

TRUMP 2.0: THIS TIME IT'S DIFFERENT

HEDGE FUNDS (Inception)	MARCH 2025	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund** (March 2006)	-6.2%	-10.6%	8.2%
Venator Select Fund (September 2013)	-7.8%	-9.2%	7.5%
S&P/TSX Total Return (March 2006)	-1.5%	1.5%	7.2%
Russell 2000 (March 2006)	-6.8%	-9.5%	6.9%
S&P Toronto Small Cap (March 2006)	2.6%	0.9%	3.7%
S&P 500 (March 2006)	-5.6%	-4.3%	10.2%

ALTERNATIVE MUTUAL FUNDS (Inception)	MAR 2025	YTD	1-YR	3-YR	5-YR	10-YR
Venator Founders Alternative Fund** (July 2021)	-6.4%	-11.0%	-13.2%	-6.2%	-	-
Venator Alternative Income Fund*** (January 2020)	-0.9%	-0.3%	7.4%	3.1%	9.1%	4.1%
B of A Merrill Lynch High Yield Index (August 2008)	-1.1%	0.9%	7.6%	4.8%	7.2%	4.9%

* As of March 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

The first quarter did not come in as hoped as a number of market narratives were turned on their heads. AI enthusiasm, another Trump bull market, even bitcoin, all experienced sharp reversals of fortune. We tried to avoid these narratives by avoiding tariff exposure, government spend dependency, and AI infrastructure suppliers, but when markets fall fast, correlations converge. Good quarters, raised guidance and post-news rallies are no match for the policy uncertainty markets experienced over the last two months. Even in Canada, where markets hung in due largely to resource exposure, one wonders how long our economy can withstand a real trade war with the US.

Trump's second term in office is off to a much different start than his first term as he takes a wrecking ball to decades of lowering global trade barriers. He has a year to enact his agenda before he starts needing an economic expansion ahead of mid-terms, lest he become a "lame duck" President for his final two years in office. Consider:

- Trump inherited a very strong and nearly fully employed labor force, but his federal cost cutting efforts and probable corporate actions to protect margins in the face of tariffs will likely undermine employment over the next year.
- Trump inherited an inflation environment that painstakingly made its way back below 3% only to enact tariffs that will be difficult to absorb without a near-term one-time spike to prices.

- Trump inherited a Federal Reserve that was indicating a material lowering of interest rates, but it is now trying to figure out how to manage a potential inflationary recession brought on “artificially” by tariffs and layoffs rather than a normal economic cycle.
- Trump inherited a record stock market and now he finds global investors running from America almost exclusively due to his policies. This could further weaken the dollar and raise inflation.

This is not what we expected coming into the year. We don't think this is what anyone expected. His whole campaign was about how the stock market was great when he was President, how great the economy was prior to COVID, how inflation was all the prior administration's fault, and how he wanted the Federal Reserve to aggressively lower interest rates as inflation subsided. It's easy to forget that during his first term, he threatened to pull out of NAFTA, only to renegotiate it in ways that were immaterial. This history caused many to believe (ourselves included) that all of his threats, this time around, would amount to a resolution through negotiation. The worst-case scenario for the auto industry put an end to that expectation. The domestic manufacturers (GM, Ford and Chrysler; Tesla should be unaffected but has “other problems”) have 40% exposure to the US and are expected to see profits drop 30%-70% before any supply chain, pricing, international retaliation, domestic volume impacts, and rebate actions, due to the disintegration of North American free trade in the automotive supply chain. We note that “supposedly” there could be a carve out for cars “if” 51% of the content originated in the USA, but who knows because nothing is ever clear or final in these executive orders.

Investment opportunities should reveal themselves as the smoke clears over the next several weeks (even in automotive, used cars and replacement parts stand to benefit), but when the early estimates are 40% profit declines for domestic automotive manufacturers, 10% drops in their stocks hardly seems like a buying opportunity. Even during COVID, everything fell precipitously before the market knew what was going to get locked down and, with clarity on everything except a vaccine approval date, we could figure out winners and losers. And even for the “losers”, we could figure out worst case scenarios; we made money on home furnishings and hotel stocks in 2020.

While we have been reducing our exposure over the last month as companies report and catalysts fade relative to a difficult market backdrop, we have built up a very long list of companies that we want to buy but are content just watching as they get cheaper and cheaper amid the market uncertainty. The list itself is over 100 quality profitable companies, spanning a large range of industries and sizes, more than half of which we estimate to have over 50% upside from current levels. Some are exciting because they are growing in excess of 20%, while others are exciting because they trade at less than 6x earnings. On average, these companies are over 25% off their four-month highs and less than 5% from their four-month lows reflecting a leaning to a largely small cap universe that is 17% off its four-month high. We suspect that there will be plenty of opportunities once we get full clarity on tariffs, the impact on inflation and what central banks plan on doing about it. The market can handle bad news, what it hates is uncertainty. We don't want to “call the bottom”, but our list should reveal early momentum in high return to intrinsic value opportunities.

By way of example, we would note our prospect list includes former favorites like Forestar, the top supplier of finished lots to DR Horton. Like the rest of the homebuilder ecosystem, Forestar has suffered a precipitous 50% decline from its highs last year. While we sold the stock last year at much higher levels, our “target price” has not changed. Despite the stock falling to close near \$20.00, we still believe that we have visibility on over \$60.00 in book value and over \$6.00 in EPS within the next several years. You can be patient about buying stock when you have more than 200% upside to book value! We believe there are an increasing number of opportunities like this waiting to be taken advantage of. As markets go down, the eventual upside for these targets increases, but you need to know when you want to buy back in, just like in 2009 and 2020 when the macro narrative was far more dire than it is today. As previously mentioned, we don’t want to “call the bottom”, but our list should reveal early momentum in high return to intrinsic value opportunities. Be contrarian, but don’t be too early!

Out of about 30 of our invested companies reporting in the first quarter, only six reacted negatively to their quarterly reports/guidance. Unfortunately, the gravity of the broader markets ruined any post earnings momentum over subsequent weeks and, in many cases, from 52-week highs. Our only big win (50% YTD return) this year has been a company called Porch Group, which was in a bit of an existential crisis for the past two years but one we kept close track of owing to the potential of its plan to convert from a tech enabled home insurance company to a home insurance technology provider with a captive customer in its scaled former insurance division. It’s a complex story, but recent guidance of \$100MM in 2026 EBITDA with high cash flow conversion would suggest that this stock could have another double in it before its growth engine kicks in post 2026. A rebounding housing market could provide additive benefits as it is a leading vendor of warranty, inspection and title software touching the majority of all home sales in America. It’s important to keep close track of prior holdings because it is easier to identify catalysts and ramp your knowledge base back up to speed.

One area where an investor can have confidence is the bond market. Yields have risen but the credit quality is still there, and we still prefer public companies to private credit. When we do come across private company debt, it tends to look more stretched on credit metrics than public companies (private equity loves debt on portfolio companies as it is part of their return algorithm, whereas public shareholders prefer less leverage on their companies). Also, private companies don’t have as many tools to mature or extend their balance sheets, and their fate can often be determined by their single shareholder. While the Income Fund is yielding close to 9% with minimal leverage, we would note that the spread in US and Canadian overnight rates takes about 1% off this number as we hedge currency. While the Canadian dollar has weakened over the last year, we would note that regardless of who wins the Canadian election, we are about to have a more responsible government, and we do believe that the US has multiple rates cuts in their future as tariff-based inflation should be one time and “lapped” within 18 months, while Canada is close to the end of their rate easing cycle.

We reserve the right to change our mind!



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