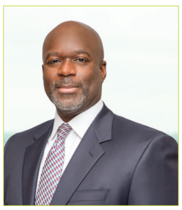
STARLIGHT GLOBAL INFRASTRUCTURE FUND

Infrastructure continues to deliver



Dennis Mitchell, MBA, CFA, CBV
CEO & CIO, Starlight Capital

Varun Anand, CFA
Portfolio Manager, Infrastructure

Key takeaways

- In February, global infrastructure generated a 2.5% total return, bringing the year-to-date total return to 7.5%[1]
- Declining risk premiums have driven market multiples up while corporate earnings revisions have stabilized in positive territory for the year
- The extension of two key deadlines and the eventual positive resolution of these events should allow the market to avoid testing 2018 lows

Macroeconomic Update

On the back of declining risk premiums and rising market multiples, global equity markets have delivered strong total returns in 2019. Our expectation for 2019 is that it would be a battle between deteriorating economic output trends and positive economic fundamentals and so far, the latter is prevailing. Investors such as Ray Dalio have reduced their near-term odds of a recession and corporate earnings forecasts have stabilized in positive territory for the year. With global central banks either stimulating (China, Japan) or pausing (U.S., Canada, European Central Bank (ECB), Bank of England (BoE)), financial conditions have ceased tightening and investor confidence has recovered.

As we move into March, two looming deadlines will likely be extended, giving markets some time to consolidate gains and position for possible outcomes. First, the March 1st deadline for a trade deal between the U.S. and China was extended and the proposed increase of existing tariffs on Chinese exports into the U.S. has been delayed. Trump wishes to host a second summit with Chinese President Xi at his Mar-A-Lago resort, where he will no doubt wish to unveil the largest/best trade deal in the world. We expect markets to take any deal and the elimination of tariffs as a positive, resulting in continued multiple expansion with the possibility of upwards earnings revisions to boost equity returns.

Second, the U.K. is poised to exit the EU on March 29th. Brexit negotiations continue and we expect the U.K. and the EU to agree to a short-term extension to finalize Prime Minister Theresa May's current proposal. While important issues remain unresolved, the inexorable march towards Brexit will serve to focus the U.K. parliament on formalizing May's deal as no viable alternative has been produced. Markets should respond positively to this outcome, particularly U.K. equities which still trade with a Brexit discount.

[1] Feb 28, 2019. Source: Bloomberg LP. Global Infrastructure represented by S&P Global Infrastructure Index (CAD)

Global Purchasing Managers' Indices (PMIs) rebounded in February with the composite at 52.6, up from 52.1. This is the first increase in global PMIs since Q2 of 2018 and was driven by services PMI growth which offset flat global manufacturing PMIs. Rising U.S. PMIs also offset declines in Europe and China. The end of the Federal Reserve Bank's tightening cycle combined with Chinese stimulus (now over 60 distinct easing measures since June 2018) should see global PMIs stabilize in the second half of 2019 or the first half of 2020. Barring the impeachment of the U.S. President or a central bank policy error, global equities should bridge the gap between current levels and 2018 market highs, without testing 2018 market lows.

Global infrastructure has generated a total return of 7.5% year-to-date[2]. In February, global infrastructure underperformed global equities and U.S. equities (2.5%, 3.2% and 3.3% total returns[3], respectively), due to underperformance of utilities relative to other sectors. The reduction in risk premiums saw investors allocate capital to more economically sensitive sectors, which highlights the value added by the Starlight Global Infrastructure Fund, as it is underweight Utilities and has exposure to six Global Industry Classification System (GICS) sectors.

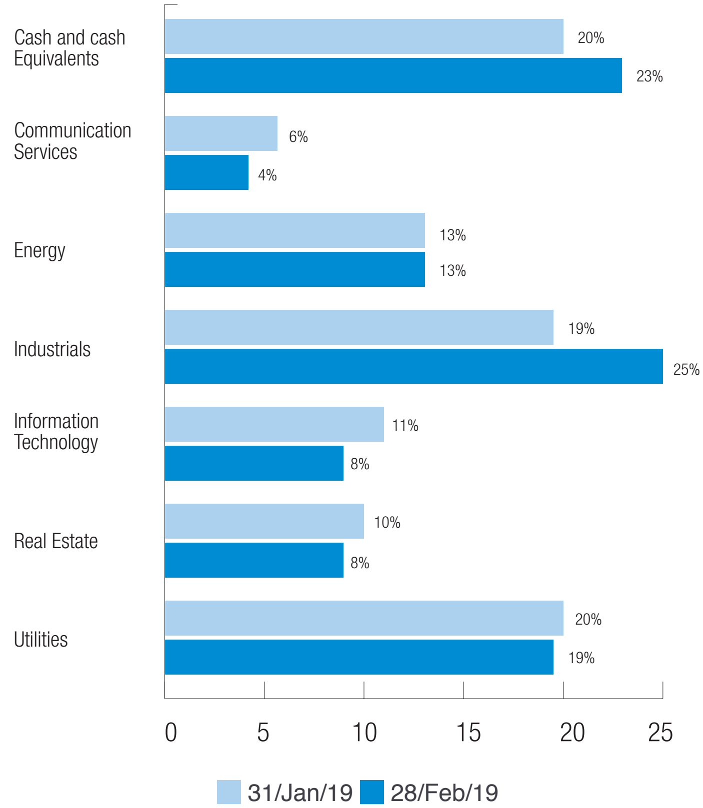
Starlight Global Infrastructure Fund

Overview

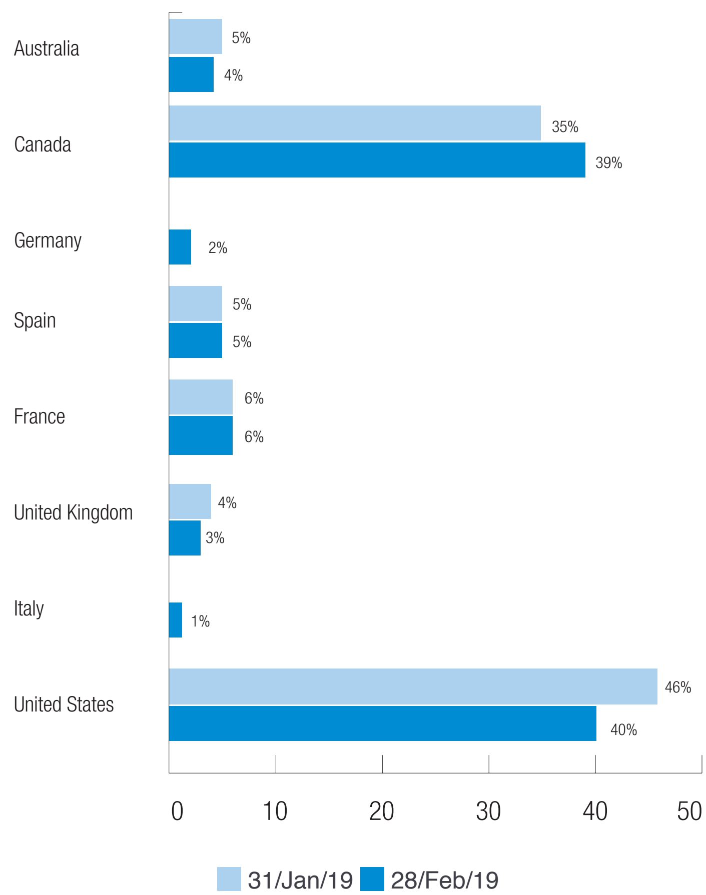
The Fund's geographic and sector allocations are shown (adjacent) here. Assets Under Management (AUM) increased 45% in February and accounts for much of the decline in U.S. holdings. Incremental new capital was largely allocated to new European and Canadian positions. Changes in sector allocation were also driven by capital inflows as several new positions in industrials were added in February. No positions were eliminated during the month. The Fund's cash weighting reflects our lag in deploying lumpy capital inflows as the market continued to rise.

[2] Feb 28, 2019. Source: Bloomberg LP. Global Infrastructure represented by S&P Global Infrastructure Index (CAD) [3] As of February 28, 2019. Source: Bloomberg LP. Global infrastructure, global equities, and U.S. equities represented by the S&P Global Infrastructure Index (CAD), MSCI World Index and S&P 500 Index, respectively.

Starlight Global Infrastructure Fund – Sector Allocation (%)



Starlight Global Infrastructure Fund – Geographic Allocation (%)



Portfolio Review

The top two contributors to fund performance in February were Visa Inc., with a total return of 10.25%, and Interxion Holding N.V., with a total return of 9.44%.

Visa Inc. operates a retail electronics payment network and manages global financial services. The company operates the world's largest consumer payment system and boasts more than 3.3 billion credit and other payments cards in circulation spanning more than 200 countries. Visa reported strong Q1/19 results, beating street EPS expectations and providing upbeat 2019 guidance with EPS growth in the mid-teens and net revenue growth in low double digits on a nominal dollar basis. The company continues to benefit from the increased penetration of digital payments vs. cash transactions, with growth opportunities spanning both developed and emerging economies. We believe that Visa was oversold in Q4/18 and the re-assuring Q1/19 results led to a rally in Visa shares throughout the month of February. We continue to hold the name though we have reduced our exposure following the strong share price performance.

Interxion Holding N.V. is a leading data centre operator in Europe, providing co-location services, equipment housing, connectivity services and performance management. The company owns and operates 50 data centres serving more than 1,600 customers across Europe, with a strong pipeline of growth for new builds as well as expansions. Interxion's shares sold off in Q4 of 2018 on concerns around slowing demand and diminishing pricing power. As we noted in our January commentary, Interxion reported stellar Q3 results, which helped alleviate these concerns. Also, Equinix's Q4/18 record bookings in EMEA demonstrated the growth opportunity for data centres across Europe, which improved sentiment for Interxion shares, as it's the only pure-play European data centre company within the space. We continue to hold Interxion in the Fund but reduced our exposure due to strong share price performance.

Year-to-date, 11 companies in the **Starlight Global Infrastructure Fund** have increased their dividends or distributions by an average 9.1%.

The top detractor from fund performance in February was Smart Metering Systems ("SMS"). SMS is a vertically integrated smart meter company which connects, owns, operates and maintains metering systems and databases on behalf of major energy companies across the U.K. SMS has operated in the U.K. for more than 20 years, and holds longstanding relationships with leading suppliers. The company's underperformance in February resulted more from typical market volatility and trading than any negative news or sentiment. SMS did announce a contract win with Co-operative Energy for 326,000-meter points, bringing SMS's total book order visibility beyond 2.1 million meters. We believe SMS has a strong growth pipeline ahead of it, underpinned by the migration to smart meters and evolution of the electric network. The Fund continues to hold SMS and we would add to the position on further share price weakness.

Year-to-date, 11 companies in the Starlight Global Infrastructure Fund have increased their dividends or distributions by an average 9.1%.

Portfolio Outlook

The Starlight Global Infrastructure Fund now holds 35 positions. We expect to continue deploying capital into these businesses on an opportunistic basis. 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 strong share price performance this year. 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.

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

Starlight™ Capital