Starlight Capital
FOCUSED INVESTING

Starlight Global Macro & Real Assets Outlook

Global Macro Outlook

As we move into the next phase of the business cycle, investors will have to form opinions on major shifts in fiscal and monetary policy and their impact on global markets. Global growth remains above the long-term average for 2021 and 2022. However, the absolute level of growth is declining as we move beyond comparisons to the pandemic lows and fiscal stimulus rolls off.

Global Real GDP Growth Forecast

				Difference from July 2021 WEO Update	
Country	**2020**	**2021f**	**2022f**	**2021f**	**2022f**
World	-3.1%	5.9%	4.9%	-0.1%	0.0%
United States	-3.4%	6.0%	5.2%	-1.0%	0.3%
Euro Area	-6.3%	5.0%	4.3%	0.4%	0.0%
Japan	-4.6%	2.4%	3.2%	-0.4%	0.2%
China	2.3%	8.0%	5.6%	-0.1%	-0.1%
India	-7.3%	9.5%	8.5%	0.0%	0.0%
Canada	-5.3%	5.7%	4.9%	-0.6%	0.4%

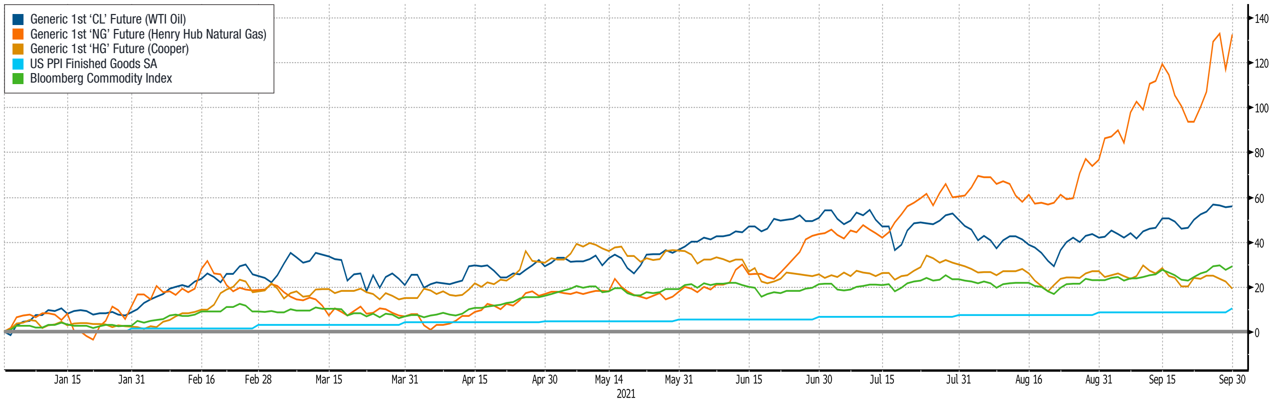
Source: IMF, World Economic Outlook Update, October 2021

Several impediments to global growth have emerged that are contributing to the slow down. Wage inflation has returned with firms such as Amazon and Wal-Mart hiring hundreds of thousands of workers at a $15/hour minimum wage and Disney has paid signing bonuses to housekeeping staff and line cooks. Fitch Ratings noted that restaurant labor costs are rising as the industry attempts to lure employees back. It is notable that lightly-skilled workers now have significant negotiating leverage.

The U.S. Producer Price Index for Finished Goods has risen 10.2% year to date as commodity prices (WTI oil +55.8%, Henry Hub gas +132.3%, copper +19.2%) and trucking rates (+42%[1]) have soared. Food inflation at the wholesale level climbed 8.3% year over year in August 2021, the biggest annual gain since the U.S. Labor Department started calculating the number in 2010. Meat, poultry, fish and eggs were up 5.9% over last year, and up 15.7% from prices in August 2019. In total, the Bloomberg Commodity Index has risen 29.1% year to date.

[1] Cass Freight Index, August 2021, year over year

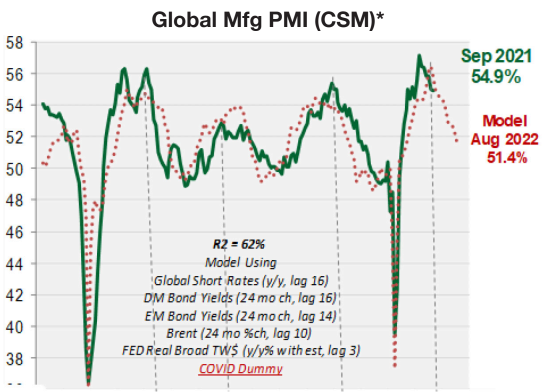
Rising Commodity Prices



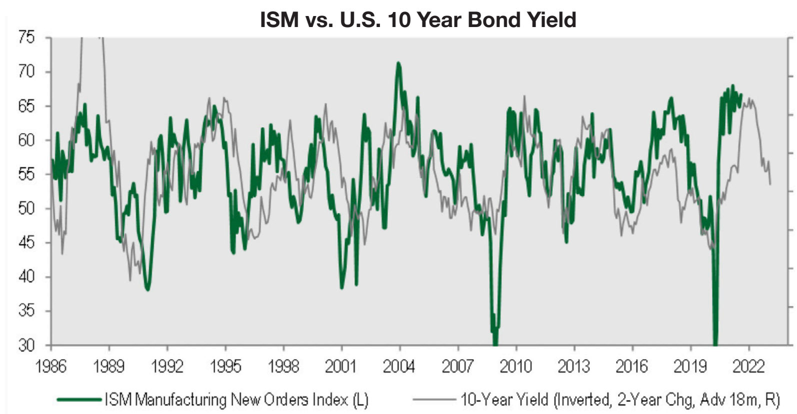
Source: Bloomberg LLP, as of September 30, 2021, all returns in USD

Financial conditions globally are tightening as the European Central Bank and the Bank of Canada are tapering bond purchases and the Federal Reserve Bank is set to join them. In 2021, central banks have hiked policy rates 49 times and emergency fiscal support programs are ending. To be clear, central banks are still expanding their balance sheets and supporting global liquidity. However, as the tapering process unfolded in 2014, short and intermediate borrowing rates rose, increasing borrowing costs for consumers and businesses. The next tapering cycle should generate a similar response in the fixed income market.

We expect the combination of wage and commodity inflation, rising borrowing costs and supply chain challenges to put pressure on corporate margins and earnings. Economic output will continue to expand however, the rate of this growth should slow as easy pandemic comparative quarters are lapped. This should manifest in falling PMIs and a change in equity market leadership back towards growth, defense and quality, as investors navigate this new phase of the business cycle.

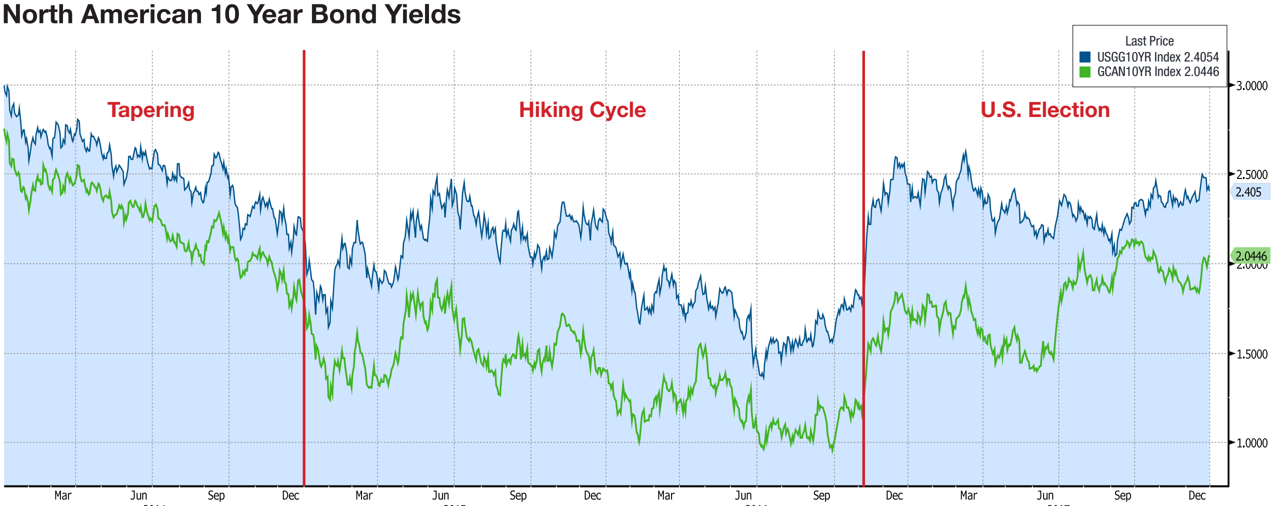


Source: Cornerstone Macro



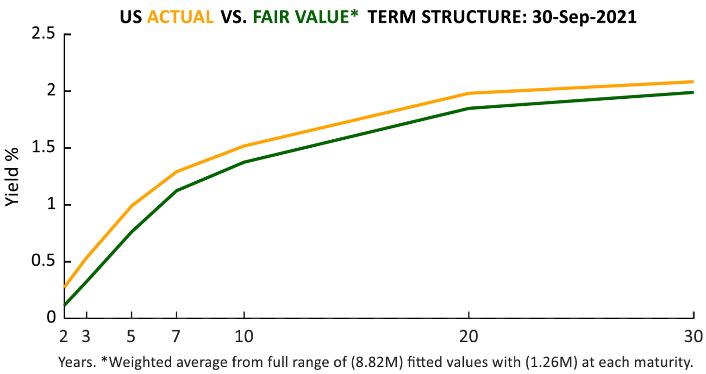
In 2014 long bond yields steadily declined during tapering. In fact, it wasn't until the surprise November 2016 election results that long bond yields rose materially. This increase in long bond yields was driven by twin spikes in expected growth and inflation. However, long bond yields eventually plateaued below their pre-tapering level and still have not returned to their pre-tapering levels. We feel it is likely that long bond yields will follow the 2014 path during this tapering cycle.

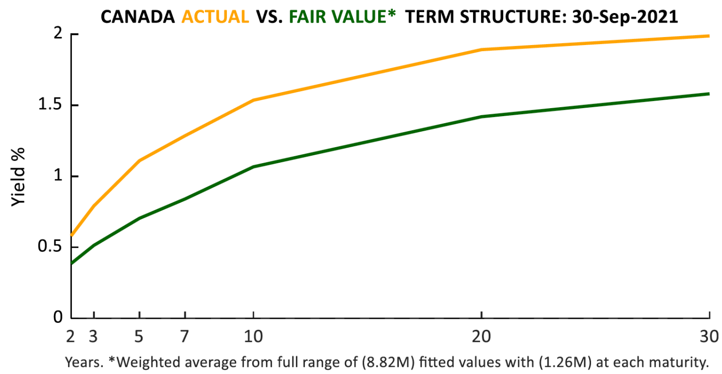
North American 10 Year Bond Yields



Source: Bloomberg LLP, December 31, 2013 through October 31, 2017

Our dovish stance on long bond yields is further supported by the fact that the current yield curve is slightly above fair value in North America. The Federal Reserve's balance sheet should "only" expand by approximately $150B in 2022, down from $930B in 2021. However, both the Congressional Budget Office and the Office of Management and Budget estimate that the annual deficit will decline by $1T in 2022. The decline in issuance should offset the decline in Federal Reserve Bank purchases.



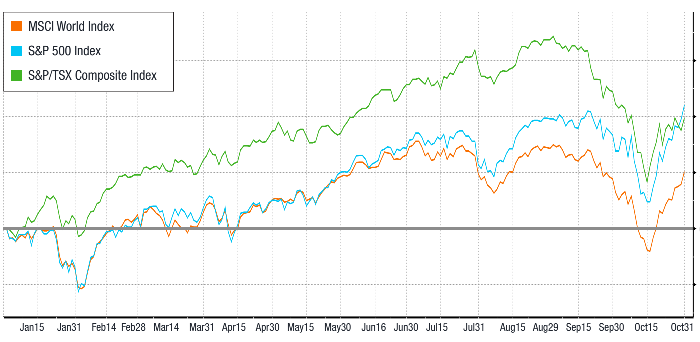


Source: Cornerstone Macro

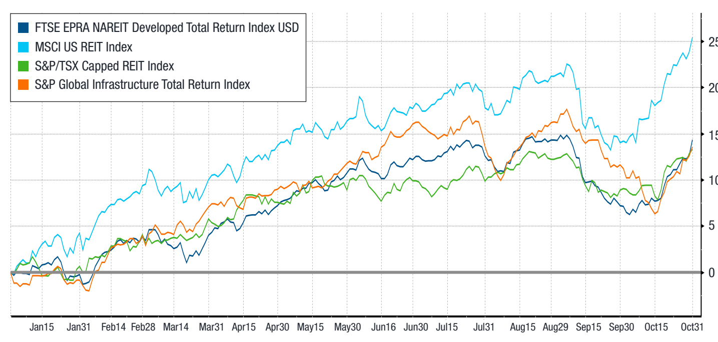
Real Assets Outlook

Global equities delivered a 27.4% total return in 2013, led by U.S. equities at 32.4%. However, those returns fell to 5.1% and 11.0% respectively, in 2014 as the Federal Reserve tapered bond purchases. In contrast, global real estate (+14.4%) and global infrastructure (+13.5%) outperformed, led by U.S. real estate investment trusts (REITs) which delivered a +25.4% total return in 2014. Given a similar macro environment, we believe global real assets will deliver similar relative returns in 2022.

MSCI World 5.1%, SPX 11.0%, TSX 9.9%



FTSE 14.4%, MSCI REIT 25.4%, SP REIT 13.3%, SP Infra 13.5%



Source: Bloomberg LLP, December 31, 2013 through October 31, 2014, all returns in local currency

The leverage in the capital structure of many real asset businesses makes debt service a large component of their cost structure. With long bond yields consistently below 3% and forecast to remain so, real asset businesses have extended maturities and locked in low cost structures for years to come. As global economies re-open, the occupancy and utilization of real asset businesses are both set to rise, driving margin expansion and free cash flow generation. The essential nature of the services provided by real asset businesses (shelter, communications, logistics, transportation, power) allows for the pass through of wage and input inflation for the real asset businesses that are exposed to these variables.

Real assets also stand to benefit from the numerous structural drivers of performance that existed prior to the pandemic. Industrial real estate continues to benefit from the rise of e-commerce, while immigration and household formation support the residential market and utility businesses. Streaming and social media continue to drive the demand for cell towers and datacentres while population growth continues to fuel the need for renewable energy development. These macro trends support strong real asset total returns in 2022.

The Starlight Global Real Estate Fund has experienced 30 distribution increases year to date with an average increase of 5.9%. Similarly, the Straight Global Infrastructure Fund has experienced 25 distribution increases year to date with an average increase of 8.6%. In 2020 over 90% of the monthly distributions from either fund were treated as return of capital for tax purposes. Investors seeking similar after-tax income would be required to find equities yielding over 8.0% or bonds yielding over 10.0% to match the after-tax cash flow from the Starlight Funds.

After-Tax Yield Comparison

	High Yield Bonds	Common Equity	Preferred Equity	SCGR	SCGI
Yield	**4.57%**	**2.50%**	**4.62%**	**5.05%**	**4.96%**
Tax Rate	*53.53%*	*39.34%*	*39.34%*	*2.49%*	*2.97%*
After-Tax Yield Comparison	**2.12%**	**1.52%**	**2.80%**	**4.92%**	**4.81%**
$100,000 Investment Example					
Capital	$100,000	$100,000	$100,000	$100,000	$100,000
Income	$4,570	$2,500	$4,620	$5,050	$4,960
Taxes Payable	**$2,446**	**$984**	**$1,818**	**$126**	**$148**
After-Tax Income	**$2,124**	**$1,571**	**$2,802**	**$4,924**	**$4,812**

Source: Bloomberg, E&Y Tax Calculators, taxtips.ca, Starlight Capital
Notes: High Yield Bonds represented by the Horizons Active High Yield Bond ETF, Common Equity represented by the S&P/TSX Composite Index, Preferred Equity represented by BMO Laddered Preferred Share Index ETF, SCGR is the Starlight Global Real Estate Fund series F, SCGI is the Starlight Global Infrastructure Fund series F. All yields and pricing as of October 27, 2021. SCGR and SCGI tax breakdowns as of 2020.

The Starlight Capital funds have been managed using our proprietary Focused Business Investing philosophy and have created significant value for unitholders. The funds have consistently outperformed their benchmarks and with real assets poised to have a strong 2022 the time is now to increase allocations to real assets and to Starlight Capital.

Starlight Capital Historical Returns

	2019	2020	2021	Cumulative Total Return
Starlight Global Real Estate Fund - Series F	**20.8%**	**-5.1%**	**20.2%**	**31.3%**
FTSE EPRA Nareit Developed Total Return Index	17.2%	-9.7%	18.6%	27.9%
Starlight Global Infrastructure - Series F	**26.5%**	**3.8%**	**6.5%**	**36.2%**
S&P Global Infrastructure Total Return Index	21.0%	-7.3%	7.6%	21.5%

Source: Bloomberg LLP, 2021 returns January 1, 2021 to October 29, 2021, since inception returns October 2, 2018 to September 30, 2021. All returns in CAD.

Thank you to all of our partners who have shown their faith in our ability to build Starlight Capital, deliver value to their clients and navigate the global pandemic. We look forward to deepening our partnership in the future.

Starlight Capital

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.

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