

OLD SCHOOL INVESTMENT STRATEGIES WORK!

We are pretty happy with the way 2012 went for us. It was a tough year for investors in general with more macro news/concerns than usual. But good old fashioned bottom-up stock picking worked for us, and we think we are well positioned for 2013.

Instrument (Inception)	December's Return	Year-to-Date	Compound Growth
Venator Founders Fund (March 2006)	-0.2%	25.2%	12.0%
Venator Income Fund (August 2008)	0.9%	20.6%	16.1%
TSX Composite (March 2006)	2.0%	7.2%	3.8%
Russell 2000 (March 2006)	3.6%	16.4%	3.6%
S&P Toronto Small Cap (March 2006)	2.4%	-2.2%	0.7%
S&P 500 (March 2006)	0.9%	16.0%	3.8%

We have always defined our investment style as buy and hold. When we buy a position, we have likely already spent a considerable amount of time finding the investment, researching the investment and developing a relationship with key individuals. This research is conducted at great expense in both time and dollar terms on our part. Therefore, it would seem wasteful to put forth all of this effort and initiate such an investment with the goal of selling it because it moved up 10% last week, or because it broke its 50-day moving average to the downside, or because the wrong government got elected in France, or some other such peripheral nonsense.

Therefore, I thought it would be a good idea to put our money where our mouth is, and give some select examples of securities that showed up on our 2010 financial statements and will show up again when our 2012 statements are released:

Founders Fund:

Apple Corp: We have owned this particular stock since 2009 and it continues to be a core holding despite the wall of worry it has been climbing as of late. The company is still growing, has at least one known trick still up its sleeve, is using cloud services to create a lock-in among customers, and is still inexpensive. As near as we can tell, despite all the concerns, the company appears to be executing against its plan, even if the street doesn't like that plan.

Boyd Group: A classic buy-and-hold stock. Boyd is the market leader in the fragmented market for auto collision repair. This one has both an organic and acquisition fuelled strategy for market and geographic expansion. It has been a big winner thus far, but it has a long-tail opportunity that we think can go on for three-to-five more years.

Hanger Inc: This stock has been a core holding going on five years now. Another consolidating market leader, this time in the fragmented market for orthopaedic services, this one is a slow and steady grower in a market that is under the radar of regulators.

Income Fund:

Atlas Pipeline (Bonds and Stock): We started with the bonds of this pipeline operator, largely on the basis of its asset value (which proved to be at least 3x the value of the debt after several divestitures), and started buying the stock as they turned the operations around and reinstated their dividend. It is now one of the premier growth pipeline companies in North America and carries an enterprise value that is still, in our estimation, below the value of its assets.

National Health Investors: There are very few investment opportunities that are better than an unlevered REIT. But this can happen on a spin-out, and is what happened to NHI when it was spun out from premier operator NHC several years ago. While the Street was calling it fairly valued based on the yield, it ignored the growth potential from its ability to lever up its balance sheet. They are still in the early stages of their growth cycle and we continue to own the stock.

Vector Group (Bonds): I hate cigarette companies. I view them as secular decliners and I don't generally like to invest in companies for a short term bounce when I think they are going down over the long term. But in owning a bond, I don't need to worry about what the business will look like in 20 years, I only need to concern myself as to whether a cashflow generating machine such as a cigarette company will be around come August 2015. This is an example of a bond we plan to hold until maturity, even though we would probably not buy the stock.

Despite all of the recent noise surrounding fiscal cliffs, debt ceilings and such, we remain focused on bottom up security selection, choosing to hedge market risk through shorting rather than going to cash. In the Income Fund we are keeping our bond maturities fairly short and have upped our stock weightings slightly.

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



Brandon Osten, CFA
President, Venator Capital Management Ltd.

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