THE OTHER SIDE: WHAT SHOULD HAPPEN VS WHAT WILL HAPPEN

HEDGE FUNDS (Inception)	APRIL 2020	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006)**	**15.7%**	**-10.2%**	**9.3%**
Venator Select Fund (September 2013)	**20.2%**	**-12.1%**	**11.4%**
S&P/TSX Total Return (March 2006)	10.8%	-12.4%	4.7%
Russell 2000 (March 2006)	13.7%	-21.1%	5.7%
S&P Toronto Small Cap (March 2006)	25.1%	-22.6%	0.0%
S&P 500 (March 2006)	12.8%	-9.3%	8.2%

ALTERNATIVE MUTUAL FUNDS (Inception)	Apr 2020	YTD	1-YR	3-YR	5-YR	10-YR
Venator Alternative Income Fund* (January 2020)**	**6.7%**	**-15.6%**	**-13.0%**	**-1.3%**	**0.5%**	**6.5%**
B of A Merrill Lynch High Yield Index (August 2008)	3.8%	-9.8%	-5.3%	1.4%	3.2%	5.7%

**As of April 30, 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*

Markets bounced back hard last month, but do not be misled by the performance of the S&P 500; stocks are still way off their highs. Note that the S&P 500, the most cited benchmark, is a 'market weighted' ETF, meaning the biggest companies carry outsized influence. One reason why the S&P 500 has been the best performing index over the past 10 years is because of an increasingly 'overweight' position in the largest outperforming technology stocks: Amazon, Microsoft, Google, Apple and Facebook. These five companies are the largest components of the S&P 500 and now represent more than 20% of the index. Put another way: 1% of the stocks account for 20% of the index, the largest weight of the top five components of the S&P 500 in history. This isn't quite as bad as the TSX's circa 1999 Nortel issue, when Nortel represented one-third of the TSX 300, but it does create problems for active managers (one money manager in 1999 used to tell me he had but one decision to make every day when he sat down at his desk: do I want to be over-or-underweight Nortel today).

Circling back to my original point, the average stock has not held up nearly as well as the headline numbers would have you believe and, therefore, this market remains very damaged by COVID-19. *The S&P 500 equally weighted index is still nearly 20% off its February highs, while the S&P mid-cap index and the small cap Russell 2000 are both more than 20% off their February highs.* That means that there are probably a multitude of good investment opportunities out there if you think we are going to get to the other side of this in a reasonable time frame.

One thing that I have observed over the course of this crisis is that everyone has recently "achieved" a PhD in Epidemiology, with a minor in Virology, from the University of Google. This, of course, is after being given honorary doctorates in Political Science from that same esteemed institution. The main issue with the varied opinions I have heard and read over the past month is that they fail to separate what should happen from what will happen, which is an important distinction.

My primary question in all the should/will debates is this: if we are going to leave public transit and cabs/ride sharing open, then what is the point of closing/restricting business model XYZ? That doesn't necessarily mean that we won't cut back restaurant capacity by 30%, it just means that this would be a near pointless exercise in 'social distancing' when patrons either took the subway or were the 60th daily passenger in the taxi. Not to mention the issue of what to do with servers and cooks, who would have to change latex gloves at least 30 times per hour since they literally touch every glass and plate in the place. Personally, I would rather be in an open-air baseball stadium than on the subway at 8am, however, I can fully see a world where the government leaves the subways open and the stadiums closed. We need to handicap who comes out of this better, worse or the same. The following points are a smattering of things I have thought or read that make sense in terms of what *might* happen coming out of this (*not to be confused with what should happen*). We also mention some examples below on our bond or stock watchlists which we may own, or might be looking to own, at the right price, just to give you a sense of where our heads are at:

- **Air Travel:** I personally believe that leisure travel will come back by next year. 'Experiential' living has become too ingrained in society's psyche over the last several years. Will masks be mandatory? Perhaps, which would hurt food sales. Might we get rid of the middle seat? Useless, because the seat behind you is more of a threat, but still possible. This could be a revenue drag unless seat prices can be increased; or a job drag if in the absence of these ancillary services air carriers hire back less stewards. Lower oil prices will be a tailwind that will likely last several years in my opinion. Air Canada will survive this.

- **Hospitality:** The data (both here and abroad) says people are trading down to budget hotels and staying away from airport hotels (business travel). Transient leisure vacation spots (especially those you can drive to) look relatively good, while transient business/airport hotels will likely have a prolonged recovery period. Timeshares could benefit as well as people are reluctant to walk away from investments, and these properties generally experience lower patron turnover giving them an impression of better hygiene. Companies that qualify as potential beneficiaries include Wyndham Hotels, Marriott Vacations and Extended Stay America. I am not sure how North American casinos will fare, since they have spent the better part of the past 20 years transitioning from gambling to destination/restaurant/club/convention centers; all bad things right now.

- **Houses vs Apartments:** The desire coming out of quarantine is that millennials want get out of condos/apartments and move to the 'burbs' in an accelerated fashion. The reality is that a stronger economy is needed to bring lending standards back down to the point where people can get mortgages. That said there is concern that the condo rental/AirBnb market could see accelerated vacancies which could push rents down. It is way too early to call, but that seems to be the early narrative on both sides of the border. This could be a boon for the furniture industry as well because people are more thoughtful and less frugal when it comes to furnishing a house, with Wayfair and Restoration Hardware leading the way online and in showroom, respectively. DR Horton is the low-end housing play in the US, while manufactured housing leader Skyline is there if you want to go even lower in price.

- **Cars vs Transit:** Early reads are that car sales will accelerate as millennials begin their move to the 'burbs', and people stop lessening their use of cabs, buses and subways. With recession in sight, used cars are outperforming new cars by a substantial margin. Tesla could be winner here as the Model 3 is the preferred millennial car (we will see if the Model Y becomes the preferred family truckster), with the added benefit of not having to touch a gas pump to fill up.

- **Restaurants:** This one is tough to call as we have not seen any compellingly coherent theses about how this sector will exit the current crisis. Unlike similarly devastated sectors that are completely shut down (such as hotels and retail), the restaurant sector might not open back with full capacity like hotels, and don't have the online outlet like retail (food delivery is not enough). Whether or not it matters (I don't think it does), I can envision a world where buffets/salad bars are eliminated and latex gloves are worn for the foreseeable future; but I also think capacity drops by about 20% before creeping back up over several years. I believe this to be a sector that exits the crisis in worse shape than how it went in, largely owing to the lowered capacity thesis. That said, I do not think demand will be impacted so book your reservations early.

- **Apparel Retail/Malls:** Malls are reopening but I am skeptical that this is good for retail. Opening the malls basically gives the mall owner greater reason to demand rent vs retailers that currently are refusing to pay rent in closed malls. I would imagine traffic will be subdued and dollars spent per head will be lower. Anchor tenants, such as movie theatres (which will remain empty with most of the notable calendar releases pushed past Labor Day) and department stores, will not be driving traffic this season. I would imagine the road back for retail will feel like an uphill battle through Thanksgiving. However, I also believe that we are going to see Black Friday inventory-clearance deals like never before. Revenues will come back, but profits will not. Like restaurants, this will be a multi-year recovery for all but the best brands (Lululemon, Canada Goose) or the heaviest discount concepts (Dollarama, Ross Stores).

- **Theme Parks/Sports/Concerts:** Desperation is an interesting phenomenon, and these guys are all shut down with no outlet for alternative income. Either people are there, and you are broadcasting, or you are closed. Furthermore, once open, there really is no feasible way to social distance from home to seat. Less people in the park does not eliminate line proximity or multiple users of seats while wearing shorts and t-shirts. You are either open or you are closed; and

I would expect them to open before choosing bankruptcy. Obviously, all eyes are on Disney here, but many theme parks (such as Six Flags) are more local and do not require the added perceived risk of a trip, so they are worth watching as well. Sports bears watching too; there is too much money at stake for largely family-owned teams and players with short careers. The bigger issue is that major sports leagues do not want to rebate their broadcast partners billions of dollars for cancelled games/playoffs. The other alternative is games without fans, but this brings salary cap issues into play as well as player contract payments, as some teams might not want to lose money in the absence of ticket sales. Players have shorter careers than owners, so look for solidarity here. While the current season of arena sports could go straight to the playoffs without fans, I do not see new seasons starting without fans. If local/state governments get in the way, look for the LA Rams to play their home games in Texas, and the Stanley Cup Finals to be played in Nashville in August! Ticketmaster and recently public DraftKings are ones to watch here.

- **Communications Technology:** One obvious trend that will come out of this is the readiness to work remotely. Zooming had become a neat phenomenon, but video conferencing for the casual user probably will not be very profitable as Zoom, Microsoft, Google, Apple and Facebook all offer free limited use product. That said, the battle lines are being drawn corporately as companies will accelerate the move to cloud communications that allow employees to seamlessly communicate across devices and platforms. While Zoom has gotten all the hype, it's important to remember that everyone needs a phone line, whereas only a few people need corporate-strength video conferencing (which is much more expensive). RingCentral, Zoom and Cisco appeared set to battle for this ten-year opportunity with several other contenders including Microsoft, Vonage and 8x8 looking to get into the fray.
- **Cash:** When they say that crises have a way of accelerating that which was already happening, using paper money in 2020 is what they likely had in mind. Cash use, in my opinion, is set for an accelerated decline. Cardtronic is a leading vendor of Automated Teller Machines which is probably a bad place to be going forward. Credit Card processors such as Mastercard and Visa, along with Square are the beneficiaries.

These are probably the touchpoint industries most affected by COVID-19. Construction, industrial machinery, grocery, healthcare, e-commerce, banking, cloud computing and natural resources will, in my opinion, all come back on their own time at varying paces, but will not have the 'this could change everything' long-term speculation that could affect the industries mentioned above.

Frankly, my biggest fear post-COVID is what will happen in situations that may appear similar in potential to the current one. With the benefit of hindsight, shutting down the airports and issuing stay-at-home orders due to the SARS outbreak that happened nearly 20 years ago would have been a drastic overreaction and unnecessarily economically damaging. But if a SARS-like virus hit the clickbait newswires in 2022, I would expect an immediate 10%-15% drop in the stock market and I would place 50/50 odds on international routes being shut down for a month.

We remain bullish on the prospects for a rebound. As we stated above, we believe that the measures put in place sets the market up to hit new highs within the next 18 months. To that end, we remain fully invested on the long side. This was a strong month as the market came to the realization that economy will reopen in short order. Now comes the hard part, when the euphoria of avoiding disaster meets the reality of a long road back. With that in mind, we have altered our hedge book to give us more time and better protection in case of a reversion, while still allowing us to participate almost fully in the event that the market rallies aggressively through year end. Our Income Fund is still carrying a yield in excess of 10%, with potential for compressed positive returns should we get more capital gains through continued corporate refinancing activities.

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

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