VENATOR
CAPITAL MANAGEMENT LTD.

10th ANNIVERSARY OF THE FOUNDERS FUND

Instrument (Inception)*	February 2016 Return	Year-to-Date Return	Compound Growth
Venator Founders Fund (March 2006)	**-3.1%**	**-10.7%**	**12.2%**
Venator Partners Fund (July 2014)	**-2.6%**	**-10.6%**	**-4.6%**
Venator Investment Trust (September 2007)	**-2.9%**	**-10.7%**	**8.4%**
Venator Income Fund (August 2008)	**1.0%**	**-1.3%**	**11.6%**
Venator Select Fund (September 2013)	**-1.4%**	**-12.4%**	**14.0%**
S&P/TSX Total Return (March 2006)	0.5%	-0.7%	3.9%
Russell 2000 (March 2006)	0.0%	-8.8%	5.0%
S&P Toronto Small Cap (March 2006)	5.4%	1.0%	-0.4%
S&P 500 (March 2006)	-0.1%	-5.1%	6.4%
Merrill Lynch High Yield Index (August 2008)	0.5%	-1.1%	7.6%

It's been ten years since we launched the Venator Founders Fund and like all investment funds, and the market itself, we have experienced our ups and downs, but overall it has been a great ride. In thinking about what to write for this occasion I have decided to be a little self congratulatory rather than thoughtful. It is not a small feat for a single start-up fund to last ten years, much less a ten-year period which included the worst market meltdown since the Great Depression. So if you will indulge me for five minutes, here are the ten things I am most proud of at the 10th anniversary of the Venator Founders Fund.

1. We have beaten all of our chosen benchmarks with a hedged model: At the end of the day, this is what it's all about. Can you make money? Can you beat the markets? Can you do it without taking excess risk? That we have managed to do so with a hedged portfolio (with an average weight of 70% net long) just upped the challenge level.

Instrument *(as of March 2006)*	Cumulative Return
Venator Founders Fund	**217%**
S&P/TSX Total Return	47%
Russell 2000	62%
S&P Toronto Small Cap	-4%
S&P 500	87%
Composite benchmark*	48%

**** Composite benchmark is a 25% weight of each of the indices listed above***

2. We have generated superior performance on the long side of the portfolio: Our longs have cumulatively returned over 200% over ten years, with an average gross long exposure of 110%.

3. We have outperformed on the short side of the portfolio: In total, our shorts have lost us an aggregate of approximately 10% over 10 years; excluding ETFs they have cost us less than 5%. Given that we have averaged over 40% gross short, this amounts to a "grossed up" loss of just over 25%, far below the markets' cumulative return over that time frame. If we have one problem in this area, it is not being able to find enough individual company shorts, since we tend to do much better with those than with the ETFs. Keep in mind that while we prefer to make money on our shorts, sometimes having a short hedge trade allows us to do things on the long side of the portfolio that we wouldn't otherwise attempt without the hedge available to us.

4. A+ Investor base: I am not trying to suck-up to our investors here, but our investors really are the best out there. Every time we have a 10%+ drawdown I tell the team to prepare for redemptions that never seem to come. Fortunately, every time our investors have been rewarded for their patience. I have always said that if an investor cashes in at a loss and we subsequently make a record high, that's my fault for not doing a good enough job explaining that investment volatility coming in, or the opportunities in front of us when they came out. Our investors are educated, informed, patient, complimentary of our successes, understanding of our losses, and have stuck with us through thick and thin. We couldn't be more appreciative.

5. A+ Team: We have built one helluva team here, as anyone who has come to the offices can attest. While we started with just me in a 1200 square foot office, we now have ten team members including a five-man investment team and a talented back-office/compliance and client relationship team. With this infrastructure in place we can look forward to more investment ideas, better trade execution, more efficient execution of internal projects and enhanced client communication going forward.

6. Boyd Group Income Fund: BYD.UN is probably the "win" we are proudest of. We have made more money in a few other opportunities but Boyd really represents how we like to see ourselves and our style of investing. When we first started buying Boyd in late 2009 the company had no analyst coverage, traded below 10x cash earnings per share, had a solid growth strategy, and an already sizable platform of over $200 million in revenue. This was no speculative start-up; this was a real business trading at a great value that was completely neglected by the market. After accumulating a decent position in the stock we helped stimulate research coverage and managed liquidity during a tumultuous board turnover. We also introduced the company to one of their current Board members and developed a lasting friendship with CEO Brock Bulbuck. Over five years later, we continue to own the stock even after its meteoric rise from sub-$5.00 to over $60.00. The Company now has nine analysts covering it, and currently sports a market value in excess of $1 billion (up from $60 million when we started buying). This investment truly symbolizes what the Venator strategy is all about.

7. Shorting Oil early (like 2012 early): We have made some good publicized short calls over the years including Redknee and Sphere 3D, we have also been vocally bearish on commodities in general since our launch, but I think our call for $30.00 oil back in June 2012 was my favorite of all: *"(Peak Oil sentiment) will look like a bubble when oil eventually hits $30.00".* What I like about this prediction was that it was a contrarian call (oil was at $90.00), and that it was the right call for the right reasons (lowering costs of production of massive shale deposits, inability of OPEC to influence prices, US energy independence, and declining demand). Unfortunately, we are not "macro" guys, nor do we make big derivative bets, so oil was only a 5% weight in the fund (that's a big weight for a short in the portfolio) and was treated like any other stock. I feel like we should have made more money shorting "HOUs" (our preferred instrument on this call), but it was a great call nonetheless.

8. 2008/2009: We learnt a great many things from this tumultuous time in the markets. "Show me a PM that was up 100% in 2009 and I will show you a PM that was down 50% in 2008 who didn't learn a thing about risk management"; "Show me a fund manager that launched in 2009/2010 and I will show you a PM that blew up in 2008"; "Waiting for news is not a good exit strategy" (the quarters were good, but the guidance was awful); "In a crash, buying beaten down stocks with operational greatness has more long-lived upside than deep value/great companies which rarely go on sale". These aren't always the case, but they are good lessons to keep in mind that were learnt *after* the carnage. But what I am most proud of is this: in the 2007-2008 period we were down 8% (versus the TSX, the best performing of our benchmarks, being down over 25%); in the 2008-2009 period we were up 12.4% (versus the TSX, again the best performing benchmark, being down around 10%).

9. **We've always bounced back:** We have outperformed our benchmark in 8 out of 10 years while being hedged. Also, in the two years we have lost money we bounced back hard giving us positive 24 month returns after the following 12 -month period. In 2015 the Founders Fund was down 0.5%, and while we aren't off to a stellar start in 2016, the year is far from over.

10. **The investment strategy remains the same:** The fund strategy remains unchanged over the last ten years. We have thus far been able to pursue the same opportunities using the same models as we have since inception. I can't think of a single opportunity that we have had to turn down because of our larger size.

While 2016 hasn't got off to the start we would have liked, if there is one thing I have learned over the last ten years it is this: It's OK to be "break your laptop over your knee" frustrated, but never, ever panic. And yes, I have broken a laptop over my knee, and Steve has smashed his keyboard on his desk (we still find keyboard keys around the office on occasion), and we keep a couple of extra computer mice in our store room in case another one of those gets flung across the office! We have a great stable of companies in the portfolio including our usual cohort of unloved, underfollowed, and underappreciated names such as Entercom, Energy Recovery, Westaim, and CargoJet; as well as some contrarian short ideas like Energizer and CoStar Group.

I can't promise the next ten years will be as good as the first, but I believe we are set up for continued success in the years to come.

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

Brandon Osten, CFA

CEO, Venator Capital Management Ltd.