ARE WE CALLING THIS A BULL MARKET YET?

HEDGE FUNDS (Inception)	JULY 2023	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006)**	**8.5%**	**29.0%**	**9.0%**
Venator Select Fund (September 2013)	**14.5%**	**44.3%**	**8.1%**
S&P/TSX Total Return (March 2006)	2.6%	8.4%	6.4%
Russell 2000 (March 2006)	6.1%	14.7%	7.4%
S&P Toronto Small Cap (March 2006)	6.1%	5.7%	3.0%
S&P 500 (March 2006)	3.2%	20.6%	9.8%

ALTERNATIVE MUTUAL FUNDS (Inception)	JUL 2023	YTD	1-YR	3-YR	5-YR	10-YR
Venator Alternative Income Fund* (January 2020)**	**1.1%**	**6.4%**	**1.0%**	**3.5%**	**2.4%**	**4.3%**
Venator Founders Alternative Fund (July 2021)**	**8.5%**	**27.9%**	**3.8%**	**-**	**-**	**-**
B of A Merrill Lynch High Yield Index (August 2008)	1.5%	6.7%	3.9%	2.0%	3.2%	4.3%

** As of July 31, 2023*
*** Venator Founders Alternative Fund, which holds the same securities as Venator Founders Fund, is 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*
***** Venator Offshore Fund is available as the US dollar version of Founders Fund strategy*

A weird thing happened on the way to a recession: a bull market broke out. Nothing really special happened last month. Inflation continued to slow, and the Fed wavered in their hawkish narrative, but we think this was widely expected. Earnings have been mediocre, and growth remains anemic relative to expectations coming into the year. While bears have pointed to the narrowness of the market whereby almost all the gains were related to the AI narrative "magnificent seven" (Microsoft, Nvidia, Meta, Apple, Alphabet, Amazon and Tesla), the market has broadened out in the last two months with the *Equally Weighted* S&P500 up 10% this year.

Very few of the bears seemed to cash in their chips as the recession call has been pushed out from late 2022 to mid-2023 to early 2024. Earnings and growth expectations continue to fall (among the magnificent seven, Tesla, Amazon, Apple and Microsoft are looking at diminished growth prospects relative to last fall). Even among high flying tech names, what used to be 40% growth is now 20% and what used to be 20% growth is now 10%; it's the valuations that are rocketing, not the financials (Nvidia excepted). Interest rates are set to be higher for longer. We have seen macro research saying that this is a "normal" bear market bounce, but that is just sour grapes from bears that missed the turn.

Both the S&P500 and equally weighted S&P500 being up over 20% off their fall 2022 lows is the definition of a bull market! Maybe there is a bear market ahead, but the bear market calls that weren't cashed in missed out

on a bull market. The best market forecasters are always bullish and, consequently, they are right 90% of the time (noted Goldman Sachs legend Abby Joseph Cohen used this strategy to build a career, and Warren Buffett used this philosophy to build an empire). The problem with "market timing" calls is best illustrated by the May 1970-April 1994 period whereby missing the best five days in a fourteen-year period (that's 0.15% of trading days) meant the difference between doubling and tripling your money (if this time period seems oddly specific, it is because it was cited in a book I recently read and took note). When someone asks, "What do you think about *the market?",* perhaps the best answer, should you be compelled to give one, is "I think it will be higher five years from now" and leave it at that.

It has been said before: the stock market is not the economy. We do think that economic analysis is important insomuch as it can give insight into how the economy will affect various companies, but it probably isn't a very useful tool for predicting stock market moves because multiples/valuations can expand even as businesses contract (earnings can drop 10% while multiples can expand by 25% at the same time; Tesla stock is up 150% this year while earnings are expected to drop by 5%). As we have pointed out previously, 2009 and 2020 were major earnings disappointments for stocks that were met with major rallies. Money flow can be highly counterintuitive. The economy is data, the stock market is money flow; movement is based on more buyers than sellers and vice versa. Economic data looks backward, while the stock market looks forward (which is why it is so often wrong in terms of what happens vs narratives as it was last year in energy, defense and housing; "it is difficult to make predictions, especially about the future" – Yogi Berra). The herd shifts of forward guessing narratives and hit-and-miss headlines are far more important than the fundamentals themselves in financial markets.

For our part, we continue to lean on our new technical models that signal when we do or do not want to own our favorite companies from a growing list of targets. For the first half of the year, that has meant US housing, which has been the second best performing sub-sector of the market in North America this year behind semiconductors. Earnings in the space could be best described as "blow-out". Our core holdings reported significant beats with Forester reporting EPS of $0.93 vs $0.56 expected, M/I Homes reporting $4.12 vs $2.45 expected, and finally Beazer Homes reporting $1.42 vs $0.82 expected and enjoying a single day 25% gain as a result. August will put our electrification thesis to the test with four companies in that space reporting, including core holdings Hammond Power and Wesco, as well as several building products companies.

On the bond side, with yields still running over 8% for many issues, we find the fund yielding approximately 9%. Two thirds of these gains would be in the form of interest income with the balance in more tax advantaged capital gains as many of these bonds trade below par value. The only "tricky" part is that "spreads" are tighter than recent history, which means that there is less reward for using costly leverage. When interest rates were closer to 1%, you could find good 6% yields for a "spread" of 5%. But with borrowing costs now above 5%, similar quality bonds are yielding closer to 8% for a "spread" of only 3%, hardly worth the use of leverage. As a result, the fund is using running close to 100% invested to achieve its 9% projected returns.

We reserve the right to change our mind!

Brandon Osten, CFA
CEO, Venator Capital Management Ltd.

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