ARTIFICIAL INSANITY

HEDGE FUNDS (Inception)	FEBRUARY 2023	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006)**	**-1.5%**	**9.7%**	**8.2%**
Venator Select Fund (September 2013)	**0.2%**	**15.5%**	**6.0%**
S&P/TSX Total Return (March 2006)	-2.4%	4.8%	6.4%
Russell 2000 (March 2006)	-1.7%	7.9%	7.2%
S&P Toronto Small Cap (March 2006)	-3.6%	4.9%	3.0%
S&P 500 (March 2006)	-2.4%	3.7%	9.1%

ALTERNATIVE MUTUAL FUNDS (Inception)	FEB 2023	YTD	1-YR	3-YR	5-YR	10-YR
Venator Alternative Income Fund* (January 2020)**	**-0.8%**	**4.2%**	**-8.0%**	**0.8%**	**2.3%**	**4.7%**
Venator Founders Alternative Fund (July 2021)**	**-2.1%**	**9.0%**	**-30.3%**	**-**	**-**	**-**
B of A Merrill Lynch High Yield Index (August 2008)	-1.3%	2.6%	-5.5%	1.1%	2.7%	4.0%

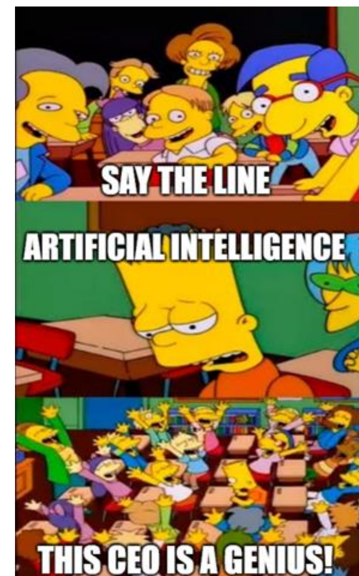
** As of February 28, 2023*
*** Venator Founders Alternative Fund, which holds the same securities as Venator Founders Fund, is available as a Liquid Alternative Mutual Fund; it is eligible to be held in both registered & non-registered accounts.*
**** Performance data prior to January 24, 2020, relates 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*

February was a pretty uneventful month considering it's largely when most companies gave their initial annual guidance. Most companies came in as expected with macroeconomic issues and narratives dominating the ups and downs of the month. Tesla doubled off the bottom after analysts cut earnings estimates by over 20%. Nvidia rode AI hype to a doubling off recent lows after barely meeting numbers in its recent quarter. Google got hit hard from a low probability thesis that their search engine dominance was under imminent threat from Microsoft. Homebuilders and building products companies held firm despite lowered expectations on hopes that the sector is near a bottom. Energy came under pressure as natural gas prices fell to multi-year lows and oil prices reached down to 2018 levels. Overall, we would say that you really didn’t need to pay attention to earnings over the last six weeks and you would have done just fine following the narratives and ignoring financial models and earnings estimates and guidance. We suspect that March will bring more of the same.

The baton has been passed to Artificial Intelligence. If you haven’t heard, it’s going to be bigger than bitcoin, bigger than the cloud, bigger than 3D TVs, bigger than smartphones, robotaxis, EVs, Solar, 3D printing, NFTs, VR headsets, Siri/Alexa, telehealth, Segways, cannabis, online gambling and the metaverse. If you have tried ChatGPT (the source of all the recent hype), you would also know that it’s pretty cool, but also isn't very accurate. If you have tried Telsa’s “Full Self Driving”, you would know that it’s pretty cool, but it also kind of sucks. Anyone who has used instant messaging for customer service would also recognize that the AI chat on the other side is frustrating, but if they thought about it, it’s actually pretty cool. The reality is that all of us have been using AI for over a decade without giving it much thought, and its generally gone from being 80% “sucks”/20% “cool” to probably about 50/50 as it continually improves. The near instant media success of ChatGPT has pushed it to the forefront of imagination, but it has been with us in the background for quite some time.

The rapid proliferation of curiosity and press coverage of ChatGPT has put AI in the spotlight, sending investors scrambling for the “New New Thing”. Unfortunately, in the public markets, there are virtually no “pure plays” (or even companies that could be considered materially weighted to the opportunity in the near term). There is a lot of

AI technology to invest in that isn't advertised as such. AI is really a feature to be incorporated into a product, rather than a product itself. From an investment perspective, AI is about who has the data, who can ingest the data, who can process/crunch the data using regression and probability analysis, and who can output the data; those are the tools and applications to be developed. Even ChatGPT boils down to looking for data from a massive source (the internet or a proprietary database), ingesting this data quickly and processing it by understanding natural language ("he rose to give Rose a rose" is not an easy statement to understand for a computer) and outputting a contextually and grammatically correct answer in real time. Google's AI engine failed its demonstration because it failed to find an easy and readily available answer to a simple question (it failed to ingest the data). Microsoft's BingAI demonstration failed because it couldn't tell the difference between legitimate reviews, AI bot written advertisements written to look like legitimate reviews, and user reviews that weren't entirely accurate (it failed to process the data). In many publicized "I tried it" cases, ChatGPT has given non-sensical answers to rather simple queries (a failure to output the data).



Despite the recency effect of the hype, there are a lot of companies that use AI to create competitive advantages. There are also a lot of companies that enable AI as well. Some of these companies are mundane, like a bottle manufacturer that uses machine vision to find defects and optimize bottle size and thickness. Some are taken for granted, like nearly every video game published in the last ten years or computer chess. Also, most transportation applications, such as freight and garbage collection, uses AI routing. Some AI technology we will never noticeably experience directly, such as Uber's new matching technology that uses AI to price a rider's trip and drivers pay independently, which has led to an increasing competitive advantage over the last year. There are several companies that are involved in the data collection and preparation for ingestion in AI engines such as Splunk and Alteryx. ZipRecruiter's AI assistant does a great job at matching job seekers with employers in increasingly faster timeframes. Match/Tinder uses AI to determine how "good looking" you are to show you realistic swiping candidates. Five9's call center routing technology uses AI to speed customer service response times and route complex problems to the right people when needed. Nearly every car company incorporates AI for collision avoidance and mapping/routing and adaptive cruise control, including non-Tesla companies such as GM and Ford. Nvidia provides the chips that process the data. Disney uses AI to price park admissions and manage capacities. Netflix uses AI to determine what type of shows, and how many shows, a household needs to watch in a month to maintain the subscriber - the quality of a show is a secondary consideration. Insurance policy pricing has been based on AI for years. Radiologists use AI to zero in on potential problems which can speed up the process of analyzing medical images. A significant number of fact-based articles you read online are AI-generated already. While AI is already extensively used by companies, we would imagine you are going to see a lot of companies recycle their communications to advertise how they are using AI in the near future, even if it isn't particularly material to their growth trajectories: "our dog walking service uses AI to optimize where your dog wants to relieve himself".

While we have some exposure to some of the opportunities mentioned above there are other great opportunities out there. One corner of the market does appear to be seeing continued strength and that is electrical infrastructure build out. What was once a cyclical industry now seems to be experiencing secular growth, or at least an elongated cycle. Even contractors seem to be busier than ever with increasing book-to-bill ratios despite continued shortages in components such as transformers. The market appears to recognize this for the most part, with a number of companies in the supply chain trading in excess of 20x earnings. Our own investments are in faster growing "off the radar" companies trading at or below 10x earnings. These have been some of our best performers to date and we still see multi-year multi-bagger potential in these names, even if transformer manufacturing and electrical product distribution don't seem particularly sexy on the surface.

We are also still investing in the sub-book value homebuilding space, as well as several building products companies that appear exceedingly cheap during what is likely to be the trough period in the cycle (this is when these companies are supposed to look expensive, suggesting potential outsized gains ahead). While interest rates muddle the picture, what was clear was that there was a surge in demand for new homes during the brief mortgage rate retreat earlier this year confirming that the pent-up demand is indeed huge, and that the price/rate algorithm is the only thing standing in the way. Homebuilders are already adjusting affordability where they can, choosing to play the volume game rather than the revenue game. 3200 square foot floor plans are giving way to 3000 square foot plans. It does not appear that the adjustment will prove terribly painful for them, although we still prefer those trading below book value for the margin of safety.

We reserve the right to change our mind!

Brandon Osten, CFA
CEO, Venator Capital Management Ltd.

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