

JANUARY GIVES THE MARKETS A LOT TO DIGEST

HEDGE FUNDS (Inception)	JANUARY 2025	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund** (March 2006)	0.0%	0.0%	8.9%
Venator Select Fund (September 2013)	1.9%	1.9%	8.7%
S&P/TSX Total Return (March 2006)	3.5%	3.5%	7.3%
Russell 2000 (March 2006)	2.6%	2.6%	7.7%
S&P Toronto Small Cap (March 2006)	0.7%	0.7%	3.7%
S&P 500 (March 2006)	2.8%	2.8%	10.7%

ALTERNATIVE MUTUAL FUNDS (Inception)	JAN 2025	YTD	1-YR	3-YR	5-YR	10-YR
Venator Founders Alternative Fund** (July 2021)	-0.3%	-0.3%	9.8%	-4.9%	-	-
Venator Alternative Income Fund*** (January 2020)	0.6%	0.6%	11.6%	3.2%	4.1%	4.4%
B of A Merrill Lynch High Yield Index (August 2008)	1.4%	1.4%	9.7%	4.3%	4.3%	5.2%

* As of January 31, 2025

** 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

While earnings and 2025 guidance are usually the highlight of January (and February), the market was dominated by macro themes in the final week of the month, including the disruption of the AI trade and the newly crowned President Trump renegeing on the NAFTA deal he negotiated himself in his first term. For us Canadians, will he/won't impose tariffs was the story, complicated by the resignation of our Prime Minister and an extended government recess while the governing party sorts out its leadership issue, leaving us ill-equipped to deal with these economically hostile policies. With these levels of uncertainty, Canadian industrials struggled under the weight of tariff news flow.

The last week of the month was also dominated by the news that Chinese AI/LLM model Deepseek was able to build a model that performs nearly as well as famed AI models from OpenAI, Anthropic and Meta for less than one-tenth of the price. While many industry experts are claiming that the model isn't "as good" or "as cheap" as claimed, they are also claiming that it is pretty close and still a lot cheaper, which has some interesting implications for a broad cross section of the economy. Already, the narrative has changed to AI being cheaper (good for software and industries planning on implementing these features), and that infrastructure needs might ultimately be smaller than previously assumed (not great longer term for companies in the datacenter building chain and power supply industries). It is admittedly difficult to handicap these developments as quarters being currently reported reflect periods predating these revelations and capital expenditure plans for 2025 that have already been budgeted, orders placed and ground broken. Although, it is worth noting that

hyperscaler Microsoft has already indicated a flattening of its capital expenditure plans as we move through 2025. This comes after return on investment of datacenter investments have been called into question for the past several months. Meta's Mark Zuckerberg probably had the most honest answer to the return on investment question by saying that he doesn't know it will justify the current spending plans. But, for Meta, the cost of missing it is greater than the cost of overspending; easy for him to say since Meta has free cash flow of over \$50B despite burning \$15B on his virtual reality pet project.

It is difficult to handicap where the tariff trade ultimately ends up, at least for Canada. Canada has always been a uniquely uncontentious ally of the United States, both economically and militarily, so to be grouped in with other countries, such as Mexico and China, seems baffling. The US has chosen to fight multiple trade wars, while Canada only faces one, and this could be an odd precursor to the end of a trilateral free trade agreement, or an immaterial renegotiation in-line with what happened during Trump's first term. If this is anything like last time, Trump will only need a "performative" win to go back to his constituency; something that could be achieved in short order. Planting his flag on the hill of fentanyl imports seems like an odd wedge issue but also one that could be easily dealt with from a narrative standpoint; we don't know how Trump would have responded had Canada previously threatened tariffs if the US didn't stop illegal gun exports; as though it is fully the exporter's responsibility for the smuggling! We hope that cooler heads prevail, as they did last time around, but we must be prepared for any opportunities that arise on either side of the border.

We like to think of our investments as special situations rather than macro themes, although, often times, they can overlap in a high correlation world. We recently exited a profitable position in Bombardier due to the tariff threat, which is unfortunate given the strategic "slam dunk" that is its current growth strategy of servicing an increasing percentage of its own aircraft which used to be outsourced to third parties by its customers. In fact, we only have one position that should be impacted by tariffs, leading satellite/space manufacturer MDA Space, which has a large, contracted backlog, and it is one of only a handful of companies that can do what they do. We have also lowered our exposure to the electrification theme, as a slowdown in housing, a pause in electric vehicle proliferation (Tesla, which grew at 1% last year, was unwilling to reiterate its 20%+ 2025 growth target on its conference call), coupled with a potentially visible 2026-2028 peak in datacenter growth are clouding visibility in the sector. Tariffs can have an inflationary impact as well, which could stall any plans for interest rates easing in the US. As such, we carried no homebuilders into the new year. That said, we do have several multinationals that could see currency translation risk on foreign revenues, including several technology companies, as well as two product companies with more than 50% of their sales achieved overseas.

On the Bond side of the equation, liquidity remains tight, and it is difficult to find 7%+ yields that anyone is willing to sell. Fortunately, we are fully invested and are currently yielding around 8% to maturity, with relatively short duration. The quality of the portfolio remains high either through

senior status or “next in line” due to late 2024 refinancing activities. With all our bonds being public issuers, we are a bit surprised that we have been able to accumulate such a healthy yielding and quality portfolio in the current environment. With regard to the tariff threat, we do hold bonds in Algoma Steel, which will be severely negatively hit by tariffs, but has tremendous asset coverage (we own the Senior Secured bonds).

We reserve the right to change our mind!



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