

CATALYSTS? YES, WE HAVE CATALYSTS (for a change)

Instrument (Inception)*	April 2017 Return	Year-to-Date Return	Compound Growth
Venator Founders Fund (March 2006)	1.3%	-2.8%	11.7%
Venator Investment Trust (September 2007)	1.3%	-2.8%	8.0%
Venator Income Fund (August 2008)	1.4%	3.2%	12.2%
Venator Select Fund (September 2013)	-1.1%	-5.4%	13.8%
S&P/TSX Total Return (March 2006)	0.4%	2.9%	5.6%
Russell 2000 (March 2006)	1.1%	3.6%	7.5%
S&P Toronto Small Cap (March 2006)	-2.1%	-0.6%	2.5%
S&P 500 (March 2006)	1.0%	7.2%	8.0%
Merrill Lynch High Yield Index (August 2008)	1.1%	3.8%	9.1%

As the market seems to be meandering while it figures out if any of Trump's endless parade of 'Executive Orders' will ever come to fruition (does he really think you just sign a piece of paper that says, "Buy American" and everyone starts buying American?), we find our investments to be far more news-driven than we are used to. In the absence of company-specific news lately, the portfolios have ended up flat on most days regardless of daily machinations in the markets, due in large part to our near beta-neutral hedging program.

The positive performance of our long/short strategy in April can be attributed to a handful of names. Specifically, Lumenpulse announced that it was being taken over at an 80% premium; Upland Software, a relatively new position, announced an acquisition and took up its long-term profitability targets, sending the stock 20% higher; our short position in Home Capital Group was profitable as the Company committed to a \$2 billion distressed financing, sending the stock down by roughly 75%; while long position Skyline Corp. reported a poor quarter, sending that stock down roughly 30%. Beyond that, Entercom Communications was down roughly 10% during the month, despite positive projections that were buried in its takeover filing.

Historically, we haven't really viewed the existence of an underlying catalyst as being a factor in any investment thesis we have developed. Experience tells us that good, long-term winners don't necessarily need a catalyst to succeed (think of catalyst-lacking stocks such as Amazon, Starbucks or Nike). When it comes to smaller companies, however, a catalyst can provide a premature boost as it often sounds great to investors as a form of seemingly inside information (which it really isn't). It can also help create a sense of excitement around smaller companies, and represents a tool for those trying to sell a stock to you.

The main problem with any catalyst is that while the event in question tends to be possible, the likelihood of it happening is typically improbable (mathematically speaking, less than 50% chance of happening). Further complicating matters, in many instances the likelihood of a successful catalyst outcome is largely built into the current stock price of a business. It's admittedly a difficult exercise to figure out which possible events have/have not been adequately handicapped by the market, and what represents potential upside in the near term. Nowadays, especially in Canada, the narrative has been the potential for smart acquisitions, done on financially favourable terms, by otherwise growth-starved businesses. This, in large part, explains why companies such as Enghouse Systems and CRH Medical, both short positions in our long/short strategy, trade at material premiums to comparable companies. The hope is that companies such as these can accretively acquire their way to growth to justify their current share prices.

At Venator, our preference has always been to seek out opportunities where a potential catalyst event represents upside to our positions, rather than filling a gap between current fundamentals and 'ahead-of-itself' valuations. Our long/short

strategy currently offers several businesses where we believe that ‘probable’ catalysts are not being properly reflected in their respective share prices:

- **Entercom Communications (ETM):** One of our core long positions, there have been several positive developments with the business over the past couple of years including two acquisitions, a materially accretive debt refinancing, and a reverse takeover deal announced with CBS Radio in early 2017. While the takeover announcement initially sent the stock up 15%, it has since slid back as CBS shareholders have pre-emptively sold their position by shorting Entercom’s stock ahead of the closing. The Company recently released its takeover filing, which published internal projections showing post-merger EPS of \$2.00 per share, reaffirming our internal projections. The CBS deal is scheduled to close later this year, which should end the short-selling pressure and bring heightened institutional awareness to the business. We think that the combination of these factors should propel the stock up 50% plus from current levels.
- **Northwest Healthcare REIT (NWH.UN):** As the only globally diversified healthcare REIT in the world, Northwest Healthcare has been a difficult story for the stock market to process. The Company is currently attempting to simplify the story by consolidating one of its minority-owned Australian subsidiaries. The Company is also in the process of attempting to form a partnership with outside “Triple-A” financiers to further invest in global opportunities. We believe that this potential partnership could be upwards of \$1 billion and could potentially add as much as 10 cents per share to the Company’s earnings, or growth of 10% over current levels. Moreover, we think that this type of third-party validation could help Northwest achieve valuations that are in-line with its non-Canadian peers, roughly 30% above current levels. We characterize the likelihood of the partnership being formed by the end of this year as likely, and although the magnitude is less certain, we believe it will be material.
- **Invacare Corporation (IVC):** Invacare is a manufacturer/distributor of medical equipment that is in the early innings of a corporate transformation. The company has undergone an extreme makeover by turning over the board of directors, as well as its c-suite executives. Under the direction of the new CEO, the company is re-positioning its offering with an emphasis on higher margin, value added products. In addition, management has been focused on resolving an FDA Consent Decree issued in 2012, which caused Invacare to shut down one of its production facilities that specialized in high margin mobility products. Invacare has since completed five steps of a seven-step process that will enable the company to bring this production facility back online. We believe that completion of the last FDA steps over the coming months represents material news to the business.

To conclude, we maintain that the likelihood of these catalyst events occurring is high, but the market is not presently attributing any material value to them. In other words, they offer free upside optionality to the portfolio.

As always, we reserve the right to change our mind!



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