SITUATIONAL AWARENESS

HEDGE FUNDS (Inception)	JUL 2026	YEAR-TO-DATE	ANNUALIZED
Venator Founders Fund (March 2006) [1]	**-10.2%**	**4.7%**	**8.9%**
Venator Select Fund (September 2013)	**-16.3%**	**7.7%**	**9.3%**
S&P/TSX Total Return (March 2006)	1.2%	12.5%	8.7%
Russell 2000 Total Return (March 2006)	-3.0%	18.9%	8.5%
S&P Toronto Small Cap Total Return (March 2006)	-2.4%	15.2%	6.2%
S&P 500 Total Return (March 2006)	-0.1%	10.1%	11.1%

ALTERNATIVE MUTUAL FUNDS (Inception)	JUL 2026	YTD	1-YR	3-YR	5-YR	10-YR	INCEPTION
Venator Alternative Income Fund (January 2020) [2]	**-1.6%**	**2.0%**	**4.7%**	**7.0%**	**2.2%**	**4.4%**	**8.0%**
B of A Merrill Lynch High Yield Index (August 2008)	-0.3%	1.6%	5.0%	8.3%	4.0%	5.4%	6.9%

	JUL 2026	YTD	3-MTH	6-MTH	1-YR	INCEPTION
Venator Ascendant Alt Fund UF (USD) (Jul 2025) [3]	**-1.3%**	**14.4%**	**1.7%**	**6.0%**	**19.2%**	**17.2%**
S&P 500 Total Return (USD) (Jul 2025)	-0.1%	10.1%	-1.0%	9.4%	19.6%	20.0%

As of July 31, 2026

[1] *Venator Offshore Fund is available as the US dollar version of Founders Fund strategy*

[2] *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*

[3] *Venator Ascendant Alternative Fund UF (USD) inception date is July 11, 2025*

July was a choppy month in general, with the final tally for broad markets masking the volatility of single stock and sector performance. Unfortunately, it was a bad month for our active equity strategies — we gave back close to half of what we made in the second quarter. What makes it especially frustrating is that almost none of the damage had anything to do with our companies' individual characteristics or reported earnings. Of the holdings that have reported, results have ranged from good to great against expectations, with one notable exception in Meta. They were often unable to recover earlier month losses despite some sharp post earnings rallies.

The majority of our monthly setback came in the first several trading days. Our direct exposure to AI infrastructure was roughly 30% of the portfolios coming into the month, and the group experienced 30%+ drawdowns inside of a few days on positions where we had substantial gains and where we had large exposure as a result. We exited several of these names as it unfolded, but not before that initial move. A number of other holdings that are not AI infrastructure companies got caught in the selloff simply because they had come to trade with the group, and those we did not exit entirely (the worst of which was Ouster that we have written about in the past and fell by a third in the first week of the month; they report in August). While we had grown wary of the volatility in some of these stocks, we were still surprised by 25% to 40% selloffs over a handful of sessions with no company or industry or macro news to point at. None of these positions was more than about two times our average position size; this was a sector problem, not a single-name concentration problem.

Toward the end of the month, it came to light that much of the dislocation — specifically in the high-volatility datacenter and semiconductor names, as well as software — traced back to a single AI-focused hedge fund called Situational Awareness. The fund had built quite a following on the back of spectacular returns, up better than 400% in the first half of this year alone and had come to be viewed as the leading investment house in AI. It was reportedly running as much as four times leverage, which is a lot of money: net assets were reported between $20-$40 billion (accounts vary), implying gross exposure approaching $80-160 billion in highly volatile stocks and options largely in the $5 billion to $200 billion market cap range. Against that sat a hedge shorting enterprise software names that had been trending in the opposite direction of the longs. Suffice to say, this firm had a lot of influence on trading activity in tech.

Positioning like that becomes infectious: retail and algorithmic traders spot the trend and pile on, and indeed for the past several months, enterprise software and AI infrastructure have been negatively correlated with a high degree of consistency. The algos have a way of dominating day-to-day directional trading once they get hold of a consistent correlating pair. So, when the AI infrastructure trade started to falter early in July, the software stocks started to strengthen, and a four-times-levered fund found itself on the wrong side of both legs at once. In the last several days of the month, the fund's brokers forced the sale of the majority of its public holdings — the entire book, longs and shorts, reportedly went to Citadel in a single block. The liquidated names then ripped 20% to 27%, the session the seller was removed, reversing part of the monthly price moves.

It would be too convenient to file the whole month under "technical". The first three weeks showed a marked change in the narrative that had nothing to do with anyone's margin account: namely, that the market has started to discount an eventual slowdown of the AI capex cycle. Note the distinction. 2026 is not going to be the peak of AI capex spending; but is now widely believed to be the peak of capex spending growth — hyperscaler capex is expected to rise by over 75% this year to roughly $675 billion, decelerating to 25% growth in 2027 and 6% in 2028. The dollars keep climbing while the second derivative rolls over hard.

We would acknowledge that many of the leading AI hardware companies look inexpensive, especially relative to their growth rates. There is an old saying in cyclical markets — and semiconductors are among the most cyclical businesses there are — that these companies are most expensive when they seem cheapest, largely because it is never different this time. Capacity comes online, prices decline, earnings collapse, and the 8x multiple you thought you were buying turns out to be 30x two years later. Timing it, however, is the art. It is entirely possible that what was witnessed this month is just a healthy correction and an elongated cycle. AMD, Micron and SanDisk all report in the first week of August. All should easily clear the bar of "published" expectations. The reactions will be telling.

VENATOR ASCENDANT ALTERNATIVE FUND (VAAF)

The Ascendant Fund had a respectable showing, down slightly relative to its benchmark, the S&P 500, but still comfortably ahead on a year-to-date basis. Recall that this is a passive index strategy invested in the lower half of the S&P 500. Since launch, the biggest gainers in the fund have been the memory and storage names, to the point where they were the largest sector concentration we have seen since inception. With the extreme weakness in that sector, we were pleasantly surprised to see the fund exhibit relatively little volatility as those positions declined. The broadening of the market has been extremely beneficial here, and we believe the fund remains an excellent diversifier away from the historically concentrated S&P 500.

EQUITY STRATEGIES

Of the companies that have reported, earnings and guidance have largely come in substantially above expectations, and several of our stocks had material increases on the day of their release — just not enough to offset what had already been given up over the prior weeks. Case in point, our largest position, Porch Group (PRCH), delivered a better than 50% beat, with adjusted EBITDA of roughly $39 million against expectations closer to $25 million, up 150% year over year. The quarter itself was simply incredible, refuting what had become a real concern about softness in the insurance and housing markets: policies written were up 38% year over year, more than offsetting a decline in pricing, and full-year EBITDA guidance went to $119-125 million from $103-109 million. The stock jumped 16% on the print and still only recovered part of what it had lost on the month. Long-time holding Hammond Power (HPS.A) also beat substantially — revenue up 45% year over year (roughly 12% ahead of expectations), adjusted EPS of $2.76 against $2.10, backlog up 97% on datacenter demand — but that stock had already sold off more than 30% earlier in the month and finished down that much. Another holding, Badger Infrastructure, failed to recover a nearly 20% decline in the three days leading up to its earnings release, which were also substantially ahead of expectations. That was July in miniature: good news bought you a day.

INCOME FUND

As the market continued to worry about rising rates, most of our bonds were unable to show any appreciation over the month, and this, coupled with one problematic issuer, caused a small downtick in the fund. We have actually been finding several interesting high yield opportunities, and at this point the yield on the fund remains comfortably above 7% without the use of substantial leverage and with several near-term maturities coming due. We were even recently able to purchase SpaceX bonds, which are trading like high yield — the $25 billion inaugural issue that priced in late June carries investment grade ratings from all three agencies (Baa1 / BBB / BBB+) and has since traded out to roughly 162 basis points over Treasuries, which is wider than the average BB-rated credit. We find this surprising, given that the likelihood of SpaceX going bankrupt in the next ten years is probably close to zero. A quick reminder: all of our bonds are marked-to-market and tradable.

We reserve the right to change our mind!

Brandon Osten, CFA
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