

THE REAL REASON THE MARKET IS NOT THE ECONOMY

HEDGE FUNDS (Inception)	MAY 2026	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006) *	8.7%	10.9%	9.3%
Venator Select Fund (September 2013)	12.8%	19.8%	10.4%
S&P/TSX Total Return (March 2006)	2.5%	10.6%	8.7%
Russell 2000 Total Return (March 2006)	4.4%	18.2%	8.5%
S&P Toronto Small Cap Total Return (March 2006)	3.4%	22.8%	6.6%
S&P 500 Total Return (March 2006)	5.3%	11.3%	11.3%

ALTERNATIVE MUTUAL FUNDS (Inception)	MAY 2026	YTD	1-YR	3-YR	5-YR	10-YR
Venator Alternative Income Fund (January 2020) **	1.1%	4.1%	7.4%	8.5%	2.7%	4.9%
B of A Merrill Lynch High Yield Index (August 2008)	0.5%	1.6%	7.4%	9.3%	4.4%	5.8%

	LAUNCH VALUE	CURRENT VALUE
Venator Ascendant Alternative Fund Series UF (USD) (June 2025) ***	10.0000	11.9335
Venator Ascendant Alternative Fund Series A1 (CAD) (June 2025) ***	6.9223	8.2260
S&P 500 Total Return (June 2025)	13,461.10	16,935.35

As of May 31, 2026

* 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

May was another good month for the bull market and another good month for our Funds. The S&P 500 printed a new all-time high above 7,500 late in the month, Nasdaq did the same, and Q1 earnings season closed out with 83% of S&P companies beating expectations — the highest beat rate since 2021. The AI capex cycle, which impacts over 60% of the S&P 500, by our estimate, continues unabated. Oil bounced around in a wide band as the U.S.-Iran ceasefire wobbled and re-set itself a couple of times, but the market mostly shrugged.

The question, in some form, is always the same: how is the market making new highs when oil is back in the headlines, the long end of the curve is climbing, AI is reportedly about to eat half of the white-collar workforce, the deficit is ballooning, and inflation refuses to go quietly? The simple answer is that “the stock market is not the economy.” True, but mostly useless as an explanation. More specifically, the S&P 500’s composition is not the economy’s composition, and the gap between the two has never been wider.

Generally, when we hear “the stock market is not the economy”, it references two times in recent memory when we saw broad earnings materially miss expectations: 2009 (Great Financial Crisis) and 2020 (COVID). In both cases, the market bottomed before the bad earnings even printed and rallied hard through the worst of them. The standard explanation at the time was “low expectations were baked in” plus government intervention. We think it missed the bigger structural point, which has

only become more evident since: the S&P 500 is increasingly populated with larger companies whose earnings have almost nothing to do with the macro indicators that get reported in the financial press. Economists talk about payrolls, retail sales and industrial production and assume the index must react. It often doesn't because it increasingly can't.

The fact is S&P 500 is weighted approximately by market cap. It is not weighted by revenue, domestic employee headcount, fixed assets, or anything else that resembles the economic data contribution of the constituent businesses. Nvidia is the largest company in the index at roughly an 8% weight. It employs only 26,000 people domestically. Its U.S. revenue is roughly 13% of Walmart's and its workforce only 2%. Unlike Walmart, though, Nvidia's 8% has nothing to do with U.S. payrolls, consumer sentiment, or the price of oil.

Below, we contrast five of the largest market caps in the S&P 500 against ten other large weights that are far more representative of U.S. economic data as it gets reported in the news. The columns show market cap, U.S. domestic employees, U.S. domestic revenue, and total operating expenses, all on the most recent reported fiscal year (chart data from AI). The numbers are rounded for readability and U.S.-only splits are estimated from disclosed segment data where the 10-Ks didn't spell it out exactly:

Company	Mkt Cap \$B	US Empl (k)	US Rev \$B	Total Exp \$B
TECH FIVE				
Nvidia	5,160	25	61	86
Apple	4,560	85	178	293
Microsoft	3,290	125	145	153
Alphabet	4,680	120	168	280
Tesla	1,660	75	47	90
TECH 5 TOTAL	19,350	430	599	902
ECON DATA TEN				
Walmart	920	1,600	573	681
UnitedHealth	350	290	437	415
GE Aerospace	335	30	27	37
Procter & Gamble	335	24	42	66
Home Depot	315	465	157	142
Disney	180	170	71	80
Boeing	180	145	56	91
Union Pacific	160	29	25	15
Caterpillar	435	52	32	55
Johnson & Johnson	555	75	53	74
ECON DATA 10 TOTAL	3,765	2,880	1,473	1,656

The numbers are not subtle. On U.S. headcount, the Economic Data Ten employ roughly 2.9 million Americans against the Tech Five's roughly 430,000 — a 6.6-to-1 ratio. On U.S. revenue, the Economic Data Ten produce roughly \$1.5 trillion against the Tech Five's roughly \$600 billion. On total operating expense (which is what flows through to wages, rent, inventory and supplier payments), the Economic Data Ten run roughly \$1.7 trillion against the Tech Five's roughly \$900 billion. Pick any economic data series the press tracks daily — payrolls, retail sales, industrial production, rail volumes, trucking, hospital admissions, ad spending — and the Economic Data Ten dwarf the Tech Five in actual exposure. Yet by market capitalization, the Tech Five is 5.1 times larger (\$19.4 trillion vs. \$3.8 trillion). Put another way, they have 5x the influence on the stock market.

A major factor is that Tech Five runs operating margins north of 40% (Microsoft is above 45%, Nvidia is above 60%) and can absorb a great deal of input-cost variability without it showing up in earnings. Consumer spending, employment, inflation, interest rates, oil — for the Tech Five, these are second-order effects at best. What matters is growth, and growth is being delivered. Widen the lens a little and the picture is more striking still: by our estimate, roughly 60% of the S&P 500 is, directly or indirectly, levered to the AI capex cycle (the MAG7, plus big cap software, semiconductors, power utilities, data center REITs, infrastructure contractors, and the financing complex behind all of it — we wrote about this in detail last October and again this April). That 60% doesn't need the macro to cooperate. It just needs the build-out to continue. The other 40% of the index — in many ways the Federal Reserve's statistically more economically important part — is on a completely different chassis, and that is where most of the "recession is coming" commentary remains focused. Both things can be true at the same time, and most months, both are. So, when an investor (reasonably) asks us how the market can hit new highs against this macro backdrop, the practical answer is that the market, as embodied by the S&P 500, isn't looking at that macro backdrop. It's looking at AI electrical needs, OpenAI's (private!) next \$200B spending commitment, Oracle's next datacenter build, and whether Nvidia backlog has enough GPUs or CPUs to keep everything on schedule.

The Canadian analogue is just as relevant, albeit with different industry exposure, and worth a paragraph because it's our own backyard. Canada's economy is, by most measures, in some trouble: employment is soft, the tariff war with our largest trading partner continues to drag, GDP growth has been sluggish for several years now, and the real-estate complex is stagnant at best. The S&P/TSX, meanwhile, keeps doing fine. The reason is the same as it is in the U.S., just with different actors. The TSX is heavily weighted to natural resources — energy and materials together still account for roughly 36% of the index (vs 5% in the S&P 500) — and on top of that, financials run roughly another 33% (versus closer to 12% for financials in the S&P 500, nearly a 3-to-1 differential), most of which is concentrated in a handful of domestic banks (that overlap in lending extensively to resource companies as well as the sluggish real estate market). So, a little under 70% of the TSX is either directly resource-exposed or one degree removed from it, and most of the underlying commodities are mined, drilled, or refined elsewhere, then sold into global markets that don't much care what Statistics Canada printed last week. If gold were to go to \$100,000, we would guess the TSX would skyrocket, while economic data/picture would remain largely unaffected. Higher commodity prices don't help the average Canadian household; if anything they hit Canadians through gasoline, food,

and imported-goods inflation. In a way, resources are Canada's technology — overrepresented in the stock index relative to their actual weight in the economic data the press tracks.

VENATOR ASCENDANT ALTERNATIVE FUND (VAAF)

The VAAF had a good month, remaining ahead of the S&P 500 year-to-date despite — by design — a more diversified and less tech-heavy exposure profile. The top five holdings, which together account for roughly 10% of the Fund, are themselves AI-leveraged with SanDisk leading the pack at roughly a 3% weight. That is the strategy doing exactly what it was designed to do — letting new winners emerge at a multiple of their S&P 500 weighting. The “market is not the economy” point we made earlier applies here as well, just in reverse: VAAF lacks the largest businesses in America by construction. What it does have is exposure to a broader and more diversified cross-section of listed companies, and meaningful weight in “the future large caps” tier — companies that are too small in the S&P 500 for an investor to get any meaningful exposure to through existing ETF strategies.

EQUITY STRATEGIES

Our Equity Strategies also benefited from some tech-heavy strength in the month, predominantly on the back of an increasingly bullish narrative around AMD (AMD) and Micron (MU). AMD reported in early May with data center revenue of \$5.8B (up 57% year-over-year), extended its data-center segment lead over Intel, and management framed the next leg of the cycle in terms we have written about — that the transition from training-only AI to inference and agentic workloads requires host CPUs, memory bandwidth and networking, not just accelerators/GPUs.

A new name that has done well for us as of late is Ouster (OUST), which makes solid-state LIDAR and camera systems for what is increasingly called “physical AI” — the autonomy, robotics, drones, and autonomous-vehicle hardware that need to perceive the world in three dimensions in order to function. The most notable recent development, announced on May 4, was the launch of their REV8 chipset, billed as the world's first “native color” LIDAR. Native here means the color information is captured directly on the silicon at the moment of laser scan — every 3D point in the output is born with color, via physics, rather than software-fused after the fact from a separate camera (which has been the standard industry approach to date). A single sensor that can simultaneously read brake lights, road signs and traffic lights while providing the full LIDAR point cloud is a real step-change for autonomous systems, eliminating the latency and spatial-alignment problems that have plagued camera-plus-LIDAR sensor fusion. Below is a sample of what the OS1 Max color LIDAR output actually looks like:



Source: Ouster Inc., REV8 launch (May 4, 2026) — Yosemite National Park drive captured with OS1 Max color LIDAR.

The framework has not changed: own well-researched growing companies with earnings, visibility, backlogs and reasonable valuations — and lean into the secular themes where the fundamentals support our prices.

INCOME FUND

The Income Fund had another steady month, gaining approximately 1%. As we have written before, every position in the Fund remains liquid and every position is marked to market — the transparency point continues to be a feature of the strategy. Yield to maturity on the portfolio is still approximately 7%, with a modest 20% leverage. Rising rates at the long end aren't doing us any favours on a mark-to-market basis, but the dynamic at the short end is working in our favour: lower coupons on new issuances are making the higher-coupon paper we already own look increasingly attractive on a relative basis, which has been holding our prices up even as the broader curve has drifted higher.

None of what we have written this month means that valuations don't matter, or that the AI capex cycle goes on forever, or that the doomscrollers are wrong about every emergency. It does mean that reading the daily economic data release or even Fed commentary being guided by this data and concluding the S&P 500 must respond is, increasingly, a categorical error. The makeup of the index is the makeup of the index. We'd rather position around that reality than fight it.

We reserve the right to change our mind!



Brandon Osten, CFA
CEO, Venator Capital Management Ltd.

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