Starlight Capital
FOCUSED INVESTING

2021 Global Real Assets Outlook

Dennis Mitchell, MBA, CFA, CBV
CEO & CIO

Varun Anand, CFA
Portfolio Manager, Infrastructure

Michelle Wearing, CA, CPA, CBV
Associate Portfolio Manager,
Real Estate

Key takeaways

- 2021 will be heavily impacted by the rollout of the COVID-19 vaccines and the agenda of the Biden administration.
- Market returns will shift from being driven by multiple expansion to being driven by earnings growth.
- 2021 is an ideal backdrop for active managers to outperform.

Brexit, Organization of the Petroleum Exporting Countries (OPEC), COVID-19 and the U.S. elections all contributed to the extreme volatility investors experienced in equity, bond, currency and commodity markets in 2020. The wide dispersion of returns between geographic markets, strategies and sectors is largely the function of the disparate effects of the pandemic on various industries (i.e. airlines vs. communications). The resulting decline in global growth favoured businesses with resilient, predictable and/or transparent growth and markets with greater representation from those businesses performed better.

Looking forward, 2021 will be heavily impacted by the rollout of COVID-19 vaccines and the change in administration after the U.S. election. These two issues will determine the pace of reopening global economies and the legislative agenda for the U.S. congress, respectively.

Global Vaccines Rollout

The global distribution of vaccines developed by Pfizer, Moderna and AstraZeneca has generally fallen behind schedule. The challenges around logistics (refrigeration), adoption (rapid development, new technology) and acceptance (anti-vaxxers, marginalized communities) have slowed the vaccination process and put the timeline for re-opening global economies in jeopardy.

Global COVID-19 Vaccinations

Country	Doses Administers	% of Population	Last Updated
Global Total	44,065,897		18-Jan
United States	14,707,184	4.48%	18-Jan
China	10,000,000	0.71%	13-Jan
United Kingdom	4,514,802	6.76%	18-Jan
Israel	2,581,487	28.52%	18-Jan
Russia	1,500,000	1.02%	11-Jan
Germany	1,145,878	1.38%	18-Jan
Italy	1,167,023	1.93%	18-Jan
Spain	897,942	1.93%	18-Jan
Canada	591,025	1.57%	18-Jan
Mexico	472,142	0.37%	18-Jan
France	479,873	0.74%	18-Jan

Source: Bloomberg LLP, January 18, 2021

Approximately 44.1 million vaccine doses have been administered globally however, shelter-in-place orders have been reinstated in a number of countries (Canada, U.S., U.K., Australia, France, Germany) to control the spread of the virus. Given these factors it is unlikely that the global economic re-opening takes place in Q1 and the level of global growth in 2021 is likely to be negatively-impacted.

U.S. Political Outlook

The Democrats now control the White House, the U.S. House of Representatives and the U.S. Senate which gives them control over legislative priorities (Presidency), the initial drafting of spending bills (the House) and the final approval of spending bills (the Senate). However, investors should understand that approximately 15 Democrats in the House currently represent congressional districts that lean Republican, compared to only three Republicans in seats that lean Democratic.[1] Those Democrats will not wish to take progressive positions and “get offside” of their voters going into a 2022 election.

The Senate is also challenging for the Democrats to govern as both parties hold 50 seats. This means that all legislation passed by the Senate will have to be bipartisan in nature (60 votes to pass) or move through the Reconciliation process. The Reconciliation process has advantages (simple majority to pass) but also significant limitations. In practice, two Reconciliation bills per year (spending/ revenues and debt limit) can be passed and there are limitations in terms of timeline, items covered and budget impact. The Democrats do not have carte blanche despite holding all three branches of government.

The current COVID-19 pandemic has resulted in massive fiscal stimulus programs from global federal governments to preserve household income and corporate revenues. The U.S. fiscal stimulus programs account for 26.3% of total global fiscal stimulus in 2020 and demonstrate the importance of U.S. fiscal stimulus to the global economic recovery.

Global Monetary and Fiscal Stimulus To Fight COVID-19 Impact 2020 Feb to Dec (CSM)

	Potential Central Bank Liquidity Injection		Potential Fiscal Stimulus		Central Bank Liquidity Injection and Fiscal Stimulus	
	$ Tln	% GDP	$ Tln	% GDP	$ Tln	% GDP
U.S.	$6.21	29.0%	$4.19	19.6%	$10.40	48.5%
Eurozone	$2.38	17.9%	$4.27	32.0%	$6.65	49.9%
Japan	$1.03	20.0%	$2.79	54.1%	$3.82	74.1%
U.K.	$0.57	20.7%	$0.59	21.6%	$1.16	42.3%
China**	$1.43	10.0%	$1.22	8.4%	$2.64	18.4%
Others*	$0.94		$2.85		$3.79	
Total	**$12.56**	**14.5%**	**$15.91**	**18.4%**	**$28.47**	**32.9%**

*incl RoW and ADS, IMF, WS **China CB stimulus incl liq injections and other activities e.g. re lending, RRR, direct small biz lending etc. Source: Cornerstone Macro, 2021 Macro Outlook Seminar, January 12, 2021

[1] Source: The Cook Political Report and the New York Times -Cornerstone Macro, 2021 Macro Outlook Seminar, January 12,2021

President Biden has announced his American Rescue Plan that includes direct stimulus cheques, enhanced unemployment benefits, vaccine distribution and additional financial support to households, small businesses and state and local governments. We expect this stimulus bill to take effect in March when current unemployment benefits are set to expire. President Biden's larger economic agenda will likely be advanced in late summer/early fall after the vaccine rollout has been substantially completed. This program is likely to include corporate, investment and personal tax increases to offset health care, infrastructure and environmental spending. We anticipate that infrastructure and alternative energy will see support in this budget while technology and health care firms will see tax increases.

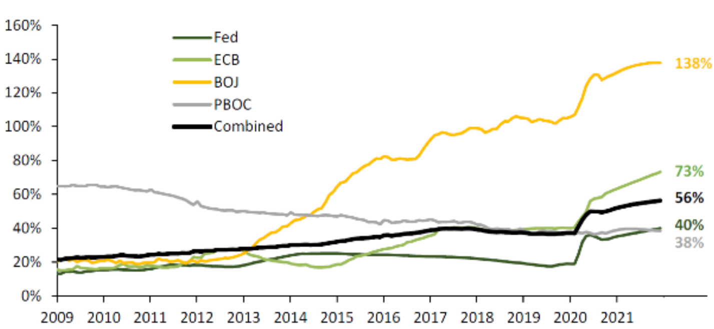
Monetary Policy

The U.S. Federal Reserve Bank ("Fed") has been very plain and transparent in their outlook for the Federal Funds Rate and quantitative easing:

*"…the Committee will aim to achieve **inflation moderately above 2 percent for some time** so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent…the Federal Reserve **will continue to increase its holdings of Treasury securities** by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until **substantial further progress has been made toward the Committee's maximum employment and price stability goals.**"* [2]

We believe the Fed will continue to maintain an accommodative monetary policy stance through the end of 2023 and that the Fed's quantitative easing program will continue at its current pace through the end of 2022. Other global central banks continue to support their domestic economies with accommodative monetary policy and we do not expect these policy stances to change during 2021.

Large central bank balance sheets as percentages of GDP



Source: Cornerstone Macro – Economics, Policy, Strategy & Technicals, December 30, 2020

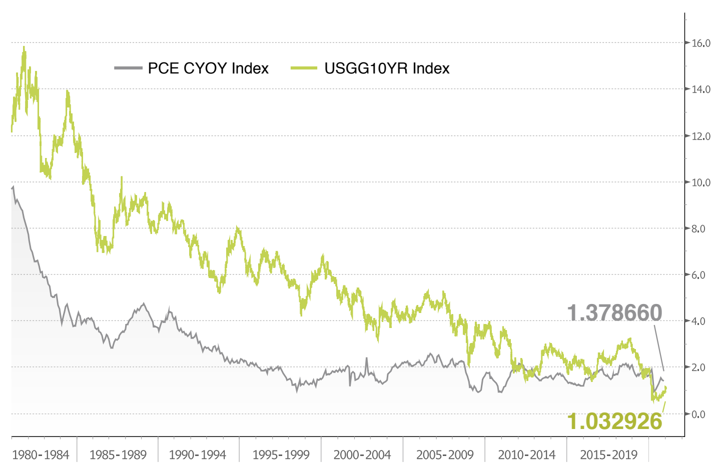
[2] Federal Open Market Committee Statement, December 16, 2020

Global Inflation, Rates & Growth

Global inflation was modest before the COVID-19 pandemic set in and the systematic shutdown of global economies caused a significant decline in global inflation. We expect global inflation to rise above two percent in Q2 and Q3 as we lap the height of the pandemic shutdowns in 2020. However, we don't anticipate central banks will respond to this short-term spike in inflation, even if employment levels look strong, as global participation rates have fallen. Normalizing for participation rates, U.S. unemployment would be 10.2% instead of the reported 6.7%[3]. Central banks are also concerned about the potential for permanent job losses, which appear to have increased faster during this recession. Generally, the longer people are unemployed, the more difficult it becomes for them to achieve similar employment.

Consensus analyst expectations are for the U.S. 10 year bond yield to rise to 1.25% by the end of Q2 and 1.45% by the end of the year.[4] The anticipated move is attributed to an increase in inflation expectations due to additional global fiscal stimulus and an increase in the risk appetite of investors. With central banks anchoring short term rates, global yield curves should steepen and reinforce the narrative that the global economy is healing. However, if long-term rates were to approach two percent we would expect the Fed, with support from other central banks, to update their forward guidance to limit the steepening of the yield curve.

U.S. Inflation and Interest Rates (U.S. PCE core price index and U.S. 10 Year Bond Yield)



Source: Bloomberg LLP, December 31, 2020

Consensus analyst expectations are for global growth to contract by -3.9% in 2020 followed by an expansion of +5.0% in 2021.[5] First half global growth is likely to be supported by federal stimulus programs, including direct subsidies to global households and enhanced unemployment benefits. Second half growth is likely to be supported by the reopening of global economies as vaccination campaigns ramp up. We expect local family "reunions", business commuting and personal services (dental, medical, hairstylist/barber) to drive consumer economic activity with support from business capital expenditures tied to delayed manufacturing and inventory restocking.

[3] Cornerstone Macro 2021 Macro Outlook Seminar, January 13, 2021
[4,5] Source: Bloomberg LLP, January 18, 2021

The World Bank estimates global Real GDP growth recovering to 4.0% in 2021. Much of this rebound can be traced to base effects, as the global economy laps earlier periods of extreme weakness. Chinese growth more than offsets a less robust recovery in the U.S., Euro Area and Japan however, there is upside to this forecast on the back of additional U.S. and global stimulus programs. The World Bank sees global growth moderating to 3.8% in 2022, supported by accelerating growth in the Euro Area but moderated by comparisons to initial recovery periods. It should be noted that this level of global growth simply matches the 3.8% average since 1980.

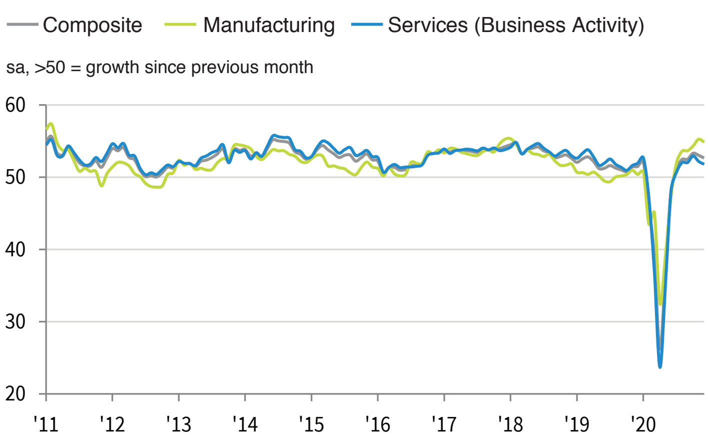
Global Real GDP Growth Forecast

	2018	2019	2020e	2021f	2022f	Percentage point differences from June 2020 projections: 2020e	2021f
World	3.0	2.3	-4.3	4.0	3.8	0.9	-0.2
United States	3.0	2.2	-3.6	3.5	3.3	2.5	-0.5
Euro Area	1.9	1.3	-7.4	3.6	4.0	1.7	-0.9
Japan	0.6	0.3	-5.3	2.5	2.3	0.8	0.0
China	6.6	6.1	2.0	7.9	5.2	1.0	1.0

Source: World Bank Group, Global Economic Prospective, January 2021

Looking at global Purchasing Managers' Indices ("PMI"), most of the shortfall in economic output was in Services as many industries (hospitality, tourism, entertainment) were completely shut down for extended periods of time. While Manufacturing has continued to recover, the Services PMIs continue to reflect the impact of global shelter-in-place orders that peaked in October 2020. We anticipate that PMIs and economic activity will be closely tied to vaccination rates and re-openings.

Global Output Index



Source: J.P. Morgan Global Composite PMI™, January 6, 2021

Global Equity Returns

There are three sources of return for global equities - dividend yield, earnings growth and multiple expansion. Over the last two years the S&P 500 has delivered a total return of +55.7%, despite earnings falling by -9.7% over that time period. Global equities, as measured by the MSCI World Index have fared the same with a total return of +49.7% despite earnings declining by -16.9% over that time period.[6]

The bulk of global and U.S. equity market returns have been driven by multiple expansion as long bond yields, credit spreads and policy rates have all decreased.

While it is true that the bulk of these earnings declines were due to the pandemic and analysts expect earnings to recover substantially in 2021, the S&P 500 currently trades at 22.5x 2021 expected earnings with the MSCI World Index not far behind at 20.8x. There is material risk of multiple contraction given global equities appear to already price in an earnings recovery that may be delayed or below potential.

Global Infrastructure

The Starlight Global Infrastructure Fund ("Infrastructure Fund") outperformed its benchmark (S&P Global Infrastructure Total Return Index in CAD) by 11.1% in 2020. This comes on the heels of beating its benchmark by 5.5% in 2019. The Infrastructure Fund generated a positive total return of +3.8% in a year when the benchmark delivered a negative -7.3% return. In 2020, the Infrastructure Fund's investments experienced 29 distribution increases with an average increase of 9.3%.[7]

At the end of 2020, the Utilities weight in the portfolio was 26.5% of the fund and our holdings significantly outperformed those in the benchmark. While our Canadian Utilities positions performed very well, Spanish company Solaria Energia Y Medio Ambiente, S.A. ("Solaria") was the best performing Utilities position in the portfolio.

Solaria is a Spanish renewable energy producer with a focus on utility scale photovoltaic solar plants. Solaria's assets are located in Spain, Italy, Greece, Brazil and Uruguay with a total capacity of more than 70 megawatts. Solaria's outperformance was driven by the progress made on its backlog, which reached more than 900 megawatts. In addition, the Spanish government will offer more than three gigawatts of renewable capacity with 12-year price guarantees at auction later this month. While we see long-term potential for Solaria to be a dominant player in the Spanish photovoltaic solar industry, the share price now reflects a generous amount of the backlog with limited room for error. As such, we have materially reduced our position.

After a strong 2019, Energy collapsed in 2020 as Russian and the Organization of the Petroleum Exporting Countries (OPEC)) battled for market share and the global economic shutdown drove West Texas Intermediate (WTI) oil prices to a low of U.S. $40 per barrel of oil. The fund finished the year with a 5.4% allocation to Energy, compared to 18.2% for the benchmark. This significant underweight preserved capital for investors as energy names suffered.

The largest weight in the fund's benchmark is to Industrials at 43.1%.[8] In comparison, our fund held a 16.6% weight in Industrials at the end of the year as we avoided exposure to subsectors such as airlines and toll roads. We moved aggressively early in the year to increase exposure to more stable and resilient Industrials subsectors which contributed to our outperformance in 2020.

[6] J.P. Morgan Global Composite PMI™, January 6, 2021
[7,8] Bloomberg LLP, December 31, 2020

CargoJet Inc. ("CargoJet") is Canada's leading provider of time sensitive overnight air cargo services and was our top-performing Industrials name in 2020. The company is a mission critical provider of freight transport in Canada, with smaller operations in Bermuda and Poland. We accumulated much of our position during the market sell-off in March, as we saw the uptick in volumes driven by e-commerce. Cargojet's exclusivity with Amazon and dominant footprint in Canada, should allow the company to continue to deliver strong cash flow growth. CargoJet remains a core holding and the recent share price pullback has allowed us to add to our position.

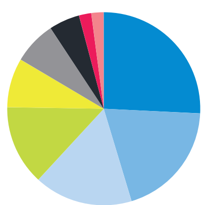
Global investment in renewable energy has surged over the last 17 years to U.S. $304 billion in 2020. Solar led the way with investments of U.S. $149 billion in 2020, up 12% from 2019.[9] The shift towards renewable energy sources is a global attempt to reduce carbon dioxide emissions and halt climate change. China and the U.S. led the globe in renewable energy investments in 2020 and the world's two largest economies are likely to remain the two largest investors in this area going forward.

Starlight Global Infrastructure Fund – Sector and Geographical Allocation

Asset Allocation

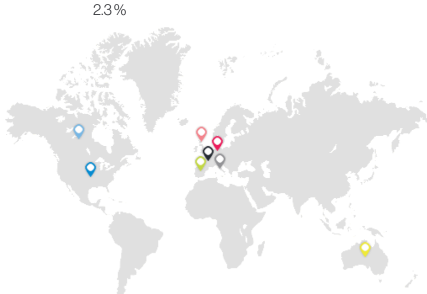
Sector Allocation

Utilities	25.8%
Real Estate	19.3%
Industrials	16.2%
Information Technology	13.3%
Communication Services	8.3%
Cash and cash equivalents	7.0%
Energy	5.3%
Private Investments	2.4%
ETFs	2.3%



Geographical Allocation*

United States	44.3%
Canada	29.3%
Spain	7.0%
Australia	4.7%
Italy	2.8%
France	1.9%
Germany	1.7%
United Kingdom	1.3%



* Excludes cash and cash equivalents

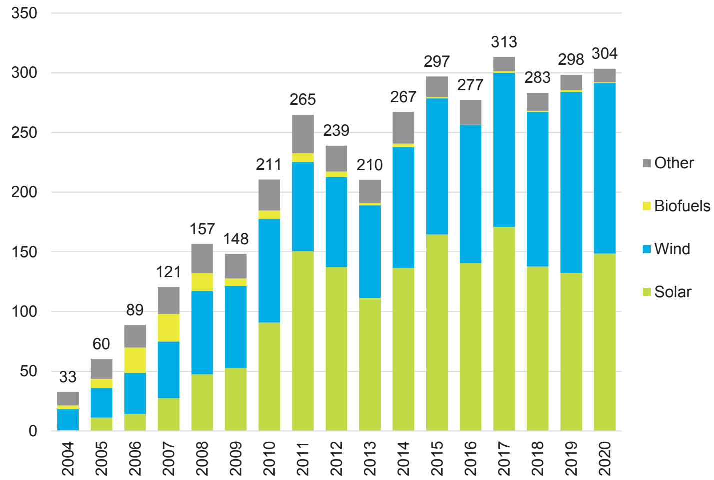
Source: Starlight Capital, December 31, 2020

Upside / Downside Capture

Starlight Global Infrastructure Fund (Series F)				
	2020		Since Inception	
	Upside Capture	Downside Capture	Upside Capture	Downside Capture
vs. Benchmark	83.6%	65.6%	99.5%	68.8%

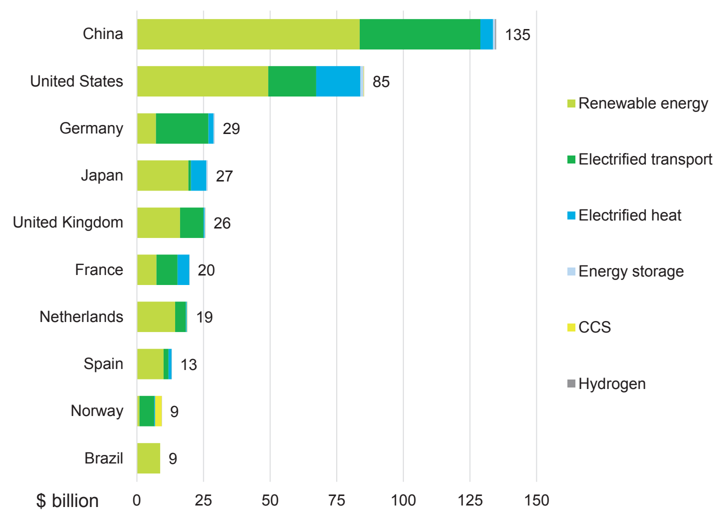
Source: Bloomberg LP & Starlight Capital. Since Inception from October 2, 2018 to December 31, 2020. Benchmark: S&P Global Infrastructure Total Return Index

Global new investment in renewable energy by sector



Source: Bloomberg NEF Energy Transition Investment Trends, January 2021

Global investment in energy transition by country, 2020



Source: Bloomberg NEF Energy Transition Investment Trends, January 2021

At Starlight Capital we believe the outlook for renewable energy remains very strong driven by higher targets from industrialized nations, further investment from government and business and greater support among global populations. As strong as returns have been in recent years we expect continued investment to drive strong total returns in 2021 and beyond.

According to Credit Suisse, global infrastructure offers a +3.9% dividend yield which is almost twice the dividend yield offered by global equities and U.S. equities.[10] In addition, Credit Suisse forecasts +4.7% expected dividend growth supported by +10.2% expected earnings before interest and taxes (EBIT) growth in 2021. The global infrastructure sector trades at 12.3x 2020 Enterprise Value (EV)/EBITDA (in-line with its 10-year average) and a 7.8% free cash flow yield and balance sheets are not stretched at 4.2x Net Debt/EBITDA.[11]

[9] Bloomberg NEF Energy Transition Investment Trends, January 2021

[10,11] Suisse Global Utilities Valuation and Performance Data Pack, January 13, 2021

Global Real Estate

The Starlight Global Real Estate Fund (“Real Estate Fund”) outperformed its benchmark (FTSE EPRA Nareit Developed Total Return Index in CAD) by 4.6% in 2020, after beating the benchmark by 3.6% in 2019.[12] In 2020, the Real Estate Fund’s investments experienced 27 distribution increases with an average increase of 6.1%.

Rolling global lockdowns were responsible for much of the damage to the global real estate investment trust (REIT) sector in 2020 with Hotels (-29.0%), Retail (-26.4%) and Office (-19.4%)[13] bearing the brunt of the impact. In contrast, the Real Estate Fund had small allocations to Retail and traditional Office at the start of the year and these sector selection decisions added positive alpha to our performance in 2020. Residential real estate was another area of outperformance versus the benchmark however, the subsector was the fund’s largest sector weight and delivered negative returns during 2020. The market appears to be overly discounting fears of mass unemployment leading to significant declines in rent collection.

Industrial real estate was one of our biggest weights during the year and despite the strong showing by the sector this year, our stock selection added value compared to the benchmark. E-commerce was a global trend prior to 2020 however, the pandemic accelerated its adoption. In April of 2020 alone, 40 million U.S. citizens purchased something online for the first time. The increased demand for logistics and warehouse space to support global e-commerce should allow Industrial real estate to continue to experience rising rents and cash flows for many years.

Australian company Goodman Group was our best performing Industrial name in 2020. Goodman Group (“Goodman”) is one of the world’s largest industrial property groups, with a global network spanning 13 countries and more than US$50 billion of assets under management. Goodman’s outperformance can be attributed to strong earnings with earnings per share growth of +11% in 2020 and favourable 2021 guidance for earnings per share growth. Goodman’s large global bank of prime industrial land and operating assets is benefitting from the increased demand for logistics space as a result of COVID 19. While we have trimmed our position on the significant outperformance, Goodman remains a core holding in the fund.

Another significant area of outperformance versus the benchmark in 2020 came from the allocation to technology-oriented REITs and real estate operating companies, including datacentres and cell towers. The pandemic has demonstrated the critical nature of digital communications technology and accelerated the growth rate of businesses that support this industry.

NEXTDC Ltd (“NEXTDC”) is an Australian datacentre business and was our top performing datacentre position in 2020. NEXTDC enables business transformation through innovative data center outsourcing solutions, connectivity services and infrastructure management software. NEXTDC provides world class colocation and interconnection services to local and international organizations, with some of the most technologically advanced Tier III and IV facilities in the country. NEXTDC has continued to announce new project developments across several of its data center campuses in Australia in 2020, and we believe the company has one of the best revenue growth profiles in the industry. The recent share price pullback has provided the opportunity to add to our position, as NEXTDC remains a core holding in the fund.

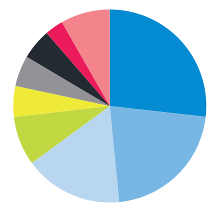
Starlight Global Real Estate Fund – Sector and Geographical Allocation

Asset Allocation

Equity 91.1% Cash 8.1% Fixed income 0.8%

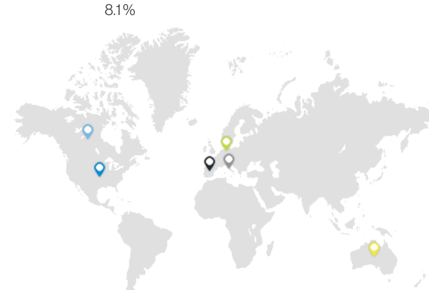
Sector Allocation

Residential REITs	26.4%
Industrial REITs	21.2%
Specialized REITs	16.3%
Cash and cash equivalents	8.1%
Integrated Telecommunication Services	5.5%
Real Estate Operating Companies	5.5%
Real Estate Development	5.4%
Asset management & custody banks	3.5%
Other	8.1%



Geographical Allocation*

United States	46.1%
Canada	30.8%
Germany	5.4%
Australia	4.1%
Italy	2.8%
Spain	2.7%



*Excludes cash and cash equivalents

Source: Starlight Capital, December 31, 2020

Upside / Downside Capture

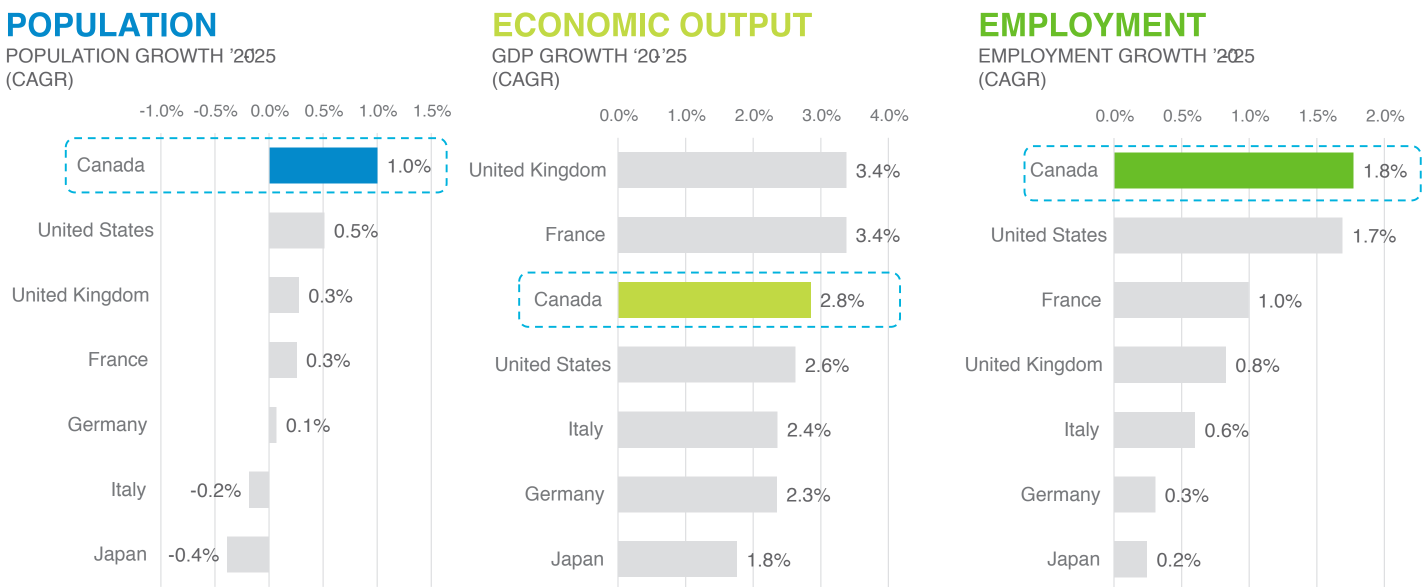
Starlight Global Real Estate Fund (Series F)				
	2020		Since Inception	
	Upside Capture	Downside Capture	Upside Capture	Downside Capture
vs. Benchmark	82.7%	80.6%	84.7%	78.5%

Source: Bloomberg LP & Starlight Capital. Since Inception from October 2, 2018 to December 31, 2020. Benchmark: FTSE EPRA/NAREIT Developed Total Return Index

12,13 Bloomberg LP, December 31, 2020

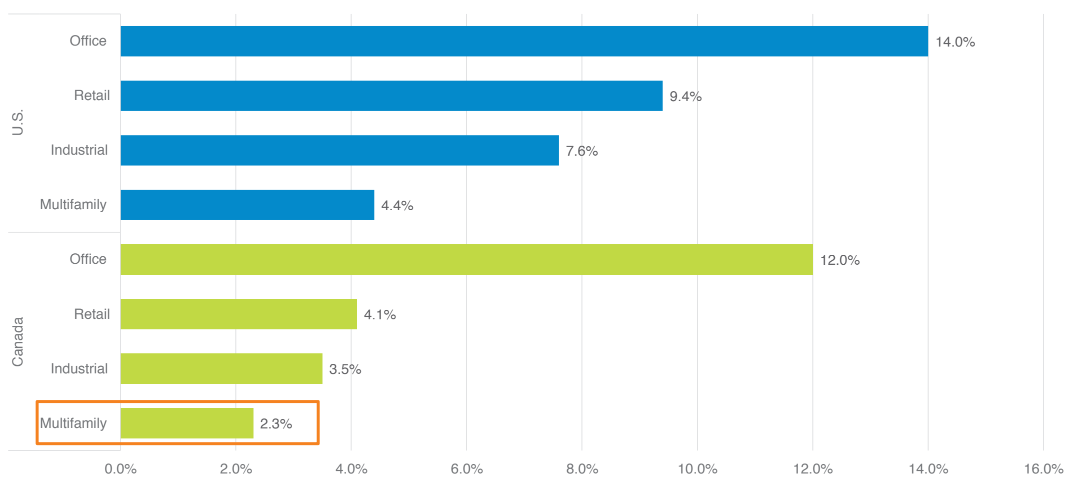
The multi-residential market in Canada has been characterized by low vacancy, high rent growth and immigration-fueled demand that significantly outpaced new supply. The global pandemic has shaken investors' belief in the resiliency of this subsector as it now trades at a -10% discount to net asset value, compared to premiums to net asset value in previous years. This despite the fact that our Canadian multi-residential REITs continue to collect 97%+ of rents, operate at 96%+ occupancy and have realized positive rent growth on turnover and renewals during each quarter of 2020.[15] All five of our Canadian multi-residential REIT positions experienced positive valuation uplifts during quarterly reporting in 2020 appraisals and we received 8 distribution increases from our multi-residential holdings in 2020.

Canada on the global stage - Key economic indicators



Sources: Oxford Economics, January 2021.

Canadian multifamily is tightest property type in North America - property sector vacancy



Notes: i) Industrial figures are availability rates, ii) Retail rates are composite figures including Neighbourhood, Community, and Strip assets, iii) Canadian retail figures as of H1 2020, iv) Canadian multifamily figures as of October 2019.

Source: CBRE Research, CBRE Econometric Advisors, The Conference Board of Canada, Canada Mortgage and Housing Corporation, CSCA,Q3 2020.

The federal government continues to support a robust immigration plan and has increased targets for 2021 and 2022 by 14% to 401,000 and 411,000, respectively. Employment growth is forecast to lead the G7 from 2020 through 2025 with strong economic output as well.[14] Given the industry-leading occupancy rates in the multi-residential sector, we expect significant total returns going forward as the global economy recovers from the COVID-19 pandemic.

According to Citi Research, global real estate offers a +3.9% dividend yield which is almost twice the dividend yield offered by global equities and U.S. equities. In addition, Citi Research forecasts +7.6% expected earnings growth to support future distribution increases. The global real estate sector trades at 17.7x 2021 earnings estimates and a -5.7% discount to net asset value. Further, balance sheets are not stretched at 35.5% Net Debt/Enterprise Value.[16]

[14] The Conference Board of Canada, CBRE Research, 2021. - 2021 Real Estate Outlook - January 2021

[15] CBRE Research, CBRE Econometric Advisors, The Conference Board of Canada, Canada Mortgage and Housing Corporation, CSCA,Q3 2020.

[16] Source: Citi Research, Reuters, FactSet, REET – Blackrock ETF Benchmarked to FTSE EPRA/ NAREIT - The Global Property Hunter, January 5, 2021

Thank You

Starlight Capital was founded in March 2018 and launched its first funds and ETFs in October 2018. Since then, the team and assets under management have grown steadily. Our investment solutions are available through more than 50 distribution partners and in 2020 we delivered strong risk-adjusted returns that have outperformed our benchmarks with downside protection. As we look forward, we are excited about the prospects for global real asset returns and allocations and humbled by the strong support we have garnered.

We remain an investment-led and client-focused provider of differentiated investment solutions and invite you to partner with us.

Starlight Capital

Starlight Capital
1400–3280 Bloor Street West
Toronto, Ontario, Canada M8X 2X3
info@starlightcapital.com
1-833-752-4683
starlightcapital.com

Starlight™ Capital
FOCUSED INVESTING