VENATOR CAPITAL MANAGEMENT LTD.

WHY CHOOSE?

Both of our funds kept pace with the strong August markets achieving healthy gains. We have taken net market exposures in both funds down a little because, while we acknowledge that central banks around the world continue to do their best in their efforts to force everyone into the market, we see all the risks out there, including some Lehman-esque governments that aren't out of the woods yet and the stalling of the great Chinese growth engine. Oh yeah ... and it's September!!!

Instrument (Inception)	**August's Return**	**Year-to-Date**	**Compound Growth**
Venator Founders Fund (March 2006)	**3.2%**	**20.7%**	**12.0%**
Venator Income Fund (August 2008)	**2.5%**	**15.7%**	**16.5%**
TSX Composite (March 2006)	2.7%	1.9%	3.2%
Russell 2000 (March 2006)	3.3%	10.6%	3.0%
S&P Toronto Small Cap (March 2006)	2.7%	-3.1%	0.6%
S&P 500 (March 2006)	2.3%	13.5%	3.6%

Some of you might remember our January monthly review where we touted the virtues of Apple. While this has been a great investment thus far (and continues to be a core holding of the Founders Fund), we felt compelled to trade in half of our Apple holdings for some Google recently. Why don't we fear the ghost of Steve Jobs, who famously threatened to go "thermonuclear" on Google for blatantly ripping off his iPhone? Simply because Google had already won a major battle against Apple; one that ensures it of at least a #2 slot in smart mobile devices going forward.

Google's Android operating system currently holds the #1 spot in smart phones and the #2 spot in tablets. These market share positions are reversed for Apple. Also-ran Microsoft, the only other credible threat in the space, has a major uphill battle on its hands due to its bafflingly slow response to the new era of mobile. While Google was able to come up with a successful ripoff of Apple's iOs within one year of the iPhone launch, Microsoft's response, coming this fall, took FIVE YEARS to develop. Shocking and inexcusable given Microsoft's successful history of ripping off other people's software in a timely enough fashion to perpetuate its dominance: think Mac-Windows, Wordperfect-Word, Lotus-Excel, Harvard Graphics-Powerpoint, Netscape-Explorer. But I digress.

It's clearly Apple vs Google at this point, with Apple controlling its entire product, while Google is taking a page out of Microsoft's book and licensing its platform for free, in exchange for the use of certain high value built-in services such as search. Now Apple has attacked Google on two fronts. Firstly, it has started removing certain native apps from its operating system (YouTube and Maps thus far, search could be next). Secondly, they have gone after Google's hardware licensees in court for patent infringement.

Apple's big win against Samsung was a big win on two fronts. Firstly, the judgement for Apple that protected its right to the look-and-feel of its product is going to force some changes in Samsung's copycat strategy (one Apple witness noted that Best Buy had received returns of Samsung products because the customer thought they were buying an iPad); it may even force some changes for Google's development of Android. Secondly, the less publicized victory for Apple over Samsung's countersuit with regard to industry standard patents (think wireless transmission protocols) might be a bigger blow to Google. The issue here is that industry standard technology has to be licensed to all on a fair and reasonable basis, which is both the reward and cost of getting your technology built into industry standards. But "art" cannot be forcibly licensed out, and is therefore subject to greater damages and possible injunctions. This is a big blow to Google in that it probably ends up nullifying the main purpose for its acquisition of Motorola in excess of $12B earlier this year, which likely won't be much of a bargaining chip against Apple anymore.

So if we are this up on Apple and this down on recent developments for Google, why did we buy Google (actually we bought Google, sold it prior to the verdict, then bought it back on the ensuing weakness)? *Because Google has already won the battle that gives it strong a standing in the war*. You see, Steve Jobs was right when he said that Google ripped off his greatest invention. It's obvious to anyone who has seen both an Apple phone/tablet and a Samsung product. But unfortunately, the late CEO of Apple only has himself to blame for opening the door for Google. It was Apple's decision to maintain exclusivity with single carriers in various countries that allowed Google to grab market share quickly with people who wanted an iPhone (or at least a reasonable facsimile) but were unwilling to change carriers. *This gave Google the critical mass it needed to attract enough developers to create a viable apps universe critical to success in the new mobile device world.*

To be sure, we still think Apple has the superior product by virtue of its uniformity among devices and integration, but the best product doesn't always win (there we are alluding to Microsoft again) and Google is very much in the game now. Even if Google agrees to a major interface overhaul in order to create significant "look and feel" distinction from Apple's software, they will always have the viable app store created during their ripoff phase, which is where most of the operating system value is derived from.

We also remember our studies from over a decade ago in the musings of Geoffrey Moore, who literally "wrote the book" on technology standards competition in his book The Gorilla Game; basically, when a standard in a large market is up for grabs, buy all the potential winners and sell them when it becomes obvious that they have dropped out of the race. Google also has some other virtues including a dominant position in search and video, a large number of email accounts, and a solid position in other areas such as business apps and online storage. Google is also viewed as facing a diminished threat from Facebook, which was a significant headwind to the stock earlier this year.

Both companies trade around $675, both companies are expected to earn over $50.00 per share next year, both companies have over $100 in cash per share, both companies carry high growth rates in excess of 20%, both companies carry dominant positions emerging technology markets **and, for now, both companies are in your portfolio**.

As always, we reserve the right to change our minds.

Brandon Osten, CFA
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