Starlight Dividend Growth Class

Q1-2024 Commentary

Fund	Q1 2024	1 Year	3 Year	5 Year	10 Year	15 Year	Incept*
Starlight Dividend Growth Class, Series F*	6.5%	16.4%	9.2%	10.6%	8.0%	10.2%	9.8%

*Inception date August 2003.
Source: Starlight Capital, as of March 31, 2024.

Performance Summary

- Over the first quarter of 2024, Starlight Dividend Growth Class, Series F (the Fund) returned 6.5%.
- From a sector perspective, Financials, Industrials, Information Technology, and Energy contributed the most to total return (approx. 80% of the total return). From a geographic perspective, nearly two-thirds of the performance can be attributed to companies from the United States.

Contributors and Detractors

Q1 2024 Top Five Contributors		
Stock	**Contribution to Return**	**Average Weighting**
WASTE CONNECTIONS INC	+ 0.7%	3.9%
MICROSOFT CORP	+ 0.6%	4.2%
BROADCOM INC	+ 0.5%	2.4%
COSTCO WHOLESALE CORP	+ 0.5%	3.3%
STRYKER CORP	+ 0.5%	2.0%

Q1 2024 Bottom Five Contributors		
Stock	**Contribution to Return**	**Average Weighting**
JAMIESON WELLNESS INC	- 0.3%	1.8%
UNITEDHEALTH GROUP INC	- 0.1%	4.2%
NIKE INC -CL B	- 0.1%	0.9%
OPEN TEXT CORP	- 0.1%	1.0%
TORONTO-DOMINION BANK	- 0.1%	2.4%

Source: Starlight Capital & Bloomberg Finance L.P. As of March 31, 2024.

Waste Connections was the leading contributor to returns, attributed to its unique business model and irreplaceable landfill assets. These attributes, combined with a robust operational framework, resilient business model, and industry-leading EBITDA margin, have positioned Waste Connections as a reliable investment choice, rewarding shareholders with growing dividends, share buybacks, and capital appreciation.

On the other hand, Jamieson Wellness underperformed due to a confluence of adverse factors, including weaker domestic demand and uncertainties stemming from the recent acquisition of the Youtheory brand in the U.S. The situation was compounded by a major strike at their main facility, impacting production and financial performance. Nonetheless, we view these challenges as temporary setbacks and anticipate a potential upswing in valuation once the margins of the newly acquired businesses align with those of the legacy business.

Portfolio Update

Sector	Portfolio Weight %	Top %Q/Q Changes
Energy	11.4%	+ 7.8%
Cash and Cash Equivalents	8.2%	+ 5.8%
Industrials	15.4%	- 2.5%
Health Care	7.6%	- 4.1%
Information Technology	6.6%	- 5.8%

Source: Starlight Capital & Bloomberg Finance L.P. As of March 31, 2024.

In January, we slightly increased rate-sensitive exposures, notably in Canadian banks and Brookfield Infrastructure (BIP), enhancing the portfolio's diversification.

As February drew to a close, we reduced the weight of Information Technology stocks, due to valuation concerns. Given their strong performance over the past year, it was prudent to rebalance the weight of Information Technology holdings, especially as we perceive valuations to have become stretched and exceeding what could be justified by their underlying fundamentals in the short term. This cautious approach continued into March, leading to further reductions in our exposure to U.S. equities, particularly those with elevated multiples, including our Healthcare winners, Stryker and Abbot Labs. Concurrently, we pivoted towards a higher allocation in Canadian names and significantly increased our exposure to the energy sector, raising it from 5.3% at the end of February to 11.4% at the end of March, reflecting our confidence in the improving fundamentals and attractive valuations within this sector.

Fund Outlook

Our strategy remains steadfast in identifying high-quality businesses across North America while remaining sector-agnostic. Furthermore, we actively seek out opportunities aligned with secular growth themes such as digitization, deglobalization, and an aging population. We prioritize factors such as free cash flow generation, consistent capital allocation policies, the magnitude and duration of dividend growth, and valuation relative to historical averages and peer groups.

In 2024, we maintain a balanced approach to risk management, recognizing that it is neither the time to fully embrace risk nor to adopt a fully defensive posture.

We monitor high-quality businesses across multiple economic sectors, seeking dislocations and mispriced investment opportunities that the market may overlook. For instance, Hershey has been under considerable pressure due to rising cocoa prices and perceived demand challenges from weight loss drugs. Despite these challenges, we view them as transient and expect the company's fundamentals to demonstrate resilience, leading to a normalization of valuation.

As 2024 unfolds, we anticipate the market continuing to favor high-quality businesses, with a heightened focus on valuation levels. We anticipate a potential broadening of the market as sectors beyond Information Technology assume leadership roles when the Bank of Canada begins to cut interest rates.

Along with this view, the fund maintains a 25% exposure to financials, benefiting from a balanced position in Canadian banks and high-quality US financials including Bank of America and Visa. Our second-largest exposure is in Industrials, where the manager favors Waste Connections—an all-weather investment that was the top contributor over the quarter. Stantec also benefits from substantial infrastructure projects in North America and Europe. Furthermore, we are positive about the freight sector, with exposure to CN Rail and Cargojet. While closely monitoring commodity prices and industry dynamics, we remain bullish on the energy sector due to strong fundamentals, robust cash flow generation potential, and rising dividends. Our third-largest sector weight provides exposure to high-quality diversified oil and gas players, such as Suncor, Canadian Natural Resources, Imperial Oil, and the top natural gas producer, Tourmaline.

Source: Starlight Capital

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