VENATOR
CAPITAL MANAGEMENT LTD.

SOMETIMES PATIENCE PAYS OFF

Instrument (Inception)*	September 2016 Return	Year-to-Date Return	Compound Growth
Venator Founders Fund (March 2006)	**2.6%**	**0.7%**	**12.8%**
Venator Partners Fund (July 2014)	**2.7%**	**-0.9%**	**1.2%**
Venator Investment Trust (September 2007)	**2.6%**	**-0.2%**	**9.1%**
Venator Income Fund (August 2008)	**-0.1%**	**11.9%**	**12.4%**
Venator Select Fund (September 2013)	**-1.2%**	**3.0%**	**17.2%**
S&P/TSX Total Return (March 2006)	1.2%	15.8%	5.2%
Russell 2000 (March 2006)	1.1%	11.5%	6.7%
S&P Toronto Small Cap (March 2006)	3.1%	34.3%	2.4%
S&P 500 (March 2006)	0.0%	7.8%	7.4%
Merrill Lynch High Yield Index (August 2008)	0.7%	15.3%	9.0%

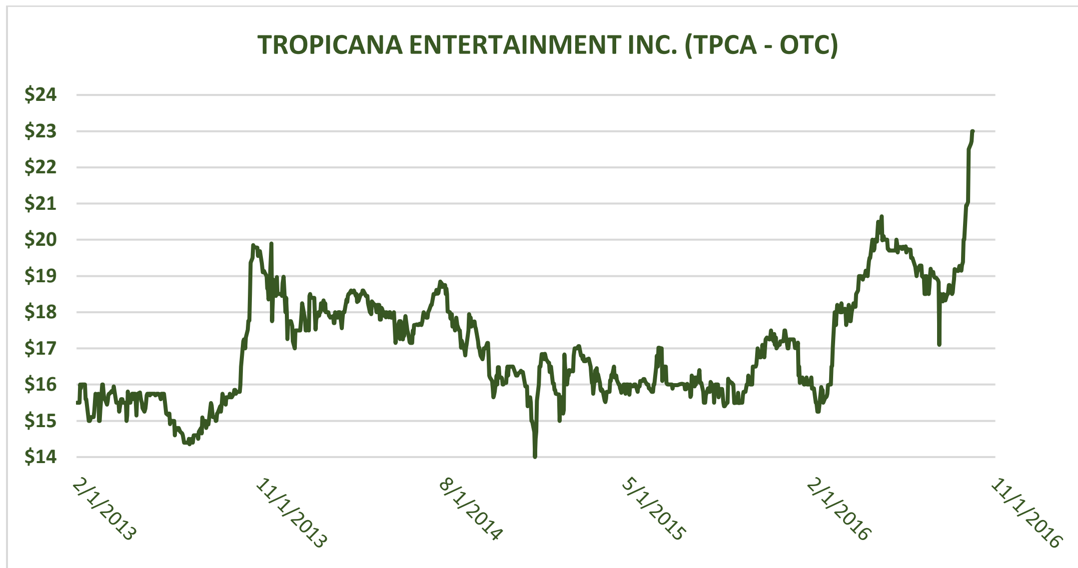
During what has now been 21 months where our long/short equity strategies have continued to tread water (although optimistically we could say that we are preserving/protecting capital during a rough patch), we thought it would be a good therapeutic exercise to talk about a recent winner that best reflects our style of investing: Tropicana Entertainment.

We first purchased Tropicana back in early 2013. By way of background, Tropicana emerged out of bankruptcy under the control of majority bondholder Icahn Capital/Carl Icahn. For whatever reason, Mr. Icahn chose to keep the company listed on the OTC-bulletin board rather than list it on a major exchange (probably because as a majority shareholder he doesn't want the added expense and scrutiny). This, despite 2012 revenues of $600 million, EBITDA of $83 million, fixed assets of $448 million (adjusted for the bankruptcy impairment), net cash of $100 million, and a market capitalization of $400 million. That translated into a very low 3.5X EV-to-EBITDA, which is a valuation metric normally applied to the industry, to say nothing of the price-to-book-value of 0.7. In a five-year-old bull market, Tropicana was a standout, old-school, Graham and Dodd, deep value stock.

Over the last few years there have been a number of positive developments to the business amidst an overall challenging backdrop. Casinos are no longer considered the social bane of a respectable local environment that they once were, and are now looked upon as the highly taxed government revenue generators they actually are. This has caused states everywhere to open up more local casinos, thereby materially impacting the out-of-state traffic that Atlantic City, in particular, had always depended on. Hurricane Sandy didn't help in the early going either (their biggest asset was the Tropicana in Atlantic City), but over the longer term it served to put a number of other casinos out of business, including the huge, new Revel as well at the Trump Taj Mahal, a process which benefitted Tropicana as one of the last ones standing. Tropicana was also able to make a bargain purchase of Lumiere Place in St. Louis after Pinnacle was forced to divest of the premiere asset as part of its acquisition of Ameristar in 2014. Online gaming has also been a small tailwind. Future catalysts for earnings growth include a return to profitability for the Atlantic City property, which has been running at breakeven levels while squeezing out the competition, as well as a possible REIT transaction, which has recently become fashionable in the casino industry.

Since we purchased the stock, it has risen by approximately 55%, with nearly all of that increase coming since February of this year. Comparatively speaking, this matches the performance of the Russell 2000 (OK; not great), but beats the heck out of the broader casino index which, including dividends, is up about 13% over the same time frame (great; better than OK). Given the staggeringly low valuation of the company when we bought the stock (see above), we would argue that this

has been a superior, risk-adjusted return compared to the broader market (our hedge model never called for us to hedge against this 0.3 beta, below book value position). Today, we are the fourth largest shareholder of the company, but with its largest holder, Icahn Capital, owning 68% of the shares outstanding, that still doesn't give us a lot of pull.



On the macro side, the Fed continues to threaten rate hikes, and OPEC continues to threaten production cuts. Frankly, it keeps looking like neither of these things are going to happen, at least not in any material way. We are going to ignore or trade these empty threats rather than making any longer term thematic calls based on this rhetoric. Furthermore, from an investing perspective, I am not sure it matters who wins the US election, but seeing as how it is probably going to be Hillary Clinton, I don't see any meaningful impact out of that circus either. We are just going to keep buying undervalued, quality businesses, while shorting mediocre and secularly challenged, overpriced companies in our long/short equity strategy; and continue investing in high quality corporate bonds inside of Venator Income Fund. Historically, this approach has worked out well for investors in each Fund over time.

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

Brandon Osten, CFA
CEO, Venator Capital Management Ltd.

This commentary is intended for informational purposes only 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.