

**"ZEUS HIMSELF CANNOT GET THE BETTER OF MY FREE WILL" - Epictetus**

It was difficult to avoid making money last month. After a weak start to the month, the market ripped off a ferocious rally, finishing with one of the biggest monthly gains in years. Our numbers were up across the board, but admittedly nothing heroic given how cautiously our portfolios are positioned. It's been a tough year for active money managers, but our two more conservatively positioned Funds are both positive thus far. Unfortunately, our Founders Fund has not performed well despite being more hedged relative to its history, but we remain patient and optimistic about the prospects for our core holdings.

On a brighter note, our Catalyst Fund recently won the Canadian Hedge Fund Award for "Best 3-year (long-term) Annualized Sharpe Ratio". For those of you who don't know what a Sharpe ratio is, it is a measure of reward gained relative to risk taken. The Catalyst Fund is averaging a return of approximately 10% per year, but has never had a month worse than -2.5%, or a losing 12 months (the actual Sharpe ratio calculation is fairly complex, but you get the point). Volatility this low is a badge of honor in such a volatile market.

Instrument	October's Return	Year-to-Date	Since Inception <sup>3</sup>
Venator Founders Fund <sup>1</sup>	3.5%	-15.1%	70.5%
Venator Income Fund <sup>2</sup>	1.8%	2.5%	56.9%
Venator Catalyst Fund	3.2%	8.2%	50.4%
TSX Composite	5.6%	-6.9%	22.7%
Russell 2000	15.1%	-4.5%	9.4%
S&P Toronto Small Cap	9.8%	-13.3%	11.0%
S&P 500	10.9%	1.3%	10.2%

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.

3. The Venator Income Fund and the Venator Catalyst Fund have no benchmarks.

As many of us whiny self-proclaimed stockpickers will attest, the ability to research stocks, tirelessly hunt for rare and undiscovered opportunities, and accurately forecast business fundamentals has become a distant secondary success factor in navigating the current market. This historically crucial skill set has given way to being able to time daily volatile movements in a market that is based largely on US government rhetoric, benign economic data that operates in a very limited range around zero change, and what may or may not be happening in near economically irrelevant countries such as Greece or Portugal. Correlations remain high among asset classes, and macro bets remain the dominant factor in investment performance. In a sense, individual securities have given up their free will (alpha), and succumbed to the determinism of broader market moves (beta) – for better or for worse.

We recently tallied up the Founders Fund's top five positions' overall exposure to the Greek economy. These positions account for approximately 35% of the Fund's market exposure and have proven rather sensitive to news out of Greece as of late. Now it's important to note that only one of these companies, Apple, has any business in Greece (this is an assumption since the amount of business they do in Greece is too immaterial to disclose). The other four companies not only conduct

pretty much all of their business in North America, but their customers conduct all of their business in North America as well. We then attempted to figure out the impact to these five businesses based on the following scenarios:

- Greece defaults on its debt vs. Greece does not default on its debt
- Greece stays in the Eurozone vs. Greece exits the Eurozone
- Greece overthrows its government vs. Greece doesn't overthrow its government
- *The Greek God Zeus himself descends from Mount Olympus in disgust and hurls an array of thunderbolts at the small country, sinking it into the Mediterranean Sea.*

As it turns out none of these scenarios would materially affect our forecasts for this group of five. We could possibly see Apple's financial results sink less than 1% in the last scenario, which would hit the consolidated earnings of our invested companies by 0.1%, but that is probably the extent of the damage. Yes, Germany and France could exit the Euro, and the Euro could drop to Par (we have some Put protection for this scenario), but pricing for iPhones can be adjusted, and Germany's currency would strengthen to offset some of the damage. Dollars and international equivalents can and would be printed, staving off Armageddon-type scenarios (which can be done relatively harmlessly with labour costs and commodity prices going nowhere). Heck, it would only take a couple hundred billion Euro to bail out Greece completely at this point (which isn't much by today's bailout standards). In short, all this "news" swinging the markets isn't really that material to us, despite the adverse volatility the Founders Fund has experienced in the past several months.

We realize that the world is interconnected. But it's not THAT interconnected. I don't think the North American auto collision market (Boyd Group Income Fund) declines in the face of a Greek default, nor would I imagine that the US market for fitting orthotics and prosthetics (Hanger Orthopedic) is materially impacted by what happens in Portugal. We have specifically selected our investments in a way that avoids both business, customer, and currency exposure overseas. In other words, our portfolios are very much domestic portfolios with the exception of a few select positions.

From a strategy point of view, our Catalyst Fund, which recently won an award for the best 3-year Sharpe Ratio in Canada, has managed to avoid the market's volatility and correlation by investing largely in exceptionally low beta and low volume securities that are largely off the radar of the market. Our Income Fund has the luxury of being able to wait for its bonds to come due (in about three to four years on average); temporary market fluctuations do not concern us as long as we don't think that individual company bankruptcy is an issue. The Founders Fund has moved a little up-cap in an attempt to remain nimble, and this has increased its sensitivity to the market to a degree; that being said, our top four positions did not participate in last month's rally, which is why we did not fully capture the market's up move despite full participation in the down move in September.

Thank you for indulging my little rant. We have been heavily focused on improving the results of the Founders Fund and have been frustrated by the results of the past three months. Before I forget, did I mention that our Catalyst Fund recently won the award for the best 3-year Sharpe Ratio in Canada???

Thank you 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.*