Starlight North American Equity Fund

Q1-2025 Commentary

Starlight™ CAPITAL Focused Investing

Fund	Q1 2025	1 Year	3 Year	5 Year	10 Year
Starlight North American Equity Fund, Series F	-2.8%	12.8%	12.5%	16.1%	9.3%

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

Performance Summary

- Over the first quarter of 2025, Starlight North American Equity Fund, Series F (the Fund) returned -2.8%.
- Health Care, Financials and Energy were the top sector contributors to performance, which was offset by a decline in Information Technology, Consumer Discretionary and Communication Services.

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
MCKESSON CORP	2.4%	0.4%
BOSTON SCIENTIFIC CORP	3.1%	0.4%
VISA INC-CLASS A SHARES	3.4%	0.3%
HCA HEALTHCARE INC	1.9%	0.3%
BERKSHIRE HATHAWAY INC-CL B	1.5%	0.2%

Q1 2025 Top Five Detractors		
Stock	Average Weighting	Contribution to return
BROADCOM INC	2.1%	-0.6%
ALPHABET INC-CL C	3.3%	-0.6%
AMAZON.COM INC	4.3%	-0.6%
HUBBELL INC	1.6%	-0.3%
ATS CORP	1.5%	-0.3%

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

McKesson Corp remains one of our top picks in healthcare services, driven by its strong exposure to specialty growth and value-added services that are expected to support sustained long-term adjusted EPS growth, along with the benefit of accretive acquisitions.

Boston Scientific has consistently outperformed expectations and is arguably the most prominent growth story in the medical technology space today, driven by its rapid pace of innovation and strong pipeline of new products, particularly in electrophysiology and its expanding presence in the ablation market.

Broadcom shares declined alongside the broader semiconductor sector amid market pressures, including concerns over new Chinese AI models, tariff-related tensions, and recession fears. Despite the downturn, management remained optimistic about hyperscalers spending. We view Broadcom even more favorably at these lower valuations, given its well-diversified business, including software and its VMware acquisition and its custom chip business, which benefits from strong customer commitments made well in advance.

Alphabet shares declined after Q4 2024 results highlighted a slowdown in cloud growth and increased investor scrutiny over heavy spending on generative AI, amid concerns about near-term return on investment. Additional pressure came from renewed antitrust action by the U.S. Department of Justice and a broader tech selloff driven by tariff threats and recession fears. Despite these headwinds, we view Alphabet more favorably at current valuations, given its dominant position in digital advertising and growing share of its cloud and AI businesses.

Portfolio Update

Sector	Portfolio Weight %	Top %Q/Q Changes
Financials	11.6%	0.8%
Communication Services	2.9%	-0.5%
Health Care	14.7%	-1.2%
Industrials	12.7%	-1.7%
Information Technology	19.3%	-4.2%

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:

- Salesforce as it expands AI integration with the launch of Agentforce. This strengthens adoption of its Data/AI products while a new consumption-based pricing model enhances monetization and broadens its market reach. With further efficiency gains ahead, we see Salesforce moving toward higher growth and expanding margins.
- Definity Financial Corporation, the seventh-largest P&C insurer in Canada, which continues to benefit from strong management execution, solid fundamentals, and consistent earnings outperformance. These strengths are further supported by a favourable operating environment for the P&C insurance sector.
- Exchange Income Corporation as it presented a compelling opportunity, as market fears surrounding U.S. trade policy have, in our view, unjustifiably pressured the stock. Given that the majority of its revenue comes from highly recurring long term contracts, offering products and services that are less sensitive to short-term economic or consumer shifts, we believe the downside risk is limited.

And fully exited our position in:

- Colliers Group due to valuation concerns and the sustainability of recent earnings growth. While fundamentals remain solid, with a significant portion of revenue and earnings from less cyclical segments like engineering, we believe the prolonged impact of higher-for-longer interest rates on capital markets will outweigh these strengths.
- Verisign due to valuation concerns and limited growth, which, in our view, shifted the risk-reward balance unfavorably.
- Steris due to its high valuation and the growing risk of a multiple compression, as hospital budget reviews could pressure its capital equipment segment.
- CAE, as we believe the civil segment has peaked and is declining, while the defense segment’s growth potential is already priced in.
- Brookfield Business Partners due to unfavorable outlook for capital recycling in addition to mixed performance, as strong results from Clarios and Sagen were offset by ongoing challenges at CDK, DexKo, and Healthscope, issues that are expected to continue in the near term.

Fund Outlook

Our strategy is to consistently target high-quality businesses across all sectors. However, we also focus on secular growth trends like digitization, deglobalization, aging population, cybersecurity, and artificial intelligence.

We place a strong emphasis on profitability, market attractiveness, potential for revenue and earnings growth, and valuation compared to historical averages and peer groups.

Despite our sector-agnostic view, we find the most attractive growth opportunities in Healthcare and Information Technology, aligned with broad secular growth themes such as digitization, deglobalization, an aging population, cybersecurity, and artificial intelligence. With approximately 20% exposure in each of these sectors at the end of the quarter and our bottom-up approach to stock selection we are positive on the growth opportunities ahead for the Fund. In addition to our top sector exposures, the top 2 largest positions in the Fund are Amazon and Visa due to their strong fundamentals and growth potential in cloud services and payments and relevant value-added services.

Regardless of the macroeconomic or political climate, our guiding principle is to pursue high quality growth at a reasonable price.

Source: Starlight Capital

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For more information on our investment solutions, learn more at starlightcapital.com or speak to our Sales Team.

For more information, please visit StarlightCapital.com

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