RATE DEBATE CONTINUES

HEDGE FUNDS (Inception)	APRIL 2024	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006)**	**-11.2%**	**-1.5%**	**8.7%**
Venator Select Fund (September 2013)	**-14.0%**	**-0.2%**	**7.2%**
S&P/TSX Total Return (March 2006)	-1.8%	4.7%	6.6%
Russell 2000 (March 2006)	-7.0%	-2.2%	7.1%
S&P Toronto Small Cap (March 2006)	0.2%	8.1%	3.3%
S&P 500 (March 2006)	-4.1%	6.0%	10.0%

ALTERNATIVE MUTUAL FUNDS (Inception)	APR 2024	YTD	1-YR	3-YR	5-YR	10-YR
Venator Founders Alternative Fund (July 2021)**	**-11.5%**	**-2.1%**	**21.0%**	**-**	**-**	**-**
Venator Alternative Income Fund* (January 2020)**	**-1.3%**	**1.9%**	**10.6%**	**-0.4%**	**2.9%**	**3.8%**
B of A Merrill Lynch High Yield Index (August 2008)	-0.8%	0.7%	9.1%	1.6%	3.6%	4.2%

** As of April 30, 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*

April was a difficult month for markets and our funds as we unfortunately retraced our yearly gains. The market seemed to refocus on interest rates and inflation after a slightly higher than expected inflation print. As we stated last year, we did not see rates coming down to what became a consensus late 2023 expectation of 3.5% by the end of 2024; we were thinking more along the lines of 4.5%-5.0%. This month, that view became more broadly accepted, leaving the market in fear of a no-cut 2024. We see no reason to change our view that North American rates will start to decline slightly later this year. A big part of the inflation surprise was insurance costs which are backward looking. While we haven't invested in insurance companies recently, our involvement in housing has made us acutely aware of rising premiums owing to increased weather related claims from events in 2022-2023. We expect these rate hikes to taper off in early 2025. Rents are rolling over, car prices are in decline, food is in decline and energy prices have stagnated. Even house prices are coming down.

All the rate talk had a profoundly negative impact on our homebuilders and building products names, which are still a heavy weight in the portfolio, although it's worth noting that nearly every homebuilder and building products company has materially exceeded expectations and the share price declines have made them exceedingly cheap. One of the larger declines was Forestar, which is trading near book value after a 25% drop. Our other biggest detractors were our other two biggest weights. Uber slipped nearly 20% on the Tesla "robotaxi threat" that may be something to worry about in seven years. Our largest holding Hammond Power dropped significantly on what we believe to be poorly communicated stock based compensation expense that was optically high due to the performance of the stock which tripled last year (the company issued only 11,000 shares to executives in the quarter worth just over $1MM, but accounting rules caused a $16MM stock compensation expense reported); excluding this expense, which most companies offer adjusted EPS for, the company modestly exceeded expectations. It's worth noting that owing to their stellar performance over the last eighteen months (all three had doubled or more), these three stocks represented approximately 1/3rd of the portfolio but have dropped 20%-25% from their recent all-time highs.

We still don't see all the rate talk as an impediment to returns for either stocks or intermediate term bonds. No one expects rates to go up from here and neither do we. Eventually, we think later this year, they will start to come down, and in the meantime, many companies are growing, building book value, or buying back undervalued stock. In some cases, they are doing all three. Some secular themes seem somewhat unstoppable, such as AI infrastructure spending, electrification spending, near-shoring manufacturing and new home demand. As bottom-up value-oriented researchers, we are constantly on the lookout for unappreciated growth or deep value, preferably both. While we may bias to those sectors that fit these secular trends, it is never a necessity for a target investment. We can't think of any secular reason to keep owning Skechers stock, which has been a significant gainer. It's just a good company that traded at a really attractive valuation when we bought it.

On the Income Fund, we continue to see quality bonds in the 8%-12% range, although some of our investments are starting to move to the 6% range and we are actively recycling into higher yields. We have also initiated a shift in the portfolio to more senior secured bonds, which adds an element of security to the portfolio. Overall, we remain optimistic on the bond portfolio, which didn't pull back significantly on the rate scare of April.

We reserve the right to change our mind!

Brandon Osten, CFA
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