Bank (ECB) long-term refinancing operations (LTRO) program in September should normalize yields across the Eurozone and encourage capital formation and corporate investment. In addition, the recent string of poor economic data out of Germany should stabilize and improve as Chinese stimulus drives the Chinese economy and those of its trading partners.

In March, global real estate outperformed global equities and U.S. equities (5.3%, 3.0% and 3.5% total returns[2], respectively). This continues the long-term trend of global real estate outperformance and underscores the need for advisors to have a strategic allocation to real estate in their clients' portfolios.

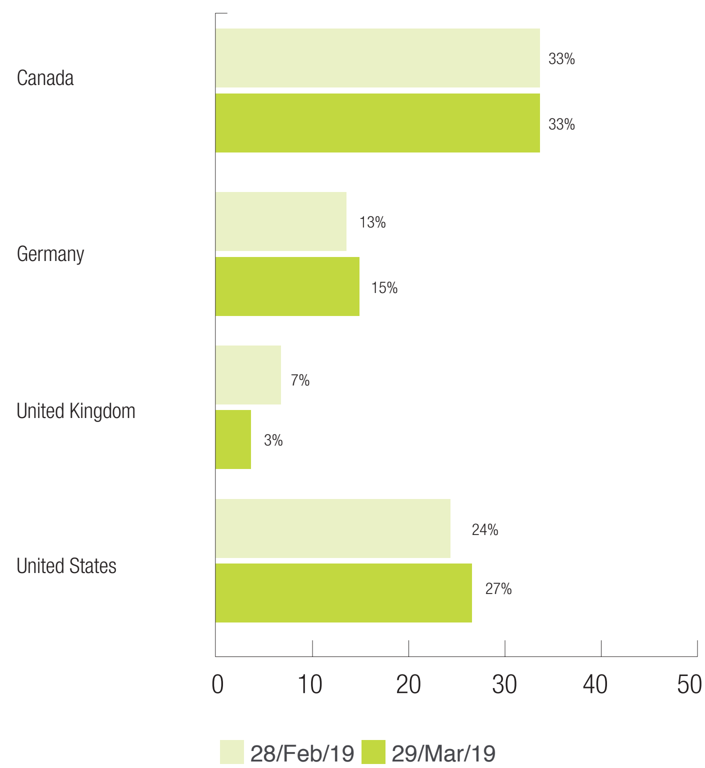
Starlight Global Real Estate Fund Overview

The Fund's geographic and sector allocations are shown (adjacent) here. Assets Under Management (AUM) rose 39% in March. Incremental new capital was largely allocated to our existing U.S. positions. In March, we added three new positions and exited three positions. The Fund's cash weighting reflects our lag in deploying lumpy capital inflows as the market continued to rise.

Starlight Global Real Estate Fund – Sector Allocation (%)



Starlight Global Real Estate Fund – Geographic Allocation (%)*



[2] As of March 29, 2019. Source: Bloomberg LP. Global real estate, global equities, and U.S. equities represented by the FTSE EPRA/NAREIT Developed Total Return Index (CAD), MSCI World Index (CAD) and S&P 500 Index (CAD), respectively.

*excludes cash & cash equivalents

Portfolio Review

Two of the top contributors to fund performance in March were Vonovia SE, with a total return of 8.5% and, Killam Apartment REIT, with a total return of 8.7%[3].

Vonovia SE ("Vonovia") is Europe's leading residential landlord. Vonovia owns approximately 400,000 residential units in attractive cities in Germany, Austria, and Sweden, worth approximately EUR 44.2 billion.

Vonovia reported strong 2018 results in March, with like-for-like rental growth of 4.4%, funds from operations (FFO) 1 per share growth of +8% and NAV per share growth of +17%, versus the previous year. Vonovia guided to 2019 like-for-like rental growth of 4.4% and while it no longer provides guidance on NAV growth, Vonovia sees no reason for asset value growth not to continue.

We believe German residential offers an attractive risk/return profile. We expect German residential rents and asset value growth to exceed inflation, driven by a very favourable supply-demand imbalance and a positive macro backdrop (10-year German bond yields in negative territory). We continue to see upside to Vonovia's share price, despite the strong performance in March.

Killam Apartment REIT ("Killam") is one of Canada's largest residential landlords, with a $2.8 billion portfolio of apartments and manufactured home communities.

Killam reported strong Q4/18 results in February, including a 3% distribution increase. Killam also provided 2019 targets including: same-property net operating income (NOI) growth of 3-5%; acquisitions of at least $100MM; NOI from outside of Atlantic Canada of at least 30%; the completion of one development project and the commencement of two new projects; and, a reduction in leverage of at least one percentage point, to below 49%.

We continue to see upside to Killam's unit price, despite the strong performance in March, driven by a very favourable supply-demand imbalance for rental apartments in Canada and a positive macro backdrop.

One of the top detractors from fund performance in March was StorageVault Canada Inc. ("SVI").

SVI owns and operates 161 storage locations across Canada. SVI owns 107 of these locations plus over 4,600 portable storage units representing over 6 million rentable square feet.

Year-to-date, 15 companies in the **Starlight Global Real Estate Fund** increased their dividends or distributions by an average 7.2%, and one company initiated a dividend.

On February 6, 2019 SVI announced the acquisition of Real Storage, a 38-store portfolio for $275 million, which is expected to close on April 15, 2019. The Real Storage acquisition represents SVI's largest acquisition since its $400 million Sentinel Storage acquisition in July 2017 and increases SVI's store count by 35%.

SVI also reported strong 2018 results in February with same-property NOI growth of +8.8% and FFO/share growth of +32%, versus the previous year. Since Q3/15, SVI has generated average quarterly with same-property NOI growth of +12.5% y/y, well above its U.S. self-storage peer average of +6.2% y/y.

We attribute the recent underperformance largely to concerns about the financing of the Real Storage acquisition and utilized the weakness to add to our position. On April 1, SVI announced that the Company has obtained a $320 million revolving credit facility to fund the acquisition and "there will be no common shares issued as part of the purchase price for the acquisition". Unlike other real estate companies, SVI retains almost all of its cash flow which SVI can then use to reduce leverage.

Year-to-date, 15 companies in the Starlight Global Real Estate Fund increased their dividends or distributions by an average 7.2%, and one company initiated a dividend.

[3] Source: Bloomberg LP.

Portfolio Outlook

The Starlight Global Real Estate Fund continues to hold 33 positions. We expect to continue deploying capital into these businesses on an opportunistic basis. 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 and Australia. As Europe works through its legislative calendar, we expect to increase allocations to European real estate firms.

The industrial sector has generated double-digit returns driven by the rise of e-commerce and the need for fulfillment centres, last-mile delivery and logistics facilities. We believe industrial businesses are still compelling on valuation while providing strong dividend growth.

We remain optimistic with respect to the multi-family sector and believe stock selection will be key to generating strong returns. We believe multi-family REITs offer an attractive risk/return profile driven by favourable supply-demand imbalances in many urban cities globally. We look for companies that generate strong cash flow, have a defensive balance sheet and provide exposure to markets with high barriers to entry.

Conversely, we remain cautious on the retail sector as we expect the negative sentiment from e-commerce to continue. Globally, we continue to see retailers reducing their square footage and retail rents declining. Appraisers are reducing retail valuations as the asset class remains out of favour with investors. We believe there continues to be too much supply, and the investment risk remains to the downside.

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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