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Starlight Private Global Real Estate Pool 2024 Outlook

February 22, 2024

Dennis Mitchell, MBA, CFA, CBV

Chief Executive Officer and
Chief Investment Officer

The Starlight Private Global Real Estate Pool is designed to provide accredited investors with access to institutional-quality, private assets in a solution that provides both liquidity and income. The unique design (target 80% private asset funds, target 20% public listed securities) allows investors to partner with best-in-class, global institutional managers of private assets and invest alongside some of the largest pension funds, insurance companies and wealth managers in the world.

2023 Year in Review

In 2023 the Starlight Private Global Real Estate Pool ("Real Estate Pool") delivered a -4.7% total return (Series F). The major detractor from performance in 2023 was currency, reducing returns by approx. 400 bps. Currency was very volatile during the year and especially in November and December of 2023. The Real Estate Pool was not hedged during most of the year and US dollar weakness at year end was driven by a rally in risk assets and the anticipation of up to six rate cuts in 2024.

The listed securities portfolio experienced 26 dividend and distribution increases with an average increase of 10.5%. The listed securities portfolio generated a 3.5% total return in 2023 however, the lower weighting in listed securities means that this portfolio contributed less than 10 bps to overall performance.

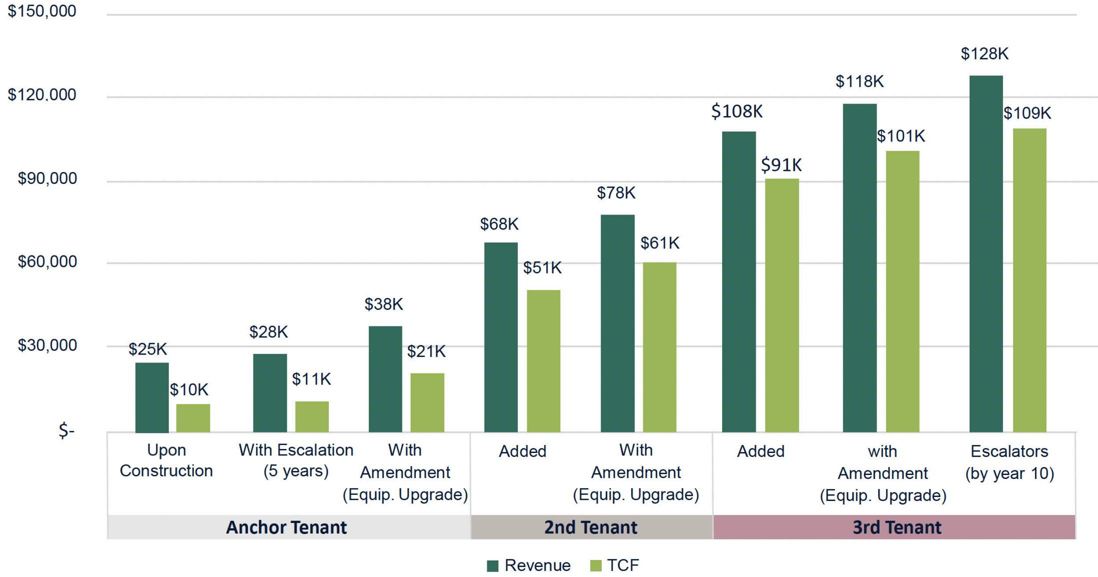
Peppertree Capital Fund IX

Peppertree Capital is the dominant developer of cell towers in the United States. Towers are developed for approx. $300K and space on the tower is leased to US telecom firms (Verizon, AT&T, T-Mobile). Tower Cash Flow ("TCF") growth is driven by annual lease escalators, lease amendments due to equipment upgrades and adding additional telecom tenants to the tower. These towers are then sold to strategic buyers (American Tower, Crown Castle, SBA Communications) at 30 – 40x TCF. **Historically Peppertree has generated a 1.89x net return on invested capital and a 16.6% net IRR.**

The Real Estate Pool has allocated US $10 million to Peppertree Capital Fund IX ("PCF IX") and as of December 31, 2023, 88.6% of this commitment has been called. During 2023, Peppertree called 50.1% of our commitment and through the first three quarters of 2023, PCF IX developed 486 towers, to bring the total number of towers built to 2,558. As of September 30, 2023, PCF IX has 1,491 cell towers under construction (up 308 from the end of 2022) and 798 pending acquisition (up 369 from the end of 2022).

Through December 31, 2023, PCF IX delivered an approx. 21.7% total return which contributed approx. 150 bps to the Real Estate Pool's performance. PCF IX has now generated a net return on invested capital of 1.22x and our Net IRR is now 23.4% in the Real Estate Pool.

Exhibit 1 – Example of Modeled TCF Growth Over Extended Time Period



Source: Peppertree Capital.

Peppertree reports the demand for new towers continues to be driven by population growth, connected device growth, data-intensive application development and network evolution (from 4G to 5G). US telecom firms (Verizon, AT&T & T-Mobile) continue to offer unlimited data plans and free Apple products (iPhones, iPads and/or Apple Watches) to new subscribers, further increasing the utilization of their existing networks and driving demand for new cell towers. Further, the telecom firms are in the midst of upgrading their networks from 4G to 5G, which will make their networks faster and support more devices and more data.

For 2024, the expectation for PCF IX is for similar total returns to 2023 driven by additional tower development, annual contractual rent escalators, lease amendment rental gains and increased tenant intensity on existing towers.

Starlight Canadian Residential Growth Fund

Starlight Investments is the largest residential landlord in Canada with over 66,000 suites across Canada. Older apartment buildings are acquired and suites and building infrastructure are renovated to bring the building to a more modern and efficient standard. **Historically Starlight Investments has generated a 25.0% gross IRR in this strategy and targets a 15.0 – 16.0% gross IRR, including a 4.0% annual cash distribution.**

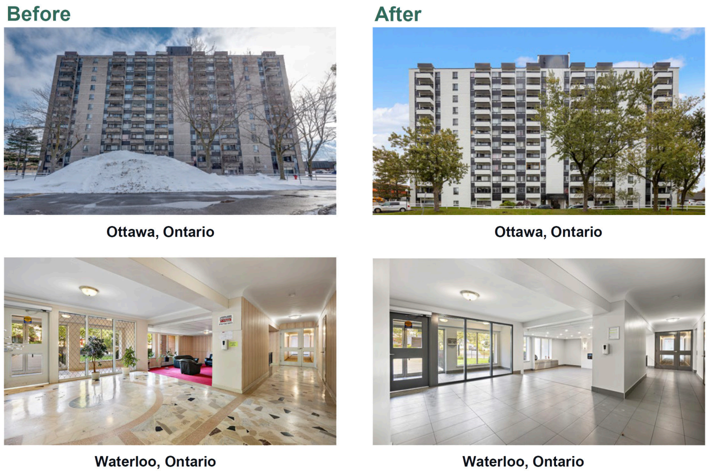
The Real Estate Pool has allocated CAD $10 million to Starlight Canadian Residential Growth Fund II (“SCRGF II”) and as of December 31, 2023, 100.0% of this commitment has been deployed. Through September 30, 2023, SCRGF II has acquired 5,532 suites and has invested $65.0 million to renovate 1,449 suites. These investments have generated 57.7% average rent growth and a 29.8% return on cost. Total value created by SCRGF II is now $312.6 million and the portfolio has appreciated to $1.8 billion in value.

During the first three quarters of 2023, Starlight Investments deployed $4.5 million in capex to reposition 278 more suites and resulted in value creation of $101.7 million. **Through December 31, 2023,SCRGF II delivered an approx. 11.6% total return which contributed approx. 130 bps to the Real Estate Pool in 2023. Unrealized Gross IRR since inception is 12.9% and the Gross Equity Money Multiple is 1.3x.**

The Real Estate Pool has allocated CAD $10 million to Starlight Canadian Residential Growth Fund III ("SCRGF III") and as of December 31, 2023, 56.3% of this commitment has been deployed. Through September 30, 2023, SCRGF III has acquired 5,869 suites and has invested $18 million to renovate 783 suites. These investments have generated 43.0% average rent growth and a 31.0% return on cost. Total value created by SCRGF III is now $130 million and the portfolio has appreciated to $1.9 billion in value.

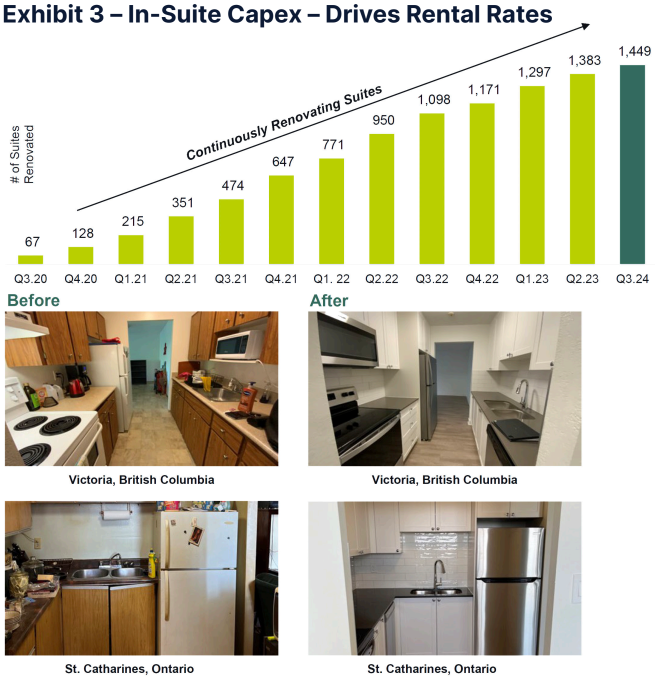
During the first three quarters of 2023, Starlight Investments deployed $12.6 million in capex to reposition 583 more suites and resulted in value creation of $101.7 million. **Through December 31, 2023, SCRGF III delivered an approx. 12.7% total return which contributed approx. 150 bps to the Real Estate Pool in 2023.** Over the next 12 months, SCRGF III is scheduled to deploy another $60.0 million of capex towards common areas, exteriors and building infrastructure. We expect similar returns from this capital deployment in 2024.

Exhibit 2 – Value-Add Capex Drives Rent Growth and Capital Appreciation



Source: Starlight Investments. Starlight Canadian Residential Growth Fund III Q3 2023 Quarterly. As of September 30, 2023.

Exhibit 3 – In-Suite Capex – Drives Rental Rates



Source: Starlight Investments. Starlight Canadian Residential Growth Fund II Q3 2023 Quarterly Update. As of September 30, 2023.

Canadian Mortgage & Housing Corporation ("CMHC") estimates that by 2030 the housing shortage in Canada will reach 3.5 million homes. In their 2024 Rental Market Report, CMHC estimates that national apartment vacancy is at a record low 1.5%, which has led to 8.0% rent growth in 2023. SCRGFs II & III are primarily exposed to Toronto (1.4% vacancy) and Vancouver/ Victoria (0.9% vacancy) which have even lower vacancy and higher rent growth.

Declining interest rates in the second half of 2024 should bring cap rates down and provide valuation uplifts for the portfolio. Most of the debt in each portfolio has been refinanced into 40-year, amortizing mortgages with coupons below 4.0%. Both SCRGF II & III will continue to execute suite renovations and generate rent growth, supported by low supply and vacancy rates. **We anticipate both SCRGF II & III will deliver similar returns in 2024 as they did in 2023.**

Prologis Targeted US Logistics Fund

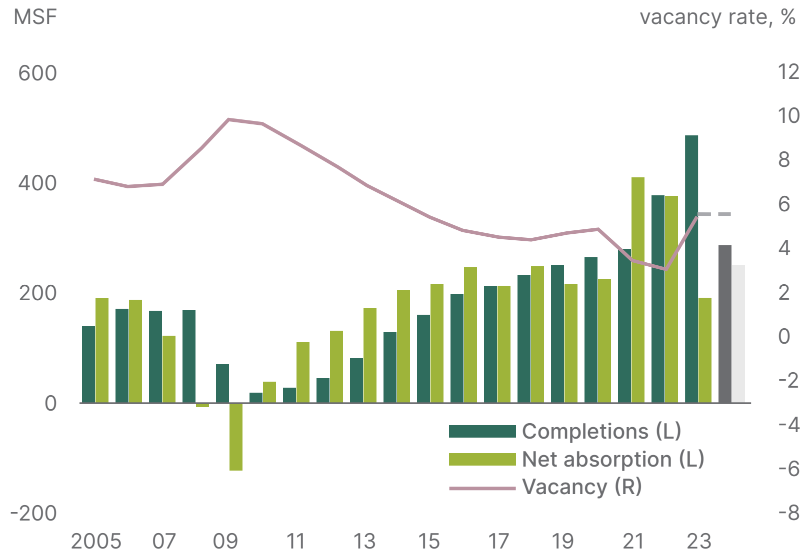
Prologis Inc. ("Prologis") is the largest global industrial landlord with ~1.2 billion square feet ("SF") of real estate across 19 countries. Every year 2.8% of global GDP passes through Prologis' warehouses as the portfolio contains 5,613 buildings that serve 6,700 customers. Prologis' portfolio is focused on newer distribution, logistics and warehouse assets in coastal tier one markets that serve global customers. **Since inception, the Prologis Targeted US Logistics Fund ("USLF") has generated a 13.0% Net IRR, including a 5.9% Gross Yield.**

The Real Estate Pool has allocated US $15 million to USLF and as of December 31, 2023, 100% of this capital has been deployed. USLF has grown to US $24.8 billion of AUM, of which 26.2% is Prologis Inc.'s investment. The portfolio of 744 buildings and 124.1 million SF sits across 28 US markets. Occupancy is currently 96.6% and of the 15.0% of leases that renewed in 2023, the average mark-to-market on deals signed was 82.9% and is still rising quarter-over-quarter. The loan-to-value on the portfolio is down to 17.7% (target 20 – 40%) with a weighted average cost of 4.0% and a weighted average years to maturity of 7.7. In addition, 85.8% of USLF's debt is fixed rate and 99.5% of assets are unencumbered (i.e. USLF used unsecured debentures, not mortgage debt).

Through December 31, 2023, USLF generated a -13.0% total return which reduced the Real Estate Pool's total return by approx. -345 bps. For 2023, Prologis reports that rising interest rates have pushed both cap rates and expected investor IRRs significantly higher, sending valuations down. All of USLF's assets are appraised by a rotating cast of global commercial real estate services firms (i.e. CBRE, Colliers, JLL, etc.) every quarter. As a result of the frequency of appraisals and the rapidity of the rate hike cycle, USLF underperformed the NPI-Industrial Benchmark by -600 bps in 2023.

New industrial development contributed to a supply surge and general weakness in industrial appraised values. In December 2022, 742.3 million square feet of new supply was under construction in the US, representing 3.8% of existing stock. This surge of new supply slowed rent growth to 7.4% in 2023 and drove vacancy up to 4.6% nationally. Much of this new supply has been absorbed and in December 2023 new supply had fallen to 462.9 million square feet and 2.4% of existing stock. Construction costs remain high (materials, labour, financing) and that is contributing to the decline in development starts (all speculative development has ceased). USLF anticipates that vacancy will peak in the first half of 2024 and begin to decline in the fourth quarter.

Exhibit 4 – Operating Fundamentals, U.S.



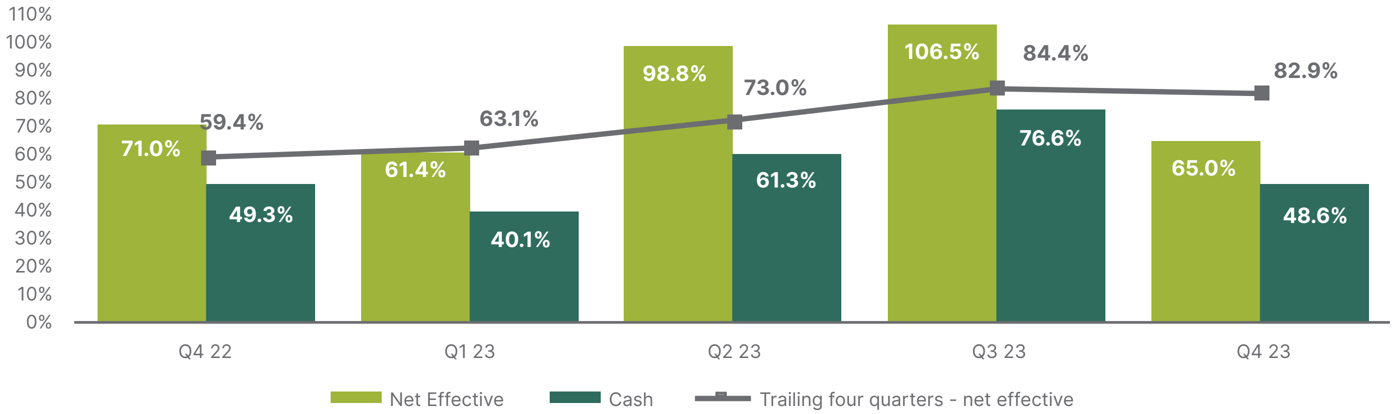
Source: Prologis Targeted U.S. Logistics Fund, L.P. Quarterly Report. Q4 2023.

For 2024, USLF management has unveiled an impressive business plan that supports their forecast of a 10.6% gross total return (6.3% capital appreciation and 4.1% distribution yield). USLF's 2024 Business Plan is summarized as follows:

- Drive 10% Net Operating Income ("NOI") growth
- Capitalize on market repricing of assets
- Improve liquidity and reduce leverage

In 2024 USLF has 11.5% of Square Footage (SF) renewing which equates to 10.2% of Annualized Ending Base Rent. USLF anticipates that occupancy will be down 40 bps to 96.2% in 2024 however, the weighted average lease mark-to-market for these leases is 82.8%, driving 10.1% same-store NOI growth (11.3% in 2023). This growth is before the anticipated 5 – 7% rent growth (7.4% in 2023) Prologis forecasts for its markets in 2024.

Exhibit 5 – Net Effective Rent ("NER") Change



Source: Prologis Targeted U.S. Logistics Fund, L.P. Quarterly Report. Q4 2023.

USLF has a 7.8 million SF pipeline of stabilized assets to acquire from Prologis which should result in $1 billion of accretive acquisitions in 2024. USLF is also negotiating to purchase $215 million of third-party core and value-add assets to further drive growth. USLF also has $329 million of fully-valued assets it is looking to sell to fund some of these acquisitions. This net ~$1 billion of accretive acquisitions should further drive positive growth in 2024.

From a leverage standpoint, only 3.1% of the debt is maturing in 2024 (zero debt maturing in 2025) at a 3.9% average interest rate. USLF will likely retire this debt to keep total leverage below their 20% - 40% target range while rates are elevated. USLF is targeting $1 billion in equity capital fundraising in 2024 to further reduce leverage.

While the fundamentals of US industrial real estate are very strong and we believe USLF's management team has a sound business plan, we have chosen to reduce our exposure to USLF. We will continue to monitor this position and are prepared to add to this position should the business plan bear fruit, or completely exit our position should the negative performance persist.

Unison Midgard Fund

Unison Midgard Fund ("Unison") is an open-end fund that generates returns via equity investments in single family homes across the United States. Historically US home prices have appreciated 5.0% on average over the last 50 years while the homes Unison has invested in have historically outperformed this by ~170 bps. **Due to the operational leverage (NOT financial leverage) in Unison's contracts, Unison has generated on average a 14.5% total return when US homes have appreciated by 5.0%. Since inception, Unison has generated a 20.5% Net IRR.**

The Real Estate Pool has allocated ~$27 million to Unison Midgard Fund and as of December 31, 2023, 100% of this capital has been deployed. Unison has grown to US $962.9 million in investments secured to real estate with a value of US $3.8 billion. Realizations (property sales or property refinancings) in Q3 2023 generated average gains of 66.0% and an overall IRR of 18.0% on the realized investments. As of September 30, 2023, the Unison portfolio continues to improve in quality as the average home value has risen to US $497,000 (US average is $417,700) with an average Unison investment of US $73,500.

Exhibit 6 – Unison Midgard Fund Details

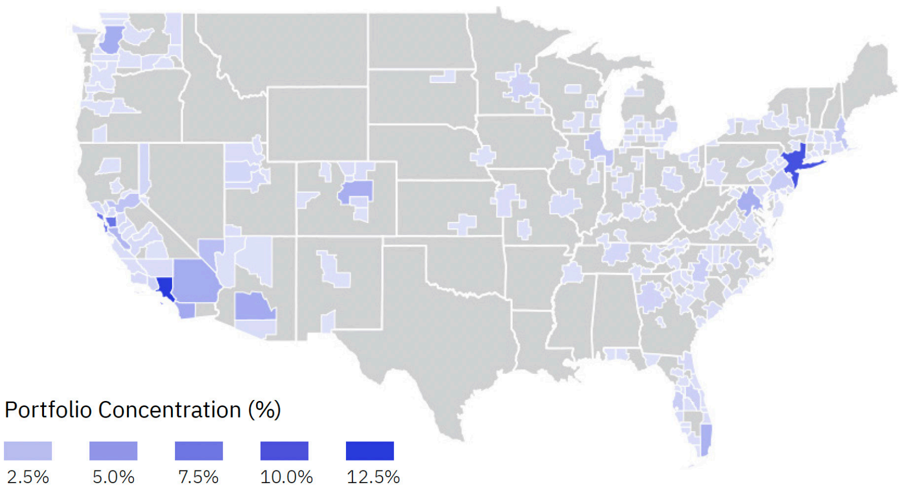
Unison Midgard Fund Details			
Total Unison Agreements	10,478	Qualifying Credit Score	733
Homeowner Age	58	Current Credit Score	749
Home Price	$497,000	Original LTV	63.0%
Invested Amount	$73,500	Current LTV	44.0%

Source: Unison Investment Management, as of September 30, 2023.

In 2023 Unison generated a small negative total return which reduced the Real Estate Pool's total return by less than 10 bps. Unison's return in 2023 was impacted by the lag in its valuation model, securitizations, market mix and currency. All of these factors are discussed in depth in our standalone piece about Unison, which includes our 2024 outlook for Unison.

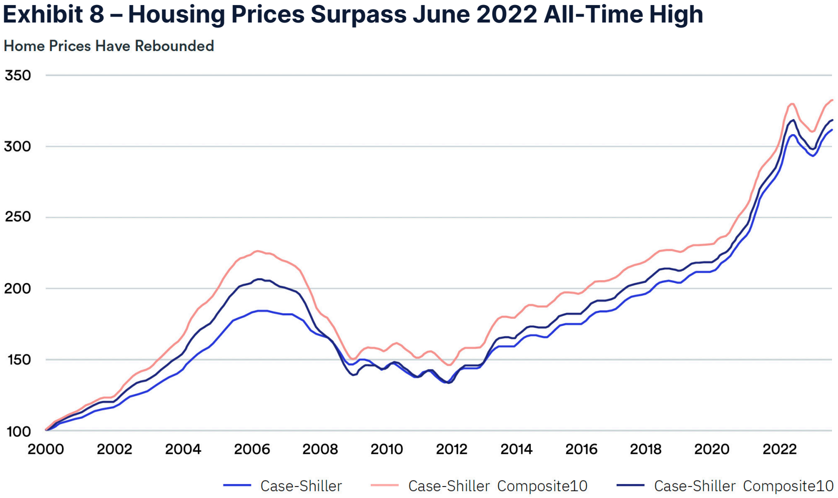
The outlook for home price appreciation in the markets that Unison has exposure to is approx. 3.6%, compared to the national home price appreciation outlook of approx. 2.5%). **Historically, this level of home price appreciation has yielded attractive absolute total returns for Unison.**

Exhibit 7 – Unison Portfolio Composition: Geographical Footprint



Source: Unison Midgard Fund LP. Investor Quarter-End Report. As of September 30, 2023.

Exhibit 8 – Housing Prices Surpass June 2022 All-Time High



Source: Unison Midgard Fund LP. Investor Quarter-End Report. As of September 30, 2023.

For 2024, 56.1% of Unison's markets are forecast to have home price appreciation of 3.0% or better, 31.2% are at 4.0% or better and 21.8% are at 5.0% or better. In the chart below, top 10 markets for Unison are bolded to demonstrate Unison's leverage to these top performing markets. **Unison has zero exposure to US markets that are forecast to have negative returns in 2024** (Arkansas, Louisiana, Mississippi and North Dakota) so market mix should be a positive contributor total returns in 2024.

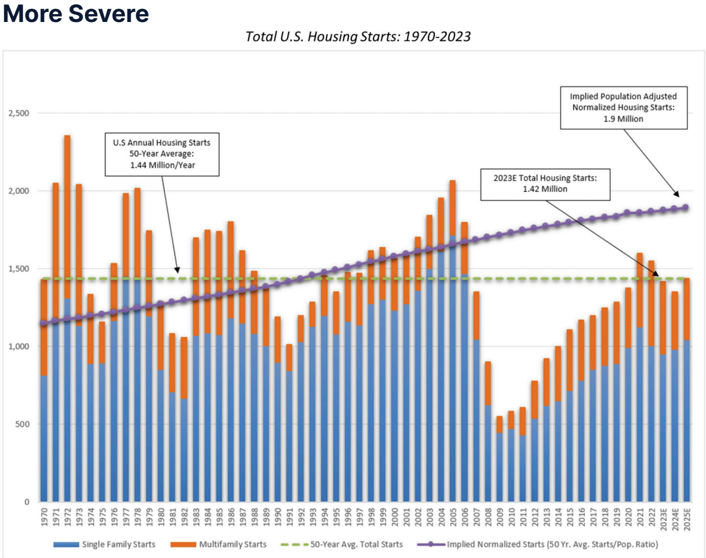
Exhibit 9 – Unison Market Exposure Analysis for 2024

Unison Market Exposure Analysis for 2024 Markets with Forecased Home Price Appreciation:		
>3.0% 56.1%	>4.0% 31.2%	>5.0% 21.8%
Colorado	**Arizona**	**Florida**
Michigan	**Massachusetts**	Georgia
New York	Indiana	Idaho
Ohio	Utah	**New Jersey**
Oregon		North Carolina
Virginia		Tennessee
Washington		
Wisconsin		

Source: Unison Investment Management, as of September 30, 2023.

Looking at the drivers of the US housing market, we find that almost all of them are either supportive of higher prices or improving in that regard. As the chart below demonstrates, US home starts have averaged 1.44 million for the last 50 years. Since the global financial crisis, the US has under-invested in single family homes to the point that the US is now short 1.7 million homes. That deficit is forecast to increase again in 2024 as 1.35 million projected home starts falls below the long-term average and the updated 1.9 million run rate of starts required to bridge the deficit over time.

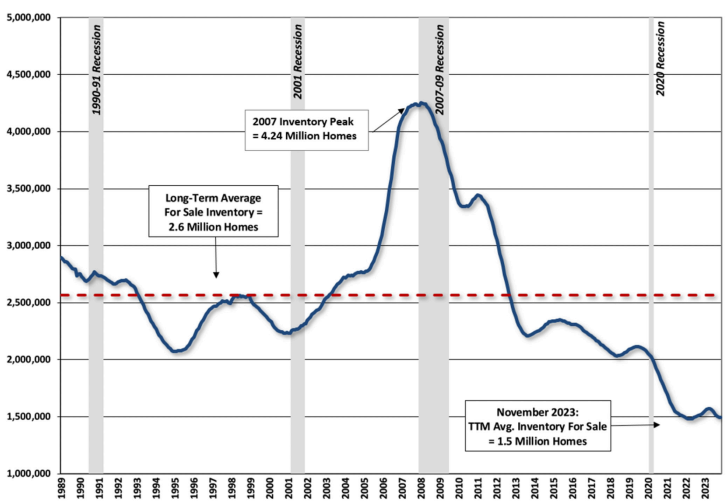
Exhibit 10 – Single-Family Supply Deficit Only Growing More Severe



Source: U.S. Census Bureau; Raymond James Research.

Exhibit 11 – Total Combined For-Sale Inventory: 1989-2023

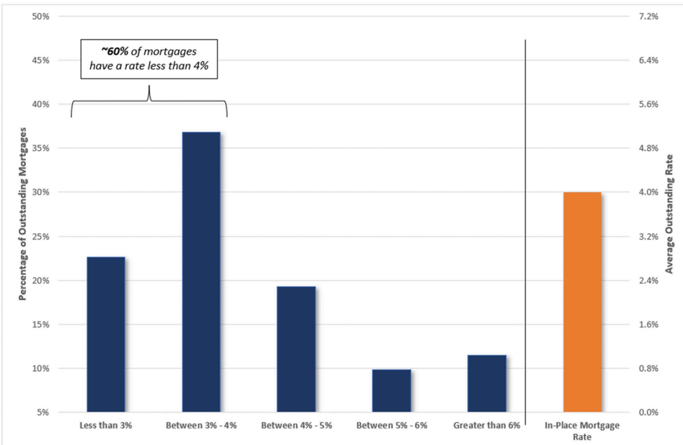
(Existing Home Listings and New Homes for Sale)



Source: National Association of Realtors, U.S. Census Bureau, Raymond James research.

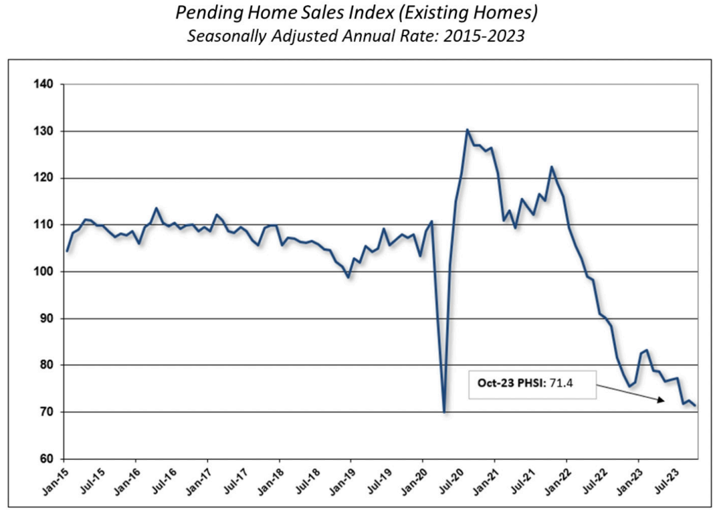
Much has been made of the "lock-in effect" created by a significant increase in the 30-year mortgage rate over a short period of time. Existing-home sales have fallen to their slowest pace in more than a decade as homeowners choose to remain in their current homes in order to keep their low mortgage rates. As the chart below indicates, approximately 60.0% of US home mortgages are at a rate that is below 4.0%, compared to the current 30-year mortgage rate of 6.6%. As a consequence, pending home sales of existing homes are near their all-time low.

Exhibit 12 – "Lock-In Effect" Not Going Away Any Time Soon
In-Place Mortgage Rates on Loans Outstanding (As of September 2023)



Source: FHFA National Mortgage Database, and Raymond James Research.

Exhibit 13 – Pending Homes Sales Index (Existing Homes)



Source: National Association of Realtors, Raymond James research.

To summarize, Unison's markets appear poised to deliver strong home price appreciation in 2024. US housing market fundamentals (low supply, rising demand, high owners' equity, declining mortgage rates, strong labour market) remain very strong and we are entering the seasonally strong period for the US housing market.

2024 Starlight Private Global Real Estate Pool Outlook

Much of the underperformance of private global real estate in 2023 was driven by a synchronized global central bank hiking cycle from 2022 to 2023. These hiking cycles have ended, and central banks have indicated they will commence cutting policy rates in 2024. This has historically resulted in strong performance of real estate assets and REITs.

Exhibit 14 – Canadian Interest Rates and REIT Performance

Source: Bloomberg Finance L.P.

Exhibit 15 – US Interest Rates and REIT Performance

Source: Bloomberg Finance L.P.

The market has moved from pricing in six rate cuts in 2024 to pricing in three rate cuts, with the US dollar strengthening in response. **We expect the Bank of Canada to cut rates sooner and by more than the Federal Reserve Bank, creating additional Canadian dollar weakness versus the US dollar.**

The asset allocation of the Starlight Private Global Real Estate Pool should allow it to return to generating strong absolute performance in 2024:

- Value-add Canadian apartments
- Strong housing market fundamentals in the US
- Strong industrial market fundamentals in the US
- Data driven demand for more cell tower development in the US

The Real Estate Pool has no exposure to office or retail assets and has no exposure to emerging markets. All of our private real estate partners employ conservative leverage strategies and generate significant free cash flow from operations.

As we approach our six-year anniversary as a firm and the four-year anniversary of the Starlight Private Global Real Estate Pool, we appreciate the support you have shown us. We appreciate the opportunity to compete for your client's capital and the Starlight Private Pools have played a significant role in our combined success.

Sincerely,

The Starlight Capital Team

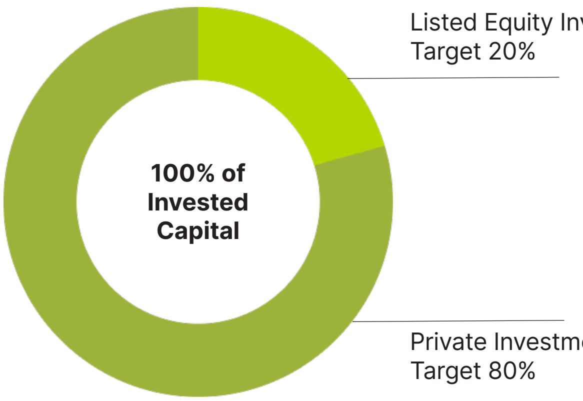
We invite you to partner with us.

Starlight Private Global Real Estate Pool

Innovative Fund Structure

Access a diversified portfolio of best-in-class private investment partners managing institutional-quality, private real estate.

Target Asset Allocation



Total Return

- Target 12-14% Net IRR to investors
- Attractive long-term capital appreciation potential with a target 5% annual distribution paid quarterly

Innovative Fund Structure

- Access to institutional private assets that provide uncorrelated returns and long-term capital appreciation
- Concentrated portfolio of actively managed global listed securities support yield and liquidity

Liquidity

- Monthly subscriptions with quarterly redemption privileges
- Tax-efficient, quarterly distributions

Real Assets

Starlight Private Global Real Estate Pool

Inception-2020

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

Investment Management Team

Dennis Mitchell, MBA, CFA, CBV
Chief Executive Officer and Chief Investment Officer

Dennis Mitchell joined Starlight Capital in March 2018 as Chief Executive Officer and Chief Investment Officer. He has over 20 years of experience in the investment industry and has held executive positions with Sprott Asset Management, serving as Senior Vice-President and Senior Portfolio Manager, and Sentry Investments, serving as Executive Vice-President and Chief Investment Officer.

Mr. Mitchell received the Brendan Wood International Canadian TopGun Award in 2009, 2010, and 2011 and the Brendan Wood International 2012 Canadian TopGun Team Leader Award. He also received the Afroglobal Television Excellence Award for Enterprise in 2020 and the Black Business and Professionals Association's Harry Jerome President's Award in 2021.

Mr. Mitchell holds the Chartered Financial Analyst and Chartered Business Valuator designations and earned a Master of Business Administration from the Schulich School of Business at York University in 2002 and an Honors Bachelor of Business Administration degree from Wilfrid Laurier University in 1998.

Mr. Mitchell currently sits on the Board of the Toronto Foundation and is Co-Founder and Director of the Black Opportunity Fund.

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 $28B in AUM. A privately held owner, developer and asset manager of over 66,000 multi-residential suites and over 7 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/

Invest With Us

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

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 February 22, 2024. While all material is deemed to be reliable, accuracy and completeness cannot be guaranteed.

Certain statements in this document are forward-looking. Forward-looking statements ("FLS") are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as "may," "will," "should," "could," "expect," "anticipate," "intend," "plan," "believe," or "estimate," or other similar expressions. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the FLS. FLS are not guarantees of future performance and are by their nature based on numerous assumptions. Although the FLS contained herein are based upon what Starlight Capital and the portfolio manager believe to be reasonable assumptions, neither Starlight Capital nor the portfolio manager can assure that actual results will be consistent with these FLS. The reader is cautioned to consider the FLS carefully and not to place undue reliance on FLS. Unless required by applicable law, it is not undertaken, and specifically disclaimed that there is any intention or obligation to update or revise FLS, whether as a result of new information, future events or otherwise.

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