2024 YEAR IN PREVIEW: STILL ABOUT RATES

HEDGE FUNDS (Inception)	NOVEMBER 2023	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006)**	**10.3%**	**20.2%**	**8.4%**
Venator Select Fund (September 2013)	**15.2%**	**23.8%**	**6.2%**
S&P/TSX Total Return (March 2006)	7.5%	7.5%	6.2%
Russell 2000 (March 2006)	9.1%	4.2%	6.7%
S&P Toronto Small Cap (March 2006)	4.8%	1.0%	2.7%
S&P 500 (March 2006)	9.1%	20.8%	9.6%

ALTERNATIVE MUTUAL FUNDS (Inception)	NOV 2023	YTD	1-YR	3-YR	5-YR	10-YR
Venator Alternative Income Fund* (January 2020)**	**3.2%**	**8.4%**	**6.7%**	**1.2%**	**2.6%**	**4.2%**
Venator Founders Alternative Fund (July 2021)**	**10.7%**	**19.0%**	**12.3%**	**-**	**-**	**-**
B of A Merrill Lynch High Yield Index (August 2008)	4.5%	9.4%	8.6%	1.4%	4.0%	4.2%

** As of November 30, 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*

Hope sprung eternal in November and clearly a FOMO (Fear of Missing Out) rally across nearly all asset classes saw the market turned hopeful for interest rate cuts and a “soft landing” for an economy yet to see the mid-2022 expected recession, evoking memories of the famous Paul Samuelson quote: “The stock market has predicted nine out of the past five recessions.” Bonds have rallied ahead of anticipated rate cuts. Homebuilders have rallied on demand spurred by lower mortgage financing costs. Retail has rallied on a potentially reinvigorated consumer (there is yet to be any evidence of this). Technology has rallied even as growth rates continue to slow. The S&P500, up 20% this year, is back in *bull market territory*, even if the equally weighted version is up only 5% and 10% off its all-time high level. Small caps remain 20% below their all-time high levels and small cap growth is 30% off by the same measure. Even last month, when more volatile small caps would have been expected to outperform, they still barely kept pace with their large cap counterparts.

The overriding narrative, as it pertains to 2024, is the prospect of rate cuts. While members of the Federal Reserve continue to say that the fight against inflation isn’t done, the market clearly disagrees. And while the Fed is giving no indication of a willingness to reduce rates (recall the “higher for longer” narrative set off a late summer market selloff), the market is clearly betting on a series of rate cuts starting next summer. It also appears that bond bulls think that a 3.5% rate represents “neutral” and that this will become the Fed target. We are not so sure that rate cuts next year are a likely outcome and could be a source of potential disappointment for markets. For one thing, it is worth pointing out that the roaring 1990s happened in a largely 5% decade, and that 5% can be a level where the economy can see growth. Without a definitive recession, which would include a spike in unemployment (something no one really expects), the Fed will not have much incentive to provide a significant jolt to the economy after the last two years’ inflation scare. With this in mind, we are framing our 2024 outlook with 5% interest rates throughout the year.

We continue to believe in the homebuilder segment. This group just has too much going for it for the next five years, including inexpensive valuations. Consider that in a typical year 6M houses would be sold which would be made up of

roughly 5.5M existing and 500K new. Thanks to mortgage rate lock-in (where most homeowners are locked in for well over a decade with sub-4% mortgages vs current rates of around 7%), existing home sales have plummeted to 4M creating a 1.5M hole in a market that was already undersupplied due to 15 years of underbuilding. Even with new home construction ramping up over the last several years, it is still too big a gap to fill. Because of the nature of homebuilding, you can't just ramp up supply very quickly either. The homebuilders we follow are only planning for unit growth in the mid-single digits despite what they all characterize as robust demand. We believe that the macro trend will be the homebuilders' friend for at least five years, or until interest rates drop below 3% (it is also worth noting the homebuilders have the ability to "buy down" mortgage rates by 1.5% in some cases, something existing home sellers can't compete with). Additionally, large homebuilders are not only picking up market share from subdued existing home sales, but are also picking up share from private homebuilders, which have substantially greater financing costs relative to lower interest rates enjoyed by large public companies. Bottom line: stable rates are great for homebuilders, lower rates are great for homebuilders, only higher rates can hurt them.

Valuation among homebuilders remains subdued, with most trading below projected year end 2024 book value, and nearly all below 10x earnings. Although, there is some optionality in valuations due to recent changes in the financial structure of homebuilders. Historically, homebuilders have valued off land heavy book values. However, recently homebuilders have been shifting to an "asset light" model to better match cash flows and earnings while freeing up capital that used to be locked in for several years for land investments. A transition to earnings-based valuations would yield substantial gains for the group given the positive multi-year outlook.

One interesting "special situation" in the sector is Forestar Group, a spin out of DR Horton, the largest builder in America. Forestar trades at about 1x our 2024 forecasted book value and 7x earnings making it not expensive, if not downright cheap. Forestar is a land developer, primarily for DR Horton (over two-thirds of its business). In its attempt to lower its land ownership position and increase turnover, DR Horton, the majority owner of Forestar, plans to double its business with Forestar over the next several years. Likewise, Forestar is planning to lower its exposure to DR Horton over that time and generally expects to double in size. Given their ability to ride the coattails of DR Horton, we would characterize this plan to double the size of the business as more likely than not. Part of the earnings algorithm will depend on how they finance this doubling, given land development requires capital, even with Forestar's substantial financing advantages over its competition (7% cost of capital vs over 10% for their private competitors). If Forestar can maintain its proportional balance sheet and avoid equity dilution over its doubling horizon, it is entirely possible that they could be earning over $7.00 per share with book value approaching $50.00 within the next several years. The stock currently trades around $30.00.

Another general area we are very interested in that requires some special situation research and selection is that of "easy comparable results". This involves segments of the economy or specific companies where next year compares favorably or unfavorably with what we saw this year. By way of example, 2023's year of "revenge travel" will make it difficult for travel related companies to show similar growth in the summer of 2024. In contrast, we would imagine that demand for home renovation type products likely doesn't get much worse in 2024. We would consider retail sales to lean positive next year on that same basis, while "experience" restaurant sales could appear challenged come summertime. No growth food and grocery should also remain challenged next year as investors continue to shun low growth, high valuation, non-interest sensitive names. Our short book has a number of names in this category including Walmart and SPAM producer Hormel Foods.

We expect a challenging year for technology. The hype of artificial intelligence will have to start showing up in the 2024 numbers, and this could prove disappointing. For many companies, growth has already slowed substantially. For some, such as Salesforce.com, the street has been invigorated by expanding profitability, but you can only take profit margins so far before the street starts questioning a growth rate that has gone from 20% to 10%. Another example would be Oracle,

which has been talking a big game on AI, but where organic growth has been anemic for the better part of ten years. With 10% organic growth expected going forward, the management encouraged hype might have set the Street up for disappointment. We are using these as examples, but these characteristics are prevalent throughout the sector.

Another area where we are cautious is debt laden turnarounds. Deleveraging will not be easy if we are right, and rates don't come down substantially. Like the "easy/hard" comparable category, this one is a special situation category requiring research on a company-by-company basis. Part of the problem is that companies will be refinancing debt at higher rates, which is a headwind to de-levering a balance sheet. We have several short positions that find themselves in this dilemma. By this theory, REITs (Real Estate Investment Trusts) as a sector remain uninvestable as the refinancing of debt will substantially reduce cash available for distribution over the next several years. On the other hand, some companies with modest amounts of debt and strong free cash flow have an opportunity to genuinely pay down debt, with substantial value accruing to shareholders on this basis. Electrical product distributor Wesco International is a primary example, with potentially $800M in annual free cash flow vs under $5B in net debt. Trading at 10x earnings with a bright multi-year outlook for electrical infrastructure build out, we think this is one of the more attractive opportunities out there.

Enough about stocks. If we are talking rates, then we are talking bonds. There is good news and there is some not so good news. The good news is that yields are robust across the spectrum. You don't even have to look to find 7%-8% yields. A little work will get you into the 9%+ range and you can still find some 10%+ yields, if you are willing to do a little credit quality due diligence. There are some really good returns to be found in bond land. The problem is the usefulness of using leverage. If you must pay 5% to borrow money, it hardly seems worthwhile to deploy leverage for the extra 2-3% you are going to get buying a 7-8% bond. One extra source of excess after tax return is to buy older dated bonds below 100, which at least offers some capital gains treatment to enhance returns. We will rarely look at new bonds trading above 100 right now for this reason. We expect our income fund can return 8-10% over the next several years with additional benefits from capital gains treatment.

We reserve the right to change our mind!

Brandon Osten, CFA
CEO, Venator Capital Management Ltd.

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