VENATOR CAPITAL MANAGEMENT LTD.

YEAR IN REVIEW

Instrument (Inception)*	**December 2013 Return**	**Year-to-Date Return**	**Compound Growth**
Venator Founders Fund (March 2006)	**2.7%**	**31.7%**	**14.3%**
Venator Income Fund (August 2008)	**3.0%**	**16.5%**	**16.2%**
Venator Select Fund (September 2013)	**4.6%**	**16.9%**	**-**
S&P/TSX Total Return (March 2006)	2.0%	13.0%	4.9%
Russell 2000 (March 2006)	2.0%	38.8%	7.6%
S&P Toronto Small Cap (March 2006)	2.7%	7.6%	1.5%
S&P 500 (March 2006)	2.5%	32.4%	7.1%
Merrill Lynch High Yield Index (August 2008)	0.6%	7.4%	11.3%

*Estimated Performance

"I don't know where I'm goin'
But I sure know where I've been
Hanging on the promises in songs of yesterday
An' I've made up my mind, I ain't wasting no more time
Here I go again"

- Whitesnake

This pretty much sums up the Canadian investment landscape doesn't it? I mean just to break down this pre-cog statement from this prescient late-80s legendary hair band:

- ***"I don't know where I'm goin"*:** That pretty much sums up the Canadian landscape in a nutshell. Where can you go when there are so few investable ideas outside of resources and banks in this country? Also, after years of using commodity price direction as a substitute for actual fundamental research, we have a whole new generation of investors that don't know how to read financial statements.

- ***"But I sure know where I've been"*:** Canada has been a pretty crystal clear market when it comes to hindsight. You have missed out on some solid gains if you were too enamoured/over-invested in the resource trade over the past several years; and most everyone was.

- ***"Hanging on the promises in songs of yesterday"*:** Let me recall the greatest hits here - potash is no longer cyclical because China needs more protein (and we are running out of it), oil will never go down because China needs more oil (and we are running out of it), gold will never go down because China wants gold instead of US dollars, copper will never go down because China needs to build out its infrastructure - come to think of it, this sounds more like different verses of the same song.

- ***"An' I've made up my mind, I ain't wasting no more time, Here I go again"*:** There is no point in dwelling in the past. Resource cycles take years to recycle so it’s time to let go for a while. Every year is a new year in this business. As much as we would like to bask in the moment of the end of 2013, the moment's over - Here we go again!!!

Just to recap a few observations on the overall market in the past year:

- 2008 is surprisingly fresh in everyone's mind considering that the S&P500 just put up its fifth winning year in a row, four of which were double-digit gains.
- Canada just put up its third year in a row of underperformance vs the US.
- The high yield bond market also put up its fifth year of solid profitability, three of which were double-digits.
- The typical Canadian macro momentum investor finally threw in the towel on resources, but found nowhere to go given the relative limitations of non-resource investment opportunities in Canada.
- We have given up on the "China will fuel global growth" macro/La-Z-Boy guide to a bull market.
- The technology market came full circle with the crash of 2000-2001 in that we are once again, after lamenting our own stupidity just over ten years ago, back to paying big money for eyeballs in the absence of any credible plan to turn those eyeballs into profits.

And just to recap a few observations about your funds' performance:

- The Founders Fund made over 36% on its purchased investments over the course of the year. However, it lost around 7% on its short investments (3% from market-based ETFs).
- The Founders Fund returned over 31% on the year, which is pretty good considering that our hedge models resulted in us only being 60% net long on average this year.
- The Income Fund posted a 2013 return of over 16%. Of this, two-thirds came from the approximately 30% we had invested in stocks, and one-third came from our bond portfolio; I guess we should have invested more of the Fund in stocks.
- Our new high-risk Select Fund managed to post a better than 16% return in its first four months of operations.

So there you have it. We were pretty happy with the way things turned out. One of the great crimes in money management (in the eyes of investors) is missing out on a bull market, because every index you look at, as well as most Funds, are 100% long vehicles. So as the market moves up aggressively as it did for periods this year, you curse the "hedged" part of your Fund. That is until another 2008 rolls around to remind you of why caution helps you survive the ups and downs of the market over the long term. Put another way, you need to survive the downs to partake in the ups.

"*Here I go again*"

Wishing everyone a healthy & prosperous 2014!

Brandon Osten, CFA
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