Fund	YTD 2024	Q3 2024	1 Year	3 Year	5 Year	10 Year
Starlight Dividend Growth Class, Series F*	15.6%	7.6%	25.8%	8.6%	11.1%	8.4%

*Inception date August 2003.
Source: Starlight Capital, as of September 30, 2024.

Performance Summary

- Over the third quarter of 2024, Starlight Dividend Growth Class, Series F (the Fund) returned 7.6%. Year to date, the Fund is up 15.6%.
- From a sector perspective, Financials, Utilities, and Healthcare contributed the most to total return.

At the start of the quarter, we observed a broadening of the market as investors began rotating out of technology stocks, which had experienced a pullback following an extended period of outperformance. This shift was largely driven by rising concerns about the sustainability of returns from unprecedented AI investments and elevated valuations within the sector. In response, investors turned their attention toward more stable, undervalued sectors, leading to notable gains in Healthcare, Financials, and Consumer Staples, which offered more attractive risk-adjusted returns in the current environment.

The equity market pullback that started in July extended into early August, largely driven by weaker-than-expected employment data from both Canada and the U.S. However, by the end of the month, most major indices had recovered significantly.

The cooling labor market raised concerns about economic growth, tempering market optimism in early August. With inflation largely under control, the labor market has emerged as a key macroeconomic driver for market sentiment. The July U.S. nonfarm payrolls report showed a significant slowdown in job creation, falling well below expectations, and the unemployment rate increased to 4.3%, marking the fourth consecutive month of rising unemployment.

Additionally, the unwinding of the Yen carry trade on August 5th added to market volatility as investors rapidly exited highly leveraged positions. This triggered sudden fluctuations in currency, bond, and equity markets, further contributing to the early August sell-off. Despite these headwinds, investor sentiment improved later in the month, leading to a broader recovery in equity markets as the outlook for inflation and interest rates remained stable.

In September 2024, North American equity markets performed strongly, defying historical trends of weakness during the month. The S&P 500 gained 2.0%, driven by the Federal Reserve's decision to begin an interest rate easing cycle with a larger-than-expected 50 basis point cut. This move, boosted investor sentiment, pushing the index to its best September performance since 2013. Overall, the S&P 500 has gained more than 22% year-to-date, supported by resilient consumer demand and optimism in the services sector, while the manufacturing sector continued to struggle.

In Canada, the S&P/TSX Composite also gained 2.8% for the month of September 2024. This growth was largely supported by the energy sector and continued strength in Canadian exports. Similar to the U.S., the easing monetary environment and positive economic data contributed to rising investor confidence, despite global uncertainties and potential election-related volatility in the U.S.

Contributors and Detractors

Q3 2024 Top Five Contributors		
Stock	Average Weighting	Contribution to Return
BROOKFIELD CORP	4.8%	+1.2%
ROYAL BANK OF CANADA	5.6%	+0.9%
BROOKFIELD INFRASTRUCTURE PA	2.6%	+0.7%
CAPITAL POWER CORP	2.1%	+0.5%
UNITEDHEALTH GROUP INC	3.9%	+0.5%

Q3 2024 Bottom Five Contributors		
Stock	Average Weighting	Contribution to Return
STANTEC INC	3.6%	-0.2%
CANADIAN NATURAL RESOURCES	2.5%	-0.1%
MICROSOFT CORP	2.8%	-0.1%
MCKESSON CORP	0.3%	-0.1%
SUNCOR ENERGY INC	2.4%	-0.1%

Source: Starlight Capital & Bloomberg Finance L.P. As of September 30, 2024.

Brookfield Corporation outperformed, benefitting from easing monetary policy across the world which eases concerns on their Commercial Real Estate holdings and further fund raising. They also hosted an investor day with a set of fresh 5-year targets for 2024-2029 which was stronger than the market expected.

Royal Bank of Canada (RBC) posted a solid quarter with primarily coming from lower-than-expected losses on loans and higher than expected net interest income. The results were boosted by strong capital markets contribution to revenue. Quarter after quarter, RBC continues to validate its premium valuation compared to other Canadian banks. Its consistent performance, strong market positioning, and diversified revenue streams help reinforce investor confidence, supporting the higher relative valuation.

Stantec has been a beneficiary of the public investments on aging infrastructure across North America and water infrastructure in the UK. Execution has been exceptional, and the underlying fundamentals remain strong. Following the most recent earnings release, investors took the opportunity to use it as a source of liquidity, rotating into lower-valued investment opportunities as central banks initiated their easing cycle.

Canadian Natural Resources (CNQ) retraced during the quarter alongside the decline in crude oil prices, driven by a series of weak economic data from China, which lowered the demand outlook. Additionally, the news from OPEC+ regarding the earlier-than-expected removal of voluntary production cuts further pressured oil prices, contributing to CNQ's pullback.

Portfolio Update

Sector	Portfolio Weight %	Top %Q/Q Changes
Financials	28.1%	+2.6%
Health Care	8.5%	+1.3%
Energy	12.4%	+0.9%
Industrials	15.3%	-0.6%
Information Technology	4.7%	-0.9%

Source: Starlight Capital & Bloomberg Finance L.P. As of September 30, 2024. Excludes Cash and Cash Equivalents.

We initiated a new position in McKesson. McKesson is the largest pharmaceutical distribution company in the U.S. where 3 companies are responsible for the distribution of over 95% of all drugs throughout the U.S. market. The company exhibits strong barriers to entry in a highly consolidated industry, with secular growth driven by aging demographics.

Booking Holdings was exited as travel demand began to show signs of slowing amid weak consumer spending.

We exited our position and took profits in Element Fleet (EFN) due to elevated valuation levels.

We exited our position in Oracle Corporation as the company reported solid results demonstrating that artificial intelligence is driving growth. The market's positive response pushed the valuation beyond what we believe the fundamentals could support, and as it exceeded our target price, we fully exited the position.

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.

As 2024 unfolds, we anticipate the market continuing to favor high-quality businesses, with a heightened focus on valuation levels. We expect the market to continue broadening as sectors beyond Information Technology take on leadership roles, driven by North American central banks beginning to ease monetary policy.

Along with this view, the fund maintains a 28% exposure to financials, benefiting from a balanced position in Canadian banks and high- quality U.S. 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 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.

Regardless of the macroeconomic or political climate, our guiding principle is to pursue high quality dividend growth, targeting companies with a history of growing their dividends by 10%+.

Source: Starlight Capital

Invest With Us

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

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 October 15, 2024. While all material is deemed to be reliable, accuracy and completeness cannot be guaranteed.

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Starlight Capital
1400-3280 Bloor Street West
Toronto, Ontario, Canada M8X 2X3
info@starlightcapital.com
1-833-752-4683
Starlightcapital.com