# Starlight Global Growth Fund

Q2-2024 Commentary

| Fund | YTD 2024 | 1 Year | 3 Year | 5 Year | 10 Year | 15 Year | Incept* |
|---|---|---|---|---|---|---|---|
| Starlight Global Growth Fund, Series F | 14.4% | 20.5% | 3.9% | 11.0% | 12.5% | 13.0% | 9.4% |

*Inception date August 2003. Source: Starlight Capital, as of June 30, 2024.

## Performance Summary

**In the second quarter, the Starlight Global Growth Fund returned 2.1%. Year-to-date the Fund is up 14.4%.**

'Higher for longer' interest rates and slowing growth momentum are creating tension for consumers and investors. US economic activity is slackening, particularly among lower income consumers who have yet to feel the benefits of stabilising inflation and relatively healthy GDP growth.

**Where's the feelgood factor?**
More than half the American population — 56% — believe the US economy is in recession. And 49% believe the stock market is down for the year (the S&P 500 is actually up 16% year-to-date) and that unemployment is at a 50-year high (it's near a 50-year low). So there's a sharp disconnect between what people feel and what the data is saying.

We must be alert to this contradiction and maintain a balanced portfolio approach with companies that can succeed in a variety of scenarios. We also need to watch our position sizes very carefully, avoiding the temptation to let large positions run even larger in a market that's running very hot in certain stocks. Stocks often slowly take the stairs up, but rapidly take the elevator down.

A cautious consumer has triggered profit warnings in some canary in the coal mine consumer brands including Nike, Walgreens, Levi's and swimming pool supplier Pool Corp.

Yet our holding in membership warehouse retailer **Costco** was one of our top performers in the quarter as they continue to grab market share with their value offering to middle and higher-income consumers. They're consistently growing traffic at a mid-single digit pace despite wild swings in consumer health and economic growth. During the COVID 19 years when consumers had a lot of stimulus cash, Costco averaged 5% traffic growth. When the macroeconomic backdrop weakened a bit in 2023, Costco continued to average ~5% growth in traffic. And with consumer budgets now more stretched and people spending on staples rather than big-ticket items in 2024, they've still grown traffic at an average of ~5% year-to-date. We think this business paints a picture of strength, consistency and market share gains.

We continued to trim our holding in AI computer chip designer **Nvidia** during the quarter. Its spectacular earnings upgrades continued to bring down its valuation, but we must be mindful of managing risk in a stock that's gone parabolic in recent years. The resilience and dominance of technology stocks in a market with minimal corporate earnings momentum has pushed Google owner **Alphabet** and **Apple** to the top of the performance tables despite fears around their lagging AI strategies.

Finally, the AI theme 'halo' has dazzled around our longstanding holding in **Amphenol** — which makes connectors, jacks, assemblies and other electronic connectors vital in datacentres. Their low-value, but mission-critical, connectors also serve the industrial, military, broadband, mobile device and commercial aerospace sectors. It's a picks and shovels play on digitisation, electrification and AI.

**Q2 2024 Top Five Contributors**

| Stock | Contribution to Return | Average Weighting |
|---|---|---|
| NVIDIA CORP | + 1.3% | 3.7% |
| COSTCO WHOLESALE CORP | + 0.4% | 2.7% |
| ALPHABET INC-CL C | + 0.4% | 2.2% |
| AMPHENOL CORP-CL A | + 0.4% | 2.4% |
| APPLE INC | + 0.3% | 1.5% |

**Q2 2024 Bottom Five Contributors**

| Stock | Contribution to Return | Average Weighting |
|---|---|---|
| COSTAR GROUP INC | - 0.3% | 1.3% |
| DEXCOM INC | - 0.3% | 1.7% |
| HUNT (JB) TRANSPRT SVCS INC | - 0.3% | 1.3% |
| MARTIN MARIETTA MATERIALS | - 0.2% | 2.1% |
| SHERWIN-WILLIAMS CO/THE | - 0.2% | 1.5% |

Source: Starlight Capital & Bloomberg Finance L.P. As of June 30, 2024.

**The fallout from Fed foot-dragging**
Our worst performers often fell victim to disappointment around the slower than expected pace of US Federal Reserve (Fed) interest rate cuts. And some simply highlighted markets' skittishness around news flow and potential negative catalysts. For example, **Dexcom**, which manufactures glucose-monitoring products to manage diabetes, announced increases to its sales team and higher marketing spend, necessary to grow its newer products. This drew attention to concerns about competitive pressures to its business.

Some of our old economy-focused businesses impacted by the delay in lowering interest rates included trucking business **JB Hunt**, which reported weak truckloads as the traditional domestic economy continues to get squeezed. Aggregates supplier **Martin Marietta** was modestly lower following huge outperformance in the previous 12 months as investors took profits as recent bad weather is unlikely to drive any near-term upgrades. Similarly, US professional paints business **Sherwin Williams**, which is historically closely linked to housing and interest rates, sold off modestly as the 'higher for longer' rates narrative got more deeply embedded.

Many recoil at the valuations of US stocks, but expensive does not always mean overvalued. In fact, when you assess US valuations in the context of their growth potential, resilience and the protected profile of future growth, we still think the US market provides some of the most attractive opportunities to make money over the long term.

We're staying balanced across a variety of sectors. We think nimble stock-picking among industry champions and overlooked growth stocks should allow our active approach to deliver significant outperformance — albeit with the chance of increased short-term volatility as economic growth stays slow and the pace of rate cuts is the subject of constant debate.

## Investment Management Team

Starlight Global Growth Fund is sub-advised by Rathbones Asset Management Limited.

**James Thomson**
Portfolio Manager

**Sammy Dow**
Portfolio Manager

## Investment Management Team

Starlight Capital is an independent Canadian asset management firm with over $1 billion in assets under management. We manage Global and North American diversified private and public equity investments across traditional and alternative asset classes, including real estate, infrastructure and private equity. Our goal is to deliver superior risk-adjusted, total returns to investors through a disciplined investment approach: Focused Business Investing. Starlight Capital is a wholly-owned subsidiary of Starlight Investments. Starlight Investments is a leading global real estate investment and asset management firm with over 360 employees and $28B in AUM. A privately held owner, developer and asset manager of over 66,000 multi-residential suites and over 7 million square feet of commercial property space. Learn more at www.starlightcapital.com and connect with us on LinkedIn at www.linkedin.com/company/starlightcapital/

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