2020 REVIEW: A YEAR LIKE NO OTHER

HEDGE FUNDS (Inception)	DECEMBER 2020	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006)**	**2.7%**	**48.6%**	**12.7%**
Venator Select Fund (September 2013)	**1.8%**	**37.6%**	**17.3%**
S&P/TSX Total Return (March 2006)	1.7%	5.6%	5.8%
Russell 2000 (March 2006)	8.7%	19.9%	8.4%
S&P Toronto Small Cap (March 2006)	5.8%	12.9%	2.5%
S&P 500 (March 2006)	3.8%	18.4%	9.8%

ALTERNATIVE MUTUAL FUNDS (Inception)	DEC 2020	YTD	1-YR	3-YR	5-YR	10-YR
Venator Alternative Income Fund* (January 2020)**	**3.7%**	**6.4%**	**6.4%**	**4.9%**	**7.3%**	**7.9%**
B of A Merrill Lynch High Yield Index (August 2008)	1.9%	6.1%	6.1%	5.9%	8.4%	6.6%

**As of December 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*

Financial markets continued their strong finish through year-end despite increased COVID-19 lockdowns as the market is now looking past the issues of 2020. Add in a generous amount of expected stimulus along with a frozen Fed, and the trend has indeed become your friend. There appears to have been a FOMO capitulation as of late and speculative fervor is at all-time euphoric levels. Bubbles are literally everywhere. While it would be easy to point to Bitcoin, Electric Vehicles, cloud computing, consumer technology, and special purpose acquisition companies (SPACs), all of which are trading at all-time relative valuation highs, we would note that bond yields are turning negative, and less sexy industrials are also enjoying all-time high valuations.

The market moves in cycles of fear and greed. In 2000 it was margin/option leverage (the rise on online brokerage pioneered by E-Trade); in 2008 it was mortgage leverage; and now it is margin/fractional shares/options again (the gamification of speculative investing characterized by Robinhood). Easy money is what causes this, and the emergence of easy money lending fintech companies slicing and dicing loans for financial buyers is similar to what took place in 2007 with the big banks and mortgages. We have seen this movie play out many times before, and it will likely have a bad ending once again, even if the show is great entertainment in the meantime. No one ever leaves these ‘parties’ early and the latest to arrive are often, and sadly, the last to leave. It’s not enough that “Momentum Enterprises Inc. is a great company that will have a good 2021” - this is widely known and accepted. *The question is whether the great 2021 will meet the great expectations in order to maintain the great (high) valuation*. As we pointed out last month, Cisco being a great company that had a great year in 2000 wasn’t much of a consolation to those who lost 50% from March to December that year (more if they used leverage); note the whole NASDAQ Index, with a bright twenty-year outlook (said with perfect hindsight) suffered the same 50% drop. This is why we take our hedging and risk management so seriously.

At Venator, our investors have benefitted from a great year all around. Each of our mandates bounced back well from the March lows, beating their benchmarks, and managing to finish at all-time highs. We have been emboldened by our new hedging strategies and remain well hedged heading into 2021. With that said, here is a short review of 2020 before moving onwards, and hopefully upwards!

Q1 PANIC: The first quarter of 2020 saw COVID-19 slowly find its way out of China, and then spreading rapidly all at once, culminating with the shutdown of the NBA on March 11th and subsequent shutting down of various economies around the world. It’s worth noting that the market bottomed on March 20th. At the end of Q1, equity markets were down roughly 28% year-to-date; while Venator Founders Fund was down 22% year-to date.

Q2 BOUNCE: The second quarter saw COVID-19 and the economy get worse, however, the market improved, even without a vaccine-charged light at the end of the tunnel. Much like 2009, when the economy underperformed expectations while the market rallied, the market has a way of overshooting to the downside and recognizing deep value ahead of a fundamental turn. The market also quickly figured out who might benefit from an extended quarantine in the form of work/shop from home stocks, although restaurants and retailers bounced hard off the bottom too. At the end of Q2, equity markets down approximately 9% year-to-date; while Venator Founders Fund was *UP* 5% year-to-date.

Q3 THE BIG ADJUSTMENT: By the third quarter, we were getting limited re-openings and adjusting to semi-normal conditions where COVID-19 outbreaks seemed 'manageable' (which was overly optimistic in hindsight). That said, government stimulus and lower corporate expense levels got many companies to the point where survival seemed assured for most public companies, even at reduced revenue levels. An environment in which the government does the spending and corporations can still sell is sustainable for as long as governments are willing to subsidize unemployment. At the end of Q3, equity markets were down roughly 3% year-to-date; while Venator Founders Fund was *UP* 30% year-to-date.

Q4 THE LIGHT AT THE END OF THE TUNNEL: With an election in the rear-view mirror (for the most part, as the Senate has yet to be decided) and two approved vaccines announced, markets finally see a light at the end of a tunnel that should be no longer than another twelve months. While companies and the economy may continue to struggle over that time, very few quality companies will be allowed to go under with the end in sight, although this does not preclude punitive shareholder dilutive financings. The stock market got very frothy, with speculative start-ups achieving multi-billion-dollar valuations, high growth technology companies blowing through circa-2000 bubble valuations, SPACs trading well above cash value prior to announcing their acquisitions (a historical anomaly for those new to the industry), and even GDP-type growers trading well over 30x peak-margin 2022 EPS. There are few areas of the market that appear inexpensive by historical standards. By year-end, equity markets were up roughly 14% year-to-date; while Venator Founders Fund was *UP* 49% year-to-date.

VENATOR FOUNDERS FUND 2020 REVIEW

We are very happy with the performance of our equity strategies in 2020. This was largely due to a view that the impact of COVID-19 on the market was temporary, along with some aggressive cycling of the portfolio near the lows into sectors like hotels and retail, as well as rarely reasonably valued, super-growth companies in technology. Over the preceding several years, our short selling had rendered us 'stuck' in good markets and bad, which was helpful in allowing us to avoid two down markets, but frustrating in the up cycles. In 2020, we embarked on a new hedging strategy which largely involved the use of options to both cushion our downside in difficult times, while allowing us greater participation in up legs. Suffice it to say that the strategy worked very well. While we sacrificed some gains hedging during 2020, all our losses were contained to the final two months of the year where we took a market neutral stance heading into the US election, and maintained it pending the Georgia Senate run-offs this week (noting that we still managed a 15% two-month gain despite that caution). With our three and five-year compounding returns restored to the top quartile among Canadian Funds (to go along with our strong since-inception return and market leading 2020 performance), we have confidence in our ability to outperform in both good times and bad.

2020 FOUNDERS FUND STRATEGY ATTRIBUTION (bps)			
LONG POSITIONS	**6,272**	**SHORT/CURRENCY HEDGES**	**(1205)**
TOP CONTRIBUTORS		**LARGEST DETRACTORS**	
Apollo Healthcare Corp. (AHC)	1502	JELD-WEN Holding, Inc. (JELD)	(408)
Tesla, Inc. (TSLA)	574	OneWater Marine, Inc. (ONEW)	(180)
Wesco International, Inc. (WCC)	552	Credit Acceptance Corp. (CACC) - SHORT	(130)
OptimizeRx Corp. (OPRX)	370	Air Canada (AC)	(125)
Masonite International Corp. (DOOR)	322	Alphabet, Inc. (GOOG)	(112)

VENATOR ALTERNATIVE INCOME FUND REVIEW

The Alternative Income Fund fulfilled its capital preservation mandate in 2020. Despite experiencing its first ever default (which was 100% COVID-related, is still operating, and where we will be receiving equity in the newly reorganized company), the Fund was still able to post a respectable return. This was largely due to cycling positions earlier in the year into positive yielding convertible bonds that could more readily rebound with equity markets, and where the underlying companies were publicly listed with easier access to bailout equity financing should they have needed it.

2020 ALTERNATIVE INCOME STRATEGY ATTRIBUTION (bps)			
TOP CONTRIBUTORS		**LARGEST DETRACTORS**	
CVR Energy, Inc. (5.25%, Feb 15/25)	148	CEC Entertainment, Inc. (8.0%, Feb 15/22)	(527)
Air Canada (4.0%, Jul 1/25) - CONV	118	Baytex Energy Corp. (5.625%, Jun 1/24)	(224)
Guess, Inc. (2.0%, Apr 15/24) - CONV	115	Fortress Trans/Infra LLC (Mar 15/22) - PREF	(78)
8x8, Inc. (0.5%, Feb 1/24) - CONV	113	CalAmp Corp. (2.0%, Aug 1/25) - CONV	(72)
J2 Global, Inc. (1.75%, Nov 1/26) - CONV	100	Invesque, Inc. (5.0%, Jan 31/22) - CONV	(58)

A GREAT YEAR FOR THE INVESTMENT INDUSTRY; OTHERS WERE NOT AS FORTUNATE

We are extremely proud to say that Venator survived, and even thrived, through another six-sigma event. As in 2008-2009, we outperformed through the worst of it and came out the other side with all our Funds at all-time highs and market beating returns. Thankfully, as a recurring revenue business model that is not attendance dependent, we were fortunate enough to be among the few industries that could survive the pandemic, so long as the financial markets remained open.

Many other businesses were not nearly as lucky. Small businesses have struggled to stay alive due to severe restrictions on physical attendance (restaurants, live events, retail, travel/hospitality, and in person services like barbers). Many people were put out of work and still don't know if there will be a job available to them when life returns to normal. Governments around the world acted quickly in providing financial aid to businesses to ease the burden of keeping staff on payroll during the weak business environment, and provided income to those who were laid-off. In fact, governments had to act so quickly that they didn't have time to parse those who really needed aid and those who did not.

In the investment industry, Environmental, Social, and Governance (ESG) Investment has become a dominant theme in recent years. Indeed, many Investment Managers have marketed the ESG characteristics of their portfolios as a key factor in their decision making, with many creating dedicated ESG portfolios, or touting ESG 'scores' to that effect. Recently, publications have noted public companies that took advantage of the Canadian Employment Wage Subsidy program (CEWS) despite little or no negative financial fallout apparent in their Q1 or Q2 financials and increasing dividends in 2020. While applying for COVID-related government aid without any material negative effect on a business is not part of current ESG scoring systems, we would suggest that receiving CEWS in such a situation should be punitive to the 'S' score in 'ESG'. In fact, we found several software companies listed as receiving government aid with respect to which we would have had a difficult time figuring out the accounting gymnastics involved in order to qualify for CEWS. Revenue Canada has provided a searchable database of companies that accessed CEWS for those interested:

https://apps.cra-arc.gc.ca/ebci/hacc/cews/srch/pub/dsplyBscSrch

It would be hypocritical to apply ESG philosophy to investment portfolios without applying the same standard to investment managers in terms of Corporate Citizenry. Earlier in 2020, we too were faced with the decision as to whether to accept government aid, in the form of the Canada Employment Wage Subsidy (CEWS). We decided that, while we were technically eligible, that money was not meant for us, and it would have been socially irresponsible to accept government aid in the spirit in which it was being offered. Our business is not attendance dependent; it is recurring revenue fee based, and subscriptions/redemptions are influenced by investment performance; these are the normal consequences of managing market volatility, and not the result of COVID-19 per se. While the global pandemic did impact the performance of many portfolios, the financial markets remained open and at no time did it affect the ability to manage investment funds. In fact,

by the time a business could apply for CEWS on April 27th, the S&P 500 was only down 10% on the year and rebounding – hardly catastrophic by market volatility standards, and not a real threat to our industry's profitability.

We are proud of the decision we made *not* to accept government aid and were pleased to see that many of our peers adopted a similar attitude (using the link above). The CEWS program was designed to help keep people employed in truly struggling sectors of the economy that are largely attendance dependent (barbers, restaurants, travel, etc.) – and was *not* intended to boost the bottom line of largely unharmed businesses such as ours. Frankly, we did not think it would be right to take a government subsidy because financial market losses reduced the value of the Funds and, by extension, our revenues. Had we accepted CEWS, our clients' market losses would have been the basis for our corporate CEWS gains (with the government subsidizing our payroll, every dollar of aid would eventually find its way to our bottom line)!

Conversely, and noting that each firm's financial situation is unique, we were also surprised to learn that several our contemporaries opted to receive CEWS government aid. Everyone has to make their own choices based on their own circumstances, but those choices can and should be questioned by ESG-focused investors. *Is ESG a marketing tool or a core corporate philosophy ('do as I say, not as I do')? In the era of ethical investing, we would suggest that the ESG qualities of the investment manager are as important as the ESG qualities of the investment portfolio they manage.*

By the end of 2021 we *should* be past COVID-19 and looking forward to a normalized social environment with a return to eating out, vacations, live events, big screen movies, birthday parties and other gatherings that we previously took for granted. In the meantime, we expect 2021 to be a year of consistent progress, which should afford us the opportunity of posting another profitable year for both our new and long-term followers. There is a light at the end of this tunnel, and it appears closer than it has for almost a year.

In the meantime, stay safe, stay hedged – and, as always, we reserve the right to change our mind!

On behalf of the entire team at Venator Capital Management Ltd., wishing you a happy, healthy, and prosperous 2021!

Brandon Osten, CFA
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