Starlight Global Growth Fund
Q2-2023 Commentary

Starlight™ CAPITAL Focused Investing

Fund	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Starlight Global Growth Fund, Series F*	14.4	25.6	5.0	7.8	12.9	8.9

*Inception date December 31, 1998. Formerly Stone Global Growth Fund, renamed effective June 21, 2023.
Source: Starlight Capital, as of June 30, 2023.

Performance Summary

Year to date, the Starlight Global Growth Fund – Series F is up 14.4%[1].

'Growth' investing continues to outperform the market following a sharp sell-off last year. This has whipsawed many investors who pivoted into 'value' last year, creating another painfully noticeable bout of divergent performance between growth and value stocks. **While we remain dedicated to our growth credentials, this emphasises the importance of balance when the economic outlook is so confusing.**

> We have a broad and balanced spread of resilient, reliable and repeatable 'growth' themes in developed markets across both defensive and cyclical sectors.

These span under-the-radar growth companies, like American trash and recycling collector **Waste Connections** and US bug killer **Rollins**, as well as businesses with underappreciated growth, such as **McDonald's**, **LVMH** and **L'Oreal**. We would also add **Nvidia** to the latter camp, despite its phenomenal recent run: this business is in the driver's seat of AI technology, as it designs the powerful chips that make it all possible. Nvidia was down 50% last year but has soared since. People can't make their mind up about this stock in the short term; we think it's one for the long term.

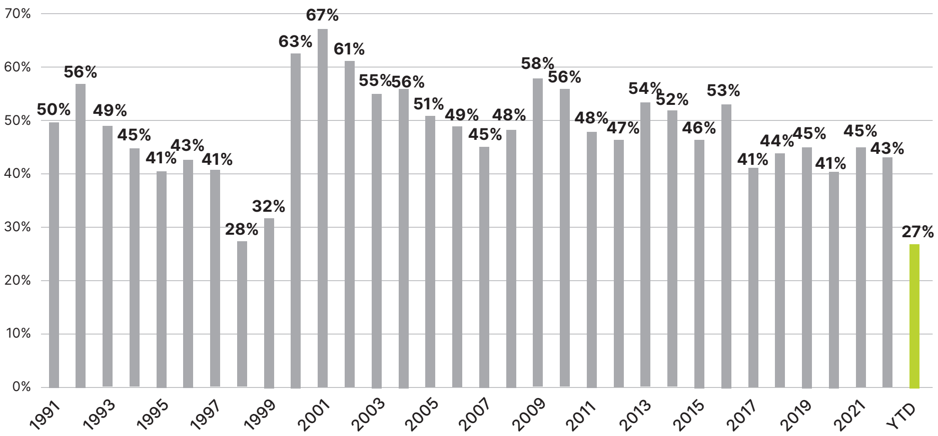
> These companies are all in very different lines of work, yet they all share scalable, repeatable, easy-to-imitate yet difficult-to-copy qualities in a world where we expect the strong to get stronger.

The recent concentration of market returns has created even greater dispersion of portfolio performance this year. Only 27% of S&P 500 stocks are beating the S&P500. This is the lowest in more than 30 years. It also helps explain why only a quarter of active funds are outperforming the market this year according to analysis by financial services firm Baird.

[1] Source: Starlight Capital, as of June 30, 2023.

Very few US stocks are beating the index this year

% of S&P500 companies outperforming the market by year



Source: Baird

Most of the return in the US stock market has been driven by the 'Magnificent Seven': **Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla. Fortunately, we own five of them (we don't own Meta and Tesla).**

Pessimists say this market concentration is proof that the market's recovery is just a mirage. They also argue that the US Federal Reserve won't pivot until there's economic pain and that's the only precursor to a continued broadening in leadership. We agree that widespread economic and corporate earnings growth is hard to find...but, perversely, growth investing outperforms when this is the case.

Q2 top contributors		
Nvidia Corp	+49%	Gaming, datacentre and AI
Martin Marietta Materials	+27%	Aggregates
Intuitive Surgical Inc	+31%	Robotic surgery
Costar Group Inc	+26%	Commercial real estate database
Microsoft Corp	+16%	Software

Q2 bottom contributors		
Estee Lauder Companies-Cl A	-22%	Cosmetics
Sartorius Stedim Biotech	-16%	Biotech supplier
Remy Cointreau	-14%	Cognac
Sandvik Ab	-8%	Mining machinery
Diageo Plc	-6%	Spirits

Our worst performers this quarter often suffered from the lethargic recovery in Chinese demand following its post-COVID re-opening. Inventory levels, from cosmetics to cognac, are too high, and some consumers are trading down. If this stock has to unwind the old-fashioned way – clearance sales, bluntly – it could be very damaging to these companies' values. This is especially so when combined with anaemic customer demand. Investors' expectations for these sorts of businesses are yet to heavily reset downward, so we sold both cosmetics conglomerate **Estee Lauder** and drinks giant **Diageo**. Estee's longer-term underperformance in the US may also be a signal that some of its brands are a bit dusty and still reliant on the department store channel. Estee has become a binary bet on China recovering, whether through self-started consumers or government or central bank stimulus, which goes against one of the key ingredients in our secret sauce investment philosophy. We acknowledge that cosmetics and beauty is still a very attractive industry, which is why we still hold the well-balanced and diversified L'Oreal.

Our top performers include the much-talked-about Nvidia and Microsoft, two beneficiaries of the AI computing revolution.

The investment case around this potential new computing era is exciting, but it must be tempered by a sensible approach to risk management – Nvidia remains a large holding in our fund, but we have taken profits on the way up and sold a meaningful part of the position.

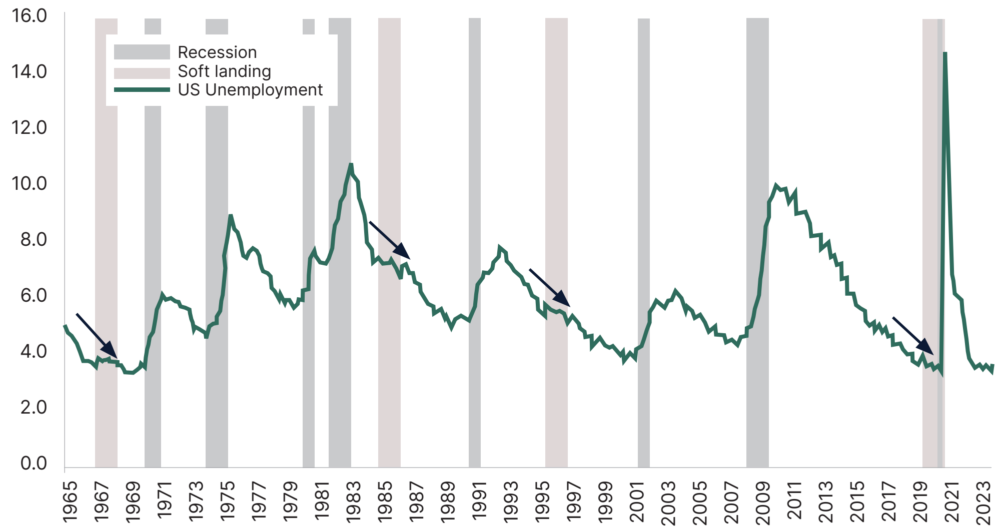
Martin Marietta doesn't often appear in our top/bottom performers as it's that rare commodity business that has minimal commodity price risk. A ton of aggregates (gravel) costs about $15 – we challenge you to buy a ton of anything for $15. As far as we can tell, the price of aggregates has only gone down once in recent history, back in 2010 when the price dropped 1.5%. Martin Marietta, which operates exclusively in the US, remained profitable throughout the Global Financial Crisis. Barriers to entry in quarrying are incredibly high as greenfield sites require at least 500 acres of land with industrial zoning, special permitting processes that take years, and mining permits from states, and air and water quality permits from both state and federal government. Meanwhile, its customers aren't dependent on the construction cycle, as its rocks are used in all sorts of buildings, including infrastructure, heavy non-residential structures, such as datacentres. Also, single-family homes require much more aggregate than other building work, which may be muted due to the sluggish economy. There is a shortage of single-family houses in the US that should underpin demand for building even in a downturn, in our view.

Intuitive Surgical is one of our top-performing med-tech plays and has been in the fund for many years. It's the worldwide leader in robotic surgery, with a large installed base of machines and trained doctors in American hospitals, which is a meaningful barrier to entry. It is also expanding into other nations, with a reasonable foothold in China. Intuit's Da Vinci system reproduces a surgeon's hand movements during minimally invasive surgery performed by tiny robotic arms and instruments. Robotic surgery often generates: 1) better outcomes for patients; 2) lower total cost of care; 3) better patient experiences, with smaller scars and faster discharge; and 4) surgeons able to do more procedures with less fatigue. Robotic surgery is becoming standard care in a greater number of procedures and the number of deferred procedures during the pandemic is finally starting to be cleared (in the US, at least).

The most anticipated recession of all time

Most economists and strategists think a recession is in the offing because of the lagged impact of rising interest rates and worries that inflation will remain sticky until high rates break something. These are valid concerns, but investors must remember that the key variable is unemployment. If a significant spike in unemployment can be avoided, then a 'soft landing' can be engineered and recession avoided.

Recessions happen when unemployment rockets



Source: BNP Paribas Exane estimates

Many professional investors are trying to avoid holding much equity, but the year-to-date returns point to an underlying strength, particularly in the US economy. These days, fewer American jobs are in the 'cyclical' part of the economy, and a lot of the stock market pain came in early, in the first months of 2022 as we awaited the most anticipated recession in history. This recession may never come. **In the meantime, we maintain our five-year investment horizon and a broad and balanced spread of high-quality growth stocks that can weather a variety of economic scenarios.**

We invite you to partner with us.

Starlight Capital Mutual Fund

Diversified Equities
Starlight Global Growth Fund

Inception – 2003, open-ended trust

Investment Objective
To provide superior long-term investment returns through capital growth. The Fund invests primarily in common shares and debt obligations anywhere in the world other than Canada. The portfolio will predominately consist of large capitalized growth companies anywhere in the world other than Canada.

Fund Codes
Series A (SLC995)
Series F (SLC997)
Series T8 (SLC9958)

Distribution Frequency
T8 Monthly

Investment Management Team

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

James Thomson
Portfolio Manager

Sammy Dow
Portfolio Manager

About Starlight Capital

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 $25B in AUM. A privately held owner, developer and asset manager of over 77,000 multi- residential suites and over 8 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/

Invest With Us

For more information on our investment solutions, learn more at **starlightcapital.com** or speak to our Sales Team.

Important disclaimer.

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