PATIENCE vs PERFORMANCE

Instrument (Inception)*	October 2016 Return	Year-to-Date Return	Compound Growth
Venator Founders Fund (March 2006)	**-2.4%**	**-1.7%**	**12.4%**
Venator Partners Fund (July 2014)	**-2.8%**	**-3.7%**	**-0.1%**
Venator Investment Trust (September 2007)	**-2.6%**	**-2.8%**	**8.7%**
Venator Income Fund (August 2008)	**0.2%**	**12.2%**	**12.3%**
Venator Select Fund (September 2013)	**-0.7%**	**2.3%**	**16.5%**
S&P/TSX Total Return (March 2006)	0.6%	16.5%	5.2%
Russell 2000 (March 2006)	-4.8%	6.2%	6.1%
S&P Toronto Small Cap (March 2006)	-2.6%	30.7%	2.1%
S&P 500 (March 2006)	-1.8%	5.9%	7.1%
Merrill Lynch High Yield Index (August 2008)	0.3%	15.7%	9.0%

The next two weeks are going to be busy for us. The first week of November alone will see 16 companies that we track report their Q3 numbers. While it's early, most of our positions that have reported have done so to our benefit and we believe more of the same is in store over the next two weeks. We typically enjoy earnings season and while it tends to be a very busy time, it often provides validation of our investment theses, even if we don't always get the market reaction we would like to see right away.

While it may not seem like it, on an individual company basis, we have been right more often than not recently, but our sector allocations have been off the mark. Notably, our continued aversion to resources and our propensity to short sell secularly declining roll-ups. While we are coming up on nearly two years of being on the wrong-side of breakeven, we believe that continued "more of the same" with regard to our investments will ultimately be rewarded. Unfortunately, while patience may result in the same absolute return over time, the longer you have to wait can hurt your annualized number, which is the issue we are grappling with right now.

As the sign off to each monthly letter states, "we reserve the right to change our mind" and we aren't averse to doing so if we think fundamentals are about to change, or if we see that they have changed. We continually move ideas in and out of the funds, and have to be mindful of positions that are simply taking too long to play out. We find this happens more on the short side of the portfolio than on the long side, where we have a lower tolerance for losses due to the nature of short sales going against you becoming an increasing weight in the portfolio (as opposed to long positions, which become a smaller position as they go down). We have had two recent short positions - Badger Meter and Fiesta Group – with respect to which we couldn't take any more pain and covered at losses. With the benefit of hindsight, holding the positions for an extra six months would have resulted in gains. Patience can be a virtue in investing, and we don't want to abandon well researched and fundamentally improving investments simply because, in the short run, the stocks aren't behaving the way we would like.

For example, over the past two years, Entercom Communications, one of our core long holdings, remains largely unchanged despite better than expected growth, two materially accretive acquisitions, a materially accretive debt refinancing and the initiation of a dividend. The end result is a free cash flow per share number that has moved from $1.35 to over $2.00, but a stock price that remains virtually the same. While we understand that radio is a flat business, we are short a number of secular decliners that carry premium valuations. The key difference appears to be that while no one denies the secularly declining characteristics of batteries and independent muffler maintenance, these companies are viewed as "roll-ups" and are awarded growth multiples. With Entercom's recent accretive acquisitions, maybe it's time to change the message: "It's not a radio company, it's a roll-up!!!".

That being said, while a stock might go up to our targets eventually, we have to be cognizant of the amount of time it takes to get there and its effect on annualized returns. When we first started buying Entercom, we thought that there was a real chance we could get a stellar 50% return in one year. However, at this point, with two flattish years in the rear view mirror, we are hoping for a 100% return over three years to December 2017. This would still represent a solid 26% annualized result, but would remain a far cry from the 50% one-year return for which we originally hoped.

As investors that generally don't like to chase momentum (although we are happy to participate when it comes around in investments we already hold), it is genuinely difficult to strike that balance between patience and performance. While we believe that we will get what's coming to us in terms of absolute returns, we are also cognizant of the annualized returns our investors expect. If we are right, an investor that puts in money today may receive a superior annualized return relative to our investors who put money in at the beginning of 2015. I suppose that we can take solace in the fact that we have provided market beating returns since the beginning of 2014 (up 22% in aggregate vs a blended benchmark return of 15%), and that, going forward, we are poised to build on that.

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

Brandon Osten, CFA
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