WE CHANGED OUR MIND (and bought some GOLD)!

HEDGE FUNDS (Inception)	May 2021	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006)**	**1.4%**	**12.2%**	**13.2%**
Venator Select Fund (September 2013)	**2.7%**	**17.7%**	**18.7%**
S&P/TSX Total Return (March 2006)	3.4%	14.4%	6.6%
Russell 2000 (March 2006)	0.2%	15.3%	9.2%
S&P Toronto Small Cap (March 2006)	4.3%	19.2%	3.7%
S&P 500 (March 2006)	0.7%	12.6%	10.4%

ALTERNATIVE MUTUAL FUNDS (Inception)	MAY 2021	YTD	1-YR	3-YR	5-YR	10-YR
Venator Alternative Income Fund* (January 2020)**	**0.6%**	**7.3%**	**29.4%**	**7.4%**	**7.1%**	**7.9%**
B of A Merrill Lynch High Yield Index (August 2008)	0.3%	2.3%	15.2%	6.8%	7.2%	6.2%

**As of May 31, 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*

US markets managed to squeak out another record while Canadian markets took the 2021 lead on the back of rallies in energy and financials (the Canadian stock market remains woefully undiversified in this regard). Our own funds managed to split the difference with small gains across the board culminating in record highs for all three strategies. We maintain outsized weights in the building products space for our equity strategies, and in convertible bonds in our income strategies. But what we are writing about this month is our recent and out-of-character weighting in gold and gold equities.

There seems to be a great deal of debate among market watchers regarding the permanency of the inflation we are seeing today. The thesis expressed by those who are not concerned by the recent bout of inflation in lumber, copper, transportation, oil byproducts, such as PVC pipe, and semiconductors is that it is a temporary issue only. They believe that it is a transitory result of the velocity of the demand recovery relative to the speed at which supply can reasonably be ramped up. While we agree that many of these input costs will retreat over the next year, we remain of the view that inflation will remain elevated, which could pose risks to the market towards year end.

The main inflation risks about which we are concerned are admittedly more anecdotal than data driven, as data, while sometimes predictive, largely resides in the past. On the other hand, intentions, as stated on quarterly conference calls, are indicative of future pricing. The ongoing narrative coming out of the first quarter has been: commodity inflation will hit second quarter gross margins *with planned price increases* bringing gross margins back in the third quarter. Those planned price increases are not yet in the data, but they will be as we move through the year.

The other wild card is labor. Shortages today can be written off as people await stimulus checks to run out before returning to work, which should alleviate shortages come the fall. But we are also hearing about corporate minimum wage bumps among large employers like Amazon and McDonalds. These increases are not just for current employees working today; they are also for future employees re-entering the workforce. There is some theorizing that COVID has taught companies how to enhance productivity by doing “more with less”, putting a lid on future labor costs, but that is theory, not data. Our own suspicion is that official inflation data is going to start to look somewhat worrisome as we move to year end, which could result in some not-so-friendly market commentary by the Federal Reserve regarding potential interest rate actions in 2022.

This is often a good set-up for gold, which historically reacts favorably to inflation scares. Gold is currently sitting near an all-time high. which is surprising given the lack of attention showered on the yellow metal as of late. Its status as the alternative to government issued currency has been usurped by cryptocurrencies of late. Cryptocurrencies currently carry a combined market capitalization of $2 trillion. All the gold out there is currently worth about $12 trillion. But here is the twist: as of 2019, only 21% of all gold was held for investment purposes (47% was jewelry, 17% was central bank gold, and 12% was industrial gold). We would imagine that all cryptocurrencies are held for investment purposes at this point given the lack of practical use cases and government sponsorship, which would put cryptocurrencies on par with gold in terms of number of dollars employed for investment purposes.

Does this mean that a continued selloff in cryptocurrencies results in incremental investment in gold as the other non-government issue quasi-currency? Possibly or possibly not. But given the general neglect in gold currently, it would seem a reasonable thesis to suggest that this risk of increased demand for gold lies to the upside should investors move on from the crypto trade and search out inflation protection correlation elsewhere.

In addition to a decent sized position in the slow-moving gold commodity itself, we have also purchased several gold stocks given what we perceive to be a margin of safety owing to years of neglect following the sector bubble busting ten years ago. We remain risk averse, choosing to invest in producers (vs explorers and developers) in safer political jurisdictions. What we would note is that several intermediate producers are trading at discounts to NAV (Net Asset Value) using reasonable discount rates of more than 5%. Ten years ago, at the height of the previous gold rally, 1.4x NAV using discount rates of 4% or less were common. Today's investment environment would suggest a better relative valuation could be in order owing to stronger balance sheets and lower interest rates.

Between our "electrification of the world" bet on copper equities from last year, our recently purchased gold equities, and our holdings of Gold itself (through the SPDR GOLD TRUST), we have over 25% of our assets in metals and mining, which is the highest weight we have had in our history. Given our historically low weighting to resources, we thought it was appropriate to disclose this uncharacteristic sector weighting.

We reserve the right to change our mind!

Brandon Osten, CFA
CEO, Venator Capital Management Ltd.