IS THE HONEYMOON ALREADY OVER?

HEDGE FUNDS (Inception)	FEBRUARY 2025	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006)**	**-4.6%**	**-4.6%**	**8.6%**
Venator Select Fund (September 2013)	**-3.4%**	**-1.5%**	**8.3%**
S&P/TSX Total Return (March 2006)	-0.4%	3.1%	7.3%
Russell 2000 (March 2006)	-5.3%	-2.9%	7.3%
S&P Toronto Small Cap (March 2006)	-2.3%	-1.6%	3.5%
S&P 500 (March 2006)	-1.3%	1.4%	10.6%

ALTERNATIVE MUTUAL FUNDS (Inception)	FEB 2025	YTD	1-YR	3-YR	5-YR	10-YR
Venator Founders Alternative Fund (July 2021)**	**-4.6%**	**-4.9%**	**1.1%**	**-4.8%**	**-**	**-**
Venator Alternative Income Fund* (January 2020)**	**0.0%**	**0.7%**	**10.4%**	**3.5%**	**4.3%**	**4.1%**
B of A Merrill Lynch High Yield Index (August 2008)	0.7%	2.0%	10.1%	4.9%	4.8%	5.0%

** As of February 28, 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*

What began as a promising start did a full reverse-course around Valentine's Day as the markets were fed a daily barrage of the Elon/Trump show and didn't like what was on display. The "will he/won't he" game of tariffs has been problematic for forecasting and has sidelined a Federal Reserve that was on the brink of dovish accommodation. The Department of Government Efficiency has made forecasting any business with significant government contract exposure impossible. Any business with exposure to trade between Canada-US-Mexico-China, or hoping for lower interest rates, is now on tenuous ground from a forecasting perspective, which covers a lot of ground.

It also doesn't help that the AI trade, which has been driving markets for the last two years, appears to be growing impatient with nascent financial return on investment results vs the bullish narratives. The AI buildout has driven the narrative for power infrastructure, contractors, data center equipment, utilities, and different energy resources. The problem is that all this infrastructure is highly dependent on only a handful of companies with Microsoft, Alphabet, Meta and Amazon responsible for half of datacenter infrastructure revenues. The market is now looking out a few years and seeing a steady state of datacenter build, which means a deteriorating rate of growth for AI infrastructure. It turns out, the market believes hardware and construction are cyclical – that it's not different this time.

This will turn attention to the software industry, which is supposed to be developing the commercial uses of AI. Only, it seems to be taking longer for these tools to get buy-in from end customers. Salesforce has been a leading champion of AI for two years, but its Einstein product has been a commercial disappointment, and it has since pivoted to pioneering "agentic AI" while its growth rate has deteriorated from 20% to single digits. The market is starting to question trillions in spending for billions of revenues. To be fair, this is precisely the way 1996-2000 played out. But it's important to remember that once the hardware/infrastructure buildout was played out (Sun Microsystems, Cisco, Intel, NVIDIA (!), EMC, Dell, JDS Uniphase, Nortel, etc.), the software companies reaped the benefits for two decades. We imagine this will largely be the case again.

The US earnings season is pretty much over, which encompasses roughly two-thirds of the equity portfolio. Out of approximately 20 companies reporting thus far, only four have disappointed with their outlooks. Unfortunately, many of our stocks fell in the weeks leading into earnings and, in many cases, failed to recover their recent highs after reporting strong results. An extreme example is a portfolio holding called Porch Group, which fell 35% to a three-month low leading into its earnings report, only to jump 70% on the day of its earnings. A more typical example is Elastic, a software company and a leader in AI vector search, which jumped 15% on its earnings report but failed to recover its pre-Valentine's Day levels. Our goal is to invest in great emerging companies, but sometimes the market does get in the way. We continue to believe all our individual holdings have idiosyncratic growth factors and trade at compelling valuations. While there is a decent technology component to our holdings, we aren't concentrated on any broader themes at the moment, and the portfolio is largely a group of special situations.

On the fixed income side, not much has changed. We have some maturities coming up this month, which will take down our leverage to approximately 10%. The fund remains well diversified with over 30 positions, all of which are backed by public companies, which offer better transparency and liquidity than private company securities. We have also shifted 40% of the portfolio over time to Canadian securities as currency hedging costs are higher than they have been historically given Canadian interest rates in the 3% range and US rates currently in the 5% range.

We reserve the right to change our mind!

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