

# Dividend Growth Investing with Starlight Capital

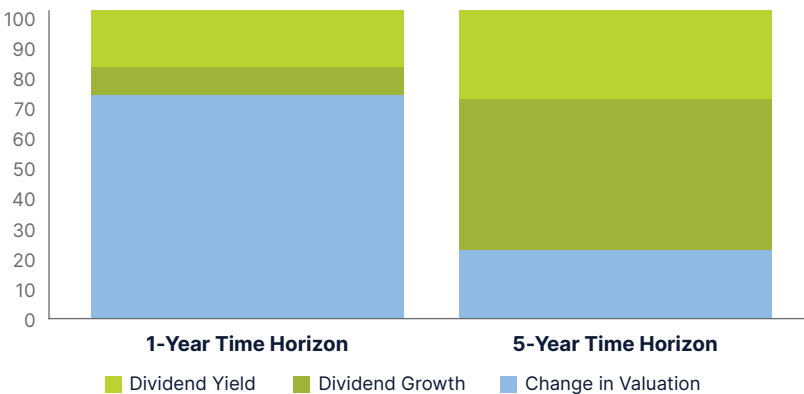


**Sean Tascatan, CFA**

Senior Portfolio Manager  
Diversified Equities

There are three sources of return from any equity investment - the dividend it pays, the growth the company generates and the multiple that the company trades at. Over short periods of time, returns are dominated by the change in the multiple that equities trade at. This can be in response to earnings, central bank monetary policy, government fiscal policy or any other macroeconomic events. **Over longer periods of time, total returns are dominated by the dividends and growth that the company generates. Exhibit 1 below shows this effect and underlines the benefits of focusing on companies that can grow their earnings and are focused on returning capital to investors.**

**Exhibit 1 – Return Generator by Time Horizon for Every 1-Year and 5-Year Period Since 1871**

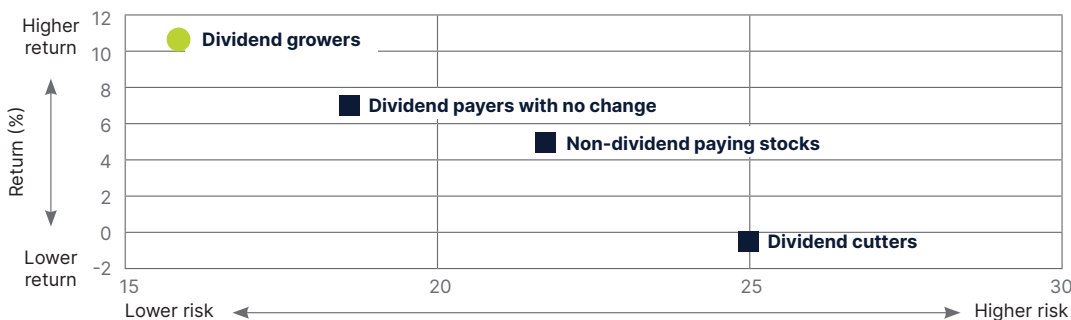


Source: Bristol Gate Capital Partners.

Investors understand the benefits of receiving dividends from companies as one of the sources of total return. **Starlight Capital is focused on companies that consistently grow their dividend based on consistent growth in earnings and cash flows. These companies have historically generated superior long-term total returns and have tended to do so with lower overall volatility.** This point is important as it allows investors to hold onto their positions for longer during periods of elevated volatility. **Exhibit 2** below demonstrates the significant outperformance of dividend growth stocks over the last 50 years.

**Exhibit 2 - Dividend Growth Stocks have Outperformed with Less Risk**

Risk vs return, annualized, 1973 - 2022



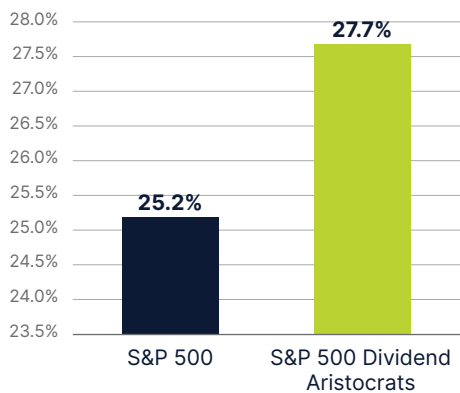
Source: Ned Davis Research, Inc. and Refinitiv, 31 Jan 1973 – 31 Dec 2021. Past Performance is no guarantee of future results. Performance represents the historical risk/return performance of S&P 500 stocks grouped by dividend policies.

**A business must have consistent and growing net earnings before it can implement and then consistently grow its dividend. Consistently rising net earnings are generally the result of an enduring competitive advantage that has not been competed away.** This can be anything from Coca-Cola's brand to Microsoft's omnipresence to CN Rail's tracks to regulated monopolies of public goods (electricity, water, gas). All of these are examples of great businesses with irreplaceable assets that possess an enduring competitive advantage.

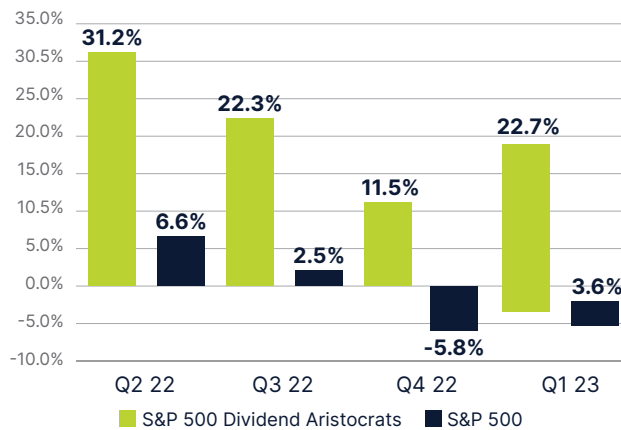
The S&P 500 Dividend Aristocrats are an elite group of large-cap companies that have increased their dividends for at least 25 consecutive years. **Exhibit 3** provides evidence that these companies have consistently generated higher returns on equity than the companies in the S&P 500. The difference is even more striking when we look at quarterly earnings growth. In Q4 2022 the S&P 500 saw material earnings declines while the Dividend Aristocrats enjoyed very strong earnings growth.

### Exhibit 3 – S&P 500 Dividend Aristocrats Return on Equity and Earnings Growth

#### Dividend Aristocrats Have Produced Higher Returns on Equity



#### ...and More Resilient Earnings Growth

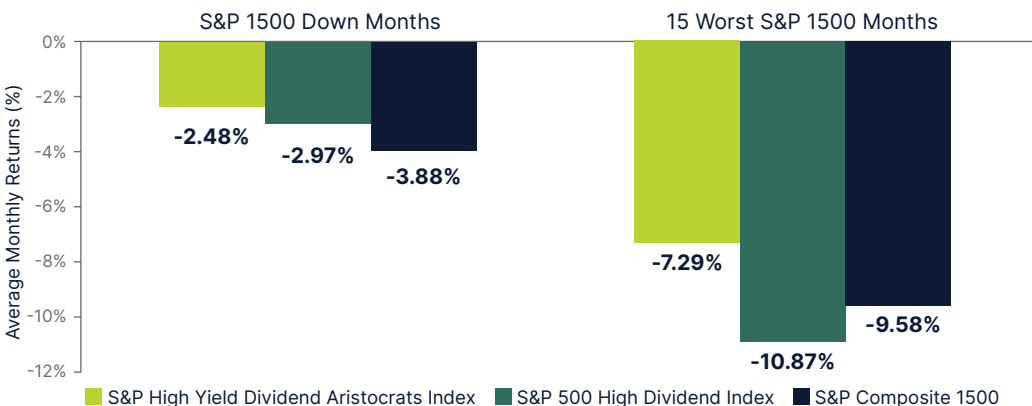


Source: FactSet, 3/1/22-4/20/23. Return on equity measures how efficiently a company generates profits and equals a company's net income divided by shareholders' equity. CY is defined as current calendar year. Index returns are for illustrative purposes only and do not represent fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest in an index. Past performance does not guarantee future results.

**Some companies use financial engineering (rising payout ratio, rising leverage) in order to generate rising dividends. This is not sustainable over the long-term and we screen these businesses out during our analysis.**

These companies often start off as dividend growers and/or high yield stocks but often become dividend cutters when economic (i.e. recession) or financial (i.e. rapidly rising interest rates) adversity arises. **Starlight Capital targets companies that can continue to grow their dividends through full business and economic cycles, based on their ability to grow their net earnings.** As **Exhibit 4** below demonstrates, Dividend Aristocrats provide materially more downside protection compared to High Dividend equities and the S&P Composite 1500® in aggregate.

### Exhibit 4 - Dividend Growers versus High Dividend Payers in Down Markets

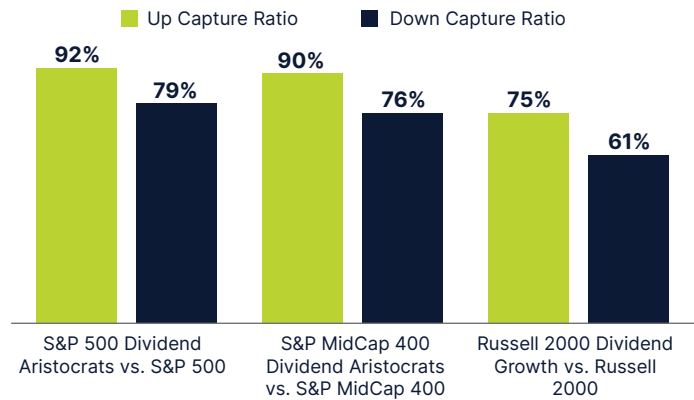


Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1999, to March 31, 2022. Index performance based on total return in USD. Past performance is no guarantee of future results. The S&P High Yield Dividend Aristocrats was launched Nov. 9, 2005. The S&P 500 High Dividend Index was launched Sept. 21, 2015. All data prior to the index launch date is back-tested hypothetical performance. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

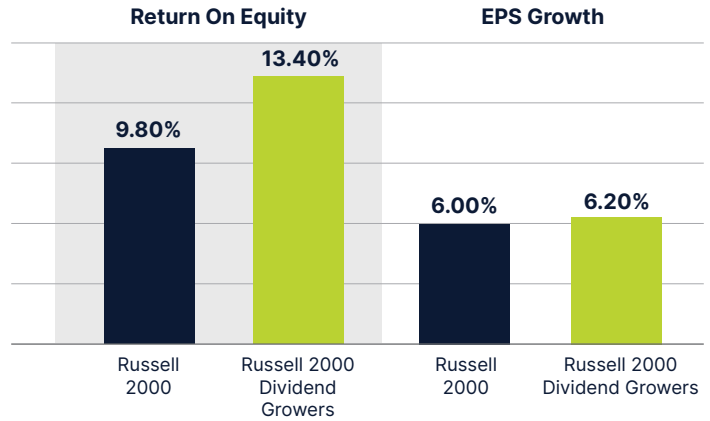
Many investors have incorporated small/mid capitalization stocks strategically into their portfolios for the diversification benefits and the potential for higher returns. Since 1926, small/mid capitalization stocks have outperformed large caps on a nominal basis however, these returns have historically come with greater risk as measured by volatility. The story is very different for small/mid cap dividend growers, as they have experienced both lower volatility and lower drawdowns, compared with the overall small/mid cap universe. Exhibit 5 below shows that small/mid cap dividend growers likely owe this outperformance to their ability to generate higher returns on equity and earnings per share growth.

## Exhibit 5 - Small/Mid Cap Dividend Growers: Higher ROEs & Growth, Better Upside/Downside Capture

Index Dividend Growers Delivered Strong Up/Down Capture Ratios (Inception - June 30, 2022)



Source: Morningstar. Data as of 6/30/2022. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results. S&P 500 Dividend Aristocrats: 5/2/05 - 6/30/22. S&P MidCap 400 Dividend Aristocrats: 1/5/15 - 6/30/22. Russell 2000 Dividend Growth: 11/11/14 - 6/30/22.

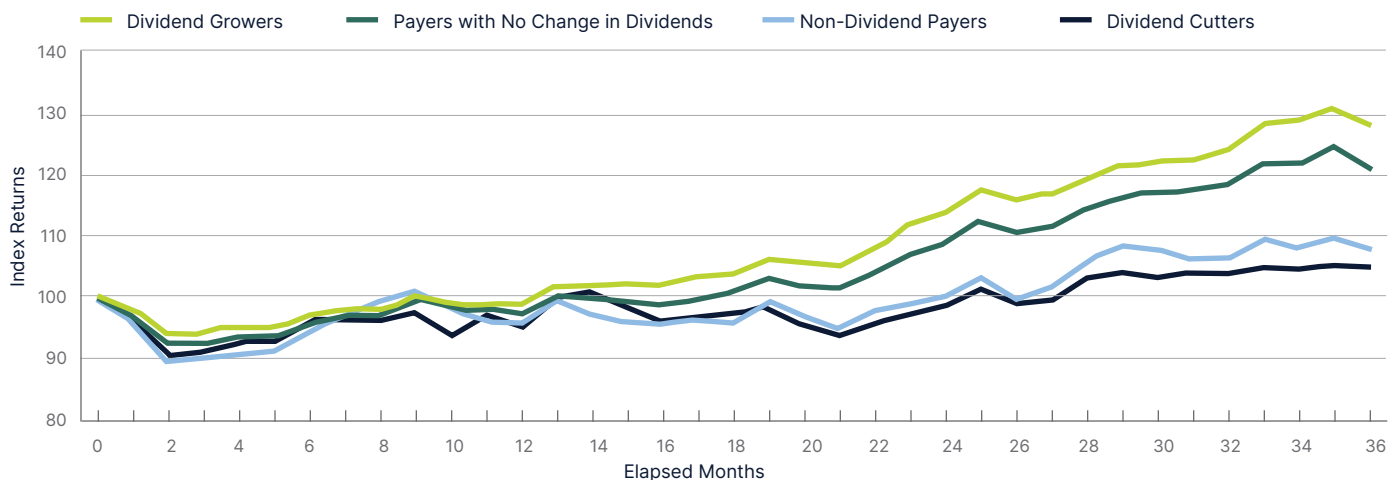


Source: Russell Investment Group. Return on Equity (ROE) is based on the 5-year average for the period ending 12/31/2014. Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock; it serves as an indicator of a company's profitability. Here, EPS is calculated for the last 10 years ending 12/31/2014.

It is a perfect time for investors to allocate to dividend growth strategies as inflation and rising interest rates have been the most dominant factors impacting equity market returns and volatility for the last two years. Rising rates have historically acted as a brake on economic activity, making the cost of capital higher for businesses while simultaneously increasing valuation discount rates. The offset to this impact has historically been stronger earnings growth to offset the impact of higher rates. **As Exhibit 6 below demonstrates, dividend growers have historically outperformed after Federal Reserve Bank rate hike cycles, largely due to their superior earnings growth.**

## Exhibit 6 - Dividend Growers After Federal Reserve Bank Rate Hike Cycles

Subsets of S&P 500, All Rate Hikes Since 1972



Source: Ned Davis Research, Inc. Past performance is no guarantee of future results. Data shown is based on the average 36 month performance after all rate hikes since 1972 which occurred on the following dates: 1/15/73, 8/31/77, 8/31/80, 9/4/87, 2/4/94, 6/30/99, 6/30/04, 12/16/15.

## Dividend Growth Investing with Starlight Capital

The Starlight Dividend Growth Class offers access to a diversified portfolio of North American dividend growth equities that have often increased their dividends at a 10%+ compound annual growth rate. The Fund offers exposure to high quality U.S. small/mid caps with rising dividends to support long term total return potential, Healthcare and Technology companies not widely available in the Canadian market, while reducing exposure to the Financials, Energy and Materials sectors that dominate the Canadian market.

Starlight Capital was founded to provide Canadian investors with the ability to invest in dividend growth mandates to drive superior, long-term risk-adjusted returns. **The Starlight Dividend Growth Class has generated a 20-year track record of strong performance. Driving this performance is the focus on dividend growers and our proprietary investment philosophy that focuses on high-quality companies with enduring competitive advantages.**

### Exhibit 7 - Starlight Capital Dividend Growth

Starlight Dividend Growth Class				
Number of Public Equity Investments	41			
Percentage With a 2023 Dividend Increase	100%			
	1 Y	3 Y	5 Y	
Portfolio Holdings' Dividend CAGR as of December 31, 2023	11.6%	14.3%	10.8%	

Note: Public equity investments, dividend growth stocks, and CAGR excludes private investments and cash and cash equivalents. CAGR is Portfolio Annual Growth Rate. Source: Bloomberg. As of December 31, 2023.

### Exhibit 8 - Starlight Dividend Growth Class (Series F) vs. Other Canadian and Income Equity Funds Category: Canadian Dividend and Income Equity

Total Return (%)	YTD	1Y	5Y	10Y	15Y
Quartile Rank	1	1	1	1	1
Percentile Rank	1	1	3	7	17

Source: Morningstar. CAD. Investment return as of Jan 16, 2024. Category: Canadian Dividend and Income Equity as of Jan 16, 2024. Index: Morningstar Canada DYF GR CAD as of Jan 16, 2024. Earliest Available Aug 01, 2003. Time periods greater than 1 year are annualized. Performance data is current as of January 16, 2024. Past performance is not indicative of future results. There can be no assurance that past performance will be replicated.

### Exhibit 9 - Starlight Dividend Growth Class (Series F) Performance

	1Y	5Y	10Y	15Y
	8.6%	10.5%	8.0%	9.9%

Note: Compound growth calculations are used only for the purpose of illustrating the effects of compound growth and are not intended to reflect future value of any investment fund or returns on investment in any investment fund. Source: Starlight Capital. As of January 16, 2024.

## Access dividend growth with 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.

Focused Business Investing means we invest in great businesses when they offer us enough return for the risk we are exposed to. Great businesses are characterized by strong recurring cash flow, irreplaceable assets, low leverage, and strong management team. The result is concentrated portfolios of great businesses that reward investors with rising dividends.

The Starlight Dividend Growth Class is an opportunity to invest in high-quality dividend growing companies in North America.

**We invite you to partner with us.**

## Starlight Capital Mutual Fund

Diversified Equities

Starlight Dividend Growth Class

Inception — 2003

### Investment Objective:

To achieve above average long-term capital growth that is consistent with a conservative investment philosophy encompassing a diversified portfolio approach. The Fund invests primarily in equity securities of Canadian companies that demonstrate financial strength and good growth potential.

### Fund Codes

Series A (SLC515)  
Series F (SLC517)  
Series I (SLC511)  
Series FT6 (SLC5176)  
Series FT8 (SLC5178)  
Series T8 (SLC5158)  
Series PTF (SCDGC)

### Distribution Frequency

Monthly

## About Starlight Capital

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## Invest With Us

For more information on our investment solutions, learn more at [starlightcapital.com](http://starlightcapital.com) or speak to our Sales Team.



### Important disclaimer.

The views in this update are subject to change at any time based upon market or other conditions and are current as of January 17, 2024. While all material is deemed to be reliable, accuracy and completeness cannot be guaranteed.

Certain statements in this document are forward-looking. Forward-looking statements ("FLS") are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as "may," "will," "should," "could," "expect," "anticipate," "intend," "plan," "believe," or "estimate," or other similar expressions. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the FLS. FLS are not guarantees of future performance and are by their nature based on numerous assumptions. Although the FLS contained herein are based upon what Starlight Capital and the portfolio manager believe to be reasonable assumptions, neither Starlight Capital nor the portfolio manager can assure that actual results will be consistent with these FLS. The reader is cautioned to consider the FLS carefully and not to place undue reliance on FLS. Unless required by applicable law, it is not undertaken, and specifically disclaimed that there is any intention or obligation to update or revise FLS, whether as a result of new information, future events or otherwise. Investment funds are not guaranteed, their values change frequently, and past performance may not be repeated.

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