Starlight Capital

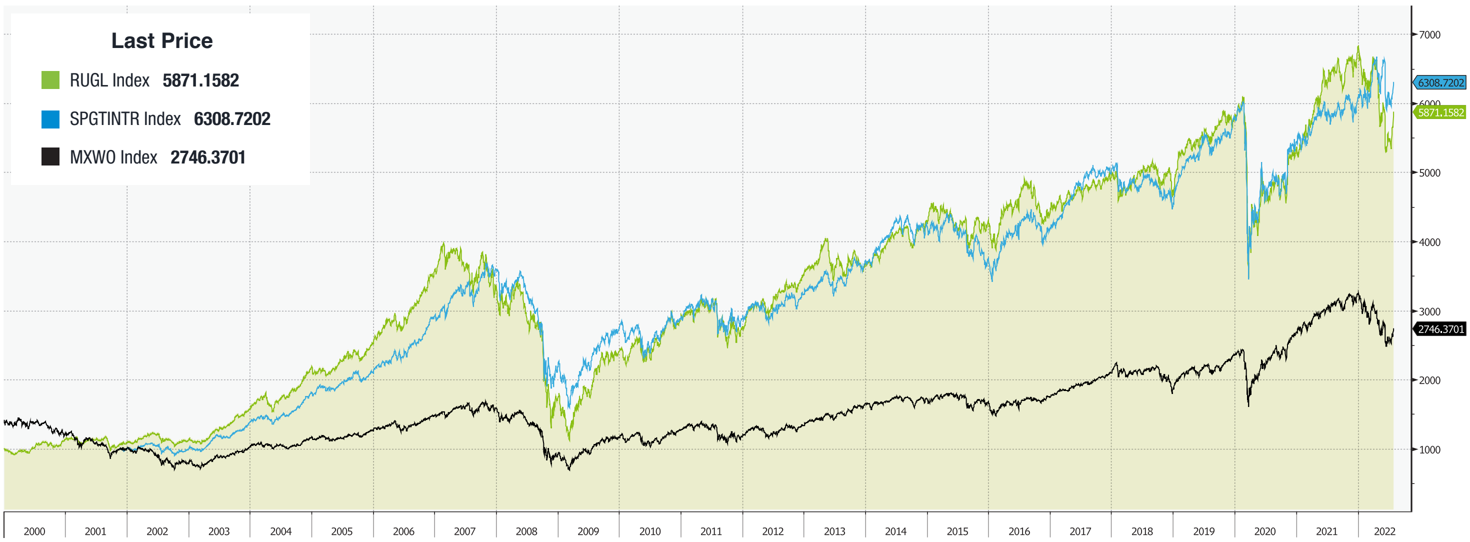
FOCUSED INVESTING

Real Assets and **Real Income**

Real assets, specifically real estate and infrastructure, are businesses that provide essential services that allow global economies to function. These services include housing, healthcare, logistics, electricity, water, waste collection, communications, payment processing, data storage, and high-speed internet. **Because of the essential nature of these services, households, corporations and municipalities continue to pay for them, even during periods of economic weakness.**

Historically, investors have looked at real assets as interest-sensitives with defensive qualities and little growth potential. The chart below demonstrates that **global real assets have consistently outperformed global equities over the long term.**

Global Real Assets Total Returns vs. Global Equity Total Returns[1]

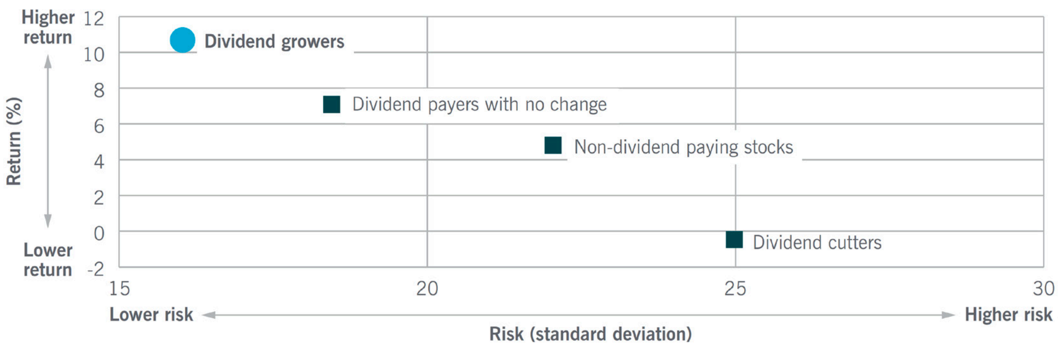


Source: Bloomberg LLP. [1]As at August 5, 2022.

Much of the outperformance of real assets is due to the consistent dividends paid by real estate and infrastructure companies. As the chart below demonstrates, **companies that have historically increased their dividend have outperformed on a total return basis with less volatility.**

Risk-Adjusted Returns of S&P 500 Index Stocks by Dividend Policy

Risk vs return, annualized, 1973 – 2021



Source: Ned Davis Research, December 2021.

In addition to the potential for rising dividends and distributions, real assets also pay very tax efficient income to investors. **As the chart below demonstrates, in 2021 investors in the Starlight mutual funds received most of their distributions in the form of return of capital.** The lower tax rate on these income streams means investors keep more of their Starlight distributions compared to dividends from preferred and common shares or even the elevated coupons from high yield bonds.

After-Tax Yield Comparison

	High Yield Bonds	Common Equity	Preferred Equity	SCGR	SCGI
Yield	6.94%	3.13%	5.28%	5.96%	5.00%
Tax Rate	53.53%	39.34%	39.34%	5.95%	17.85%
After-Tax Yield Comparison	**3.23%**	**1.90%**	**3.20%**	**5.61%**	**4.11%**
$100,000 Investment Example					
Capital	$100,000	$100,000	$100,000	$100,000	$100,000
Income	$6,940	$3,130	$5,280	$5,960	$5,000
Taxes Payable	**$3,715**	**$1,231**	**$2,077**	**$354**	**$892**
After-Tax Income	**$3,225**	**$1,899**	**$3,203**	**$5,606**	**$4,108**

Source: Bloomberg, E&Y Tax Calculators, taxtips.ca, Starlight Capital
Notes: High Yield Bonds represented by the Horizons Active High Yield Bond ETF, Common Equity represented by the S&P/TSX Composite Index, Preferred Equity represented by BMO Laddered Preferred Share Index ETF, SCGR is the Starlight Global Real Estate Fund series F, SCGI is the Starlight Global Infrastructure Fund series F. All yields and pricing as of August 5, 2022. SCGR and SCGI tax breakdowns as of 2021.

Both the Starlight Global Real Estate Fund and the Starlight Global Infrastructure Fund yield over 5.0% annually and the distributions are paid to investors on a monthly basis. **The chart below demonstrates that the high absolute yields from the Starlight funds are supported by strong dividend and distribution growth from the underlying investments.**

Starlight Capital Mutual Funds Yield & Distributions Analysis					
Year (Series F)	Fund Name	Yield (Series F)	% of Return of Capital	Investment Portfolio Distribution Increases	
				# of Increases	Avg. Increase
2022 YTD	**Starlight Global Real Estate Fund**	**6.0%**	**Unavailable**	**19**	**16.1%**
2021		5.0%	71.6%	37	5.8%
2022 YTD	**Starlight Global Infrastructure Fund**	**5.0%**	**Unavailable**	**20**	**9.4%**
2021		5.0%	35.0%	30	8.1%

Notes: Data for the year 2022 is as of July 31, 2022

Investors could choose to invest in other asset classes to generate income however, the income from some of these asset classes has deteriorated over the last 22 years. In the year 2000 investors could generate a comfortable 6.3% annualized yield by investing in AAA-rated 10-year Canadian government bonds.

Today, to generate a similar income stream out of fixed income, investors are faced with two choices:

- Take on significantly more risk by investing in high yield or emerging market bonds; or
- Allocate significantly more capital to fixed income

Allocating capital to riskier companies or geographies during a global slowdown at the tail end of a global pandemic seems like a poor decision. Allocating more capital to treasuries is feasible but in order to generate the same level of income as offered 20 years ago, investors would have to allocate over twice as much capital. In comparison, investors in the Starlight funds can generate the same absolute level of after-tax cash flow with significantly less capital. This strategy should result in more after-tax cash flow with a lower risk profile for investors.

Canadian After-Tax Income Comparison					
	2000	2022	2022	2022	2022
Asset Class	**10 Yr Bonds**	**10 Yr Bonds**	**10 Yr Bonds**	**SCGR**	**SCGI**
Required Capital	$100,000	$100,000	$227,537	$51,854	$70,765
Yield	6.26%	2.75%	2.75%	5.96%	5.00%
Annual Income	**$6,255**	**$2,749**	**$6,255**	**$3,090**	**$3,538**
Taxes Payable	-$3,348	-$1,472	-$3,348	-$184	-$632
After-Tax Income	**$2,907**	**$1,277**	**$2,907**	**$2,907**	**$2,907**

Source: Bloomberg LLP, U.S. 10 year yield as of January 20, 2000 and August 5, 2022.

The current macroeconomic environment continues to be favourable for real assets. Slowing growth, low interest rates, elevated inflation and a growing demand for tax-efficient income all bode well for real asset returns. Large institutions have already significantly increased their allocations to real assets and will likely continue to do so in this environment.

“We think that institutional investors will continue a push towards 60% alternatives allocation in their portfolios—from a global estimate of 25% today.”

Bruce Flatt, CEO, Brookfield Asset Management Inc., Q3 2019 Letter to Shareholders

Learn more at starlightcapital.com or speak to your advisor.

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