

US ELECTION: IT'S SHOWTIME

HEDGE FUNDS (Inception)	SEPTEMBER 2020	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund** (March 2006)	2.7%	30.1%	11.9%
Venator Select Fund (September 2013)	-4.1%	17.7%	15.4%
S&P/TSX Total Return (March 2006)	-2.1%	-3.1%	5.3%
Russell 2000 (March 2006)	-3.3%	-8.7%	6.5%
S&P Toronto Small Cap (March 2006)	-4.6%	-8.6%	1.1%
S&P 500 (March 2006)	-3.8%	5.6%	9.1%

ALTERNATIVE MUTUAL FUNDS (Inception)	SEPT 2020	YTD	1-YR	3-YR	5-YR	10-YR
Venator Alternative Income Fund*** (January 2020)	-1.2%	-3.2%	-1.4%	2.4%	5.4%	7.4%
B of A Merrill Lynch High Yield Index (August 2008)	-1.0%	-0.4%	2.2%	3.8%	6.6%	6.3%

**As of September 30, 2020*

***Venator Investment Trust is available as an extension of the Founders Fund strategy, its monthly performance mirrors the Founders Fund, and 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*

The crazy year that is 2020 continued in Q3, and we still have November 3rd to look forward to. North America followed a Q1 return of -27.5% with a hard Q2 bounce of 25.3%, followed by a subdued (by 2020 standards) Q3 gain of 6.3%. It's worth noting that, despite the year-to-date performance of the S&P 500 (+5.6%), the *equally weighted* S&P 500 index year-to-date number is in line with that of the Russell 2000, indicating that the average stock has experienced an approximate 8%+ decline across all market caps during 2020.

The investment themes that we have been focused on since the Q1 bottom continue to dominate our Funds today: namely, GARP technology (although our idea of 'reasonable price' is considerably more limiting than that of the Street), housing, autos, and a few special situations. We continue to give both energy and physical retail the cold shoulder as 'winning' in these sectors tends to be relative than absolute. We are also ignoring 'bubble' stocks, where tier-3 electric vehicle stocks will, at some point, come crashing down as Tesla stays five steps ahead of them; and where recent IPO's of some great technology companies are years (and perhaps decades?) away from justifying their current market values. Companies such as Nikola Corporation (NKLA), Virgin Galactic Holdings, Inc. (SPCE), and Snowflake, Inc. (SNOW) make Tesla, Inc. (TSLA), Zoom Video Communications, Inc. (ZM) and Shopify, Inc. (SHOP) look cheap by comparison.

In the end, this is all just preamble to the main event: the upcoming US election. Media coverage is going to ramp up hard over the next several weeks, but the main issue for investors won't necessarily make headlines (relating to the battle for the Senate). Our view is that financial markets will be fine provided Congress remains split, regardless of who sits in the 'big chair'. COVID-19 has likely diffused any Democrat-promised economic growth-choking plans, such as increased corporate tax rates or excessive discretionary spending, while it is also probably too late to back away from Trump's hard line stance on China.

Trump or Biden? We are not too concerned either way. Trump and a split Congress is just status quo and will likely be fine for the markets, while Biden and a split Congress would likely be a neutral event as well. Meanwhile, Trump and a united Democratic Congress would be an entertaining four-year stalemate (and a nightmare for both parties), but financial markets would likely be fine. On the other hand, Biden and a united Democratic Congress would likely be received poorly, but as stated above, we think the priority of rebuilding of the economy would likely pre-empt any economically damaging agenda for at least three years.

The one nightmare scenario (which we currently place 20% odds on) would be a united Democratic Congress and a contested Presidency. We wouldn't buy into the media narrative that Trump will refuse to vacate the seat (keep in mind that he is still the President until January, in any case, so he has time to legitimately contest the results without breaking any laws). However, if it's close, we could see a scenario where multiple recounts and/or legal battles ensue for several weeks before either party concedes. Ultimately, the election will be decided, but the media firestorm in the interim will be intense. All of this 'noise' will not matter come January, but volatility could be tough to stomach in November and, potentially, December.

Regardless of the election result, there are several investment themes with 'wheels already in motion' that we believe cannot be easily stopped. Examples include: cloud computing, telemedicine, a strong housing/renovation market, robust automotive sales, the shift to online sports betting and electronic gambling, the greater need for transportation in the age of e-commerce, and the shift to work from anywhere. In our opinion, a material drawdown in any of these themes will provide a compelling buying opportunity.

ALTERNATIVE INCOME STRATEGY REVIEW: The Fund continued its comeback with a 6.5% gain during Q3, and, while it remains down marginally for the year, the forward yield of approximately 9% is healthy. Moreover, much of the business and refinancing risk that existed back in March is now in the rear-view mirror. The new issue market remains strong and we continue to see bonds getting called away from us as Corporations look to extend maturities beyond 2025. The convertible bond market has also tightened up significantly, with many new issues coming to market and trading well above par as new investors embrace the 'free option' embedded in these securities. That said, any weakness in broader markets should produce buying opportunities around these newer issues, of which several are currently on our radar.

Q3 ALTERNATIVE INCOME STRATEGY ATTRIBUTION (bps)			
TOP CONTRIBUTORS		LARGEST DETRACTORS	
Air Transport Group, Inc. (Oct/24) - CONV	57	Invesque, Inc. (Jan/22) - CONV	(33)
Atlas Air Worldwide, Inc. (Jun/24) - CONV	57	Nuvasive, Inc. (Mar/25)	(14)
Uber Technologies, Inc. (Nov/26)	43	Chorus Aviation, Inc. (Dec/24)	(12)
Avaya Holdings Corp. (Jun/23) - CONV	43	CVR Energy, Inc. (Feb/25)	(9)
J2 Global, Inc. (Nov/26) - CONV	34	Chemtrade Logistics Income (Sept/25)	(4)

EQUITY STRATEGY REVIEWS: Our equity mandates continued to build on their strong year-to-date performance during Q3. More specifically, our flagship long/short strategy (Venator Founders Fund/Investment Trust) was up roughly 23.6%; while our 'concentrated, best ideas' strategy (Venator Select Fund) posted a 14.7% return in the quarter. One big reason why the *more hedged* long/short strategy managed to outperform the *less hedged* best ideas strategy in Q3 was its exposure to a Canadian small-cap holding - which unfortunately didn't crack our 'best ideas' criteria before it became just that. Overall, we are pleased with the performance of the equity strategies, and both have extensive hedges in place heading into the US election.

Q3 HEDGE STRATEGY ATTRIBUTION (bps)				
LONG POSTIONS		3,711	SHORT/HEDGES	
TOP CONTRIBUTORS			LARGEST DETRACTORS	
Canadian Small-Cap Company	888	Skechers USA, Inc. (SKX)	(58)	
Wayfair, Inc. (W)	280	OmegaFlex, Inc. (OFLX) - SHORT	(50)	
Livongo Health, Inc. (LVGO)	263	Credit Acceptance Corp. (CACC) - SHORT	(45)	
Tesla, Inc. (TSLA)	195	Dropbox, Inc. (DBX)	(45)	
WillScot Mob. Mini Holdings (WSC)	194	Spartan Energy Acquisition Corp (SPAQ)	(45)	

This has been an unusual year to say the least and yet, the real show is just about to begin. By the time our year-end review is published we could have a different President of the United States (both in name and demeanor), some wild market volatility to navigate, and hopefully a vaccine for COVID-19!!!

Shana Tova to all those who celebrate the New Year and let us hope for a calmer and peaceful 5781 - and, as always, we reserve the right to change our mind!



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