INTEREST RATE SCARIES

HEDGE FUNDS (Inception)	OCTOBER 2024	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006)**	**-0.8%**	**8.7%**	**9.0%**
Venator Select Fund (September 2013)	**-2.7%**	**19.3%**	**8.6%**
S&P/TSX Total Return (March 2006)	0.9%	18.2%	7.1%
Russell 2000 (March 2006)	-1.4%	9.6%	7.5%
S&P Toronto Small Cap (March 2006)	1.4%	19.7%	3.7%
S&P 500 (March 2006)	-0.9%	21.0%	10.5%

ALTERNATIVE MUTUAL FUNDS (Inception)	OCT 2024	YTD	1-YR	3-YR	5-YR	10-YR
Venator Founders Alternative Fund (July 2021)**	**-1.0%**	**7.0%**	**30.9%**	**-9.8%**	**-**	**-**
Venator Alternative Income Fund* (January 2020)**	**0.4%**	**8.4%**	**15.8%**	**0.7%**	**4.0%**	**4.1%**
B of A Merrill Lynch High Yield Index (August 2008)	-0.6%	7.4%	16.5%	3.0%	4.4%	4.8%

** As of October 31, 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*

Markets were volatile but ultimately subdued through earnings season, which is understandable given the dueling forces of a slowing but still strong economy and a US election that doesn't seem particularly contentious (at least as far as financial markets are concerned). Unfortunately, all eyes are again on the Fed. While Powell & Co blessed us with a 50bp initial cut, the next ones remain a source of debate. Economic numbers remain stable, by and large, with growth slowing but positive, and inflation stable but slightly above expectations. The attention seems to be focused more on the jobs market where the Fed doesn't want to trigger an unemployment recession. In any case, the 10-year bond has moved up since the Fed's initial cut, negating any expected near-term tailwinds.

While bulls are enjoying the charts, the naysayers are pointing to a very expensive market. This label does not come from the usual suspects of the "Mag7", which has an outsized impact on overall market multiples given large cap index concentration. It comes from the more rank and file stock picker names that portfolio managers consider everyday. There are simply too many sub-5% growers trading at premium growth valuations; many just by virtue of finding themselves in the right sector. We have largely exited the homebuilder segment as valuations (at least relative to book value) became stretched, although we maintain our position in Forestar, which recently stated an expectation of 10% growth over the next year and currently trades at book value.

Our portfolio remains very "special situation-y" without any major macro themes. If there are any macro themes embedded in the current holdings, it is more of the omission variety. For example, we currently have no oil and gas exposure, as both markets look to be adequately, if not oversupplied for the next twelve months (barring severe weather or geopolitical events). We own one transportation company (Mullen Group) because its cheap, has hidden assets, and is outperforming operationally at the bottom of the cycle. We own one homebuilding distributor (Adentra) because it is cheap and outperforming operationally at the bottom of the cycle (half of the business is renovations). We own one electrical contractor (IES Holdings), which is cheap and high growth and super high quality (40% ROI, excess cash on the balance sheet). We own one REIT (Primaris) and one payroll processor (Paycom). As the only meaningful land developer, Forestar qualifies as a special situation. We have several software companies, but none of them are in related subsectors. We even have a large weighting in gold (not gold companies)!

We always “reserve the right to change our mind”, but sometimes it gets changed for us. Recently, long-term holding Skechers “tripped” our models and we exited the position. The stock recently reported a strong quarter but, after an initial 10% rally, the stock has sold down to $60.00. This is a ridiculously cheap 10x 2026 EPS expectations (8.5x after projected excess cash) for a multiyear compounder, growth leader in its space, and the number three shoe manufacturer in the world, growing faster than the two in front of it. We only point this out as an example of how sometimes we can love a company “but not right now” as it sits 10% below our recent exit price. We look forward to re-entering this position in the future.

The bond markets have been responding well to the “open window” for bond issuance. Companies are taking advantage of pushing maturities out, which has resulted in bonds being called back and/or moving us up in the pecking order. We still have a yield of over 8%, have only two bonds due in 2030, and are employing minimal leverage. In a world where Canadian rates are falling below 4% and US rates are on their way down, we are happy with the make-up of the portfolio.

The election is next up on the event docket. It looks like a coin flip right now and there are very few swing states up for grabs. We would guess that a Trump win would be better for the stock market for no other reason than a strong stock market is a priority for The Donald. In any case, the markets don’t seem particularly interested as long as Congress remains split. So outside an “angry algo” jump scare, it doesn’t appear that the election should cause any major year-end influence.

We reserve the right to change our mind!

Brandon Osten, CFA
CEO, Venator Capital Management Ltd.