ART OF THE DEAL: THE TAKEOVER OF THE FED AND PREPARING FOR A BROADER MARKET

HEDGE FUNDS (Inception)	AUGUST 2025	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006) *	**6.3%**	**6.8%**	**9.0%**
Venator Select Fund (September 2013)	**8.9%**	**17.7%**	**9.5%**
S&P/TSX Total Return (March 2006)	5.0%	17.6%	7.8%
Russell 2000 Total Return (March 2006)	7.1%	7.1%	7.7%
S&P Toronto Small Cap Total Return (March 2006)	9.3%	25.1%	4.7%
S&P 500 Total Return (March 2006)	2.0%	10.8%	10.8%

ALTERNATIVE MUTUAL FUNDS (Inception)	AUG 2025	YTD	1-YR	3-YR	5-YR	10-YR
Venator Alternative Income Fund (January 2020) **	**1.9%**	**1.6%**	**6.8%**	**6.3%**	**4.9%**	**4.9%**
B of A Merrill Lynch High Yield Index (August 2008)	1.2%	6.2%	8.2%	9.2%	5.2%	5.7%

	LAUNCH VALUE	CURRENT VALUE
Venator Ascendant Alternative Fund Series UF (USD) (June 2025) ***	**10.0000**	**10.4687**
Venator Ascendant Alternative Fund Series A1 (CAD) (June 2025) ***	**6.9223**	**7.2479**
S&P 500 Total Return (June 2025)	13,461.10	14,304.68

As of August 31, 2025
* *Venator Offshore Fund is available as the US dollar version of Founders Fund strategy*
** *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 Ascendant Alternative Fund, previously named Venator Founders Alternative Fund, launched on June 24, 2025*

Another good month in the recently dubbed “uninvestible” US stock market is in the books. US exceptionalism is back. The doomscrollers can sit this one out if they like, but Trump’s takeover of the Federal Reserve is likely to be short term bullish for broader markets, with the caveat that the stock market and the economy are not the same thing. While the Federal Reserve’s power has historically come from it being independent from the President/Congress as a way of keeping it relatively unbiased in the management of the long-term health of the economy, this independence is currently under attack by a President who believes that all branches of government should do his bidding, checks and balances be damned. In this case, his bidding is a quick substantial drop in interest rates while keeping the dollar strong and inflation low (historically these are diametrically opposed goals). Whether or not this is the right action to take is a matter of opinion among economists and market strategists, but what’s important for investors is figuring out who benefits from a quick interest rate drop to below 3% that Trump likely wants to see accomplished within 12 months – ahead of mid-terms.

Currently, hopefuls are positioning for Fed Chair to replace “too late” Powell (an insulting moniker made ironic since Trump is the one that appointed him). The new Chair, whoever that might be, is without a doubt unqualified for the position because they must throw away any belief that the Fed should be independent out the White House window. We make this statement with a high degree of confidence imagining the interview process with the "winner" looks something like this:

- Trump: Where do you think interest rates should be?
- Candidate: Below 2.5%
- Trump: How quickly can you get it there?
- Candidate: By Independence Day at the latest! (noting the start date of May 15, 2026)
- Trump: Do you think tariffs are inflationary?
- Candidate: Hell No!
- Trump: Can you find a way to make the dollar stronger with lower rates?
- Candidate: Um…sure?
- Trump: Do you think the Fed should run independent of the President's influence?
- Candidate: Um…2.5%?
- Trump: Do you think the Fed should do what the President tells them do to?
- Candidate: Uh…OK?
- Trump: You're hired!

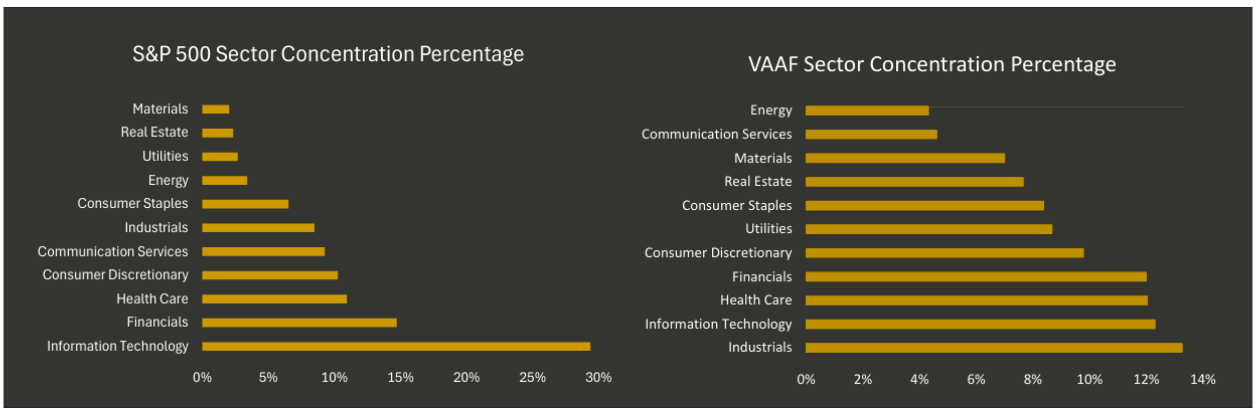
This person should not be the Fed Chair. But this person, whoever it is, will be the Fed Chair. And they will be confirmed by a Republican Congress without question. While the Chair does not control policy alone, he/she does have tremendous influence. Plus, Trump is in the process of forcibly replacing other Fed members where he can nominate/appoint replacements with approximately the same interview process.

So, who benefits from lower rates? In the stock market, probably most companies as well as bondholders! (note we are just talking about price levels; you could get inflation but without the threat of higher rates down the road; stock prices would be your protection from that inflation): Real Estate, companies with debt maturing soon, companies that issue debt, companies that arrange debt refinancing, companies that build things for customers that issue debt to pay for things, cyclicals, homebuilders, capital goods companies, construction companies, companies that benefit from home sales, companies that need to raise equity, private companies looking to IPO, even technology companies (although they benefit less and could see stock market investment dollars flow to other more leveraged sectors, creating relative weakness despite operational strength).

That's why politicians like lower rates. George Bush famously blamed Allan Greenspan for keeping rates too high for too long which he believed was the main reason he lost his re-election campaign against Bill Clinton in 1992 (in 1998 Bush said "I reappointed him (Greenspan), and he disappointed me"). No doubt Trump has this scenario on his mind leading into next year's midterms.

We think it is time to position for lower rates and a broader market rally. It's no secret that mega-caps have carried the markets' gains for the past three to four years, and lower rates should provide a catch-up trade for the rest of the market (noting that roughly 40% of the weight in the S&P *FIVE HUNDRED* is accounted for by the top ten). So, what are we going to do about it? For starters we are looking at longer maturities in our Income Fund. Historically, we don't look out more than five years to avoid duration risk, but our recent screens have been scanning as far out as 2034. While interest rate spreads are still thinner than we would like, we think we can benefit from longer term bond prices increasing in response to the lower interest rate environment. Within our "stock picking" strategies, we hold complete flexibility. While Microsoft, Meta and Amazon remain core holdings, we have been adding to broader industrials recently, often going back to names we have owned in previous years that are cheap businesses set to benefit from high capital spending and a lower interest rate environment, including the repurchase of several homebuilders trading at or below book value.

Perhaps the best way to invest in the broader theme of a broader market is our new Venator Ascendant Alternative Fund. While it is an algorithmically managed strategy, where we hold no discretionary management ability, the fund is invested in the broader 250+ companies in the lower cap portion of the S&P 500. It isn't subject to the ultra-high weighting of the top ten names in the S&P 500, most of which are highly correlated with each other. The industry weightings vs the S&P 500 illustrate this greater breadth and exposure to lower rate beneficiaries such as Real Estate, Utilities and Industrials:



We reserve the right to change our mind!

Brandon Osten, CFA
CEO, Venator Capital Management Ltd.