HOW FOUNDERS FUND GOT ITS GROOVE BACK

Instrument (Inception)*	June 2018 Return	Year-to-Date Return	Compound Growth
Venator Founders Fund (March 2006)	**2.6%**	**11.4%**	**12.2%**
Venator Investment Trust (September 2007)	**2.6%**	**11.6%**	**9.0%**
Venator Income Fund (August 2008)	**0.5%**	**0.5%**	**11.2%**
Venator Select Fund (September 2013)	**7.0%**	**19.6%**	**18.5%**
S&P/TSX Total Return (March 2006)	1.7%	1.9%	5.7%
Russell 2000 (March 2006)	0.7%	7.7%	8.3%
S&P Toronto Small Cap (March 2006)	-0.3%	-1.7%	2.4%
S&P 500 (March 2006)	0.6%	2.7%	8.6%
Merrill Lynch High Yield Index (August 2008)	0.3%	0.1%	8.4%

With the first half of 2018 now in the books, our equity strategies have performed admirably with Founders Fund up over 11% year-to-date (+22% over the last twelve months), while Select Fund is up over 19% year-to-date (+46% over the past twelve months). Clearly, we are very happy with the performance of many of our portfolio investments and believe that these opportunities, for the most part, have yet to fully play out. Security selection has been key for us this year, and our approach has been devoid of macro themes despite the constant bombardment of interest rate commentary, trade war/tariff headlines, and housing speculation. Essentially, we have gone the Warren Buffett route of treating macroeconomic events as an ‘expensive distraction’. From an economic standpoint, things are generally fine and the social media issues that dominate headlines appear to be largely immaterial. In our opinion, recent trade issues are just aggressive negotiation tactics that won’t prove meaningful over the long term.

FOUNDERS FUND / SELECT FUND

Our equity strategies continue to be managed as they always have, with a diversified mix of growth, value, large and small-cap companies. We have been going where the opportunities exist and have been patient with many of our long-term investments. Some of our biggest winners this year include:

- **BIOLIFE SOLUTIONS (BLFS):** BioLife Solutions is the leading supplier of storage media solutions to the rapidly growing field of regenerative medicine. We started buying the stock earlier this year and it has more than doubled since as the company has exceeded its own growth expectations. The big opportunity here is that BioLife is providing the storage media for over 300 FDA trials in regenerative medicine and is effectively tied into these products should they be eventually approved. While it isn't as lucrative as having a treatment approved by the FDA, each approved product is worth between $500K-$2MM in annual revenues to BioLife.

- **SKYLINE CHAMPION CORP. (SKY):** A multi-year holding, Skyline, which is up approximately 200% this year, is now the number two company in the rapidly growing market for manufactured housing thanks to its merger with Champion Homes in January. Manufactured housing is emerging rapidly from a deep trough during the last decade where sales dropped over 80%. Despite this market's recent 10%+ growth rate, it’s expected to grow for several more years as the need for affordable housing continues to increase.

- **TABULA RASA HEALTHCARE (TRHC):** Tabula Rasa Healthcare is another less known investment that has doubled this year. They are providing technology for companies in pharmaceutical distribution (drug stores, insurance companies, etc.) so that they can predict adverse drug interactions for patients taking multiple prescriptions. Multiple prescriptions have become quite common nowadays and Tabula Rasa is providing software solutions to distributors, in addition to working with Medicare, to establish industry best standards.

Each of these companies are held in both the Founders Fund and Select Fund portfolios, and while they represent our 'biggest' winners year-to-date, there have been several other portfolio positions that have contributed to the strong performance in 2018. Looking forward, we remain optimistic that these investments will continue to grow and that other portfolio holdings will begin to have their respective share prices move higher, to more accurately reflect both their fundamental strength and value.

INCOME FUND

The high yield market has been flat in 2018, and the Income Fund has followed suit with a small gain year to date. That's alright, primarily because the Income Fund is a capital preservation strategy at its core, which over time has managed to deliver out-sized returns relative to its underlying investments (largely high yield bonds) and its minimal use of leverage. The 'yield plus' philosophy utilized by the Fund has been missing the 'plus' thus far this year, but we look forward to steady returns from our existing high yield bonds (most of which mature in the next three to five years), along with a few dividend equities and a large allocation to convertible bonds. In our opinion, many high yield bonds that have been issued over the past couple of years have come out with poor investment terms, so we will continue to bide our time and patiently wait for better opportunities. Simply put, taking bigger risks with either excessive leverage or lower quality investments doesn't make sense to us at this time.

In terms of an outlook heading into the back half of the year, we like economic fundamentals, which makes it easy to buy into continued growth for growth stocks, and stability for value stocks and bonds. That said, elevated valuations leave us concerned and selective. Overall, we are more hedged than usual against the possibility of a valuation-led correction, and believe we are well positioned for further gains through the balance of the year.

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

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