

**ONE THING WE LEARNED**  
**(and what we are doing about it)**

The Venator family of funds had a good month in an admittedly strong month for the market. The Founders Fund had the strongest month, posting a respectable 3.5% gain, while the Catalyst fund also posted a nice 2.5% gain. The Income Fund continues to tick along with minimal volatility posting a 2.3% gain, anchored by its large bond exposure. Overall, we are pretty happy that we have managed to stay ahead of the market this year despite only being two-thirds invested on a net basis.

Instrument	September's Return	Year-to-Date
<b>Venator Founders Fund<sup>1</sup></b>	<b>3.5%</b>	<b>38.1%</b>
<b>Venator Income Fund<sup>2</sup></b>	<b>2.3%</b>	<b>30.3%</b>
<b>Venator Catalyst Fund<sup>3</sup></b>	<b>2.5%</b>	<b>11.6%</b>
TSX Composite	5.6%	26.8%
Russell 2000	5.6%	20.9%
S&P Toronto Small Cap	10.6%	39.5%
S&P 500	3.7%	17.0%

1. *The performance of the Venator Investment Trust approximates the performance of the Venator Founders Fund.*
2. *YTD of Fund is net of distributions reinvested. The benchmark of S&P/TSX Income Trust is no longer relevant as the Fund is now comprised of a high proportion of bonds.*
3. *The Venator Catalyst Fund has no benchmarks.*

Without a doubt we have just witnessed some of the most polarizing and volatile financial markets in recent history. When 50% moves in bonds, equities and commodities are the intra-year norm for two years, you'd better have learned some lessons. Most of these lessons we are holding close to the vest, as they could come into play if the economic rebound is not as strong as people appear to be expecting. However, one lesson requires a change to our fund leverage policies that we will be enacting moving forward (for the Founders Fund/Investment Trust/Offshore Fund).

One of the issues we are constantly running into is how to manage our less liquid smaller-cap names. While these names have definitely performed well for us since inception, we are constantly running into two issues:

- How do we effectively hedge the fund when these positions don't generally move with the market in the short-term?
- How do we shift our assets quickly when extraordinary opportunities arise?

Towards the end of last year, most of our lumps came in the smaller-cap names that were difficult to hedge or sell. This meant that capital couldn't be deployed to some of the more profitable opportunities we were pursuing at the time, such as merger/arbitrage opportunities and pair trades. In March, we took the fund from less than 50% net invested to approximately 70% net invested, largely through short covering. We came across a number of great opportunities (see our March review "It's Not Different This Time") that provided great value beyond the day-to-day trading volatility at the time. Unfortunately, our illiquid small-caps, which have generally underperformed the market rebound, tied up too much capital and were not liquid enough to sell at a reasonable price.

After looking back at the fund and our market strategies at varying points in the past year, we have concluded that we were able to find market beating opportunities in up and down markets during these extreme circumstances. While we were never interested in making big directional bets on the market, there were some very good

opportunities we were comfortable with as long as we could short the market against them to avoid the daily volatility that was prevalent at the time.

We have therefore decided to alter our fund “rules” to allow us to use more leverage *on a market-neutral basis* during times of extreme opportunity. Specifically, the Founders Fund will have the ability to go to a maximum of 150% long or 150% short (currently the limits are 110% and 100% respectively) *but cannot go more than 110% net long or short*. This will effectively allow the Fund to buy or sell more stocks without being allowed to use the leverage to make directional bets on the market.

To be clear, we do not intend to use this leverage on a regular basis. It is only for extreme scenarios like valuations we were seeing in last March, or the arbitrage scenarios we were seeing last November. It is designed to allow us to invest excess capital on a *market neutral* basis when certain opportunities arise. Indeed, if we were to go fully market neutral for a period of time while being extremely cautious, it would be difficult to produce an acceptable return in our target 10%-20% range without the use of some leverage. *It is also worth noting that our other Fund strategies (which were launched later than the Founders Fund) are already able to utilize more leverage but without the market neutral restriction: the Income Fund can go to a maximum of 200% long and 200% short, and the Catalyst Fund can go to a maximum of 150% long and 100% short.*

Those of you that have been invested with us since inception will know that we don’t readily embrace risk. The Founders Fund is up approximately 70% in 3 ½ years while our comparative benchmarks are down approximately 15% on average. We have managed to outperform in both good and bad years with disciplined investments and hedged strategies. We hope we have earned your trust with regard to our ability to lower overall risk while enhancing returns. I would also like to note that I continue to have substantially all of my personal worth invested in our Funds (most of which is in the Founders Fund), and am therefore naturally averse to outsized risks.

Given our current view of the market, we are not in a situation whereby we would utilize this leverage at this moment. However, if some of our investors are uncomfortable with the potential for us to use this new leverage we will wait for any October redemption requests to be fulfilled before implementing this change. If you have any questions, please do not hesitate to contact me.

Thanks for your continued support,



Brandon Osten CFA  
President, Venator Capital Management Ltd.

*This is intended for informational purposes and should not be construed as a solicitation for investment in any of Venator’s Funds. The Funds may only be purchased by Accredited investors with a medium-to-high risk tolerance seeking long-term capital gains. Read the Offering Memoranda in full before making any investment decisions. Prospective investors should inform themselves as to the legal requirements for the purchase of shares. All stated Venator returns are net of fees. It is important to note that past performance should not be taken as an indicator of future performance.*