Pension Plan Investing

Starlight™ CAPITAL Focused Investing

Dennis Mitchell, MBA, CFA, CBV

Chief Executive Officer and
Chief Investment Officer

Nobel Laureate Harry Markowitz is credited with developing the 60/40, stock/bond investment strategy cited by many investment professionals. This strategy has historically delivered favourable risk-adjusted returns to investors. However, most large institutional investors do not follow this investment strategy.

The Yale Model (or Endowment Model), was developed by David Swensen and focuses on diversifying a portfolio into alternative asset classes while avoiding asset classes with low expected returns, such as fixed income and commodities. Swensen believed that liquidity is a bad thing to be avoided rather than a good thing to be sought out, since it comes at the cost of lower returns. The Yale Model results in significant exposure to private assets and a heavy reliance on investment managers in these specialized asset classes. Today US endowments with over $1 billion in assets have on average 62.6% allocated to alternative strategies, including real estate, infrastructure and private equity.

Exhibit 1 - Summary Asset Allocations for U.S. College and University Endowments, Fiscal Year 2022*

Size of Endowment	U.S. Equities	U.S. and Non-U.S. Fixed Income	Non-U.S. Equities	Global Equities	Alternative Strategies*	Other
Over $1 Billion	8.8%	9.5%	9.3%	6.8%	62.6%	3.0%
$501 Million to $1 Billion	21.4%	14.9%	14.0%	5.7%	42.9%	1.1%
$251 Million to $500 Million	21.0%	15.8%	11.3%	9.0%	40.6%	2.3%
$101 Million to $250 Million	28.2%	19.2%	13.3%	8.7%	30.1%	0.6%
$51 Million to $100 Million	34.3%	23.7%	12.7%	7.8%	20.4%	1.2%
$25 Million to $50 Million	39.1%	26.4%	14.0%	3.6%	16.1%	0.7%
Under $25 Million	44.7%	32.7%	13.1%	1.3%	7.8%	0.4%

*Average asset allocations as of June 30, 2022. Includes emerging market equities. All data are dollar-weighted unless otherwise specified. Due to rounding, details may not sum to 100%. Alternative strategies include: marketable alternatives (hedge funds), private equity, private venture capital and real assets. Private debt and short-term cash/securities are included in the Fixed Income category.
Source: 2023 NACUBO-TIAA Study of Endowments

Today, the 10 largest pension plans in Canada control over $2 trillion of assets on behalf of Canadian beneficiaries. At the end of 2022, these pension plans had an average of 46.2% of their assets invested in alternatives - specifically, **15.1% in real estate, 13.0% in infrastructure and 18.1% in private equity**.

Exhibit 2 - Canadian Pension Plan Alternative Asset Allocations

Plan	Year	Assets (millions)	Real Estate	Infrastructure	Real Assets	Private Equity	Alternatives
CPPIB	2023	$570,296.0	9.0%	9.0%	18.0%	33.0%	51.0%
Caisse de Depot et Placement du Quebec	2022	$401,900.0	11.9%	13.6%	25.5%	20.1%	45.6%
Ontario Teacher's Pension Plan	2022	$247,240.0	11.4%	16.1%	27.4%	23.6%	51.0%
Public Service Pension Plan	2023	$243,700.0	13.1%	12.1%	25.2%	15.6%	40.8%
BC Investment Management Corporation	2023	$233,000.0	16.8%	10.4%	27.2%	13.1%	40.3%
AIMCO	2022	$135,030.0	17.0%	15.2%	32.2%	8.8%	41.0%
Ontario Municipal Employees Retirement System	2022	$124,200.0	16.8%	20.8%	37.6%	18.4%	56.0%
Healthcare of Ontario Pension Plan	2022	$103,674.0	17.5%	4.5%	22.0%	19.3%	41.3%
Ontario Pension Board	2022	$31,022.4	18.8%	12.2%	31.0%	13.3%	44.3%
OP Trust	2022	$24,643.0	18.9%	16.1%	35.0%	16.1%	51.1%
		$2,114,705.4	**15.1%**	**13.0%**	**28.1%**	**18.1%**	**46.2%**

Source: Annual Reports

Following the example of their US peers, some Canadian pension plans (CPPIB, OTPP, OMERS and OP Trust) stand out from even this group with over 50.0% of their assets allocated to alternatives. Reviewing the 2022 and 2023 Annual Reports of each of these pension plans indicates that the most common motives for having higher allocations to these three sectors is the long-term risk-adjusted returns, inflation hedging and current income.

With an average of 46.2% of assets in alternatives, some may wonder what the average allocation to fixed income and listed global equities has fallen to. As **Exhibit 2** demonstrates, the 10 largest pension plans in Canada have steadily reduced their allocations to both global fixed income and global listed equities to 29.5% and 20.2%, respectively.

Exhibit 3 - Canadian Pension Plan Traditional Asset Allocation

Plan	Fixed Income	Equities	Total
CPPIB	25.0%	24.0%	49.0%
Caisse de Depot et Placement du Quebec	29.8%	24.8%	54.6%
Ontario Teacher's Pension Plan	35.2%	9.0%	44.2%
Public Service Pension Plan	31.7%	21.9%	53.6%
BC Investment Management Corporation	35.9%	28.3%	64.2%
AIMCO	27.4%	31.3%	58.7%
Ontario Municipal Employees Retirement System	28.5%	23.5%	52.0%
Healthcare of Ontario Pension Plan	43.2%	0.4%	43.6%
Ontario Pension Board	28.4%	27.3%	55.7%
OP Trust	9.8%	11.8%	21.6%
	29.5%	**20.2%**	**49.7%**

Source: Annual Reports

In an interview with Institutional Investor in 2020, Bruce Flatt, the CEO of Brookfield Asset Management made the following assertion:

"A decade ago alternatives accounted for five percent of allocations at pension and sovereign funds. Today they make up almost a quarter, and Brookfield predicts that by 2030 more than half of allocations will shift into alternatives from other financial instruments held by sovereign and pension funds. By then alts could also claim double-digit-percent allocations at endowments and insurance companies. And the biggest prize of all awaits as private wealth follows suit."

Clearly institutional investors have made Bruce Flatt appear prescient and we would argue that private wealth is beginning to make meaningful allocations to alternatives.

Asset class returns in 2022 made the case for higher allocations to alternatives for global investors. Again, looking at the 10 largest pension plans in Canada in **Exhibit 3**, their returns in 2022 clearly bifurcated.

Exhibit 4 - Canadian Pension Plan 2022/2023 Total Return Analysis

Plan	Total Plan Return	Real Estate	Infrastructure	Private Equity	Fixed Income	Public Equities
CPPIB	1.3%	10.2%	10.8%	18.6%	7.4%	-5.8%
Caisse de Depot et Placement du Quebec	-5.6%	12.4%	11.5%	2.8%	-14.9%	-11.3%
Ontario Teacher's Pension Plan	4.0%	-3.5%	18.7%	6.1%	-3.5%	-12.5%
Public Service Pension Plan	4.4%	24.8%	13.9%	27.6%	0.4%	6.0%
BC Investment Management Corporation	3.5%	14.9%	12.1%	29.7%	-4.5%	4.0%
AIMCO	-3.4%	4.6%	16.8%	0.5%	-8.1%	-10.0%
Ontario Municipal Employees Retirement System	4.2%	13.6%	12.5%	13.7%	0.4%	-2.7%
Healthcare of Ontario Pension Plan	-8.6%	4.0%	9.4%	15.7%	-4.0%	-12.9%
Ontario Pension Board	-7.8%	-0.2%	7.9%	8.3%	-4.8%	-3.1%
OP Trust	-2.2%	15.0%	21.1%	4.8%	-3.5%	-17.6%
	-1.0%	**9.6%**	**13.5%**	**12.8%**	**-3.5%**	**-6.6%**

Source: Annual Reports

In 2022 the 10 largest pension plans in Canada have greatly benefited from their allocations to alternatives. While on average they lost 1.0% for plan beneficiaries, most of this was due to their allocations to traditional asset classes which generated negative returns (-3.5% for fixed income and -6.6% for listed global equities). In contrast, alternatives delivered meaningful, positive absolute returns to the pension plans (9.6% for real estate, 13.5% for infrastructure and 12.8% for private equity). Investors know that asset allocation is responsible for a significant amount of the returns they can expect from their portfolios. For those retail investors that have been early adopters of alternatives in their portfolios, 2022 rewarded them handsomely.

Skeptics may suggest that 2022 was an aberration and not reflective of the real total returns that public equities and fixed income can provide. We reviewed the total and sectoral performance of the 10 largest pension plans in Canada for the last 5 years. Given the volatility of equity, fixed income, interest rates and currency markets over the last 5 years (zero interest rates, aggressive global monetary tightening, massive fiscal stimulus, shooting wars, attempted insurrection, etc.), we think this is a good sample of full cycle asset class returns.

Exhibit 5 - Canadian Pension Plan Annual Total Returns

Plan	2022	2021	2020	2019	2018	5 Year CAGR	10 Year CAGR
CPPIB	1.3%	6.8%	20.4%	3.1%	9.3%	7.9%	10.0%
Caisse de Depot et Placement du Quebec	-5.6%	13.5%	7.7%	10.4%	4.2%	5.8%	8.0%
Ontario Teacher's Pension Plan	4.0%	11.1%	8.6%	10.4%	2.5%	7.3%	8.5%
Public Service Pension Plan	4.4%	10.9%	18.4%	-0.6%	7.1%	9.0%	9.8%
BC Investment Management Corporation	3.5%	7.4%	16.5%	3.0%	6.1%	8.3%	9.1%
AIMCO	-3.4%	14.7%	2.5%	10.6%	2.3%	5.9%	7.2%
Ontario Municipal Employees Retirement System	4.2%	15.7%	-2.7%	11.9%	2.3%	6.1%	7.5%
Healthcare of Ontario Pension Plan	-8.6%	11.3%	11.4%	17.1%	2.2%	n/a	8.4%
Ontario Pension Board	-7.8%	9.4%	7.0%	10.2%	1.3%	3.8%	6.2%
OP Trust	-2.2%	15.3%	8.9%	11.2%	1.0%	6.6%	7.8%
	-1.0%	**11.6%**	**9.9%**	**8.7%**	**3.8%**	**6.7%**	**8.2%**

Source: Annual Reports

With five- and 10-year CAGRs of 6.7% and 8.2% the Canadian pension plans have outperformed or matched global equities (MSCI All Country World Index, 5.8% and 8.6% respectively) and global fixed income (Bloomberg Global-Aggregate total Return Index, -1.7% and -0.4% respectively), on a local currency basis, over these time periods. When we dig into the drivers of that outperformance we can see that it is largely due to the allocations to and performance of alternative assets.

Exhibit 6 - Canadian Pension Plan Asset Allocation Analysis

	2022	2021	2020	2019	2018	5 Year Average
Total Plan	**-1.0%**	**11.6%**	**9.9%**	**8.7%**	**3.8%**	**6.6%**
Real Estate	5.2%	13.9%	-7.2%	4.2%	7.7%	**4.7%**
Infrastructure	13.2%	14.9%	5.2%	7.5%	11.1%	**10.3%**
Private Equity	6.7%	33.5%	17.9%	10.8%	16.2%	**17.0%**
Fixed Income	-3.5%	-0.6%	5.3%	7.8%	2.8%	**2.4%**
Public Equities	-6.9%	12.5%	18.4%	11.2%	-3.0%	**6.5%**

Source: Annual Reports

Exhibit 6 demonstrates that Canadian pension plans have been rewarded for steadily increasing their allocations to alternative assets. The period from 2019 through 2021 featured very strong returns from Public Equities however, Private Equity delivered similarly strong returns. What may surprise investors is that most companies in the US are private companies. Out of the 27 million firms in the U.S., the number of companies listed on U.S. exchanges has fallen from more than 7,000 in the year 2000 to fewer than 5,000 in the year 2020, according to statistics from the World Federation of Exchanges. Among the 5.7 million US firms with employees, less than one percent of them have shares listed on a U.S. exchange. In fact, over 87% of US companies with over $100 million of revenue are private companies so investors that limit themselves to Public Equities are missing out on exposure to the majority of the US economy.

Exhibit 6 also demonstrates the benefits of strategic diversification within a portfolio. Investors often start out with a diversified portfolio that includes exposure to alternatives. However, in a year like 2020 when Canadian pension plans lost 7.2% on their real estate holdings, many investors begin to question why they own real estate. If they succumb to short term thinking, it's clear that they will miss out on the benefits that strategic diversification provided for Canadian pension plans in 2018 and 2022. In both years, Canadian pension plans produced materially lower and in one case, negative returns. However, in both years, alternative assets, including real estate, shone and materially added to pension plan returns. That is the point of strategic diversification within a portfolio. Investors should not expect everything in their portfolio to generate positive returns every year. Rather, in years when certain asset classes underperform or lose value, the strategic diversification and asset allocation allow other asset classes to support total portfolio returns.

Starlight Capital was founded in 2018 to provide Canadian investors with the ability to invest in institutional-quality private assets alongside some of the largest pension plans and endowment funds in the world. The Starlight Private Global Real Estate Pool and Starlight Private Global Infrastructure Pool were launched in 2020 and recently celebrated their three-year anniversaries. The Starlight Global Private Equity Pool was launched more recently in September 2022.

Exhibit 7 - Starlight Private Pools Performance

Plan	2022	2021	2020
Starlight Private Global Real Estate Pool	**10.5%**	**35.5%**	**5.9%**
Canadian Pension Plans Real Estate	5.2%	13.9%	-7.2%
Starlight Private Global Infrastructure Pool	**19.9%**	**23.3%**	**-1.6%**
Canadian Pension Plans Infrastructure	13.2%	14.9%	5.2%
Starlight Global Private Equity Pool	**22.2%**	**N/A**	**N/A**
Canadian Pension Plans Private Equity	6.7%	33.5%	17.9%

Source: Starlight Capital, Annual Reports for series F. Inception date: April 2020.

For Canadian investors wishing to replicate the asset allocation of Canadian pension plans, the Starlight Private Pools offer liquid access to institutional-quality private alternative assets. We partner with best-in-class global private asset managers who employ value-add strategies to generate strong, risk-adjusted returns. The real asset private pools pay tax-efficient distributions to investors on a quarterly basis and all of the private pools offer quarterly liquidity and monthly valuations and subscriptions.

We invite you to partner with us.

Starlight Private Pools

Real Assets		Diversified Equities
Starlight Private Global Real Estate Pool	**Starlight Private Global Infrastructure Pool**	**Starlight Global Private Equity Pool**
Inception-2020, open-ended trust **Investment Objective:** To achieve long-term capital appreciation and regular current income by investing globally in private real estate investments and in public real estate investment trusts (REITs) and equity securities of corporations participating in the residential and commercial real estate sector. **Fund Codes** Series A (SLC1101) Series F (SLC1201) Series I (SLC1901) **Distribution Frequency** Fixed Quarterly	Inception-2020, open-ended trust **Investment Objective:** To achieve long-term capital appreciation and regular current income by investing globally in private infrastructure and infrastructure related investments and in publicly traded companies with direct or indirect exposure to infrastructure. **Fund Codes** Series A (SLC1102) Series F (SLC1202) Series I (SLC1902) **Distribution Frequency** Fixed Quarterly	Inception-2022, open-ended trust **Investment Objective:** To achieve long-term capital appreciation by investing in a diversified global portfolio of private equity investments and publicly traded global equity securities. **Fund Codes** Series A (SLC1104) Series F (SLC1204) Series I (SLC1904) **Distribution Frequency** N/A

About 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. Starlight Capital is a wholly-owned subsidiary of Starlight Investments. Starlight Investments is a leading global real estate investment and asset management firm with over 360 employees and $25B in AUM. A privately held owner, developer and asset manager of over 77,000 multi- residential suites and over 8 million square feet of commercial property space. Learn more at www.starlightcapital.com and connect with us on LinkedIn at www.linkedin.com/company/starlightcapital/

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

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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

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