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Where portfolio manager Dennis Mitchell is seeing investment opportunities in the real estate and infrastructure sectors

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Portfolio manager Dennis Mitchell doesn't hesitate when asked what it's like to launch new funds amid extreme market volatility.

"There is always a reason not to do something," says Mr. Mitchell, chief executive and chief investment officer at Starlight Capital, which launched two mutual funds with matching exchange-traded funds – the Starlight Global Real Estate Fund and Starlight Global Infrastructure Fund – on Oct. 2. "There will always be market volatility. The challenge for us really is to be patient and to wait for opportunities and seize them when they appear. ... We are building this firm for the next 10, 15, 20 years."

Mr. Mitchell has a strong track record, managing more than $3-billion over his career at Sentry Investments before joining Starlight in March. The Globe and Mail recently spoke to Mr. Mitchell about what he's been buying and selling and the opportunities he sees in his core areas of real estate and infrastructure.

What's your investment strategy?

We see a gap in the investable options in real estate and infrastructure funds available to Canadian investors. As a result, there is a dearth of allocation by retail investors to these two spaces. We feel strongly we can provide that solution and better returns than some of our competitors.

Where do you see the opportunities in real estate?

There are three opportunities that we point out to investors. The Bank of Canada and the U.S. Federal Reserve Bank are raising rates and investors fear real estate will underperform but, historically, real estate has performed well during a rising interest-rate environment. Real estate investment trusts with shorter lease terms, such as apartments or industrial, have the ability to mark rents to market faster and capture more upside as economic activity increases.

Second, because we have a global portfolio, we can offer investors exposure to subsectors within real estate that don't exist in Canada. An example is tower or data centre REITs. These are safe ways to play technology trends. We give investors exposure through REITs like American Tower Corp. or Crown Castle International Corp.

Third, there are unique situations such as multi-residential names in Germany or home builders in Ireland, where there is a fundamental supply/demand imbalance. There are opportunities that Canadian retail investors can't get access to. We provide that exposure in our global fund.

Where do you see opportunities in infrastructure?

Airports and toll roads are fantastic businesses that offer strong, top-line revenue growth, margin expansion and cash-flow growth but are unavailable to Canadian investors. As economic activity picks up, we expect greater utilization of these assets, resulting in higher revenues and cash flows.

What have you been buying lately?

One stock we are buying today in our real estate fund is WPT Industrial REIT; it's a name listed in Canada that owns industrial assets in the United States. We like that it trades at a 6.5-per-cent free-cash-flow yield and trades at an 11-per-cent discount to net asset value. We expect revenues and cash flows to keep growing. We started buying it at $13 and it's currently trading around $12.90. We're going to keep buying as the discount persists.

What have you been selling?

We have been trimming our position in American Tower, the largest [wireless and broadcast] tower REIT in the world. We've taken it from a large overweight to just below an average weight for us. We bought it in both funds [for] US$145 when our funds were launched and it's now trading at US$165. Our total return in two months has been about 14 per cent, during a time when the market has been negative. That type of performance generally doesn't persist. It makes sense for us to take the weight down, despite the fact that we still see another 10 [per cent] or 15 per cent upside from here.

What's the one stock you wish you bought?

A company I wished we'd bought sooner is Comcast Corp. We own it now and started buying it in our infrastructure fund at US$39. It's now trading around US$37.50. When we launched the fund in October, it was trading at US$34.25. Comcast is pausing its stock-buyback program in order to pay down debt tied to the acquisition of Sky PLC [the British satellite TV, broadband and mobile services provider]. We thought the stock would go lower, but when we were proven wrong, we stepped in and bought the name and continue to buy it.

Is there a lesson there for investors?

The lesson is an old one, which people always have to relearn, including myself. The lesson is: There is never a perfect company trading at the perfect price at the perfect time. You usually have to compromise on one of those things. That's a lesson that professional portfolio managers learn and relearn over the course of their careers.

This interview has been edited and condensed

https://www.theglobeandmail.com/investing/markets/inside-the-market/article-portfolio-manager-dennis-mitchell-on-navigating-volatility-and-the/