

THE FED COMETH

August was a difficult month for the Founders Fund, which experienced a 2.7% drop from July. This brings the Founders Fund's NAV to \$15.42, up 15.81% year-to-date and up 47.42% over the past 12 months. The Fund is up marginally over the past three months, which is reflective of our investment philosophy of being fully invested on the "long" side at all times, while using short selling only to the extent that we are trying to hedge those positions that we believe are subject to market/industry risk. We also managed to side-step the turmoil in the Canadian junior resource sector; we have always held the Fund out to be a good diversification tool for Canadians that are too heavily invested in these areas.

That being said, things are getting a little scary out there, but this comes as no surprise to us. In previous letters we have expressed concerns for the effects of overly aggressive/creative debt creation in the United States, private equity flooding the market with debt and, on the home front, overly aggressive valuations for speculative junior exploration resource companies operating largely in semi-stable third world countries. While we are not invested in these situations on the long side, and in some cases have been short these sectors, the "meltdown" of these corners of the market has had a negative effect on our portfolio. The "sub-prime" crisis in the US is hurting markets overall, and while we do not believe that our positions will be affected either directly or peripherally by these events, they can experience short-term fluctuations in their valuations. In Canada, the meltdown in the Toronto Venture Exchange (down over 15% last month), created something of a liquidity crisis in small-cap land. While we had stated that we were defensively positioned going into August in terms of the stocks we owned, we are constantly reminded of how easily a stock can go from 10x earnings to 9x earnings in a liquidity driven meltdown.

At the beginning of the year, one of our predictions was that the Fed would not move to reduce interest rates in 2007. I had still believed this to be the case right up until the poor jobs report we saw last week. It is always difficult to predict what will happen when the Fed decides to change direction. Lower rates will result in a lower dollar (which is why gold is starting to move up) which could bring inflation back into the picture. The Fed has stated that they have no interest in bailing out aggressive creditors, while they are still concerned about inflation; unfortunately this next move will be designed to help bail out the debtors and will likely weaken the dollar further (which contributes to inflation). In other words, Bernanke is being forced to do something he really doesn't want to do, and I wouldn't expect an overly accommodative Fed going forward. In any case, I don't think that a 25 or 50 point rate cut is going to turnaround the woeful housing sector, nor is it going to help those behind on their mortgages enough to bail out those who lent them the money in the first place. This cut may, however, be enough to bring interest rates and spreads back to the point where private equity can get back in the game. Time will tell.

Here at Venator, we have a tremendous amount of confidence in the Fund going forward. Our investments have that magical combination of growth, backlogs, visibility, recurring business, earnings, cashflow and, in our estimation, solid insulation from the areas negatively impacted by recent economic events. With greater than half of our investee companies trading at less than 10x expected earnings over the next twelve months, we believe that patience though this rough patch in the market will be rewarded. One heightened "risk factor" in the portfolio worth noting is the increased concentration. One thing a market meltdown does is help you discover which of your positions you are truly "committed" to, and we have reduced our number of long positions to approximately 20 (down from 30), with our top five holding now representing approximately 50% of the long-side of the portfolio. On the hedging front, we are roughly 30% short, which 20% of this position in individual stocks, and the balance in ETFs.

Finally, we would like to thank those of you helping us out in getting to our 150 required investors for our RSP Trust. For those of you who would like to help, we are still looking for \$500 investments of non-RSP money at this point. In terms of RSP investments, we currently working to make the Trust available through the FundSERV system at the major Canadian banks.

Thank you for your support,

Brandon Osten
President, Venator Capital Management