VALUE IS BACK?

Instrument (Inception)*	April 2018 Return	Year-to-Date Return	Compound Growth
Venator Founders Fund (March 2006)	**0.9%**	**3.4%**	**11.7%**
Venator Investment Trust (September 2007)	**1.0%**	**3.7%**	**8.4%**
Venator Income Fund (August 2008)	**0.9%**	**-0.1%**	**11.4%**
Venator Select Fund (September 2013)	**-0.5%**	**3.8%**	**15.7%**
S&P/TSX Total Return (March 2006)	1.8%	-2.8%	5.4%
Russell 2000 (March 2006)	0.9%	0.8%	7.8%
S&P Toronto Small Cap (March 2006)	5.0%	-3.1%	2.3%
S&P 500 (March 2006)	0.4%	-0.4%	8.4%
Merrill Lynch High Yield Index (August 2008)	0.7%	-0.2%	8.5%

Over the past twelve months, North American bond & equity markets have seen a marked slowdown in the pace of financial market gains. This, despite a rally in commodity prices (for Canada) and some material tax cuts (in the United States). The three largest concerns holding stocks back right now are the fear of rising interest rates, cost inflation in both commodities and wages, and the possible passing of the mid-cycle point in the current expansion (markets generally don’t look favourably on decelerating economic growth, even when there is still growth).

With good things happening to earnings, a flattening market has surfaced an increasing number of value opportunities for the first time in long while, and we are investing new money in both larger and established companies, as well as earlier stage opportunities.

The bond market has also slowed of late, as interest income has been offsetting increasing rates from recent historical lows. Opportunities in fixed income are scarce right now, so we are currently looking to clip 6% coupons on shorter-term, lower-risk bond issues until better opportunities arise.

Amazon.com's post-quarter surge gave it the highest enterprise value in world, for now. Apple, by virtue of its large cash hoard, still has a higher market capitalization; but Amazon.com has the highest ex-cash market value. We expect that Amazon.com will soon also have the highest market capitalization owing to Apple's regression into an IBM-like state of financial engineering following two failed iPhone refreshes, stagnation in the Mac and iPad business, and the immateriality of its smaller growth businesses (services and watches), coupled with its failure to develop long-rumored new large market platforms (TV, electric/autonomous vehicles, streaming entertainment, home automation).

Most Amazon-watchers peg Amazon Web Services (effectively corporate technology infrastructure hosting) as being close to 35%-45% of the value of the company. In addition, Amazon's third party-logistics business is estimated to be worth 35%-45% of the overall value, while Prime Subscriptions and Advertising are estimated to be worth roughly 15% of the value of company. In other words, the business model that existed 15 years ago, that of selling goods directly over the internet, is possibly only worth $200 per share (which is probably what the average investor believes is Amazon's core business). All its newer businesses are higher growth and higher margin than the original model but have evolved without the gee-whiz, consumer facing, hoopla that captured the imagination of investors - like a Facebook, Google, iPhone, etc. - as Amazon evolved into a business of largely corporate products with which your average person/investor would never directly interact.

You have to appreciate the evolution of Amazon beyond its original retail business model, which looks more like a loss leader to springboard its other business, rather than a material future profit center. And you really have to marvel at the ability of Jeff Bezos to create two disparate $200 billion businesses in 20 years. One can't help but wonder what Amazon will look like, or where its profits will come from, 10 years from now.

As always, we reserve the right to change our mind!

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