

DON'T LET SUCCESS GO TO YOUR HEDGE

HEDGE FUNDS (Inception)	JANUARY 2021	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund** (March 2006)	2.7%	2.7%	12.8%
Venator Select Fund (September 2013)	5.2%	5.2%	17.9%
S&P/TSX Total Return (March 2006)	-0.3%	-0.3%	5.7%
Russell 2000 (March 2006)	5.0%	5.0%	8.7%
S&P Toronto Small Cap (March 2006)	0.5%	0.5%	2.6%
S&P 500 (March 2006)	-1.0%	-1.0%	9.7%

ALTERNATIVE MUTUAL FUNDS (Inception)	JAN 2021	YTD	1-YR	3-YR	5-YR	10-YR
Venator Alternative Income Fund*** (January 2020)	3.2%	3.2%	8.8%	6.0%	8.4%	7.9%
B of A Merrill Lynch High Yield Index (August 2008)	0.4%	0.4%	6.5%	5.8%	8.8%	6.4%

**As of January 29, 2021*

***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*

Each of the Venator Funds finished at record highs for the third consecutive month. Considering the market run, this could be viewed as 'easy', but considering our cautious stance and historically high hedge positions/low net market exposure, it has seemed like an uphill battle to stay in front of this bull run. The trend has been your friend and directionally, the market has gotten it right, even if the skeptics want to debate the magnitude of the move.

It certainly feels like we are in the 'end game' of this 10-month market run. Parabolic moves seem more commonplace in a concentrated number of 'story stocks'; and the resurgence of the modern iteration of the internet chat room is also reminiscent of the chase for dot-coms in 1999 and the chase for junior gold in 2006. However, the investment-focused chat rooms of yesteryear now have a broader audience in the social media world of Reddit, and the democratization of online trading of yesteryear, embodied by then upstart E*TRADE, has been replaced by the even more accessible and gamified Robinhood interface (press here to 'level up' to leverage or options and confetti falls down your screen). While traditional investors lament the lack of interest in fundamentals, the new money moving into the market is all about 'feeling the flow'.

Cryptocurrencies have also been 'feeling the flow' again after a spectacular rise and crash only a few years ago, with Bitcoin again the ringleader. While fundamental believers view the recent rise as validation of bitcoin as 'the next gold', and detractors believe that bitcoins hold no more utility/value than a tulip in 1637, the recent price action tells us nothing about the long-term fate of the cryptocurrency. The bitcoin 'float' is remarkably small; trading in bitcoins remains opaque and perceived trading volumes remain subject to manipulation. The biggest factor in the bitcoin move is likely a combination of increased access to trading (whereas a few years ago you needed a Coinbase-type account or cold storage, today you can easily trade through Robinhood, Square and new closed-end Funds) and increased interest among retail social media investors taking advantage of these new easy access points. More buyers than sellers – stay tuned.

High short-interest stocks have felt the most flow. These stocks have risen to extraordinary heights on extraordinary volumes on the original thesis of 'squeezing' the shorts/hedge funds. You undoubtedly have heard of them by now, even if you hadn't heard of Koss or GameStop a month ago. The thesis of the short squeeze is somewhat flawed as the daily volumes have provided an easy exit for anyone that has needed to cover their short position. However, the myth has overtaken the reality of these names and the Reddit-mob can probably choose any name at random and 'ride or die' at this point. While this recycled chat room phenomenon has captured the attention of virtually all market participants, it isn't new or novel, and no regulatory interference should be forthcoming. The Robinhood mobs are not making any false

fundamental claims, and in the end, we are just arguing about valuation, which is subjective over the short term whether we are talking about GameStop, Bitcoin, Tesla, or Walmart.

SPACs, ESGs, EVs: Acronyms are the ultimate sign that an investment fad has 'made it' into the bubble vernacular. When all you have to do is be in the right market/sector to send your stock up (as opposed to running a successful business) the top of the market red flags go up. It seems that every PowerPoint presentation lately now includes mandatory explanations of the estimated Total Addressable Market (TAM), along with Environment, Social and Governance (ESG) factors. A big TAM is basically a late 1990's bubble terminology equivalent of 'eyeballs', only that this is a bit worse in the sense that these companies do not yet own the eyeballs to monetize.

I suspect that claims of retail investors sticking it to the big, bad institutions will end badly for most retail investors, despite the existence of a few winners. This is an inevitable mathematical certainty. When GameStop eventually round trips from a market value back to under \$1 billion (from its peak of \$25 billion), roughly \$24 billion will have been lost by the 'little guys' who got in near the peak. This represents more investors and more invested capital than the number of investors and dollars that went to work in the early stages of the run up. I suspect that when the smoke clears there will be a few Reddit winners, a few short selling losers, a lot of late-arriving FOMO (fear of missing out) losers, and a lot of black box algo winners (hedge funds and proprietary trading operations of large banks). In other words, in terms of numbers and dollars, the biggest losers will be the little guys, and the biggest winners will be the hedge funds and banks - which is the opposite result that the Financial Justice Warriors are likely expecting.

Meanwhile, our focus at Venator continues to involve assessing whether a company is growing, will it be increasingly profitable, and if it ultimately has a good product – in this day and age, we are like a bunch of investment analysis dinosaurs! But hey, the global athletic shoe market is approximately \$115 billion, which by Snowflake/Zoom/Roku standards should put our Skechers target around \$700 (up from \$35 today) using a market cap to TAM valuation methodology. I know what you are thinking – 'but Sketchers has larger formidable competition'. Well, so does Snowflake, Zoom and Roku; and like those three, Skechers is growing twice as fast as their competitors. So, to \$700 we go because hey - look at that TAM!!!!

To some, our portfolio strategy might not be that exciting, and our hedge book might appear unnecessary, but it has worked well for our investors over the past 15 years, so we are sticking by it. We continue to be fully invested on the long side because the last year has created a lot of unique opportunities to invest in. This can be in the form of re-opening trades, infrastructure spending, continued investments in the home, or a resurgence in new auto sales. We do think that a significant correction could occur at some point in the next 6 months, led by the overextended parabolic stocks and exacerbated when the recent retail entrants exit stock markets as spending returns to the re-opening real world. When this correction does unfold, it will bring everything down together, before the new winners emerge from scrap heap. Therefore, remaining well hedged for the time being seems prudent.

In the meantime, stay safe, stay hedged – and, as always, we reserve the right to change our mind!



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