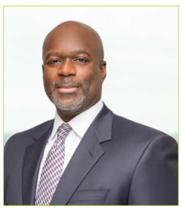
Starlight™ Capital

STARLIGHT GLOBAL INFRASTRUCTURE FUND

Global infrastructure up 17.4%[1] YTD, outperforming global and U.S. equities



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Key takeaways

- Year-to-date global infrastructure equities have generated a 17.4%[1] total return
- Utilities lead the way in Q3 with Brookfield Infrastructure Partners up 18.1%[2] and Boralex Inc. up 15.9%[2]
- Global infrastructure equities up 1.7%[3] in Q3

Macroeconomic update

Since the start of the year, investors have pointed to a series of issues that might lead the global economy towards a recession. Q4 2018 saw global equity markets sell off as investors grew concerned that the Federal Reserve Bank would raise rates four times in 2019 and tip the U.S. economy into recession. This was followed by concerns that Brexit and the U.S./China trade war would combine to push the three largest economic zones into recession. Then during the summer, yield curve inversions stoked investors' fears that a global recession was imminent. Finally, economic data, including recent Purchasing Managers' Index (PMI) readings, have made investors fear that future economic output was due to contract as manufacturing activity continued to decline.

In response to these macroeconomic risks, central banks have leaned heavily into monetary accommodation. As a result, global yield curves have flattened significantly and the amount of sovereign debt trading at negative yields has increased sharply. While we do not expect global growth to accelerate anytime soon, we do think the global economy is stabilizing at a level of growth that is below the prior long-term trend rate (3.8% since 1950) but in-line with the more recent average since 2008. We expect that synchronized global easing by central banks will eventually cause leading economic indicators to rise, followed by improving PMIs, global economic output and finally equities.

In response to market volatility and economic uncertainty, investors have gravitated to firms with better growth potential, fundamental and operating momentum and/or low volatility/defensive characteristics. Capital has been allocated to global infrastructure securities, causing their trading multiples to rise and boosting total returns.

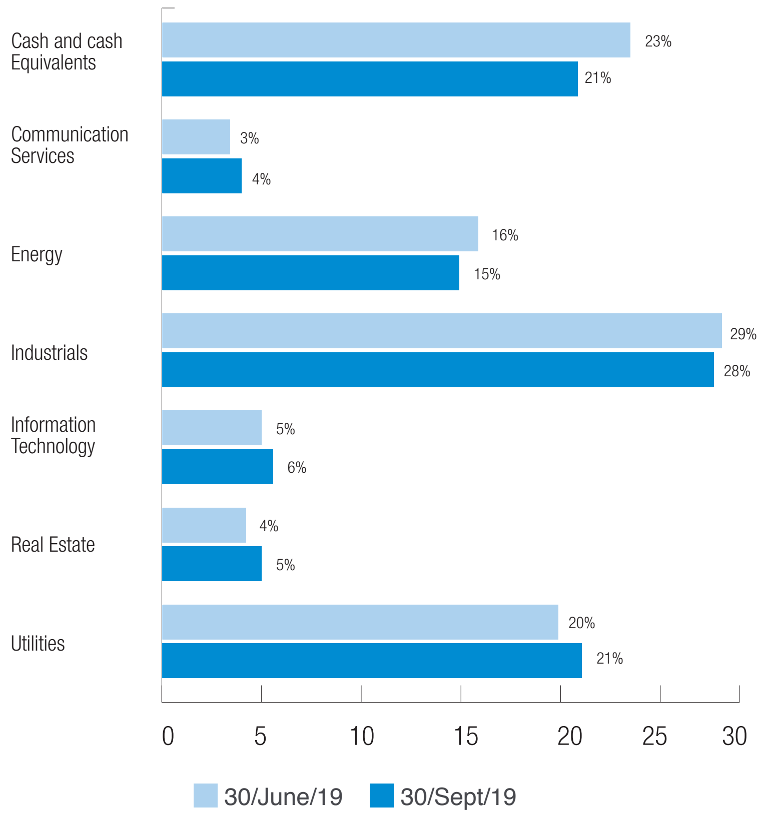
[1] From December 31, 2018 to September 30, 2019. Source: Bloomberg LP. Global infrastructure represented by the S&P Global Infrastructure Index (CAD). [2] From June 28, 2019 to September 30, 2019. Source: Bloomberg LP.
[3] From June 28, 2019 to September 30, 2019. Source: Bloomberg LP. Global infrastructure represented by the S&P Global Infrastructure Index (CAD).

Consensus estimates for 2019 S&P 500 EPS growth are now 2.1%, which is down from 2.6% in Q2. Q3 2019 is anticipated to be the trough quarter at -2.2%. Building off the poor finish to last year, Q4 EPS growth should rebound to 4.1%. 2020 consensus EPS growth currently sits at 10.1% but with anticipated downward revisions, 2020 is likely to see 5.0% EPS growth[4]. The 2020E price-to-earnings (P/E) multiple for the S&P 500 has risen to 17.1x and the current dividend yield is 2.0%[5]. High single digit total returns from this point would seem to be in order, but with a continued uptick in market volatility.

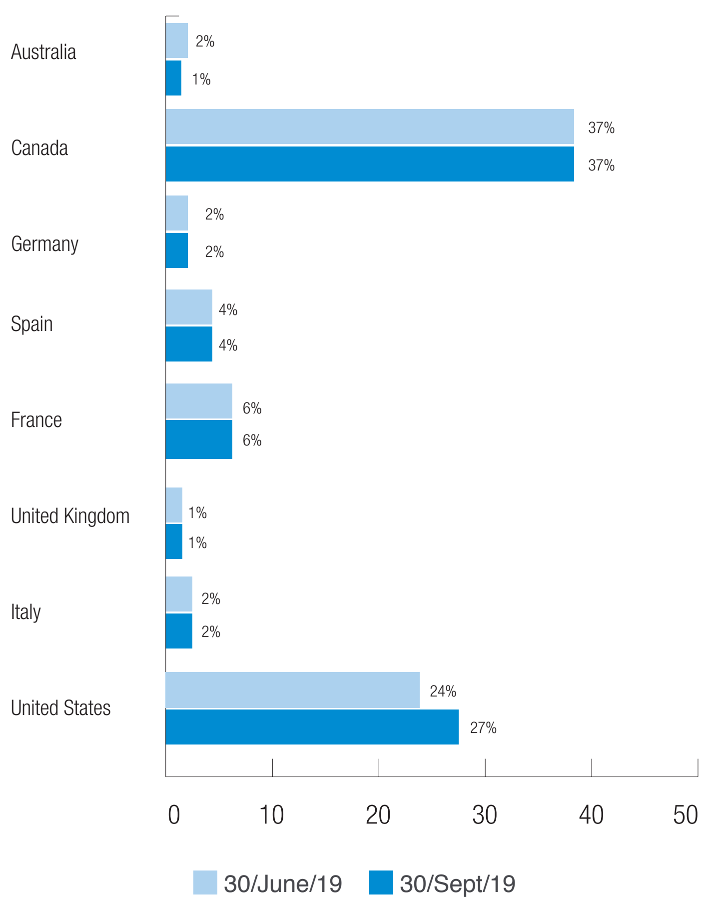
In Q3, the PMI Composite declined from 52.1 to the current reading of 51.3[6]. Manufacturing and Services were both flat in Q3 at 49.7 and 51.8 respectively. Neither number is very robust, but the global economy remains under pressure from tariffs and Brexit. U.S. PMIs were down materially in Q3 with Manufacturing falling to 47.8 and Services weakening to 52.6. While Prices showed strength, Employment and Inventories were weak. U.S. Services PMI bear close watching as any indication that U.S. consumer spending is weakening will likely result in global equity markets selling off. Eurozone PMIs deteriorated in Q3 with Manufacturing down from 47.6 to 45.7 and Services down from 53.6 to 51.6. Chinese PMIs were flat in Q3 at 49.8 for Manufacturing and 53.7 for Services. We would expect the resolution of the trade war with the U.S. to be the final stimulus to drive Chinese PMIs, and subsequently global growth, higher.

The S&P 500 generated total returns of 2.9%[7] during Q3 with weakness in August surrounded by strength in July and September. Global equities similarly generated total returns of 1.8%[7] in Q3 with a similar return pattern. Global infrastructure equities delivered a 1.7%[7] total return in Q3 as strength in Utilities was offset by weakness in Energy.

Starlight Global Infrastructure Fund – Sector Allocation (%)



Starlight Global Infrastructure Fund – Geographic Allocation (%)*



*excludes cash & cash equivalents

[4] U.S. Equity Strategy, Investors to Ignore Optimistic 2020 Estimates, Credit Suisse, 25 September 2019. [5] Source: The PULSE Monitor, Citi Research, 27 September 2019.
[6] Source: IHS Markit. [7] From June 28, 2019 to September 30, 2019. Source: Bloomberg LP. Global equities represented by MSCI World Index. Global infrastructure represented by the S&P Global Infrastructure Index (CAD).

Starlight Global Infrastructure Fund Portfolio Overview

The Fund's geographic and sector allocations are shown on the previous page. Assets Under Management (AUM) rose 33.5% in Q3. Incremental new capital was primarily allocated to existing positions in the Communication Services and Utilities to reduce fund beta and increase our allocation to defensive names. The Fund held 38 positions with no new positions added during Q3 and no existing positions were eliminated. From a geographic standpoint, capital was allocated to U.S. positions as cash was deployed and Canadian names were trimmed.

Portfolio Review

Two of the top contributors to Fund performance in Q3 were Brookfield Infrastructure Partners LP ("Brookfield") with an 18.1%[8] total return and Boralex Inc. ("Boralex") with a total return of 15.9%[8].

Brookfield owns and operates infrastructure assets across the globe, including energy, utilities, transport and communications assets. Brookfield often acquires minority or majority interests in infrastructure assets, invests capital in operational improvements to boost returns, and then sells its ownership position. Brookfield shares have outperformed the broader market this year, on the back of strong earnings results and visibility into future growth opportunities. Specifically, the expansion into the Indian telecommunications towers business and the lucrative sale of its Chilean toll road assets. We continue to see upside to the name, with a robust cash flow stream which will continue to support the dividend growth profile.

Boralex is an independent power producer focused on the development and operation of renewable energy assets. Boralex assets are primarily located in Canada and France, with the largest exposure to offshore wind, and hydroelectric energy. Boralex has a high-quality set of renewable assets, with more than 95% of its capacity fully contracted, providing long-term cash flow visibility. In June, the company held its inaugural investor day, where it reaffirmed the positive outlook for onshore wind development in France, as well as its entry into the solar and battery technology sectors. We believe the pipeline of growth in France is not being valued by the market, as the company has more than 1,000 MW of development projects in various stages. Despite the strong performance in Q3, we still see strong upside in the name due to the robust growth pipeline combined with an undervalued asset base. Boralex remains a core holding for the Fund.

Year-to-date, the **Starlight Global Infrastructure Fund** experienced 32 distribution or dividend increases with an average increase of 9.2%.

CSX Corp. ("CSX") was one of the top detractors in Q3. CSX is an international freight transportation company, providing rail, intermodal, container-shipping and logistics services around the world. CSX's rail transportation services are provided principally throughout the eastern United States, where it operates a rail system of more than 21,000 route miles. The company operates through three lines of business; merchandise, coal and intermodal. During Q3, CSX reported weak volumes in its coal and intermodal businesses, while the merchandise segment had modest growth. Q3 stock price weakness was driven by the intermodal segment, as lower truck rates have put pressure on wholesale pricing. While we believe CSX has a strong position as one of two Class I rails in the eastern U.S., we remained concerned about intermodal volume softness as it will take time for rates to normalize. As a result, we have reduced our position in the name and will add opportunistically should we see early signs of improvement in the U.S. market.

Year-to-date, the Fund experienced 32 distribution or dividend increases with an average increase of 9.2%.

[8] From June 28, 2019 to September 30, 2019. Source: Bloomberg LP

Portfolio Outlook

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 June. 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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