Fund	Q1 2025	1 Year	3 Year	5 Year	10 Year
Starlight Dividend Growth Class, Series F	-0.7%	12.2%	7.2%	14.0%	8.2%

Source: Starlight Capital, as of March 31, 2025.

Performance Summary

- Over the first quarter of 2025, Starlight Dividend Growth Class, Series F (the Fund) returned -0.7%.
- Industrials, Energy and Health Care were the top sector contributors to performance, which was offset by a decline in Information Technology, Utilities and Consumer Staples.

In early Q1 2025, the S&P 500 reached record highs, buoyed by optimism surrounding the incoming U.S. Administration's pro-growth agenda, including proposed deregulation and tax cuts. However, the rally was short-lived. Market momentum faded after Donald Trump announced the imposition of 25% blanket tariffs on imports from Canada and Mexico, effective February 1st. Investor sentiment was further unsettled by news of a significant AI breakthrough from China's DeepSeek, which raised concerns about U.S. technological leadership and prompted a pronounced rotation out of large-cap technology stocks. While markets experienced a brief period of stability in February amid a temporary suspension of North American tariffs during negotiations, volatility re-emerged with the introduction of sweeping reciprocal tariffs, ranging from 10% to 49%, and the implementation of targeted sectoral duties, including a 25% tariff on imported vehicles.

By quarter-end, the S&P 500 had declined 4.27%, and the Nasdaq plunged 10.26%, with only seven of eleven sectors posting gains. The Federal Reserve held rates steady, acknowledging policy uncertainty but signaling a cautious approach. Updated projections indicated two rate cuts (0.50% total) for the year, amid reduced growth expectations and rising inflation forecasts.

In contrast, the Canadian equity market held up better, with the S&P/TSX Composite Total Return Index gaining 1.5% in Q1, buoyed primarily by strong performance in the materials and mining sectors. Still, broader sentiment remained fragile. After peaking in late January, Canadian equities declined through February and March, while credit spreads widened for the first time since 2022.

Looking ahead, the aggressive tariff stance is expected to dampen economic activity, including business investment, hiring, and consumer spending, while adding inflationary pressure. The potential fallout for Canada could be significant depending on the scope and duration of trade disruptions. The self-inflicted nature of these tariff policies leaves the market frustrated and full of uncertainty.

During the quarter, we took a proactive approach in light of elevated market volatility and uncertainty, particularly given elevated valuation multiples relative to historical norms. Ahead of earnings season, we raised cash by trimming our most economically sensitive positions. We continue to position the portfolio with flexibility, as we believe current uncertainty—driven largely by trade policy—will eventually give way to a strong market recovery. With ample liquidity, we're well prepared to capitalize on high-quality opportunities that may emerge at more compelling valuations.

Contributors and Detractors

Q1 2025 Top Five Contributors		
Stock	Average Weighting	Contribution to Return
WASTE CONNECTIONS INC	4.4%	0.6%
IMPERIAL OIL LTD	2.3%	0.4%
VISA INC-CLASS A SHARES	3.6%	0.4%
INTACT FINANCIAL CORP	2.9%	0.3%
TORONTO-DOMINION BANK	2.8%	0.3%

Q1 2025 Top Five Detractors		
Stock	Average Weighting	Contribution to Return
BROOKFIELD CORP	4.8%	-0.6%
CAPITAL POWER CORP	1.9%	-0.5%
BROADCOM INC	1.2%	-0.4%
MICROSOFT CORP	3.0%	-0.3%
ROYAL BANK OF CANADA	5.0%	-0.3%

Source: Starlight Capital & Bloomberg Finance L.P. As of March 31, 2025.

Waste Connections outperformed as strong operational execution and pricing power, combined with a compelling pipeline for inorganic growth, supported a positive outlook for the year ahead and drew investor attention amid an uncertain market backdrop.

Imperial Oil shares gained during the quarter, supported by its long-life, low-decline upstream portfolio, diversified cash flow from refining and chemical operations, and strong financial position.

Brookfield Corporation declined alongside other alternative asset managers amid market concerns over tariffs, a slowing economy, and rising recession fears. Despite management's reassurance of minimal exposure to cross-border trade, the market has de-rated the stock in a way we believe is disproportionate. The company has the financial capacity to support the stock through a sizeable buyback.

Fears that DeepSeek's energy-efficient AI could cut power demand led to a sell-off in AI-exposed stocks like Capital Power. However, most power demand growth in North America is currently driven by non-AI sectors, and much of data center demand supports apps, streaming, and cloud services. Despite the correction, we believe Capital Power's intrinsic value remains intact, and it remains a core utility holding alongside Brookfield Infrastructure Partners.

Portfolio Update

Sector	Portfolio Weight %	Top %Q/Q Changes
Real Estate	0.5%	0.5%
Industrials	15.2%	0.4%
Consumer Discretionary	2.7%	-0.4%
Utilities	3.2%	-1.5%
Financials	27.0%	-1.9%
Consumer Staples	5.7%	-3.6%

Source: Starlight Capital & Bloomberg Finance L.P. As of March 31, 2025. Excludes Cash and Cash Equivalents.

During the period we initiated new positions in:

- Lam Research, a leading supplier of wafer fabrication equipment for the semiconductor industry. With expanding end markets, market share gains in etching, deposition, and cleaning, and strong technological leadership, we believe Lam is well-positioned to outpace industry growth over the next two to three years.
- Salesforce. The launch of Agentforce integrates Agentic AI into its platforms while strengthening adoption of Data/AI products. A new consumption-based pricing model should improve AI monetization and expand its addressable market. With further efficiency gains ahead, we see Salesforce progressing toward a Rule of 50.
- Booking.com: With its limited U.S. exposure and our stronger outlook for European economies highlighted by Germany's fiscal expansion and sector-leading growth exiting 2024, position Booking.com well. Booking also benefits from enhanced shareholder returns, with its buyback program raised to $28B (18% of market cap).
- Great-West Lifeco (GWO): GWO offers highly visible 8–10% earnings growth, a robust 19% ROE, and strong geographic diversification, with the majority of earnings generated outside Canada. Its defensive profile and potential for improved profitability place it in a strong position to navigate a volatile macro environment. While GWO stands out, we believe the entire lifeco sector is well positioned to outperform amid growing global trade tensions.
- Boardwalk REIT: Boardwalk, a Canadian multifamily REIT, continues to trade at a steep and, in our view, unjustified discount to Net Asset Value. With a more accommodative monetary policy outlook in Canada, we saw this as an attractive opportunity to invest in a quality asset with upside potential.

And we fully exited our positions in:

- Hershey's due to prolonged input cost pressures, particularly cocoa, driven by weather-related events in key producing regions. While we still view Hershey's as a strong consumer staples play with robust free cash flow, the uncertain outlook and lack of clarity on when cost pressures will ease led us to exit the position.
- Cargojet. In our view, the stock had already priced in the growth from its new agreements with Chinese e-commerce partner. However, rising risks—including potential tariffs, the possible removal of the de minimis exemption, and inflationary pressures in the aviation sector driven by wage growth—tilted the risk-reward balance unfavourably.
- Jamison Wellness, as we believe the share price already reflecting the growth potential from expansion into new markets. Additionally, concerns over tariffs—given its operations across Canada, the U.S., and China added further headwinds and potential downside.

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 2025, 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.

Along with this view, the Fund maintains a 27% 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 we favor Waste Connections—an all-weather investment. Stantec also benefits from substantial infrastructure spending in North America and Europe. Furthermore, we are positive about the freight sector, with exposure to CN Rail. 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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Important disclaimer.

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