

**SOMETIMES YOU'RE BETTER OFF STAYING HOME**  
 (Canada's Superior "Bought Deal" Model)

Instrument (Inception)*	September 2015 Return	Year-to-Date Return	Compound Growth
<b>Venator Founders Fund (March 2006)</b>	<b>-4.7%</b>	<b>-3.3%</b>	<b>13.8%</b>
<b>Venator Partners Fund (July 2014)</b>	<b>-5.4%</b>	<b>-5.6%</b>	<b>1.1%</b>
<b>Venator Investment Trust (September 2007)</b>	<b>-5.0%</b>	<b>-4.3%</b>	<b>10.0%</b>
<b>Venator Income Fund (August 2008)</b>	<b>-3.7%</b>	<b>-6.2%</b>	<b>12.4%</b>
<b>Venator Select Fund (September 2013)</b>	<b>-6.7%</b>	<b>-16.6%</b>	<b>15.1%</b>
S&P/TSX Total Return (March 2006)	-3.7%	-7.0%	4.3%
Russell 2000 (March 2006)	-4.9%	-7.7%	5.8%
S&P Toronto Small Cap (March 2006)	-6.9%	-14.3%	-0.6%
S&P 500 (March 2006)	-2.5%	-5.3%	6.6%
Merrill Lynch High Yield Index (August 2008)	-2.6%	-2.5%	8.5%

Last month was a tough one for Venator. To be up front with what went wrong, we took a hit on one of our biggest winners over the last two years in Concordia Healthcare, a stock that started 2014 at around \$7.00, ended last year at \$47.00, and made its way to \$110.00 in early September. Then the trouble started:

- The company announced a brilliant acquisition of Amdipharm on September 8th;
- On that same day, made a poor decision to finance the deal in the United States with Goldman Sachs (the subject of this letter);
- After a two week plus "roadshow", ended up doing the financing at \$86.00, a 15%-20% discount to what we believe they could have done the deal at in Canada on September 8th, costing them somewhere between \$180-\$220 million depending on where you think they could have priced the deal up here.
- The stock then proceeded to collapse another 40% (putting it down 50% on the month and flat on the year) due to some bad press surrounding price gauging in the industry by a small company called Turing Pharma, which spilled over into the whole sector.
- Concordia's greater than average slide was no doubt exacerbated by "weak hands" buyers that Goldman put into the stock (evidenced by very heavy US volumes once the stock broke the deal price), as well as uncertainty surrounding the interest rate on the debt issue needed to complete the acquisition given the weakened market value of the company.

Now, we aren't here to gripe about the stock, which we have profited from handsomely over two years. And we aren't going to discuss the merits of the acquisition, which we think was another brilliant acquisition in a string of them by CEO Mark Thompson. Nor are we looking to argue with sentiment or the merits of publicly disclosed "list" price hikes in the industry (despite the sensationalistic outrage by politicians in an election year, it is important to note that rarely is the "list price" the actual price paid), and that by-and-large the generic market is a price competitive market as there is no intellectual property protection on generic drugs. But all this is beside the point. This political rhetoric will likely blow over in time.

**ALL OF OUR INVESTEE COMPANIES SHOULD READ THIS NEXT PART**

The point we want to discuss here is the Company's decision to do the financing in the US instead of Canada. In short, if you can raise money in Canada using a "bought deal", you should always use that structure.

So what is a "bought deal"? A bought deal is a transaction whereby a company raises money seemingly overnight with no marketing roadshow at a fixed price determined by the underwriters. The underwriters basically buy stock from the issuing company and resells it to the public at the same price. The underwriters therefore take on the risk (often overnight) that the stock could go down between the announcement of the bought deal and when they sell the stock to the public (for example you announce a bought deal for an oil company at 4:00pm and oil goes down \$10.00 overnight). Finally, and the last advantage to the bought deal, is that the transaction typically doesn't clear/close for several weeks, meaning that buyers of the deal can't just dump the stock if it breaks price. *Basically, the issuer gets a quick deal done with price certainty and buyers (which will mostly be mutual funds and pension funds if the deal is over \$100MM) need to hold the stock for at least a little while.*

Now contrast this with the typical small cap deal in the US. A company announces that they are going to raise money, which promptly sends the stock down 5%-10% in the aftermarket, because unlike Canadian stocks, US stocks can trade after market close. Then they embark on a roadshow, during which time the stock goes down or moves sideways because there will be plenty of stock available in two weeks after the roadshow is complete. Finally, after the roadshow, during which your stock has likely dropped an additional 5%-10%, the deal gets priced at a 3%-5% discount to that. This process leaves you with 10%-25% less than you would have been able to raise in a bought deal. Now just to make matters a little worse, if you are raising less than \$1 billion, and you are an unknown from Canada, you are typically marketing the share issue to fast money, who will sell the second the stock breaks the price of the deal, which they can do without the two week clearing period we have in Canada. This can add another 10% source of pain, and cost you all those new investors you spent weeks marketing to in order to "broaden your investor base".

Naturally the American banks think the Canadian banks are fools for taking on the market risk of a bought deal. And American Funds think Canadian Funds are fools for agreeing to hold the stock for a few weeks while the deal clears. But as an issuer, that's not your problem, you should just take advantage of the system as you see fit.

The bottom line is the bottom line. In the end all that matters is the money, and I personally believe that nine times out of ten (and that's a conservative estimate) you will be able to raise money at a higher price (not to mention quicker and with less risk) in Canada than in the US. I believe that you are more likely to attract higher quality "buy and hold" investors with a financing in Canada than in the United States. You are also more likely to get real attentive sell-side research in Canada vs the United States (owing to the relative scarcity of \$1 billion+ investable companies in Canada vs the United States; in Canada you matter).

***To summarize, if you have the chance to raise money using a "bought deal" in Canada vs a marketed deal in the US - stay home.***

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



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