

WHERE WE ARE RIGHT NOW

All of our Funds participated in the broader market rally in September. As we said last month, we have been getting more positive on our focus sectors in the market and have taken our market exposure up in all of our Funds accordingly. We continue to emphasize conservative security selection with aggressive (for us) market exposure.

Instrument	September's Return	Year-to-Date
Venator Founders Fund ¹	5.7%	4.5%
Venator Income Fund ²	3.6%	13.2%
Venator Catalyst Fund ³	3.4%	10.0%
TSX Composite	4.1%	7.5%
Russell 2000	12.5%	9.1%
S&P Toronto Small Cap	5.9%	14.3%
S&P 500	8.9%	3.9%

1. The performance of the Venator Investment Trust approximates the performance of the Venator Founders Fund. Return is for Class "A" units.

2. YTD of Fund is for Class "F" units net of distributions reinvested.

3. The Venator Catalyst Fund has no benchmarks.

Without any new macro insights, I thought this would be a good time to talk more specifically about our Funds' current makeup, as we don't foresee a lot of near term changes at this point (as always, we reserve the right to change our minds). As usual, we are somewhat hesitant when it comes to disclosing individual positions, but we will endeavour to give you a good sense as to how we are investing your money.

30% Blue Chips: Yes we are small cap guys, but we just can't ignore some of the blue chip values we are seeing out there. Many of our readers will recall some recent salivation at the valuations of IBM and HP (10% portfolio weights in each). The thesis we have espoused for the last several months was that low debt, high free cash flow, non-cyclical companies will eventually trade in excess of 15x earnings, and should trade above 20x given that interest rates are likely to stay below 5%. This should lead to 50% gains for companies like these that trade around 10x free cash flow. IBM and HP aren't the only ones, but approximately one-third of your money is invested in \$10BB+ companies possessing these qualities.

65% Small and Mid-Caps: The bread-and-butter of our strategy, small cap companies will always be found at the heart of our investment portfolio. Naturally, there is some better growth to be found in this sector of the portfolio than the blue chip portion (Apple Inc. notwithstanding). However, due to the "under the radar" nature of many of these companies, we are often able to get these higher growth companies at very low cash flow multiples (i.e. Power-One, a leading manufacturer of renewable energy converters trading at 10x forward free cash flow). That being said, some of these companies (i.e. Tempur Pedic, the dominant manufacturer in the emerging market for foam mattresses) are a little more cyclical than our blue chips, so there is some hedging involved which we will get to below. We have a lot of these companies in the portfolio, and portfolio weights tend to range from 3%-5% in this category.

10% Speculative: Naturally these are fairly early-stage and not very well known companies, so we are not about to disclose specific names here. Descriptively, this portion of the portfolio consists of some promising technology companies, some early-stage resource companies and a high-growth, but not yet profitable, medical distribution company. We will continue to limit our exposure to higher-risk, earlier stage companies. Rest assured these companies are fairly far along in their business/technological development, but not far along enough for any of them to individually represent a more than a 3% weight in the Fund.

25% Non-equity: We have been using some of our leverage to invest in some return enhancing instruments. The majority of this is invested in debt securities that we also own in our Income Fund. This consists largely of 3-5 year bonds with yields in the 8%-10% range, or convertibles which we believe have a good chance of converting. Those of you who read our semi-annual statements may have noticed that we also hold some gold. While we are not big fundamental believers in gold, we have reasons for wanting to have a portion of the fund in the yellow metal. We think we are starting to see signs of a bubble forming, and the final stages of bubbles are often the most lucrative (i.e. 50%-100% moves in 6-12 months). Consider that gold is up less than 300% in Euro terms over 10 years (that's not a bubble). While it may have quintupled in US dollar terms over that same timeframe, oil moved from just over \$12.00 in 1998 to just under \$150.00 at its peak, with the final 12 months of its rally representing half of that gain. If gold does form a true bubble, the rapid, final 50% to 100% short term gain is still in front of us. That being said, we are not fundamental believers in gold, so this is probably the most fragile of all of our positions in terms of commitment.

-35% Hedging: As always, we have an active hedging program in place. However, with a substantial portion of the fund tied up in blue chips, intermediate term bonds, binary early stage opportunities and inexpensive non-cyclical small to mid-caps, our hedging program is a bit lighter than usual. We are essentially hedging against mainly the small-to-mid cap portion of the portfolio, and are effectively 50% hedged against this segment.

So with regard to the hedge fund, we are effectively 95% net long, and 70% net long equities. This relatively aggressive market weight is a function of both the low relative valuation of the long portion of the fund, coupled with the non-cyclical nature of the underlying securities. In other words, it is a reflection of the perceived market risk (admittedly our perception) of the portfolio, and not a directional bet on the market per se.

A quick note on the Income Fund. We don't often talk about the make-up of the Income Fund because the make-up isn't as variable as the Founders Fund. The Income Fund remains approximately 120% long, with 80% of the Fund invested in 3-5 year bonds trading near par, and the remaining 40% invested in dividend paying stocks (nearly all of which trade below 10x free cash flow). The underlying yield of the Fund's assets is approximately 9.5%.

Yours Truly,



Brandon Osten, CFA
President, Venator Capital Management Ltd.

This is intended for informational purposes and should not be construed as a solicitation for investment in any of Venator's 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.