VENATOR
CAPITAL MANAGEMENT LTD.

2014 IN REVIEW

Instrument (Inception)*	December 2014 Return	Year-to-Date Return	Compound Growth
Venator Founders Fund (March 2006)	**2.4%**	**25.5%**	**15.5%**
Venator Partners Fund (July 2014)	**2.3%**	**7.4%**	**-**
Venator Investment Trust (September 2007)	**2.4%**	**25.2%**	**11.7%**
Venator Income Fund (August 2008)	**0.2%**	**9.5%**	**15.2%**
Venator Select Fund (September 2013)	**1.9%**	**37.3%**	**42.8%**
S&P/TSX Total Return (March 2006)	-0.4%	10.6%	5.6%
Russell 2000 (March 2006)	2.9%	4.9%	7.3%
S&P Toronto Small Cap (March 2006)	-0.3%	-2.3%	1.1%
S&P 500 (March 2006)	-0.3%	13.7%	7.8%
Merrill Lynch High Yield Index (August 2008)	-1.4%	2.5%	10.0%

That was a more eventful December than we have become accustomed to! At one point the markets were down over 4% (including the high yield bond market) on the back of the oil price collapse and some desperate measures over in Russia. Usually, you get to coast through December, and if you didn't look at the intra-month numbers you probably would have thought the month was fairly uneventful. At Venator, the month actually was fairly uneventful as our long-short hedge funds (Founders, Partners, and Investment Trust) were actually up a little when the market bottomed, owing to our significant oil short. But enough about the month, let's talk about what a prosperous year 2014 was, with all of our Funds trouncing their respective benchmarks.

Please note the following benchmarks for each strategy:

VENATOR INCOME FUND
60% Merrill Lynch High Yield Index, 20% S&P 500, 20% S&P/TSX

VENATOR SELECT FUND/FOUNDERS FUND/PARTNERS FUND/INVESTMENT TRUST
25% S&P 500, 25% S&P/TSX, 25% Russell 2000, 25% S&P Toronto Small Cap

VENATOR INCOME FUND

Our Income Fund finished the year up an impressive 9.2%, significantly outperforming both its benchmark (up 6.4%) and the high yield bond market (up 2.5%). As in 2013 our equity holdings contributed substantially to the returns, providing 60% of the gains despite representing only 40% of the portfolio. That being said, we took advantage of the recent weakness in the high yield bond market by bulking up our bond book with some fairly juicy yields. We head into 2015 with 40% equity exposure and 80% bond exposure. The Fund is currently carrying a blended yield to maturity of just over 8% (what we get if bond markets are weak) and a yield to worst of just over 7% (what we get if bond markets strengthen). These are very healthy numbers relative to mid-year when these numbers were closer to 6% and 4% respectively. So we are entering 2015 a little more optimistic about the yield composition of this portfolio than we have been in some time.

VENATOR SELECT FUND

The Select Fund finished its first full calendar year up 36.2% vs its benchmark return of 6.7%. Including last year's "stub period" (we launched the fund in September) the Fund is up 59.4% vs broader market gains of 19.2%. Keep in mind that this is a concentrated long focused fund containing of our highest conviction investments, and would be expected to outperform in an up year for the markets and a strong year for our equity-based hedge funds. The Fund continues its mandate of concentrated 10%+ weights and sits with eight investments heading into 2015.

VENATOR FOUNDERS/PARTNERS/INVESTMENT TRUST

We are very happy with the 25.3% return achieved for Founders Fund in 2014. The Fund managed to outperform its benchmark (up 6.7%) and the top performing S&P 500 (up 13.7%) despite its bias towards the underperforming small-to-mid-cap markets. We achieved this result with approximately 60% average equity exposure over the year. This was something of an ideal year for us strategically as our biggest wins came from core ideas that are representative of what we do best: value, under-followed, and contrarian calls. We thought we would provide a recap of some of our biggest wins from the year:

LONG: Concordia Healthcare (CXR-T): This Company went public very late in 2013 at $6.25 and closed the year over $46.75! Although we trimmed our position at various points in the year due to overweighting concerns, it was a core position throughout the year. We first learned of Concordia as they were marketing to go public. Being late December, the company struggled to raise the money it needed and the deal was down-priced and downsized at the last second; this is almost always a bad sign for a new issue. But we had an "ace in the hole" in the that one of our investors who was involved in the formation of the company assured us, with conviction, that this management team was set to execute on its 2014 strategic plan. Based on this assertion, as well as additional due diligence conducted on our part, we believed that the stock was set to exceed $12.00 by the end of 2015 (OK, so we were a little off there). After a few unforeseen material transactions, our target kept moving up and we held on to our core position. Note that we are fortunate to have a pretty impressive and well connected roster of investors at Venator. *The lesson for all of you is that you, our investors, can be a valuable source of information for us*.

LONG: Motorcar Parts of America (MPAA-NASDAQ): We purchased shares in this relatively unknown company on the cheap after the fallout from an ill-fated acquisition of a Toronto-based company it made several years ago. The company they acquired went bankrupt, but because it was a legally separate subsidiary, it did not take MPAA with them. While going through this process, MPAA stopped filing quarterly reports as they could not consolidate the results, but we could see the value in the parent company using the pre-acquisition numbers. We started buying the stock at $8.00 last June after the one analyst that followed it had suspended coverage due to the uncertainty of the outcome of the bankrupt division (it was a large division). Today the stock sits above $30.00 and was one of our biggest gainers on the year (full disclosure: we recently sold our position, but would look to re-enter at a more opportunistic time).

LONG: Superior Uniform (SGC-NASDAQ): This has become one of our "franchise names" since initiating the position last year in the $14.00 range. Superior Uniform, on the back of a major acquisition, finds itself with two fast growing divisions, and one "GDP+" growing division, combining for a consolidated 18% organic growth rate, and with potential upside from further acquisitions. They are profitable, pay a dividend, and still trade at less than 15x our earnings estimates. With a market value of close to $200MM, it's probably time for the street to take notice of this company that still has no analyst coverage.

SHORT: Crude Oil (HOU-T): From our June 2012 monthly review: *"Shale oil appears to be on track to mirror the experience of its natural gas cousin, having gone from a $120 cost per barrel pipe dream, to a $60-$90 cost per barrel reality. US domestic shale oil reserves are estimated at anywhere from 800 billion to 1.8 trillion barrels. With scale (like with what happened to the gas market), I could see this cost per barrel metric falling into the $30's, possibly in as soon as five years (using gas fracking cost declines as a reference). The bottom line is that US and global oil production is actually increasing, that US oil production is expected to keep increasing, and that it is not uncommon to find predictions of the US becoming a net exporter of oil within the next ten years (feel free to read that statement again). This is what logically happens when you combine declining demand (economic and conversion of trucks from diesel to gas) with increasing supply. Energy independence, that long standing American dream, may become a reality in ten years thanks to vast, previously uneconomic, shale reserves.* ***The best part: there is nothing OPEC can do about this other than open the spigot and crush oil prices to below $50.00 in order to discourage shale investment****."*

SHORT: Redknee (RKN-T): In June 2013 we did an extensive, controversial, and contrarian write-up of this former Canadian software darling. We outlined our thesis that their extended accounts and unbilled receivables were causing a cash drain on the company and that at some point their financial results would reflect this. It turns out that this story played out *almost* according to the script we wrote at the time. The one fly in the ointment was a spring 2014 $60MM+ equity raise right in front of two bad quarters. Without this financing their net cash balance would have threatened to go negative and brought the companies solvency into question. While, thanks to the equity raise, the stock is a little ahead of where it was when we published our write-up, we had increased our short position at higher levels and closed the short position a few months ago at a substantial profit.

That's probably enough bragging for now. On New Year's Afternoon of this successful year we gave ourselves a pat on the back and had our traditional Champagne to close a prosperous year. On January 2nd at 9:30am the good feeling was gone as we all woke up to the reality that we were now breaking even on the new 2015 year and had some hard work to do!

Wishing everyone a happy, healthy & prosperous 2015!

Brandon Osten, CFA
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