

THE MARKET IS RUNNING OUT OF THEMES

Instrument (Inception)*	August 2017 Return	Year-to-Date Return	Compound Growth
Venator Founders Fund (March 2006)	3.8%	0.1%	11.7%
Venator Investment Trust (September 2007)	3.8%	0.0%	8.0%
Venator Income Fund (August 2008)	0.4%	4.5%	11.8%
Venator Select Fund (September 2013)	5.9%	-4.9%	12.7%
S&P/TSX Total Return (March 2006)	0.7%	1.4%	5.3%
Russell 2000 (March 2006)	-1.3%	4.4%	7.3%
S&P Toronto Small Cap (March 2006)	0.3%	-3.8%	2.1%
S&P 500 (March 2006)	0.3%	11.9%	8.2%
Merrill Lynch High Yield Index (August 2008)	0.0%	6.1%	9.0%

The month of August was a good one for the Venator funds. This was largely the result of a strong earnings season, where nearly all our positions reported positive results relative to expectations. While weaker markets in August subdued some of the reactions to the positive news stemming from our portfolio companies, we believe that many of our stocks are now 'in favour', which bodes well for the rest of the year.

There isn't much thematically going on in markets today, just a lot of recycling of themes that we have been hearing about since the beginning of the year. Recurring topics include OPEC vs. shale, FAANG valuations, the market being 'due' for a correction, and some of the controversial comments and/or actions of both Justin Trudeau and Donald Trump (Trudeau's being more economically relevant; while Trump's have been more controversial from a social standpoint).

From our perspective, the North American economy appears to be under control and steadily growing at this point. While a market correction or drawn out stagnation is possible, especially considering last years' strong market rally, we don't see any large risks on the horizon. Absent a valuation-driven correction, or a money flow correction (a heightened risk given the recent proliferation of ETFs, which are very easily sold at the first sign of trouble and don't discriminate between stocks or sectors), the environment for value-based stock picking should be pretty good.

As our long-term investors understand, we tend to focus on the less followed and, at times, un-loved stocks in the market. When we have owned momentum stocks in the past, it's usually because we invested into them earlier in the growth cycle or turnaround. Quite often, the inflection point in the share price of a business tends to signal a turn in sentiment, and we are seeing this play out in several of our current portfolio names. In the case of NorthWest Healthcare Properties REIT (NWH.UN), the focus of analysts has recently shifted from the stagnant Canadian market to the more vibrant international growth opportunities, which now make up most of its operations. Callidus Software (CALD) is another example, where the business is finally being recognized as a leader in its space; its stock has performed well in 2017, with its valuation catching up to its peers. Finally, Skyline Corporation (SKY) appears to have turned the profitability corner, and is now well positioned to take advantage of the exceptionally strong macro environment for affordable housing.



Similar inflection points are also playing out in other portfolio positions, leaving us cautiously optimistic about the outlook for the balance of the year.

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

A handwritten signature in black ink, appearing to read "BO", is positioned above the name of the signatory.

Brandon Osten, CFA
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