MORE BUYERS THAN SELLERS

HEDGE FUNDS (Inception)	JUNE 2020	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006)**	**5.0%**	**5.0%**	**10.4%**
Venator Select Fund (September 2013)	**4.0%**	**2.8%**	**13.7%**
S&P/TSX Total Return (March 2006)	2.5%	-7.5%	5.0%
Russell 2000 (March 2006)	3.5%	-13.0%	6.3%
S&P Toronto Small Cap (March 2006)	5.6%	-14.3%	0.7%
S&P 500 (March 2006)	2.0%	-3.1%	8.6%

ALTERNATIVE MUTUAL FUNDS (Inception)	JUN 2020	YTD	1-YR	3-YR	5-YR	10-YR
Venator Alternative Income Fund* (January 2020)**	**2.9%**	**-9.2%**	**-7.4%**	**0.8%**	**2.4%**	**7.6%**
B of A Merrill Lynch High Yield Index (August 2008)	1.0%	-4.8%	-1.1%	2.9%	4.6%	6.5%

**As of June 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*

Well, that was . . . something. After watching stocks fall nearly 30% in Q1, the second quarter of this crazy year brought a 20% rally, as measured by the equally weighted S&P 500. If you blinked, you missed it. The market lost nearly 40% in a four-week period leading into late-March, while gaining back 55% in the ensuing 10 weeks, before retreating a bit into the end of June. Year-to-date, the equally weighted S&P 500 is down nearly 15%, so your average stock has still suffered quite a bit of damage. One could be forgiven for not wanting to sell into a situation that likely will not last more than a year and, at the same time, one could not be faulted for cashing out of the markets with such an uncertain future. Indeed, this market seems to have left many respected market seers completely baffled. Over the long term, and with the benefit of hindsight, we will be able to figure out if the market got it right (it quite often does not), while in the short-term, the classic and always true 'more buyers than sellers' seems to be the best explanation of the wild weekly swings we have witnessed in 2020.

Thematic investing has dominated the market this year. Whether it has been through circa-1999 multiple expansion in tech stocks, or buying home improvement, or buying the re-open (such as restaurants), or avoiding travel, there has been no shortage of surprises that have come to light, such as surging car and boat sales, which normally would be expected to collapse during a recession. I will readily admit that while we were out there looking for bargains in building materials and even high growth companies (Tesla retreated 50% from top to bottom), we have been stunned by the valuation expansion in companies that will be alright, but aren't materially benefiting from the current situation.

Apple stock is up 20% this year, but despite all the expectation of the 5G refresh and services, 2022 EBITDA is only expected to be on the same level as 2018 and not much higher than 2015 levels. Likewise, the prospects for Microsoft and Google have not materially improved either. Lululemon was supposed to be a huge beneficiary of sweats under the table, white collar on over the table, but sales still dropped 17% in the quarter as physical retail is more important to them than online sales. While the stock price is up this year, the business has not been a net beneficiary of the current situation. I am baffled by the performance of Square, up over 40% despite a customer base that caters largely to small business.

The fact is that there is a lot of speculation in the market today, and the long-term fundamental outlook will be difficult to ascertain from the short-term trading. In early June, it was reported that stocks trading below $1 per share had averaged an 80% gain in one week!!! Bankrupt or near-bankrupt companies were the best performers. My personal favourite was the near-bankrupt and debt-laden Urban One Radio, which saw its stock go from $1 to over $50 in one week (!) trading tens of millions of shares per day vs less than 5,000 shares per day on average leading to June.

ALTERNATIVE INCOME STRATEGY REVIEW: It was a good bounce-back quarter for high yield and even better for convertible securities. When the debt markets firmed up, the new issue market exploded as businesses looked to push out maturities or bolster their cash accounts as they adjusted to a less-than-capacity economy for the upcoming year. While the Fund did bounce back well with a gain of nearly 15% during Q2, it remains down 9.2% YTD. Roughly half of the loss is attributed to a single COVID-19 casualty, CEC Entertainment, which is currently operating in bankruptcy protection despite 2019 EBITDA exceeding $170 million. While CEC's current weight is immaterial in the portfolio, it represents a potential *'free material positive option'* should it emerge in the coming months. Overall, the strategy is generating close to a 10% yield to maturity going forward and we remain optimistic about the future.

Q2 ALTERNATIVE INCOME STRATEGY ATTRIBUTION (bps)			
TOP CONTRIBUTORS		**LARGEST DETRACTORS**	
Par Petroleum, LLC (Dec/25)	146	CEC Entertainment, Inc. (Feb 15/22)	(210)
Wayfair, Inc. (Nov/24) - CONV	97	CBS Radio, Inc. (Nov/24)	(18)
Restoration Hardware (Sept/24) - CONV	91	Spirit Airlines, Inc. (May/25)	(17)
PluralSight, Inc. (Mar/24) - CONV	81	Tidewater, Inc. (Aug/24) - CONV	(9)
CVR Energy, Inc. (Feb/25)	80	Wesco International, Inc. - PREF	(6)

EQUITY STRATEGY REVIEWS: Our hedge strategy posted a very strong quarter, gaining over 35%. As summarized on the chart below, our long positions gained a whopping 50% during Q2. Our options-based hedge strategy, which we implemented late last year, has been very successful during 2020 and experienced a materially better outcome compared to the loss that would have been generated had we simply been short the market. Frankly, given all that has taken place, we are happy to be up on the year in both Founders Fund (long/short mandate) and Select Fund (concentrated, high conviction strategy). We continue to be well hedged going into the second half of the year, and we remain optimistic going forward. While we believe the *'work from home, shop from home'* trend has possibly played out in the market owing to extreme valuations in the technology space (we have recently exited a good portion of our software investments), we are very excited about the reversal of a ten-year macro as millennials begin to move back to the suburbs; especially since many opportunities born out of this shift remain reasonably valued by historical standards (hint: we still own our Skyline-Champion and Tesla positions). We will have more to say on this subject next month.

Q2 HEDGE STRATEGY ATTRIBUTION (bps)			
LONG POSTIONS	**4,989**	**SHORT/HEDGES**	**(1,190)**
TOP CONTRIBUTORS		**LARGEST DETRACTORS**	
Ero Copper Corp. (ERO)	418	Credit Acceptance Corp. (CACC) - SHORT	(103)
Tesla, Inc. (TSLA)	409	Patrick Industries, Inc. (PATK) - SHORT	(103)
Docebo, Inc. (DCBO)	367	Monarch Casino & Resort, Inc. (MCRI)	(73)
The Lovesac Company (LOVE)	295	Cardtronics, PLC (CATM) - SHORT	(63)
Skyline-Champion Corp. (SKY)	259	Facebook, Inc. (FB)	(59)

Without question, the first six months of 2020 has been anything but dull. Looking towards the back-half of the year, many questions will need to be answered. Will Trump repeat? Will the government keep sending out COVID-checks? How many small businesses will go under? Will movie theaters open? Will we shut down again? Will zero interest rates lead to record GDP in 2022? Will we get a vaccine this year? Will we achieve herd immunity next year? Will we have zero interest rates for ten years? Will the bill ever come due?

In the end, we really do not know how this will play out, and if we have learned anything, it's that NOBODY KNOWS!

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

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