PRICES CHANGE, BUT VALUE IS FOREVER

HEDGE FUNDS (Inception)	FEBRUARY 2024	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006)**	**3.9%**	**1.9%**	**9.0%**
Venator Select Fund (September 2013)	**5.5%**	**2.7%**	**7.6%**
S&P/TSX Total Return (March 2006)	1.8%	2.4%	6.5%
Russell 2000 (March 2006)	5.7%	1.5%	7.4%
S&P Toronto Small Cap (March 2006)	0.8%	0.4%	2.9%
S&P 500 (March 2006)	5.3%	7.1%	10.1%

ALTERNATIVE MUTUAL FUNDS (Inception)	FEB 2024	YTD	1-YR	3-YR	5-YR	10-YR
Venator Alternative Income Fund* (January 2020)**	**1.1%**	**1.4%**	**9.1%**	**0.0%**	**3.0%**	**4.0%**
Venator Founders Alternative Fund (July 2021)**	**3.6%**	**1.6%**	**22.6%**	**-**	**-**	**-**
B of A Merrill Lynch High Yield Index (August 2008)	0.3%	0.3%	11.0%	1.9%	4.0%	4.3%

** As of February 29, 2024*
*** 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*
***** Venator Offshore Fund is available as the US dollar version of Founders Fund strategy*

"The stock market has predicted nine of the past five recessions" - Paul Samuelson (1982) - note he said the same thing about macroeconomists in 1966.

This goes to one of our own philosophies, something we call "The Efficient Market Fallacy": the market is great at pricing in what it thinks will happen, but not very good at predicting what will actually happen. The rise of algo trading and passive investing has put this "investing on price momentum" characteristic on steroids as there is little room for contrarian investing as you will get steamrolled by the 90% of investing that is passive and trend following. Passive investing and algorithmic trading are all about price momentum and have all the money trying to go through the same door at the same time. It might trade on news for one day, but then it goes back to money flow for the next 90 days.

So, there was no recession, and generally the market no longer thinks there will be one. This is despite a new outlook for less, or no, rate cuts this year. These were always our views, and you would think if economic numbers stayed relatively stable and interest rates stayed unchanged for a year, you would have little stock and bond price volatility. But thanks to "everyone in the same door at the same time" investing, this was hardly the case. The narratives are creating huge volatility while the fundamental underpinnings of the economy are barely changing at all.

In the same vein, value isn't nearly as volatile as stock prices in most instances. We have found that companies are making their biggest moves in-between quarters in a market where automated trading strategies are thirsty for even the most immaterial data point. The reaction to the actual financial news, in the form of a quarterly report, can rarely undo the prior 90 days of "trading action", even if it runs completely counter to the narrative that has been established on these newsy tidbits.

Fortunately, there is a way to blend fundamental and valuation analysis while respecting the flows of the market, even when you disagree with the prevailing narratives and want to be a bit contrarian. Our own models contain a list of approximately 200 companies we would like to be shareholders in, only a handful of which provide enough of a discount to what we deem to be fair value and whose stocks are generally moving in the right direction. This not only impacts what we buy and when we buy it, but also what we own at any given time. Our target prices for these stocks don't change much, but the stock prices do, offering some attractive entry points when they start moving in the right direction with enough upside to move them to the top of the list (yes there is a daily ranked list with a top and bottom).

While markets have been accommodating over the past year, we believe this strategy, implemented in early 2023, is offering better returns while avoiding no-news falling knives. It has allowed us to stay fully long for certain names for greater gains when we historically would have trimmed exposure (i.e. Uber) and has allowed us to get out of the way of periods of weakness for profitable investments only to get back in when the negative narrative has run its course (such has been the case with Wayfair). By taking the trading aspect mostly out of our hands while leaving the hunting and research activities fully intact, we look forward to a more profitable methodology going forward.

The Income Fund has gotten off to a good start despite all the fears of less cuts. We believe that there is more good news ahead as many of our bonds have lagged due to a lack of trade activities rather than the underlying value of the assets. This will lead to a decent amount of tax efficient capital gains vs income gains for the fund, while still providing an expected return of 9% over the several years duration of the portfolio.

We reserve the right to change our mind!

Brandon Osten, CFA
CEO, Venator Capital Management Ltd.