SECOND "WORST QUARTER EVER" IN TWO YEARS: THE BLUEPRINT FOR A BOUNCEBACK

HEDGE FUNDS (Inception)	MARCH 2020	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006)**	**-18.8%**	**-22.3%**	**8.3%**
Venator Select Fund (September 2013)	**-24.4%**	**-26.9%**	**8.5%**
S&P/TSX Total Return (March 2006)	-15.5%	-19.1%	4.1%
Russell 2000 (March 2006)	-21.5%	-30.4%	4.7%
S&P Toronto Small Cap (March 2006)	-28.8%	-37.7%	-1.6%
S&P 500 (March 2006)	-12.5%	-19.7%	7.3%

ALTERNATIVE MUTUAL FUNDS (Inception)	Mar 2020	YTD	1-YR	3-YR	5-YR	10-YR
Venator Alternative Income Fund* (January 2020)**	**-20.7%**	**-20.9%**	**-17.8%**	**-3.0%**	**-0.7%**	**6.0%**
B of A Merrill Lynch High Yield Index (August 2008)	-11.7%	-13.1%	-7.5%	0.6%	2.7%	5.5%

**As of March 31, 2020*
***Venator Investment Trust is available as an extension of the Founders Fund strategy, its monthly performance mirrors the Founders Fund, and it is eligible to be held in both registered & non-registered accounts*
****Performance data prior to January 24, 2020 relates to Class F Units of Venator Income Fund, which was distributed to investors on a prospectus-exempt basis in accordance with National Instrument 45-106*

Simply put, the first quarter of 2020 was the worst first quarter for financial markets in 100 years. It's also worth noting that we're only five quarters removed from the worst fourth quarter in 100 years (2018). Despite all the "worst day ever" stats through the month, the real issue was the speed of the drop with the market going from a near all-time high to a 35% drop in only 20 trading days, offering little time to think about what adjustments one would want to make with a long-term investment philosophy; by comparison, the summer 2007-spring 2009 crash was a slow motion train wreck. When the bottom hit this time around the S&P 500 had retreated to pre-Trump 2016 levels, its small cap counterpart retreated 43% to 2013 levels, and here at home I am only going to go back to *the turn of the century* to note that the TSX composite was slightly higher in 2000 (much higher in 2008 and 2014) than it was when it bottomed after its quick 38% fall from an all-time high.

VENATOR ALTERNATIVE INCOME FUND: We are obviously disappointed with the first quarter performance of the Fund but are very optimistic going forward. The Fund is currently carrying a forward annual yield in excess of 15% (!) with a duration of roughly 3 ½ years. This means that the Fund could be reaching new all-time highs within 18 months just from interest and maturities alone, absent bankruptcies net of recoveries. Such is the nature of bonds where we need not concern ourselves with 20% earnings misses and valuation fluctuations. A stock's value is an opinion (even if people try to throw around terms like 'intrinsic value' to suggest that stock values are in any way objective), but *a bond's value at maturity is a contractual obligation that must be fulfilled at 100 cents on the dollar absent bankruptcy.*

Q1 2020 - VENATOR ALTERNATIVE INCOME FUND ATTRIBUTION (bps)			
Top Contributors		**Largest Detractors**	
Zillow Group, Inc. (Jul 1/23) - CONV $78.37	+58	CEC Entertainment Inc. (8.0%, Feb 15/22)	-303
CVR Energy, Inc. (5.25%, Feb 15/25)	+48	Baytex Energy Corp. (5.625%, Jun 1/24)	-215
Alteryx, Inc. (1.0%, Aug 1/26) - CONV $189	+37	Par Petroleum, Inc. (7.75%, Dec 15/25)	-144
NorthWest Healthcare REIT (NWH.UN)	+18	Fortress Trans/Infra. LLC Preferred (8.25%, Sep 15/24)	-133
RH Corp. (0%, Sep 15/24)	+13	Fronterra Energy Corp. (9.7%, Jun 25/23)	-90

We don't take large risks in this strategy and rather look for opportunities where business or asset risk is misunderstood (vs equities where you are looking more at upside potential). That said, credit markets saw substantial dislocation in March due to a triple whammy of COVID-19 sending credit analysts reviewing who can stay in business with the doors closed for two/three months; everyone working from home which caused inefficient trading (in what is a sporadic and negotiated market under normal conditions); and Saudi Arabia deciding to flood the market with oil supply during a demand collapse. We had some direct exposure to crude oil production (which we sold at a loss - note Baytex Energy in the chart above), and we also own bonds in some refiners and gas stations which have sold off, however, we believe they will likely bounce as their input costs (oil) will likely stay down longer than their output costs (gasoline) after the economy gets back on its feet.

We have actively traded over the past three weeks in order to crystallize tax losses while and at the same time cycling into higher quality bonds offering stronger balance sheets with similar yields. Distressed selling across credit markets has also provided short-term opportunities for us, as wider than normal bid/ask spreads continue to exist. For example, one of our bonds positions recently traded at 97, then 67, and finally settled at 87 – all in the same day, with those being the only trades. Another position, UBER, actually traded down 20% into the low 80's despite having only $6 billion in debt against a $23 billion cash bank account, before closing the month at 99 (where it belongs!). Again, we are currently carrying a 15% yield with an approximate three and a half-year duration, using approximately 25% leverage. That yield suggests a potential 50% total gain over three years just from sitting on our hands.

VENATOR HEDGE STRATEGIES: Our long/short equity strategy had a similarly disappointing quarter as the long side of the portfolio underperformed the market. Our hedge portfolio generated substantial gains (as shown in the chart below), but it was not enough to offset our long losses. Our residential construction thesis turned aggressively against us, which we view as a temporary blip given that the world is going to get back to work at some point, with zero percent interest rates no less which should further boost the residential construction trend. We also used the recent market decline as an opportunity to add several new names to the portfolio that we have been eyeing for years, and said goodbye to a few others that 'hung in there' but weren't going to provide the same level of upside relative to the names we were cycling into. The Fund is currently only 60% net long equities, with the hedge book largely consisting of derivative securities. Our new hedging strategy implemented in full this year is designed to provide some protection in aggressive downturns and fuller participation during hard upside rallies. Looking forward, we believe that the markets are offering tremendous long-term opportunities and our hedge model is positioned to benefit from such a rally all the way into the third quarter of the year.

Q1 2020 - VENATOR LONG/SHORT STRATEGY ATTRIBUTION (bps)

LONG PORTFOLIO	-3577	SHORT PORTFOLIO	+1498
Top Contributors		**Largest Detractors**	
RingCentral, Inc. (RNG) - long	+165	Jeld-Wen Holdings, Inc. (JELD) - long	-312
MTY Food Group, Inc. (MTY) - short	+132	Skyline Champion Corp. (SKY) - long	-269
Monarch Casino & Resort, Inc. (MCRI) - long	+119	Alcanna, Inc. (CLIQ) - Long	-213
Omega Flex, Inc. (OFLX) - short	+87	Upland Software, Inc. (UPLD) - long	-197
Cineplex, Inc.(CGX) - long	+46	Ero Copper Corp. (ERO) - long	-170

I think it's fair to say that this time is different, as global pandemics such as COVID-19 have historically been once in one hundred-year events. Other market crashes we have experienced carried longer-term uncertainties. The financial crisis may have been reversed quickly in stock market terms, but the potential ramifications of that event could have been much worse in terms of economic impact and duration, and by some measures were. The post-2009 stock market rebound was largely due to an aggressive globally coordinated lowering of interest rates, which caused aggressive equity multiple expansion during an incredibly weak economic recovery. In other words, valuations went up while companies largely stood

in place, supported by low interest rates on debt and share buybacks. The actual economic recovery has been long recognized as one of the weakest on record.

The current crisis will be over soon. Even if 'soon' means in three months, I don't foresee any material long-term repercussions to the economy as a whole. The Q2 numbers will statistically show a depression, or 20% drop in economic activity, but the Q3 numbers will likely be touted as "the strongest recovery on record" going into the election, which will be technically be true relative to the unprecedented depths Q2 will take us, but hardly something worth taking credit for. I would imagine Q4 shows us something of a return to normal life in time for the holidays. Outside of a much higher amount of National Debt, we expect that companies and people will get back to work sometime this summer. Admittedly it is difficult to assess how the new debt will be paid for 'down the road' but because we currently live in a zero-government rate world where 'deficits don't matter', I believe this is a problem to ruminate upon after a rebound which I firmly believe will happen. Until that time, here are a few guiding thoughts as we navigate this challenging period:

A TRUE BLACK SWAN, THIS IS UNLIKELY TO HAPPEN AGAIN IN OUR LIFETIMES: I think it would be premature to make wholesale portfolio changes based on the assumption of permanent adjustments to human behavior due to a once in one hundred-year event. While there are some interesting areas that will benefit over longer periods of time such as software-based communications, telehealth or streaming, I still think people will use Uber, go to restaurants, buy shoes and clothes, go to Disneyworld, utilize online dating, buy or renovate houses, and require trucks to deliver things. It would be folly to not recognize the opportunities that could be very profitable as things return to normal with a year of patience.

THE KEY TO RECOVERY IS WHEN, NOT IF: In part thanks to fiscal stimulus taken by global governments, most of the economy will survive a shutdown to mid-May. For most companies (those that use calendar quarter reporting) a March-April shutdown would represent losing only one month of each of the first two quarters. Your average small business can handle one or two months of rent (assuming they can't get a break) and your average hourly worker should be able to reluctantly afford a forced 6-week vacation. *The real risk is if the current situation persists past mid-May*. Small businesses, and perhaps even some major employers, will run the risk of going out of business at alarming rates should the economy shutdown continue for several months. Many debt-laden medium-sized restaurants and retailers could go bankrupt and many will have a Toys R Us or Gymboree-type situation whereby they are more likely to close than restructure, causing more permanent job losses. *Most experts believe the current stay-at-home orders will not extend past May 30th, which is a date we hope is accurate.*

ITS NOT HOW BAD THINGS WILL GET, ITS HOW BAD THEY GET RELATIVE TO EXPECTATIONS: This is why good companies sometimes make bad investments while bad companies can be good investments - it's all about expectations. When does the curve flatten; when are the stay at home orders lifted; who will get relief on debt covenants; how much stimulus will there be in the end? News can get worse, but that worse news might be better than expected. When you read another dire headline, remember to ask the question "is that worse than I expected?". Every day the current situation persists is one day closer to the end of it.

YOU HAVE TO LOOK PAST Q2: Brace yourself for atrocious Q1/Q2 economic data and quarterly reports - but remember (again) that it's all about expectations. Q1 is going to be bad, and while companies are not going to guide to Q2, it's safe to say it will be bad too. Best case scenarios are material slowdowns in growth, while worst case scenarios are tapping credit lines or tapping out. My simple rule of thumb is if you think 2021 could look like 2019 and the investment looks cheap on that basis, it's probably a good one to own going forward. We have adjusted all our targets using this guideline.

BABY BEING THROWN OUT WITH THE BATHWATER: This is going to increasingly be a factor in market corrections as automated trading and ETFs sell everything at once on a beta-adjusted basis. Most of the time a highly correlated downside move makes sense, either due to a murkier outlook or a decline in the valuations of comparable or better opportunities. Many investors will cling to long-term value confidence or intrinsic value, but in many cases, things have changed, and we are just debating the materiality of that change. For example, you can hold firm on your 2021 estimates, but most companies will likely have less cash or more debt by June than was expected in February. That being said, there are some companies out there whose balance sheets, earnings or growth prospects may not have deteriorated very much at all.

NORTHWEST HEALTHCARE REMAINS OUR LARGEST POSITION (INCLUDING BONDS): A long-term holding within our portfolios, Northwest Healthcare has continued to execute on their plan to be the global leader in healthcare facility ownership. They have recently signed two multi-billion-dollar fee-based agreements to manage properties on behalf of third parties inside joint ventures they will co-invest in. They did a timely share issue and divested of several properties before the recent market correction, bringing their debt-to-value ratio to a level that could make the company eligible for an investment grade rating, which would lower their overall cost of borrowing (note: its convertible bonds are currently trading like junk bonds which gives you a sense of the dislocation in the markets today). Unlike most REITs, its tenants, which are comprised of doctors and hospitals under long-term leases, are unlikely to need or request rent relief or government bailout funds because they are the most essential of services during COVID-19 situation. This is one of the true ‘nothing to worry about’ cases in the market, even though the stock has sold off with the broader REIT sector.

THE ECONOMICS OF A BOND HAVE NOT CHANGED (THEY STILL OWE YOU YOUR $100 AT MATURITY): One thing that has not changed in the market is the basic terms of owning debt. Regardless of the stock market performance, when the bond matures, they either owe you the money or they owe you the company (hopefully the former, but the latter scenario can also be quite profitable depending on the assets owned). We have seen some equity infusions into balance sheets of some of the companies we own which provide a greater cushion on our debt holdings. The current 15% yield to maturity offered by Venator Alternative Income Fund suggests some potentially outsized returns on the road to recovery.

This can be a trying time for the world as the normal activities of life such as going to work, school, travelling, or simply visiting with family & friends has been taken away. All we’re left with is a very dour stream of media headlines, and a stock market ticking away at our savings accounts. I firmly believe this will look like one of those rare once-every-ten-years buying opportunity come the fall. This is not the bubble bursting in 2000, nor is this the systemic risk to capitalism that was 2008. This will pass. You will still have to wait in line at Disney’s new Galaxy’s Edge; you will not get your own row on an airplane; you will still get ripped off at your favorite vacation spot come winter break; the Leafs will still disappoint us in the playoffs next year (provided they qualify); the Patriots will still win the AFC East; you will still have to make an advance reservation at your favorite restaurant; your kids will go back to school,; you will still get to fire up the BBQ on Father’s Day; and finally, bonds will still mature at par and stock markets will eventually make new highs.

Stay positive and safe - and, as always, we reserve the right to change our mind!

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