IS STOCK PICKING BACK?

HEDGE FUNDS (Inception)	MAY 2020	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006)**	**11.4%**	**0.1%**	**10.1%**
Venator Select Fund (September 2013)	**12.4%**	**-1.2%**	**13.2%**
S&P/TSX Total Return (March 2006)	3.0%	-9.7%	4.9%
Russell 2000 (March 2006)	6.5%	-15.9%	6.1%
S&P Toronto Small Cap (March 2006)	4.8%	-18.9%	0.3%
S&P 500 (March 2006)	4.8%	-5.0%	8.5%

ALTERNATIVE MUTUAL FUNDS (Inception)	May 2020	YTD	1-YR	3-YR	5-YR	10-YR
Venator Alternative Income Fund* (January 2020)**	**4.6%**	**-11.7%**	**-8.2%**	**0.2%**	**1.7%**	**7.2%**
B of A Merrill Lynch High Yield Index (August 2008)	4.5%	-5.8%	0.3%	2.6%	4.0%	6.5%

**As of May 29, 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 kept on rebounding during May in the 'you blink, and you miss it' fashion we have seen this year. In the fastest whipsaw in recent memory, after the initial drop of 40% in the equally weighted S&P 500, markets have now experienced a 40% rebound for a 'mere' 15% drop since this all began. In other words, your average stock is still down materially, although not devastatingly, resulting in opportunities across lesser understood gems that could come out the other side of COVID in a position of strength. While the Venator equity strategies have had solid rebounds, the Alternative Income Fund has been a little slower to come back. However, with a yield of over 10% we believe the catch-up is still largely ahead of us and the outlook gets brighter with each passing day as the new issue market remains strong.

The aggressive move in non-FAANG stocks last month (or as I recently read 'MAGFANT', which now includes Microsoft and Tesla), coupled with a rare four weeks of material outperformance by small-caps, have led some to cautiously proclaim that *'stock picking'* (whatever that means since all active portfolios pick stocks), or *'value-investing'* (whatever that means since everyone thinks their stocks have some ethereal intrinsic value beyond book value) is back. For most managers, value investing is *not* the antithesis of growth investing, since most value managers believe that their companies are growing (I have yet to hear the pitch: I expect earnings to drop over the next five years but I love it because of intrinsic value). I also believe the idea of stock picking has come to mean finding stocks outside of the crowd (the aforementioned MAGFANT). That being said, there was no reason why one could not 'pick' any number of the MAGFANT stocks for their own portfolios. Even the 'value' crowd has to accept that being able to buy Google/Alphabet or Facebook at below 20x earnings at various points in the last several years represented as good a value as anything in their own growth-at-a-reasonable price portfolios (I fully understand why they might avoid Netflix and Amazon).

My personal belief is that value managers and self-proclaimed stock pickers are better defined as 'non-momentum' managers and would likely be better off discussing their strategies as such. They do not 'chase' big tech, or commodities, or building products as sectors. Instead, value managers look for companies and then check the charts. Momentum investors, on the other hand, see a hot chart and then check the fundamentals, which are almost always going to look good for a hot stock (or at the very least there might be a plausible narrative to make an investor think they did some real work on the investment, as was the case with cannabis stocks, or Zoom today where we are counting non-paying 'eyeballs' for valuation justification in a market reminiscent of the tech bubble). Momentum investing is almost always going to yield great returns for any given short period of time. Longer term, however, it only works when an investor can sense a momentum shift and manages to get out before the momentum turns the other way (imagine getting out tech in early 2000 and shifting to oil, only to sell that momentum to re-enter big tech in 2012, vs holding tech through 2001 or holding oil to today). Unfortunately, most momentum investors (which are probably most investors whether they realize it or not)

don't have the experience to recognize these turns, while most non-momentum investors, such as ourselves, don't have the good sense to ride that momentum to the very tippy top. This can come down to real cost vs opportunity cost depending where in the momentum cycle you are.

This momentum factor has led to another common observation we are seeing today in the five-year run of outperformance of both the big-tech heavy NASDAQ and the S&P 500 over all other indexes. Recently, this has been attributed to the big five of Microsoft, Apple, Amazon, Alphabet and Facebook that collectively make up over 20% of the S&P 500 and 45% of the NASDAQ 100. At the end of 1999, near the height of the tech bubble, the big five accounted for only 15% of the S&P 500 (GE, Cisco, Intel, IBM, and Microsoft). There is an easy way to normalize this to find out what the typical stock has done and that is to look at the performance of the *equally-weighted* S&P 500 (where the big five only account for 1% of the index). The numbers are telling:

	From 2005	2005-2014	From 2015	YTD 2020*
Russell 2000	164%	111%	24%	-16%
S&P 500	246%	109%	64%	-5%
S&P 500 *(equal weight)*	158%	105%	24%	-13%

**as of May 29, 2020*

You can see from the chart above (observations running left to right) that over the last 15+ years the *market cap* weighted S&P 500 has dramatically outperformed the S&P 500 *equally weighted* index. However, you will also notice that both small and large-cap stocks were largely tracking each other during the ten-year period before 2015. Since 2015 and the rise of FAAMNG (or whatever acronym you want to use), biggest has beaten big, but outside of the biggest of the big, your average large cap (as exemplified in the S&P 500 equally weighted) has not really outperformed small caps. *In other words, as far as broader markets are concerned, it has not been about big vs small or value vs growth, it has been about five stocks vs everybody else.* This poses a problem for your typical investment portfolio for which the market cap of the underlying investment does not typically determine the weighting within the portfolio.

I would suggest that you will know if stock picking, or at least non-momentum investing, has returned when the equal weighted S&P 500 starts performing closer to, or even outperforming, the S&P 500. Put another way, we can declare stock picking to be back when the other 495 stocks in the S&P 500 start outperforming the top 5! To that end, we are cautiously optimistic that we could be witnessing a changing of the guard here. The COVID-factor stocks (work-from-home tech, leisure wear, home gyms) have had a great run, but in a world of zero interest rates for 3+ years, it is the cyclicals that will benefit the most. Sometimes, these two factors can intersect, such as in suburban homebuilding or auto sales. We remain bullish but hedged!

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

Brandon Osten, CFA
CEO, Venator Capital Management Ltd.

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