THE REOPENING TRADE APPEARS OVER; NOW WHAT?

(Bonus short musing on gold vs bitcoin vs currency)

HEDGE FUNDS (Inception)	April 2021	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006)**	**3.3%**	**10.6%**	**13.1%**
Venator Select Fund (September 2013)	**1.7%**	**14.5%**	**18.5%**
S&P/TSX Total Return (March 2006)	2.4%	10.6%	6.4%
Russell 2000 (March 2006)	2.1%	15.1%	9.2%
S&P Toronto Small Cap (March 2006)	4.2%	14.3%	3.4%
S&P 500 (March 2006)	5.3%	11.8%	10.4%

ALTERNATIVE MUTUAL FUNDS (Inception)	APR 2021	YTD	1-YR	3-YR	5-YR	10-YR
Venator Alternative Income Fund* (January 2020)**	**1.0%**	**6.6%**	**34.5%**	**7.3%**	**7.4%**	**7.7%**
B of A Merrill Lynch High Yield Index (August 2008)	1.1%	2.0%	20.1%	6.7%	7.3%	6.3%

**As of April 30, 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*

One of the biggest and fastest upward moves in North American markets continued unabated in April with fresh all-time highs. All three Venator Funds also finished the month at fresh highs as well, although I would imagine that is the case for most investors that managed to survive last Spring's market massacre. The reopening trade post-Pfizer's vaccine announcement has been bigger than any government stimulus in terms of fueling this rally, although all the free money has added a final leg to consumer disposable income at a time when many people's days were not occupied with going to work.

That said, we are seeing signs that the reopening trade is coming to an end. Perhaps the main indicator is that big reopening earnings beats are being met with muted responses as investors normalize easy year-over-year comparisons and shortage-based price inflation. By way of example, one of our holdings put up one of the biggest earnings beats I have ever seen, and the stock did *nothing* (portfolio holding Atkore took 2021 EPS guidance from $5.00+ to $10.00+; to be fair the stock has had a tremendous run). Apple and Amazon had similar muted responses to impressive beats. In fact, the cloud computing sector, despite the earnings beat parade continuing, is down this year, indicating that there might in fact be a limit to valuations of 20%+ secular growers like Tesla, Teledoc and Zoom.

We believe that the 2021 re-opening trade is probably done as government stimulus checks go from individuals to industry. Investors will need to find *underestimated* multi-year trends to profit from going forward. As part of this thesis, we continue to favor sectors like building products and construction inputs over technology and retail. We also continue to favor copper over oil for the same reasons (copper is construction fueled while gasoline demand is a function of a rebound in driving). We believe these to be multi-year trends. While we acknowledge that growth in sectors like Telehealth are also a multi-year trend, the rapid adoption we saw last year was not.

In the bond world, yields remain low which is good for companies but not for yield investors. We have managed to stay ahead of the curve as we shifted the portfolio to lower yielding instruments with more optionality to the upside. We have made the decision to take low yields with the option of high returns in the form of convertible instruments, rather than lever up on lower credit quality in what is being offered in standard fixed income. Indeed, much of the gains this year have come from positive yielding convertible bonds and the recent fall-off in technology has created renewed opportunities in the space. We can debate near infinite price to earnings multiples in the space but there is very little debate around credit quality; these are some of the best yielding unrated investment grade investments out there! The risk-reward is massively skewed in our favour.

While we have never been market timers, we cannot envision any major market disruptions near-term. Investors need mainly to worry about sectoral rotation (i.e. technology to infrastructure) so we could see dispersion in the results of various portfolio strategies from broader indices. On a big picture front, the willingness of governments to run massive deficits post-COVID is a factor worth watching. It appears that the prevailing view is, with interest rates at record lows, borrowed money is essentially free. This type of money printing has historically been a boon for inflation sensitive commodities in general (which have had their share of success owing to reopening pent up demand related shortages) and inflation-hedge gold in particular.

Although gold has taken a back seat (we are talking way back) to Bitcoin, it will be interesting to see if tangible asset watchers flock back to gold in a Bitcoin correction. Gold bugs have historically debated the contrast between tangible asset value backed by physical commodities and “fiat” currencies. It is worth noting that fiat money is technically money that is not backed by an asset with intrinsic value. Historically, this has defined government issued currency vs commodity backed currency, as there were no other examples of widespread “faith-based” currencies until now. Bitcoin, in my view, is the ultimate fiat currency; not backed by anything except the “faith” of those who own it alone (vs faith and legal oversight by government issuers). Depending on your point of view, it either occupies the “low rung” of the fiat currency ladder in that it is not even backed by a legal authority, or it occupies the “high rung” of the fiat currency ladder in that it is immune from government policy manipulation.

We have never been gold bugs and have not invested in supposed successor asset cryptocurrencies or related industries (mining, brokers) to date. We invest in government currency-backed assets and our expenses are in the same. My own interest in gold vs bitcoin vs currency is more a speculative matter than a philosophical one. That said, as cryptocurrencies’ combined value moves into the trillions (of US Dollars) it is, for now, a phenomenon too big to ignore.

We reserve the right to change our mind!

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