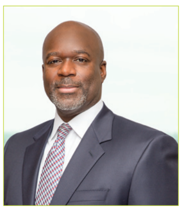
STARLIGHT GLOBAL INFRASTRUCTURE FUND

Infrastructure equities power ahead



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

Varun Anand, CFA
Portfolio Manager, Infrastructure

Key takeaways

- In March, global infrastructure generated a 4.1% total return, bringing the year-to-date total return to 11.9%[1]
- Consensus estimates are now for 4.4% EPS growth in 2019 and 5.9% in 2020
- Global Purchasing Managers' Indices (PMIs) continued to climb in March with the Composite at 52.8, up from 52.6

Macroeconomic Update

Earnings season has ended, and analyst EPS expectations have troughed in positive territory for the year, further reducing the risk of an EPS recession. Consensus estimates are now for 4.4% EPS growth in 2019 and 5.9% in 2020, which completes the mean reversion of EPS back to the long-term average of 6%. Equities were buoyed by the benign completion of the Mueller probe and continued progress towards a trade deal between the U.S. and China. While Brexit remains a quagmire, the extension of the withdrawal date and subsequent veto of a "No Deal" Brexit continues the inexorable march towards a negotiated solution in the spring.

The Federal Reserve Bank has executed a complete 180 degree turn in outlook and the market has switched from pricing in a single 25 bps hike in 2019 to pricing in 25 bps cuts in 2019 and 2020. The U.S. yield curve inverted at the short end during March however, the overall 2-year to 10-year curve remains steep, if below long-term averages. Regardless, this indicator of potential recession is not overly accurate or timely in predicting recessions and is not supported by other recession indicators. Consensus is that the current hiking cycles in the U.S. and Canada are complete with the U.S. 10-year bond yield dipping below 2.4% by month-end.

[1] As of March 29, 2019. Source: Bloomberg LP. Global Infrastructure represented by S&P Global Infrastructure Index (CAD)

Global Purchasing Managers' Indices (PMIs) continued to climb in March with the Composite at 52.8, up from 52.6. Services PMI growth to 53.7 and Manufacturing PMI flat at 50.6 indicate that the global economy continues to expand. China was the big mover with both Manufacturing and Services PMIs rising and Manufacturing back above 50. Clearly the current massive stimulus program is beginning to have positive effects and the outlook is for continued PMI gains. Eurozone PMI data was mixed with Services strong and Manufacturing weak in the core (Germany, France and Italy) and strong in the periphery (UK, Spain, Ireland, Netherlands and Greece). The implementation of the European Central Bank (ECB) long-term refinancing operations (LTRO) program in September should normalize yields in across the Eurozone and encourage capital formation and corporate investment. In addition, the recent string of poor economic data out of Germany should stabilize and improve as Chinese stimulus drives the Chinese economy and those of its trading partners.

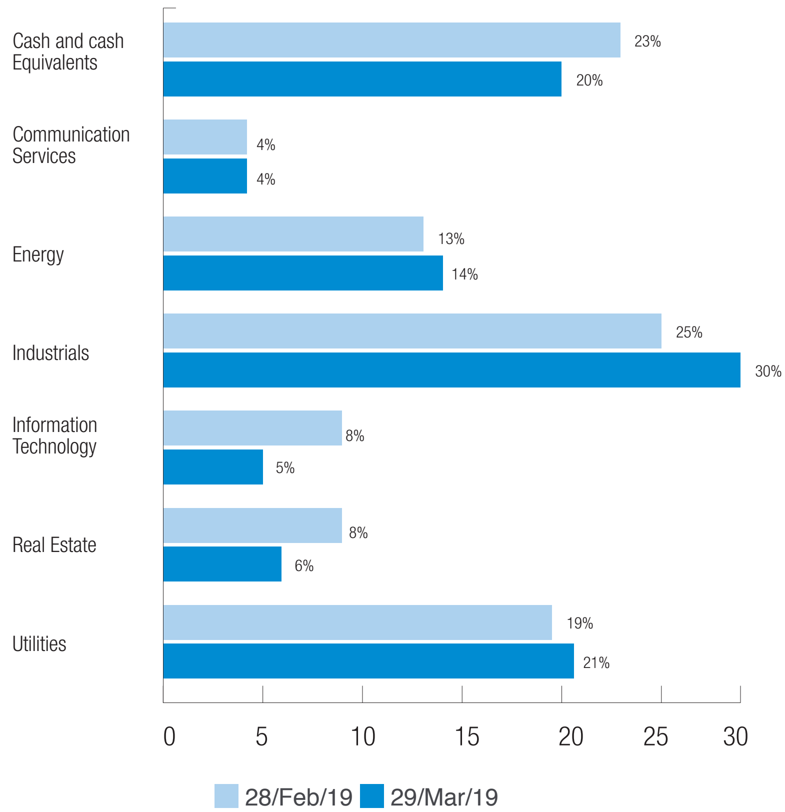
In March, global infrastructure outperformed global equities and U.S. equities (4.1%, 3.0% and 3.5% total returns[2], respectively). This continues the long-term trend of global infrastructure outperformance and underscores the need for Advisors to have a strategic allocation to infrastructure in their clients' portfolios.

Starlight Global Infrastructure Fund Overview

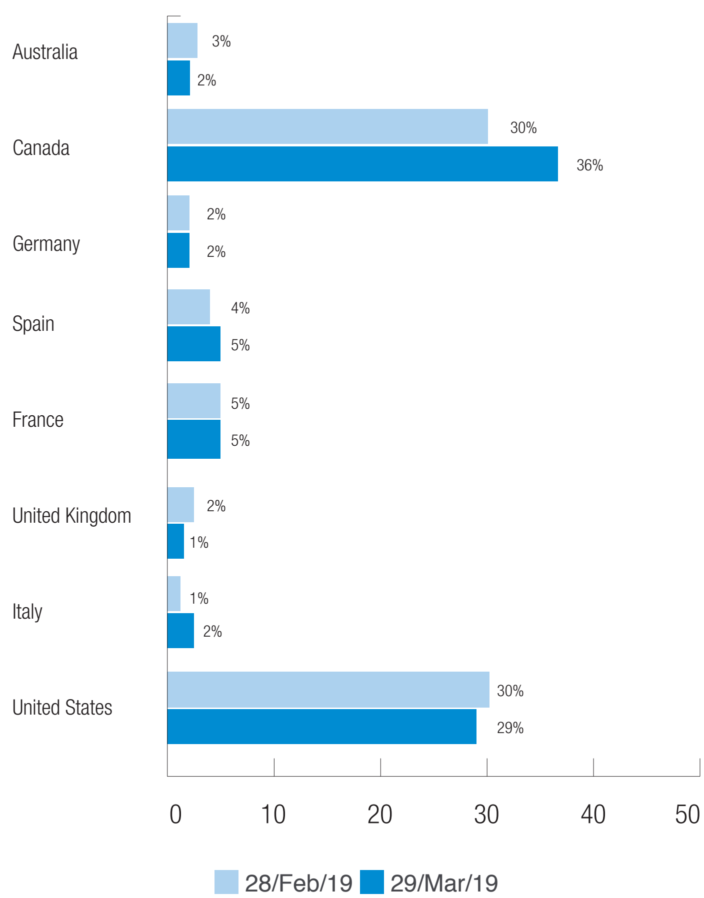
The Fund's geographic and sector allocations are shown (adjacent) here. Assets Under Management (AUM) increased 66.3% in March and accounts for much of the decline in U.S. holdings. Incremental new capital was largely allocated to European and Canadian positions. Changes in sector allocation were also driven by capital inflows as several new positions in industrials were added in March. 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] As of March 29, 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 (%)*



* excluding cash and cash equivalents

Portfolio Review

Two of the top contributors to fund performance in March were American Tower Corp. (“American Tower”), with a total return of 13.4%, and Parkland Fuel Corp. (“Parkland Fuel”), with a total return of 11.2%[3].

American Tower operates the largest portfolio of telecommunications towers globally, with a significant presence in the U.S. and a growing footprint in India, Latin America and Europe. American Tower’s primary business is leasing antenna space on multi-tenant towers to wireless service providers and radio and television broadcast companies. After reporting a solid Q4, American Tower saw consensus estimates increase which resulted in multiple expansion and strong share price performance during the month of March. American Tower is a primary beneficiary to the explosive growth of data consumption as well as the wireless network upgrade cycle (i.e. 4G to 5G). We still see upside to American Tower shares over the long-term, however we have trimmed our exposure as a result of the strong outperformance. We will look to opportunistically add on any share price weakness.

Parkland Fuel is one of North America’s fastest growing independent marketers of fuel and petroleum products. The company delivers gasoline, diesel, propane and other high-quality petroleum products to wholesalers and retailers across Canada, the United States and the Caribbean. Parkland Fuel differentiates its business model by leveraging their supply advantage with economies of scale and integration between segments. Parkland Fuel reported very strong Q4 results, with EBITDA significantly above consensus driven by outperformance of the supply segment. The company continues to make progress on extracting synergies from acquisitions, reaching a run-rate of $100MM in 2018. We continue to see upside to the shares, given management’s strong M&A track record and competitive advantage due to its scale and sizable distribution infrastructure.

Year-to-date, 13 companies in the **Starlight Global Infrastructure Fund** have increased their dividends or distributions by an average 8.4%.

One of the top detractors from fund performance in March 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 March was largely due to trading volatility, typical for a small market capitalization company, as a large shareholder was trimming its position. In March, SMS announced a contract win with SSE Energy Supply for 200,000-meter points, bringing SMS’s total book order visibility beyond 2.3 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, 13 companies in the Starlight Global Infrastructure Fund have increased their dividends or distributions by an average 8.4%.

[3] Source: Bloomberg LP.

Portfolio Outlook

The Starlight Global Infrastructure Fund now holds 38 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