VENATOR
CAPITAL MANAGEMENT LTD.

THE QUICK AND THE DEAD (MONEY)

For the month of June, our Funds delivered a mixed performance, with the Catalyst Fund continuing its recent winning streak and the Income Fund holding on to its solid year-to-date gains, while the Founders Fund experienced a small loss.

Instrument	June's Return	Year-to-Date
Venator Founders Fund[1]	**-1.7%**	**-4.8%**
Venator Income Fund[2]	**-0.3%**	**7.1%**
Venator Catalyst Fund	**1.0%**	**6.1%**
TSX Composite	-3.3%	0.2%
Russell 2000	-2.3%	6.2%
S&P Toronto Small Cap	-5.8%	-4.3%
S&P 500	-1.7%	6.0%

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.*

For the third month in a row, the market staged a late recovery from a mid-month 5% loss. It's tough to learn much from these moves, as they are coming on relatively low volumes. This is indicative of a lot of money on the sidelines – a bullish sign. Conversely, we can say that the downside moves seem more accepted as the norm by market participants than the rebounds – a bearish sign. While all the economic news continues to be below expectations, the trend is still positive. Furthermore, corporate profitability remains high due to an amazing ability of corporations to push through cost inflation while labour rates stay low (and hiring is pretty crappy too).

We try not to be too bullish or bearish in our Funds, as market timing is not our forte (we have seen very few people who can pull this off consistently). Our Income Fund consists mainly of shorter-term bonds where we fully expect to get paid out at maturity. The Catalyst Fund invests in low beta securities (securities with a low correlation to the stock market), while the Founders Fund's dynamic hedging model prevents it from being too directional in terms of our opinion of the next market move. That being said, we always have a few observations that are influencing how we are currently looking at securities.

The first is that Canada stinks compared to the US (to be fair, we have had quite a run). What's worse, the more Canadian you get (intermediate resources that dominate the small-cap index) the worse it gets. The US, on the other hand, is having a comparatively solid year. Growth, health care and non-resource cyclicals are the dominant themes down there, and Canadian markets are sorely lacking in these categories. Our market is all about resources and speculative startup industrials (financials excepted), while the quality industrials such as Gildan Activewear and CGI Group are rare. Canadians are starting to realize how limited their domestic investment options are. At Venator, we are North

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American-centric, rather than Canadian-centric, which helps to broaden our potential investment targets.

We have also noticed that if you are not growing you are going nowhere. While we Canadians have been enjoying the recovery by owning high beta junior/intermediate resource stocks (and lately losing money with the same), our American counterparts have been making their money with high growth companies such as Green Mountain Coffee, Tempur-Pedic and Fossil. With growth hard to come by, these high valuation stocks are moving aggressively, while the lower-growth but value investments (think Microsoft, Target and Gap) get left behind. If you want to make money in low-growth value, it better carry a solid dividend because the stocks are going nowhere.

Finally, we would encourage you not to pay too much attention to US political news right now as it is not worth your time or mental anguish. QE3 is of no concern, as the Fed's insistence on keeping interest rates low while ignoring inflation should suffice in terms of keeping credit available at current levels. We also consciously ignore all talk of the potential for the US to default on its debt in the absence of a debt limit increase, regardless of the Republicans' and President Obama's insistence on playing "nuclear chicken" in the press with this issue. As long as the Fed stays in cahoots with the Government, default is an impossibility. The key is to attempt to gauge the repercussions of either tax increases or spending decreases. If you must keep track of current issues to give you something to worry about, watch Europe and the mess that is happening over there; but don't worry too much, as the Euro is currently our largest short position.

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.

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