MARKET STILL TRYING TO FIGURE OUT A POST-COVID FUTURE

HEDGE FUNDS (Inception)	AUGUST 2021	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006)**	**0.4%**	**6.1%**	**12.5%**
Venator Select Fund (September 2013)	**2.5%**	**12.5%**	**17.4%**
S&P/TSX Total Return (March 2006)	1.6%	20.2%	6.8%
Russell 2000 (March 2006)	2.2%	15.8%	9.1%
S&P Toronto Small Cap (March 2006)	0.3%	16.9%	3.5%
S&P 500 (March 2006)	3.0%	21.6%	10.7%

ALTERNATIVE MUTUAL FUNDS (Inception)	AUG 2021	YTD	1-YR	3-YR	5-YR	10-YR
Venator Alternative Income Fund* (January 2020)**	**0.4%**	**8.2%**	**17.6%**	**6.9%**	**6.5%**	**8.4%**
B of A Merrill Lynch High Yield Index (August 2008)	0.5%	4.6%	10.3%	6.8%	6.5%	6.9%

**As of August 31, 2021*
***Venator Founders Alternative Fund, which holds the same securities as Venator Founders Fund, is now available as a Liquid Alternative Mutual Fund; 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*

August continued the recent flight to safety as demonstrated by large caps outperforming small caps. As the Delta variant caused a resurgence in case counts and safety measures, favoured investments were focused on utilities, financials, and mega cap tech. By and large, the biggest COVID beneficiaries and the biggest re-opening beneficiaries remain choppy as investors are having a difficult time measuring what post-COVID life looks like for the Zooms, Pelotons, Teledocs and Home Depots of the world, as well as the re-opening trades that are stalling out like airlines and restaurants.

We were happy with the way earnings season unfolded for nearly all our investments. The vast majority of our companies showed continued business momentum or significant rebounding from COVID induced weakness. Out of over 30 investments, the market only reacted negatively to four of our companies, and, of those, only one (UBER) finished the month lower. This is still an unprecedented time for investing which has led to some interesting reads in reported earnings and medium-term outlooks.

Across the consumer/retail space the market is still dealing with shortages in both inventory (shipping issues) and labor (the extended vacation summer of stimulus checks). This has resulted in low product discounting/sales and low labour costs (staffing levels are low even if wages are normal), which has translated into high margins that are likely not sustainable. Macy's said as much on their conference call, but we also saw similar commentary from other retailers such as Urban Outfitters and The Gap, where the market appears rightly skeptical regarding the sustainability of recent strong financial results. Core Venator holding, Skechers, is experiencing similar trends in North America, made more complex by a large international component of revenues in countries that are still partially shut down. Open this year vs closed last year doesn't tell the whole story in terms of what next year will bring and a "wait and see" approach is becoming the norm after some strong earnings reports.

We continue to monitor the buoyant housing markets, albeit with lower overall exposures than we had coming into the year. Pricing has plateaued although new build activity and renovation activity continues to be strong, with extended backlogs making it difficult to get anything done in a timely fashion. Most homebuilder stocks continue to trade near all-time highs despite the tug of war between weakening prices (bearish) and extended backlogs (bullish).

As lumber prices have retreated, we have still witnessed end-pricing going up for finished products where recently implemented price hikes will start to show in fall results (i.e., doors, countertops and cabinetry). Furniture remains heavily in demand with low discounting and extended delivery cycles for products being shipped from Asia. While housing is a cyclical market influenced by affordability and interest rates, we still believe that there is a secular growth aspect to unit volumes as overall supply is expected to remain below demand for the foreseeable future. With regard to renovations, we think the Lowes CEO said it best when he noted that stable house prices translate into renovations, because people believe investing in their house is value-added for most people's largest asset.

A major area that bears watching is what will happen to the labor market, post COVID. Corporations are desperate to hire returning workers, while more people than ever are looking to change careers. We know that gig workers have been hesitant about returning, which has led to gig companies raising incentives for workers and prices for customers. Restaurants and retailers are facing similar issues as people didn't want to give up stimulus checks in exchange for a job over the summer. The tug of war between flexible work from home accommodations and companies calling people back to the office are playing a role as well. The labor shortages probably end when the stimulus checks run out, but the desire to switch careers could be with us for several more years. In our desire to find intersections between technology and behavioral trends, we have recently purchased shares of ZipRecruiter, as the other two main online job recruitment engines, Monster.com and LinkedIn, are not directly investible.

Technology, outside of mega-caps, remains choppy. It is worth noting that valuation fatigue is starting to create problems in the sector. Many of the best and most promising companies are 30%-50% off recent highs as valuations, often exceeding 15x forward revenues, remain well above historical peak "bubble" levels. This valuation fatigue is probably best exemplified by the recent performance of the Ark Innovation ETF, a collection of some of the best but most expensive technology stocks out there, which remains 25% below its January peak. Several high-profile short sellers have been betting against Ark recently based entirely on a retreat in extended valuations. Shorting great companies based on valuation is a historically risky proposition, although with good timing, otherwise known as luck, one can make money if valuations retreat quickly enough.

Finally, the financial press continues to monitor the participation of a younger and more gambling-minded breed of new market participants. These well documented traders chase stock symbols on social media (SPACs, short squeezes, crypto) and have created huge moves in fundamentally poor companies by "bullying-up" low volume names, substituting short term chart trends and reddit chats for fundamental/quantitative analysis/data, and turning over their levered portfolios at a frantic pace. Even in cryptocurrency markets, these investors are turning over purchases in low quality meme-coins several times daily (often ones that trade for pennies) using margin and paying extremely high commissions. Crypto trading today resembles "pink sheet" trading near the beginning of the film, *The Wolf of Wall Street*, more than anything else to which I could draw an analogy. It is worth noting that recent disclosures by Robinhood, the very successful poster child for this new breed of traders, has disclosed that Crypto trading was nearly 50% of their revenues (60% of which was meme-joke Dogecoin), with options trading making up the majority of the balance (stock trading was only 11% of revenues). In fact, without crypto trading, Robinhood's revenues were only up 16% vs last year instead of 140% (equity trading revenues are down 28%)!!! While there is still time for Robinhood to "pivot" the business model, there is work to be done for this "disruptor" to morph from one of the world's largest gambling sites to one where their current traders will park their nest eggs as they get into their 40s! One wonders if these traders' eventual exit from the market will have broader negative consequences noting that many AI institutional high frequency trading algos trade off of these retail flows. My inclination would be to suggest this stock should be sold short, but I wouldn't want to risk getting "Game-Stopped" out of my position by the trading platform that started it all!

Finally, we have an election coming up this month in Canada. From what I can gather from the candidates I don't see any material changes to the Canadian economy based on who wins the election, since it would appear that a minority

government appears to be the most likely outcome, and that neither of the two likely winners has any interest in cutting the deficit below $100BB. In short, this election looks like a “non-event”, and I would expect the next government to remain in place for only two-to-three years.

We reserve the right to change our mind!

Brandon Osten, CFA
CEO, Venator Capital Management Ltd.

This commentary is intended for informational purposes only and should not be construed as a solicitation for investment in any of the Venator Funds. The Venator Hedge Funds may only be purchased by accredited investors with a medium-to-high risk tolerance seeking long-term capital gains. Please read the Offering Memorandum for each Hedge Fund in full before making any investment decisions. Prospective investors should inform themselves as to the legal requirements for the purchase of securities. All stated Venator Hedge Fund returns are net of fees. It is important to note that past performance should not be taken as an indicator of future performance. Commissions, trailing commissions, management fees and other expenses all may be associated with investing in any of the Venator Alternative Mutual Funds. Please read the prospectus and Fund Facts relating to each Alternative Mutual Fund before investing. The indicated rates of return of the Venator Alternative Mutual Funds are the historical annual compounded total returns, including changes in share or unit value and the reinvestment of all dividends or distributions, and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.