

## A WORD ON PERCIEVED VOLATILITY

Both Venator funds managed to keep their hot streaks going, hitting new record highs in May as we continued to benefit from the bull market in both the United States as well as the Canadian non-resource sector. While investor complacency appears high, we note that investor optimism remains at average levels, so we are very much on our toes at this point in the cycle, but we still remain constructive on the markets in general.

Instrument (Inception)*	May 2013 Return	Year-to-Date	Compound Growth
<b>Venator Founders Fund (March 2006)</b>	<b>3.8%</b>	<b>17.1%</b>	<b>13.9%</b>
<b>Venator Income Fund (August 2008)</b>	<b>1.1%</b>	<b>9.9%</b>	<b>16.9%</b>
TSX Composite (March 2006)	1.8%	3.0%	4.0%
Russell 2000 (March 2006)	4.0%	16.5%	5.6%
S&P Toronto Small Cap (March 2006)	1.7%	-2.4%	0.3%
S&P 500 (March 2006)	2.3%	15.4%	5.6%

\*Estimated Performance

When meeting with new investors, we generally have to answer a wide variety of due diligence questions related to our corporate structure, investment process, market outlook, and risk management. Of course in the end it basically comes down to "Can you make me money?" and "How risky/volatile is the Fund?". While the former question is generally spelled out in our historical performance numbers, the answer to the latter can be a little more nuanced.

Our Founders Fund has had two losing years against five winning years in its short history (including our 10-month 2006). Our losing years have been both preceded and post-ceeded by winning years that have left pretty much all of our investors satisfied on a rolling 24 month basis. That being said, when looking at the full body of work, we often ask ourselves "why couldn't we have started the fund in a different month so we wouldn't have to always explain what happened in 2011?". Take a quick peek at the chart below, which is the rolling trailing twelve month performance of the Founders Fund:

VENATOR FOUNDERS FUND: ROLLING 12-MONTH RETURNS												
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2007		40%	44%	42%	47%	61%	63%	47%	45%	31%	18%	15%
2008	-2%	4%	-5%	-1%	8%	11%	5%	11%	1%	-12%	-21%	-20%
2009	-5%	-15%	-3%	-3%	-7%	-9%	-1%	-5%	7%	29%	42%	40%
2010	38%	47%	43%	32%	21%	15%	10%	4%	6%	7%	12%	17%
2011	12%	14%	8%	7%	4%	7%	10%	8%	-8%	-7%	-8%	-14%
2012	-10%	-6%	-1%	-2%	0%	1%	1%	13%	31%	27%	27%	25%
2013	22%	16%	16%	20%	30%							

While December may have seemed like a clear year-end choice for the fund, it is still a rather arbitrary decision and, as it stands, is the worst month I could have used for reporting year-end results in terms of making our fund look more volatile than we view it internally (it is the only year-end that produces two separate double digit losses).

Hypothetically, let's say we had started the fund in July; the worst "year" we ever would have had was down 1% - not much explaining to do there. Although I think the best year-end for us would have been the May year-end which we would have just ended. Our only losing year would have ended in May 2009 with a 7% loss (the market was down 31% that "year"), and we would have had three 20%+ years.

The whole point of this exercise is simply to demonstrate that the impression an investor can get of any Funds' reported performance or volatility can be very sensitive to the start date of the investment. Of course, if you were to own our Income Fund, you would likely not be as sensitive to your start date when looking at the fund on the rolling twelve month basis (part of the benefit of launching in July of 2008 rather than January of 2008):

VENATOR INCOME FUND: ROLLING 12-MONTH RETURNS												
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
<b>2009</b>							11%	14%	28%	29%	39%	43%
<b>2010</b>	34%	40%	45%	42%	34%	28%	29%	22%	24%	24%	23%	19%
<b>2011</b>	23%	22%	21%	20%	22%	22%	18%	12%	6%	6%	4%	4%
<b>2012</b>	3%	5%	4%	4%	5%	6%	7%	16%	20%	20%	21%	21%
<b>2013</b>	21%	18%	18%	20%	23%							

Thanks for your continued support,



Brandon Osten, CFA  
 CEO, 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.*