

Fund	YTD 2024	Q2 2024	1 Year	3 Year	5 Year	10 Year	15 Year	Incept*
Starlight Dividend Growth Class, Series F*	7.4%	0.8%	14.6%	7.2%	10.2%	7.7%	9.2%	9.7%

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

Performance Summary

- In the second quarter of 2024, Starlight Dividend Growth Class, Series F (the Fund) returned 0.8%. YTD, the Fund is up 7.4%.
- Starlight Private Pools, Consumer staples, and Information Technology were the top contributors to total return, which was slightly offset by laggards in Healthcare, Financials, and Utilities.
- The Fund's 29% weighted average exposure to the United States contributed more than half of the return over the quarter.

Contributors and Detractors

Q2 2024 Top Five Contributors		
Stock	Contribution to Return	Average Weighting
ROYAL BANK OF CANADA	+ 0.4%	5.3%
STARLIGHT PRIVATE REAL ESTATE POOL	+ 0.4%	6.6%
COSTCO WHOLESALE CORP	+ 0.4%	2.2%
CARGOJET INC	+ 0.3%	1.1%
BROADCOM INC	+ 0.3%	1.4%

Q2 2024 Bottom Five Contributors		
Stock	Contribution to Return	Average Weighting
CVS HEALTH CORP	- 0.4%	1.3%
BANK OF MONTREAL	- 0.3%	2.7%
BROOKFIELD INFRASTRUCTURE	- 0.3%	2.5%
OPEN TEXT CORP	- 0.2%	0.5%
CANADIAN NATL RAILWAY CO	- 0.2%	2.0%

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

Royal Bank was the top performer over the period. It has been a favourite holding among the Canadian banks for good reasons and it did not disappoint when it reported its fiscal second quarter at the end of May. RBC reported strong synergies from their acquisition of HSBC's Canadian assets which was the largest acquisition in their 155-year history. Capital markets was the best performing segment, reporting record revenue and gained share among the other Canadian banks.

Costco was another strong performer for the fund as the company reported strong foot traffic and operating margins beat expectations. Management also believes that their consumer has turned a corner and is spending more on discretionary items as inflation has moderated.

CVS had the weakest performance in Q2 and has not had a shortage of unwelcome events. Industry developments over the past year have only been exacerbated by the fact that 2024 is an election year, and CVS as an Insurer and Pharmacy benefit manager in the US has been an easy target for politicians and regulators. In our view, despite the current weakness in the share price, which arguably is overdone, the business is going through growing pains, and is one of the least expensive ways to benefit from the aging population trend in the United States while collecting a 4.5% dividend yield.

BMO also had a weak quarter and was the worst performing Canadian bank in Q2 driven by higher-than-expected provisions for credit losses. Going forward, the weakness in their credit metrics are expected to continue for the next two quarters.

Portfolio Update

Sector	Portfolio Weight %	Top %Q/Q Changes
Consumer Staples	9.6%	+ 1.7%
Utilities	4.4%	+ 0.7%
Private Assets	10.7%	+ 0.7%
Information Technology	5.5%	- 1.1%
Cash and Cash Equivalents	5.1%	- 3.1%

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

We initiated a position in one of the best grocery operators in Canada with Metro Inc. at a relatively lower premium to the group as it has been under pressure lately due to their ongoing investment in building their second automated distribution center in Ottawa. As we understand, Metro is working through the tail end of the capital expenditure cycle.

We increased our position in Capital Power and Brookfield Infrastructure as their interest rate sensitive nature is expected to generate strong performance as central banks cut interest rates.

Our position in private Real Estate, (Starlight Global Private Real Estate Pool) returned 5.8% over the quarter, as our strategic allocation to these rate sensitive assets started to pay off with Canada and Europe beginning their interest rate easing cycles.

Another development over the quarter was our decision to exit the position in Open Text as their organic growth has disappointed and underperformed expectations.

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 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 26% 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 that was the top contributor over the first 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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