2022 YEAR IN PREVIEW: WHAT WILL NORMAL LOOK LIKE?

HEDGE FUNDS (Inception)	NOVEMBER 2021	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006)**	**-4.6%**	**6.4%**	**12.3%**
Venator Select Fund (September 2013)	**-7.3%**	**12.9%**	**16.9%**
S&P/TSX Total Return (March 2006)	-1.6%	21.4%	6.8%
Russell 2000 (March 2006)	-4.2%	12.3%	8.7%
S&P Toronto Small Cap (March 2006)	-3.6%	18.8%	3.5%
S&P 500 (March 2006)	-0.7%	23.2%	10.6%

ALTERNATIVE MUTUAL FUNDS (Inception)	NOV 2021	YTD	1-YR	3-YR	5-YR	10-YR
Venator Alternative Income Fund* (January 2020)**	**-2.0%**	**7.6%**	**11.5%**	**7.0%**	**6.4%**	**8.4%**
B of A Merrill Lynch High Yield Index (August 2008)	-1.0%	3.4%	5.4%	7.1%	6.1%	6.8%

**As of November 30, 2021*

***Venator Founders Alternative Fund, which holds the same securities as Venator Founders Fund, is now available as a Liquid Alternative Mutual Fund; 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*

November was a volatile month for small caps, even by recent market standards. After jumping out of the gate in hopes of a strong holiday season and higher profits from inflationary pricing, a more subdued reality took hold as Macy's strong quarter turned out to be a false indicator and the Omicron COVID variant cast a pall over Thanksgiving. The November 30th Fed Taper Talk was the final blow with small cap stocks finishing the month down over 4%, 10% off its early month highs.

Our funds followed a similar pattern, which was exceptionally frustrating to watch them fall apart during the normally quiet last five trading days of November. The Russel 2000 small cap index currently sits well below its *early February* levels, while larger cap companies have chugged consistently upwards throughout the year. We tend to view these volatile spasms as opportunities to cycle into our wish-lists as they come into a valuation range with which we are comfortable. For example, we were able to re-purchase SAAS leader, RingCentral, after a 50% drop from recent highs. We have also purchased several convertible bonds for our income strategy that fell in sympathy with their underlying growth stocks (lower valuations without deteriorating fundamentals does not impact credit quality in our view).

You can't talk about 2022 without having a conversation about inflation. While we aren't economists, we would note that we did talk about second half inflation being a major risk back in May, well before it became the charged debate it is today (even though we made the mistake of buying some Gold which hasn't fulfilled its historical role as an inflation hedge). Our current belief is that our worst-case projections have played out and we will see an easing of inflationary pressures throughout 2022, culminating in a benign number by Q4 as the economy laps the supply chain pressures of today. We are currently seeing slowdowns in price increases along with the easing of supply chain issues. In other words, *the rate of year-over-year price increases is coming down*, and, in some cases, supply chain pricing is down from a few months ago, even if it is still up year-over-year. In our view, this rate of change is more important than the actual changes themselves in terms of market narrative. We can foresee price declines throughout next year in shipping/freight (container rates are already easing off), retail (look for the return to discounts next year as inventory levels normalize), used cars (new car production should ramp up as the chip shortage eases), and energy (look for supply responses as the rig count increases).

The Fed appears to have made up its mind…for now. It's recent meeting effectively tanked the markets on the last day of the month with taper talk and rate hike posturing. For reasons mentioned above, we are in the inflation is

"transitory" camp. We would guess that the panic we saw at the end of November will moderate as the year goes on, and the Fed will slow its tapering threat in a reactionary fashion throughout next year.

We continue to read more about bubbles for various sectors and the markets in general. Bears always get more press than Bulls. As bottom-up analysts, our only indicator regarding bubbles is how many securities we can find that we would want to buy at current levels given a three-to-five-year outlook. The number of opportunities that we find attractive, or near attractive, is starting to increase, and the number of stocks that we would consider to be at 'bubbly valuations' continues to shrink.

We would note that not all frothy sectors are moving together, as those invested in work-from-home technology software and electric vehicle tech can tell you firsthand (the former being a 2021 disaster sector and the latter being a star). Growth alone isn't enough, and we are seeing many related sectors heading in opposite directions at the same time; indicative of a market that will put a premium on sector selection and rotation vs "the rising tide lifting all boats". That's a good indicator of a more selective market that may not be in need of a broad-based correction. With that said, here are some of the sectors we see as near-term secular winners over the next several years where reasonable valuations can be found:

- **Housing (volume):** We continue to be bullish on housing formation. We note that this is different than being bullish on housing prices. We think that there is a large pent-up demand factor among millennials who started late in getting married and having children relative to their predecessors and would note that older generations are holding onto their houses longer, which is exasperating the supply-demand imbalance. This means that we are shunning traditional homebuilders in favor of companies that are more volume dependent and less price dependent such as building products suppliers and home renovation/furnishings.
- **New Car Sales:** This sector should get a several-year boost from the shortages that have plagued the industry over the last two years, amplified by a move to the suburbs as per our housing comment. We would expect gradual improvement over 2022 with a big 2023 as the semiconductor shortages get resolved. The safest way to invest in an overall boost would be auto suppliers as well as established car companies. We are hesitant on the retailers since they were such huge beneficiaries of the recent used car cycle and because used cars are generally more profitable for dealers than new cars.
- **People:** Labor shortages are still one of corporate America's biggest headaches. While many see logistic issues abating, and materials inflation being manageable, labor issues are much more persistent. There aren't a lot of great public staffing companies out there and the online ones are, for the most part, private or subsidiaries. Our one investment in the sector is ZipRecruiter, which we see as something of a Match.com for recruiting and job hunting (the app even broadcasts "You're a Great Match" when they find an opportunity for you). For a generation of job switchers, versus previous generations of career builders, this could be as much as a ten-year secular winning theme.
- **Infrastructure:** Practically speaking, all stimulus bills are infrastructure bills, so outside of the sheer magnitude of the number, it is difficult to get overly excited about the marketing. However, it does offer a nice backdrop for commercial construction that has been lacking for several years. While we prefer to avoid the project-dependent characteristics of contractors, we do track several inexpensive suppliers that should benefit from several years of robust demand.
- **Software:** The best thing about technology is also its biggest problem; namely, that it is in a state of constant rapid change (as opposed to a door manufacturer or shoe company). That technology is "sexy" just amplifies the issue because the valuations can get too frothy, and great companies can, subsequently, crash hard as they fall out of favor, even as they remain great companies. We read an interesting statistical report earlier this year about how technology has been a poor place to invest over 30 years, specifically because of these catastrophic losses for most, despite the wonderful gains for some. Great companies like Zoom, RingCentral, Teledoc, Lightspeed, Twilio, Palantir, PayPal and Coupa Software have all experienced severe drops despite undiminished prospects. For those investors who avoid the euphoric

highs based on unsustainable valuation (those that don't confuse compounding with multiple expansion; Microsoft's stock is up over 500% over the past five years while its earnings are up 100%), great opportunities can be found in the fallen angels with still-intact great fundamentals (companies whose share price growth has fallen behind their earnings growth). We think that the current historically high valuations in the hyper hype software sector will result in some significant turbulence leading to some great opportunities over the next two years and our shopping list is getting longer (We would love to get our hands on some Shopify at $750; you would have laughed at us saying the same thing about $200 per share Zoom a year ago when the stock was near $600).

These are the sectors that we are specifically focused on and invested in. Naturally, we keep our eyes on other areas of the market; but, given what we suspect are cyclical highs in these sectors, we are comfortably on the sidelines from a macro perspective unless we find select opportunities (such as owning Skechers despite not having much conviction in retail as a whole). We are not invested in oil and gas because we think winter weather related concerns will likely abate at the same time the higher rig counts start influencing supply next spring (we would note that US oil inventories are currently in a normal range despite the media narrative). We are not secularly invested in retail as we see a shifting spending landscape as people go back to work and pricing power abates as supply chains open. We are not invested in freight/logistics as we cannot determine if strong pricing is indicative of the top of the cycle, although we acknowledge driver shortages could continue. We are not heavily invested in "re-opening" stocks as reopening appears to be priced in for all but the airline sector. We are selectively invested in FinTech but are cautious about the sector at large as some have hitched their wagon too aggressively to crypto trading (a very high commission and high turnover business), and their very young AI algos have yet to be tested by a true negative consumer credit event (our favorite Fintech development last month was "Buy Now, Pay Later" leader Klarna unveiling their newest innovation "Buy Now, Pay Now" – brilliant!).

What we can assure you of is that we are invested in great companies, with great prospects, and reasonable/beatable expectations, trading at what we believe to be attractive valuations. And, most importantly, we are heavily invested in our own Funds!

We reserve the right to change our mind!

Brandon Osten, CFA
CEO, Venator Capital Management Ltd.

This commentary is intended for informational purposes only and should not be construed as a solicitation for investment in any of the Venator Funds. The Venator Hedge Funds may only be purchased by accredited investors with a medium-to-high risk tolerance seeking long-term capital gains. Please read the Offering Memorandum for each Hedge Fund in full before making any investment decisions. Prospective investors should inform themselves as to the legal requirements for the purchase of securities. All stated Venator Hedge Fund returns are net of fees. It is important to note that past performance should not be taken as an indicator of future performance. Commissions, trailing commissions, management fees and other expenses all may be associated with investing in any of the Venator Alternative Mutual Funds. Please read the prospectus and Fund Facts relating to each Alternative Mutual Fund before investing. The indicated rates of return of the Venator Alternative Mutual Funds are the historical annual compounded total returns, including changes in share or unit value and the reinvestment of all dividends or distributions, and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.