EARNINGS COMING IN HOT

Instrument (Inception)*	May 2018 Return	Year-to-Date Return	Compound Growth
Venator Founders Fund (March 2006)	**5.0%**	**8.5%**	**12.0%**
Venator Investment Trust (September 2007)	**5.0%**	**8.8%**	**8.8%**
Venator Income Fund (August 2008)	**0.2%**	**0.1%**	**11.3%**
Venator Select Fund (September 2013)	**7.7%**	**11.8%**	**17.2%**
S&P/TSX Total Return (March 2006)	3.1%	0.3%	5.6%
Russell 2000 (March 2006)	6.1%	6.9%	8.3%
S&P Toronto Small Cap (March 2006)	1.8%	-1.4%	2.4%
S&P 500 (March 2006)	2.4%	2.0%	8.6%
Merrill Lynch High Yield Index (August 2008)	0.0%	-0.3%	8.4%

Our equity Funds got away with one last month; the one being our long-standing and largest holding Entercom Communications (ETM). Thankfully, nearly everything went right for us in May other than Entercom, highlighted by the continued ascension of the newly merged Skyline Corporation (up ~23%), battleground stock Wayfair Inc. (up ~45%), and Asure Software Inc. (up ~17%). These names, along with Entercom, represent some of the core long positions across our equity strategies. Overall, we're happy with the performance of our equity Funds year-to-date, which have outperformed North American equity markets.

Venator Income Fund, on the other hand, has been frustratingly flat so far this year. Cooler heads would remind us that this is primarily a capital preservation strategy, despite its history of strong and consistent annual gains. With the High Yield market being relatively flat year-to-date, combined with our equity/hybrid positions offsetting winners and losers, the Fund is currently going through a little pause. However, the expected return of the portfolio has been ticking up as of late and we remain optimistic about the outlook for the Fund.

Given that Entercom has been a long-standing position across our Funds, and since we have been very vocal about the business in the past, and because it was our largest weight coming into the year – we'd like to spend some time discussing the company. When faced with disappointing share price performance for any business, as we have seen with Entercom's recent 30% decline, we always re-visit our investment thesis to determine if anything has fundamentally changed. If something has in fact shifted, we then re-evaluate the merit of the investment from scratch. Upon review of Entercom, we have concluded that our investment thesis, target price, and timeframe for the company to achieve our goals/objectives have not changed.

To summarize, our investment thesis for Entercom involves the following:

- Achieve over $1.5 billion in revenues, once fully integrated
- Achieve over 30% EBITDA margins, once fully integrated
- Earn over $2.00 per share, once fully integrated
- Integration of former CBS Radio assets should be largely completed by Q3 2018
- Capital deployment towards debt retirement, stock buybacks, and acquisitions could materially add to these numbers

While frustrating, the decline in Entercom's share price after the first quarter release is understandable. Basically, there were three legitimate short-term issues that disappointed the street. First, a large reseller of ads is currently going through existential financial issues, which has resulted in Entercom not being able to

recognize any revenues from this customer, even though they have already given away the inventory. It's worth mentioning that even if this customer folds, Entercom would be able to sell this inventory directly going forward, making this a short-term issue. Second, some format changes in the former CBS portfolio have caused a vacuum in ad sales as Entercom targets different advertisers to the new formats. While ad sales have suffered in the short-term due to format changes, there has also been a significant boost in ratings. Lastly, there was some miscommunication in terms of the timing of cost savings on the income statement vs when Entercom had taken the actions to achieve the savings (as an example, you can sign a cheaper lease for 2019, but you still need to pay the old rent through 2018).

While every indication is that management has done a great job managing the business through this transition, one area for improvement (which could have potentially mitigated the recent fall in the share price) is communication with the street. The market should not have been surprised by the first quarter numbers when Entercom held its fourth quarter conference call, with only three weeks to go in the first quarter. Furthermore, while management is understandably hesitant to give concrete quarterly or 2018 guidance this early into the integration, that doesn't mean that there aren't estimates and expectations to be made. As a public company, either you control the expectations, or the street will come up with their own – there is no way around it.

On our end, we could have avoided some of the pain in our equity Funds had we not been overweight Entercom. To be clear, we don't for a second regret the decision to invest in the company. Management has exceeded our expectations at every turn and, as we often note, the investment outcome is not always reflective of the quality of the decision. Nonetheless, the reality is that we had other potential doubles in the portfolio, and while we thought there was less downside risk in Entercom owing to its low valuation, it didn't need to be an overweight position.

In closing, our equity strategies are off to a strong start in 2018 and, from our perspective, we own several great (yet under-appreciated) businesses that we expect will benefit our Funds and investors in the coming months.

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

Brandon Osten, CFA
CEO, Venator Capital Management Ltd.

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