GROWTH & SMALL CAP-OCOLYPSE

HEDGE FUNDS (Inception)	JANUARY 2022	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006)	**-10.3%**	**-10.3%**	**11.5%**
Venator Select Fund (September 2013)	**-14.9%**	**-14.9%**	**14.8%**
S&P/TSX Total Return (March 2006)	-0.4%	-0.4%	6.9%
Russell 2000 (March 2006)	-9.6%	-9.6%	8.1%
S&P Toronto Small Cap (March 2006)	-1.1%	-1.1%	3.5%
S&P 500 (March 2006)	-5.2%	-5.2%	10.5%

ALTERNATIVE MUTUAL FUNDS (Inception)	JAN 2022	YTD	1-YR	3-YR	5-YR	10-YR
Venator Alternative Income Fund* (January 2020)**	**-3.4%**	**-3.4%**	**2.0%**	**5.9%**	**5.4%**	**7.7%**
B of A Merrill Lynch High Yield Index (August 2008)	-2.7%	-2.7%	2.1%	6.0%	5.2%	6.1%

** As of January 31, 2022*
*** Venator Offshore Fund is the US dollar version of the Founders Fund strategy*
**** 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*

That was a difficult start to the year. But for a last day of the month rally, it was the worst January ever for the growth-oriented Nasdaq, which is surprising given that, relative to history, the index is currently heavily concentrated in very high-quality companies (Microsoft, Apple, Amazon, Alphabet/Google, Facebook/Meta, Tesla and Nvidia make up over half of the index). Small cap growth was off 30% from last February; the overall small cap index was off 20% from its highs; 40% of the S&P500 and 75% of NASDAQ members have suffered drops in excess of 20%, while the median NASDAQ stock was 38% off its highs. The number of NASDAQ stocks down over 50% from all-time highs is rivalling 2008 and 2000! Basically, we had a correction in the broader large cap market and a downright bear market in much of the rest of it (energy and financials excepted).

This is not an excuse for the drawdown we experienced last month; it could have been worse, but it should have been better. It is a commentary on some asset allocation missteps on our part. During the past year, we cast our commodity lot with copper, which we believe will be a major beneficiary of the electrification of energy and will experience significant shortages in the next several years, and not oil, which we believe to be in secular decline as a mirror image to copper. Our "defense/value" allocation was to sub-15x earnings industrials and not financials. Our 50% exposure to software and building materials was among the worst places to be last month, even though we avoided the higher valuations within the sectors.

Compounding our frustration was that none of our companies have reported earnings as yet; to our knowledge, nothing has fundamentally changed in our holdings. We find it difficult to justify selling a position in the absence of fundamental change as our valuation decisions are absolute rather than relative to comparable charts. Having seen this inflation scare, the end of QE and low interest rates, and the eventual popping of the tech/meme/crypto bubble last year, we were careful to avoid these spots in our portfolio construction, but corrections have a way of whacking everything down initially and sorting out the winners from the un-recoverables in the aftermath:

> *Our own suspicion is that official inflation data is going to start to look somewhat worrisome as we move to year end, which could result in some not-so-friendly market commentary by the Federal Reserve regarding potential interest rate actions in 2022. - Venator May Review*

> *Greed builds up gradually, while fear manifests all at once – building up vs tumbling down. There is a saying that markets don't correct sideways. We have sacrificed some returns hedging our portfolio over the last several years. We have always viewed our best long-term hedge as being invested in reasonable value and avoiding unchecked high-priced momentum. That said, history says that when things go down, everything goes down together over the short*

term, so we can't make any short-term promises, even as we remain cautious. Matters of degree is what separates the temporary losers that come back from the unrecoverable losers but waiting for the 'crash' results in lost opportunities. This is why we have never been market timers. - Venator October Review

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). - Venator November Review (note: Shopify went from $1500 to a low of $800 in January).

There is an old adage in investing: being early is indistinguishable from being wrong. Just because we saw some of this coming didn't mean we were able to profit from it. Being short the market last year wouldn't have been helpful or profitable for anyone and buying gold as an inflation hedge has not been a good trade. Our own caution, in this regard, cost us 2021 gains (gold and put options). And while our Put options did help in January, it is difficult to hedge against 10-day 30% single stock drops as volatility in growth increased and accelerated at a daily rate.

In terms of our market outlook, given the recent Fed commentary, we would say that there is no shortage of opinions, and ours are not any better than any of the others because we are talking about the future. The only reason why our opinion might carry some weight is because we saw some of this coming as per our quotes above. Rates were not going to stay at zero forever, and likely must find their way up over 2% over the next two years. This has the financial press, who three months ago said, "you can't pay enough for great growth businesses", now claiming that any growth company with a P/E above 30 should be avoided. The academic argument is that future cash flows of high multiple stocks need to be discounted at higher interest rates, which is why we are getting instant corrections (we guess "you can't pay too much" was for those that thought interest rates would remain at zero for the next fifty years). Yet, we forget that high multiples for great growth companies existed the last time interest rates were above 2%, a fact we conveniently forget when we try to explain what already happened vs predicting what will happen. If we were truly worried about interest rates, why are we targeting technology? Shouldn't we be more concerned about levered companies (debt refinancing would be a huge risk) and REITs (where you get a double whammy on mortgage rates and cap rates)? After all, higher interest rates have little effect on technology stocks with strong balance sheets and pricing power; the only knock on tech is valuation.

When it comes to the Fed overshooting on cadence and tanking the economy, this is a risk, although perhaps less so before mid-terms. Does Powell like the Republicans so much that he is willing to hurt swing voters, who are heavily invested in financial markets and largely homeowners, at a time when no one sees the Fed as making decisions independent from Presidential influence? It is worth noting that while this rate hike cycle is not "different" per se, it is unique for modern financial times. Let us not forget that the economy is still reopening. People are still coming back to the workforce. This is doubly so globally, as anyone splitting time between Toronto, London, and Miami can attest firsthand (lets note the contrast between the crowds at the NFL playoffs and what we are watching for Leaf/Raptor games). This paced reopening will not only ensure growth in both volume and employment terms over the next 12 months but should also alleviate pricing pressures (GDP growth might look artificially slow as volumes come up, but pricing stagnates, a potential deflationary growth phenomenon no one is talking about). This is a supply driven inflation environment, not a demand driven one; we still think that an alleviated supply chain will have a greater dampening effect on inflation by year end than a fully reopened economy as scarcity driven pricing power dissipates. A strengthening rebounding economy, coupled with stagnating prices, could be seen as very bullish by year end. Again: being early on this call could be indistinguishable from being wrong.

For those wondering how we are viewing our own prospects during this trying time, we are employing the same playbook we have used during past market drops (we have been through similar or worse corrections on three other occasions and have always come out the other end with full cycle outperformance). Namely, we largely do nothing in terms of asset allocation, but we do have to make room for great companies we have been waiting to buy for months or years but for valuation; the intersection between great companies and great value is a springboard for great gains. For equities, this means scanning the market for material decliners that have been thrown out with the bathwater. For instances Shopify, Moderna, Nvidia, Disney and Tesla (and many others like them) are still great companies with undiminished prospects despite stock price declines; stocks have fallen independent of fundamental outlooks as this truly was a valuation correction. For bonds, this currently means convertible securities that give us tax efficient 4%+ yields, investment-grade balance sheets, and potential for convertibility within four years (the Income Fund currently shows a tax efficient yield-to-

maturity in excess of 7.5%, a current yield over 5.5%, and a duration of only 4 years). We are the proverbial investors holding the bag collecting the discounted stocks “on sale” relative to our valuation estimates (what some would call intrinsic value, which makes “value” sound more objective than it is).

In terms of our asset allocation focus, we remain primarily growth investors. While the financial press is focused on value outperforming growth, this is largely a construct of ETFs partitioning index stocks into one camp or the other. Just because it isn’t “growth” doesn’t mean it is “value” (Proctor & Gamble at 25x earnings and 10x book value in the S&P500 value index?); and those stocks categorized as growth are likely labelled more accurately. But if there is one thing we have learned in the last 25 years, it is this: *GROWTH IS ALWAYS IN STYLE*. It’s only the occasional sky-high valuations assigned to growth that aren’t. Everyone is always looking for those magical “compounders”. If you can get those secular stars at the right price, they will always fight through whatever macro headwinds and corrections the market throws at them. These corrections can present opportunities in both the value and growth camps, but when you get the chance to get great growth at a great price you take it over the value buy. As none other than Warren Buffett has said: *“It is far better to buy a wonderful company at a fair price than a fair company at a wonderful price”.*

We reserve the right to change our mind!

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