

PAY ATTENTION

Thanks for five years of loyalty! That's right; the Venator Founders Fund is marking its first five years with a gain of 110.3% versus a gain of 26.7% for our reference markets (despite the fact that we have been, on average, only 71% net exposed to the markets). Yes, we realize that many have made a 100% return (including a simple S&P ETF) over the past 24 months, but far fewer can make that claim over the trailing five years.

Instrument	February's Return	Year-to-Date	Since March 1, 2006
Venator Founders Fund¹	4.0%	4.6%	110.3%
Venator Income Fund²	1.6%	4.8%	N/A
Venator Catalyst Fund	2.0%	-0.1%	N/A
TSX Composite	4.4%	5.5%	39.1%
Russell 2000	5.5%	5.2%	20.5%
S&P Toronto Small Cap	3.8%	3.1%	31.9%
S&P 500	3.4%	5.9%	15.2%

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.

I have recently read that high frequency trading now accounts for as much as 70% of volume on any given trading day. If you account for ETFs and technical black box models (those that use historical charts to blindly predict future price movements), you might end up with a remaining 20% of the market activity being based on fundamentals.

This leaves us (actively managed research-based investment managers) and the semi-fundamentalists. Semi-fundamentalists are the so-called quant models that pick stocks based on historical financial data. While we can agree that these models at least use fundamentals to determine their selections, we would also note that these models rely strictly on published historical data. Some may rely on filings only, which can come out several weeks after an actual earnings release. Some of the better ones may actually be able to pull information off of a press release, but some companies (i.e. Cisco) only put out guidance on their conference calls, which would put all quant-based models at a disadvantage to investment managers that actually pay attention to the market in real time (Barron's recently profiled a research tool that can screen conference call transcripts, but again you have to wait for the transcript after the call). It's also worth noting that if oil spiked to \$200 tomorrow, many quant models wouldn't be able to assess the impact on airline companies until their second quarters were released in May. Furthermore, while these models are good at numbers, they are generally incapable of attaching value (positive or negative) to more qualitative published information such as enhanced value from recurring business models, lower values attributed to businesses with excessive customer concentration or ones that are in secular decline, or the ability to distinguish between organic growth and acquisition based growth (the former is usually awarded a premium).

So, if you back out high frequency trading algorithms, ETFs, technical trading models and quant-based fundamental models, you probably have less than 15% of market activity being based on active research, qualitative information,

forward looking probabilities and everything else a computer can't do. There has to be an advantage in looking at this information – which is why we do what we do.

With respect to ETFs, high frequency trading and technical models (that's just a figure of speech, in reality we have no respect for these categories) they are quite useless without the people who use company fundamentals to make investment decisions and who move the markets and create the signals that these instruments need to do anything. Without the fundamental guys moving stocks based on either expectations of future results or in reaction to them, the charts and market weights would never move, which means no trading for the high frequency guys to exploit, which eliminates the technical guys and ETFs from existence.

In other words, they need us but we don't need them. That leaves the quant guys and the traditional research-oriented money managers like us. Now many quant models are actually quite good, and look at some interesting esoteric data. However, while we have access to all the data that they have access to, they don't have access to our more qualitative information. Again this has to be an advantage to our research model.

While there are obvious advantages to the fundamentals-based investment model, the key is being able to execute on these advantages with solid research skills. You have to avoid being sucked in by sentiment, momentum or an obsession with relative market performance. You can't allow fear and greed to rule your investment plan; otherwise, you might be better off with the less emotionally influenceable quant models.

Our whole model is based on fundamental research and a continual focus on our investments and potential investments in the market. Our model is proactive as opposed to all of the more automated models that are, by definition, reactive (high frequency traders react to other people's market orders, ETFs react to market weights, technical models react to past trading data, and quant models react to historical fundamental data). They are unaware of what is happening, they are only aware of what has already happened. WE HAVE TO BELIEVE THAT THERE IS AN ADVANTAGE TO JUST PAYING ATTENTION!!!

Hopefully you agree.

Thanks again for five years of loyalty from the team at Venator.

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.