VENATOR
CAPITAL MANAGEMENT LTD.

STEADY AS SHE GOES

All of our Funds participated in the broader market rally in October. As we said two months ago, we have been getting more positive on our focus sectors in the market and have taken our market exposure up in all of our funds accordingly. We continue to emphasize conservative security selection with aggressive market exposure.

Instrument	October's Return	Year-to-Date
Venator Founders Fund[1]	**2.7%**	**7.3%**
Venator Income Fund[2]	**1.6%**	**15.0%**
Venator Catalyst Fund	**0.5%**	**10.6%**
TSX Composite	2.7%	10.4%
Russell 2000	4.1%	13.6%
S&P Toronto Small Cap	5.9%	21.0%
S&P 500	3.8%	7.8%

1. *The performance of the Venator Investment Trust approximates the performance of the Venator Founders Fund. Return is for Class "A" units.*
2. *YTD of Fund is for Class "F" units net of distributions reinvested.*

As we have been saying since our March 2009 review, stocks are cheap. This statement was made under the assumption that the economy was set up for a multi-year, low growth trajectory and interest rates would remain low, which is a prediction we continue to stand by today. After a huge market rally since that point, we can alter this stance to: certain stocks are still cheap. Others are pricing in a violation of our assumption that the economy is set up for a multi-year low growth recovery in that a growing number of stocks are assuming a high growth "V-shaped" recovery (judging from expectations and valuations of cyclical companies). In other words, thus far (18 months later) we have been correct in our economic assumptions (low growth, no V-shape recovery), but wrong in that the best stocks to own have been those needing a V-shaped recovery. Despite our underperformance this year in our Founders Fund (a function of our defensive, rather than cyclical holdings, as well as our hedging activities), we continue to run all of our funds with two consistent guiding principles:

- If things don't get any worse, which stocks are exceedingly cheap
- If things don't get materially better, which stocks are exceedingly expensive

Admittedly, this hasn't been the winning way to play the market's recovery. Then again, being hedged in a bull market is never an outperforming strategy. Those that benefit from a strong economic recovery (think Caterpillar) have outperformed, while those more defensive cheap stocks (think IBM) have lagged. So we give ourselves full points for our market call, but not on our execution. The reality is that our view of a slow recovery is entrenched in the fund, and to take a cyclically-growthier attitude could prove exceedingly risky if rosy company-specific forecasts don't come to fruition. To clarify, we still like growth companies, but we look for secular growth stories (think Apple) rather than cyclical growth stories.

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The Founders Fund remains a stockpicker's fund, with over half of our positions in what we characterize as small-cap, underfollowed companies. The rest are in larger-cap, better known companies, as we think there is a unique opportunity in these companies over the next several years. We would note that if our investee companies weren't out of favor in the first place, we never would have been able to buy them so cheap. It's just taking a little longer for the value to be realized than we would ideally like.

Yours Truly,

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.

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