

COME ON FEEL THE NOISE

HEDGE FUNDS (Inception)	AUGUST 2024	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund** (March 2006)	1.3%	6.4%	9.0%
Venator Select Fund (September 2013)	8.6%	17.1%	8.5%
S&P/TSX Total Return (March 2006)	1.2%	13.7%	6.9%
Russell 2000 (March 2006)	-1.5%	10.4%	7.6%
S&P Toronto Small Cap (March 2006)	-1.3%	13.7%	3.5%
S&P 500 (March 2006)	2.4%	19.5%	10.5%

ALTERNATIVE MUTUAL FUNDS (Inception)	AUG 2024	YTD	1-YR	3-YR	5-YR	10-YR
Venator Founders Alternative Fund** (July 2021)	1.2%	5.1%	19.0%	-8.9%	-	-
Venator Alternative Income Fund*** (January 2020)	1.7%	5.9%	11.1%	0.4%	3.5%	3.8%
B of A Merrill Lynch High Yield Index (August 2008)	1.6%	6.3%	12.5%	2.5%	4.3%	4.6%

* As of August 31, 2024

** 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

That was a lot of news for a flat month! To recap briefly, the market dropped nearly 10% in the first several days of the month in reaction to the worst market crash in Japan in several decades, the result of the possible unwinding of the “yen-carry trade”. Fortunately, as the market rebounded, Mr. Powell suggested, in concrete terms, that the Fed would begin lowering rates in short order. Finally, AI bellwether Nvidia disappointed the market somewhat, but the market still managed to gain while Nvidia slid in perhaps a changing of the guard in market leadership that the media has dubbed “the broadening”. That’s three material and unexpected events that led to fairly muted results overall. A single day market crash, a Fed pivot, and a disappointing quarter from the bellwether that drove the market narrative for 18 months, all amounted to “noise”.

Back to fundamentals, we remain encouraged by our own positions and the progress they made in the summer. Our biggest gainer last month was Harrow Inc, a triple-threat drug developer in eye care. The company reported a blow-out quarter (the stock was up 50% the next day) as their primary drug, a new medication used to freeze the eye during short duration surgery, gained traction along with another newly acquired drug for dry eye conditions. Finally, an acquired drug for eye surgeries, that has been out of production for five years, is expected to hit the market later this year to high demand.

There are a lot of exciting growth opportunities in the market, the result of the abandonment of small caps (stocks under \$2.5 billion in market value) over the last ten years. While Mr. Market has a way of creating a buying vacuum out of sheer neglect, this should not prevent ultimate value from being realized as money eventually starts looking for new ideas beyond crowded mega caps.

Note that this doesn't mean that we need to look for early-stage microcaps. For example, Skechers has been a long-term holding of our funds and is a growing brand name global company. With nearly \$10B in revenues and a consistent 10%+ growth rate, Sketchers' valuation remains subdued as it has never achieved the sex appeal needed for a temporary premium multiple. Yet Skechers has been a case study in "slow and steady winning the race". That it has grown so consistently without a boom/bust fashion cycle is a strength and indication of a multi-year compounder – extra comfort as value pricing never goes out of style.

We also continue to look for ways to benefit from the lower rate cycle that is coming in the year. Naturally, the most direct way to do this is our Income Fund, although it continues to be difficult to buy new bonds as no one wants to sell! Our own portfolio is yielding over 8% with minimal leverage. We are trying to find equities that can benefit from lower rates as well, including companies with refinancing options, select REITs, and fintech names that benefit from rate refinancing or lease financing.

While it's still early, we think a broadening of market attention should prove healthy as central banks embark on a rate-cutting cycle. While AI proliferation will continue from an investment perspective, that really isn't the point as the market is starting to question "what's built into expectations". For example, Nvidia is expected to grow by 40% next year, but Meta is expected to increase capital expenditure by 25%. If this was the norm for the hyperscalers, and Nvidia grew by "only" 30% next year, that could be a disaster for the stock. Money never sleeps, and in a rate-cutting cycle, it will look harder for a home as cash becomes less attractive. We think that the new home might be a little down cap.

We reserve the right to change our mind!



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