

ALL THAT GLITTERS IS GREEN (2009 letter re-visited)

Instrument (Inception)*	August 2015 Return	Year-to-Date Return	Compound Growth
Venator Founders Fund (March 2006)	2.2%	1.5%	14.5%
Venator Partners Fund (July 2014)	1.6%	-0.2%	6.1%
Venator Investment Trust (September 2007)	1.9%	0.7%	10.8%
Venator Income Fund (August 2008)	-1.3%	-2.7%	13.2%
Venator Select Fund (September 2013)	-0.8%	-10.6%	19.9%
S&P/TSX Total Return (March 2006)	-4.0%	-3.5%	4.8%
Russell 2000 (March 2006)	-6.3%	-3.0%	6.4%
S&P Toronto Small Cap (March 2006)	-2.7%	-8.0%	0.1%
S&P 500 (March 2006)	-6.0%	-2.9%	6.9%
Merrill Lynch High Yield Index (August 2008)	-1.8%	0.1%	9.0%

Back in October 2009 we penned a letter titled "All That Glitters is Green" where we basically stated our belief that the US dollar would not give up its status as a strong global reserve currency for the foreseeable future. This was at a time when the popular press, and many in the financial community, were predicting, if not calling for, an alternative for foreign trade as the US financial system was viewed as tenuous and its fiscal situation was downright horrific. Multiple alternatives were being suggested at the time including the Euro, gold, or some basket comprised of the yuan/renminbi/real/aussie/euro/loonie/yen/pound/rupee. We theorized that while this was a popular narrative given the strength of global markets, it was also infeasible given a lack of available float relative to the sheer magnitude of trade done in US dollars.

Specifically, we noted that gold would have to go to \$15,000 per ounce to offer that level of float, but was structurally disadvantaged given that it had no natural demand and very few practical applications (making it a lot like paper money). We surmised that China, which was presumed to have a significant seat at the table, should not as their controlled economy and demographic challenges were going to make their economy extremely unstable over the following decade, and practically speaking a basket is tough because now you are tracing all transactions to an index vs. transacting in an actual central currency.

We argued that, as the only country whose debt was denominated in its own currency, the US was going to be just fine, and the greenback would maintain its status as the reserve currency of the global economy. Frankly calling for the continuance of the status quo should not be a contrarian call, but at the height of the rhetoric it kind of was (as a parallel, calling for \$45.00 oil from here on out would actually be contrarian as the vast majority of analysts have \$60.00+ as the consensus).

Fast forward six years and the US is the envy of the developed world, and the US dollar has been very strong of late while commodities and currencies alike are crumbling (or being manipulated down) globally. The US dollar again seems to be a safe bet to maintain its reserve currency status. In fact, when things go bad in the market, as they did last month, the global flight to safety sends US Treasuries and the US dollar higher. As much as Canadians have been feeling the pain of the weakened loonie, the truth of the matter is that the Canadian dollar has actually held in pretty well relative to other developed world currencies, it's just that the U.S. Dollar has appreciated against everything.

WHY WE HEDGE CURRENCY

In light of the Canadian dollar decline we have gotten a few questions related to why we hedge out our foreign (mainly US) currency exposure on our foreign stock holdings (questions we didn't get several years ago when the loonie was at \$1.10). This hedging policy seems especially odd since we have been bearish on commodities in general, and oil specifically, for quite some time; so why didn't we just stay long the US dollar value of our stocks given our negative bias to what drives a good chunk of the Canadian economy? The answer is quite simple, and I would note that no one was complaining from 2006-2013. When we pick a stock to own, we expect the price of that stock to go up. Last decade, when the Canadian dollar rallied from \$0.65 to \$1.10 at

the peak you would have given up the majority of your returns in US stocks that doubled (!) had you let your currency float. Bottom line: if we buy a stock that we think is going to double, and it actually doubles, we double our money. This helps us keep things simple.

Now this doesn't preclude us from making speculative currency bets, it would just be a separate investment decision like any other stock or bond, rather than a discussion about just letting our currency exposure float. For example, we have made good money shorting the Euro at various times over the past several years, a decision made independent of any underlying Euro exposure in the portfolio.

I would also note that if we think that the Canadian dollar will be relatively weak due to a negative outlook for oil, we will simply short oil and related markets, which we did. We don't need to double down on that bet with a more peripheral short on the Canadian dollar.

A QUICK WORD ON HOW OUR FUNDS PERFORMED AT THE LOW POINT IN AUGUST

At the end of the day on August 25th, North American equity markets were down approximately 9%-11% on the month. Fortunately for all involved, they bounced back hard in the last four trading days finishing the month down "only" 3%-6% respectively. However, this type of intra-month (and intra-day) volatility doesn't really provide investors with the perspective that they need regarding how Fund managers are performing during periods of extreme volatility as experienced in the first three weeks of the month. In other words: does your Fund manager's risk management strategy work?

To help answer this question for our Funds, we have decided to publish our monthly performance chart as of the close on August 25th, which was the low point of the month:

Instrument (Inception)*	As of close on August 25, 2015	Year-to-Date Return	Compound Growth
Venator Founders Fund (March 2006)	0.1%	-0.6%	14.3%
Venator Partners Fund (July 2014)	0.1%	-1.7%	4.7%
Venator Investment Trust (September 2007)	0.1%	-1.1%	10.6%
Venator Income Fund (August 2008)	-2.7%	-4.1%	13.0%
Venator Select Fund (September 2013)	-4.5%	-14.0%	17.6%
S&P/TSX Total Return (March 2006)	-9.0%	-8.5%	4.2%
Russell 2000 (March 2006)	-10.8%	-7.7%	5.9%
S&P Toronto Small Cap (March 2006)	-8.8%	-13.8%	-0.6%
S&P 500 (March 2006)	-11.1%	-8.1%	6.3%
Merrill Lynch High Yield Index (August 2008)	-2.4%	-0.6%	8.9%

As always, we reserve the right to change our mind!



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 the Venator 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.