Frank Capital Partners LLC

Frank Value Fund
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FRNKX, FNKCX, FNKIX

Fourth Quarter, 2012

To our fellow shareholders,

The Frank Value Fund Investor Class returned 9.02% in 2012 versus 16.00% for the S&P 500 Total Return Index. Please refer to the end of this letter for more detailed performance information.

US GDP continues to stagnate, unemployment remains stubbornly high, and the eggheads at bond shops keep calling for 5% returns in equity markets. All of these cannot preclude good businesses from growing, and thus stocks continue to appreciate. Though 2012 favored momentum and growth businesses in terms of equity price appreciation, our focus on the business behind the stock price found even our worst-performers like Western Union and Dell produced billions of free cash flow while their stock prices declined. This is something that will be rewarded eventually, and due to the dismal stock price performance of companies with sound fundamentals, we are excited to have purchased several quality companies that lagged the indexes in 2012. As active managers we despise trailing any index in any period of time, but we know it is far more important to stick to your strategy while it is out of favor, and our experience tells us patience and discipline are rewarded in the long-term. Confidence and optimism are high when we find ideas like the ones in our portfolio today.

Our outlook is one of undervalued defensive investments as a rewarding offense. Though Congress avoided the full extent of the fiscal cliff, the majority of consumers will experience an increase in their payroll taxes. More taxes means less money going towards consumer spending, which is already in peril from a decline in the savings rate. This is a great time to purchase defensive, non-discretionary companies because they will thrive in a weak-spending environment as well as experience multiple-expansion due to their low valuations. Companies like the 29 powerhouses in the Frank Value Fund are a superior place for capital, especially when one considers the possibility of rising interest rates and inflation.

In 1995 Brooklyn-born rapper Christopher Wallace, better known as The Notorious B.I.G. wrote a verse about "Chillin, sittin' on about half a million*," meaning Wallace had a handsome $500,000 to his name. Suppose Wallace had the foresight to retire from the brutal rap game, perhaps saving his money and avoiding a feud with West-coast rapper Tupac Shakur that ultimately cost the talented duo their lives. What would $500,000 in 1995 dollars buy today?**

The answer is 34% less. From 1995 to 2011 inflation averaged 2.5% per year, and compounded over 16 years this reduces the purchasing power of $500,000 1995 dollars to $329,500 at the end of 2011. If The Notorious B.I.G. had placed the cash under his mattress in 1995, he would only be able to purchase 66% the amount of goods and services in 2011 as he could have in 1995. Of course, like any wealthy individual, Wallace could have purchased fixed-income investments yielding 2.5% that would have at least kept pace with inflation, turning his $500,000 into $758,000 in 2011, and thus protecting his purchasing power – not increasing it. This is where the current zero-interest-rate environment should scare fixed income investors. Banks are paying less than 1% on savings right now, and government bonds are yielding far less than 2.5%. You are losing purchasing power if you are compounding your capital at a lower rate than inflation. Consider the increases in your grocery and health insurance bills to understand how $1 today can purchase less than $1 tomorrow.

One additional tidbit of history should also be carefully considered while attempting to protect your nest egg's purchasing power: 2.5% inflation is tame. The average in the United States over the last 50 years is 4%. From 1970 – 1980, inflation averaged 8.7% per year. This ten year run would have reduced the purchasing power of $500,000 to $222,897! This is less than half the purchasing power in a shorter time period than the previous scenario! Many economists are comparing the current environment to the 1970s, and we believe having a watchful eye on history is a prudent strategy.

In both time periods, disciplined investors in quality businesses did much better than inflation. Especially in the 1970s there were tough bear markets to contend with, but by focusing on fundamentals these periods allowed opportunistic investors to build long-term returns. We implore our shareholders, refuse to allow the Federal Reserve and the waves of bond inflows hoodwink you! The Fed is rapidly building up bank reserves, and whenever these reserves enter the system, inflation will follow. Probably before that happens we will see markets increase interest rates, and the resulting losses will be shocking to many bondholders**. Regardless of the timing of the above events, it is clear fixed income investors are desperate for yield, yet select equities in our portfolio offer extraordinary return profiles today.** We strongly believe our defensive, low-valuation businesses are an excellent place for the protection and growth of your capital, and we are happy to have our family invested alongside our clients.

* Notorious B.I.G, *Born Again* - "Notorious B.I.G."
**Hat-tip to Alfred Frank

Summary of Q4 12 activity:

Q4 Sales: eBay
We bought eBay on June 30, 2008 at an unfairly low valuation given the quality of eBay's payment processor, Paypal, and after Lehman Brothers failed in September of 2008, eBay traded at a wildly unfair valuation! Thankfully, we saw past the panic and added to our eBay position a few more times on the way down. Over the next few years, management righted the merchant auction business, and Paypal continued its blockbuster, high return on capital growth. Investors excitedly bid eBay shares up to 15x trailing EV/EBITDA in 2012, and although we are still positive on eBay growth, this multiple assumes there is nothing but smooth sailing ahead and it is too risky for our shareholders. Frank Value Fund shareholders more than doubled their money on eBay.

Q4 Purchases: Wellcare Health Plans, Heidrick and Struggles, Greenlight Reinsurance.
Similar to our eBay sale, we sold Wellcare Health Plans in February of 2012 at a valuation reflecting giddy optimism. Then, as now, we are bullish on the competitive position of Wellcare, but the valuation risk was too great versus the potential reward. While we were out of the stock, Wellcare struggled in new markets for its Medicaid plans like Kentucky, and the stock plummeted. We bought back WCG at an average price of $46.51 or about 33% lower than our February sale at $69.32.

Heidrick and Struggles (HSII) sounds like a maneuver for choking victims, but the company is actually a premier staffing agency exclusively for C-level executives and board members. With economic uncertainty high in 2012, top-level turnover low, and its European unit suffering, investors sawed HSII's price in half. Trading at 2x trailing EV/EBITDA and a measly 3x ten-year-average free cash flow, the valuation set some all-time records in our research process. Usually when a company is priced in this manner, there is serious concern about whether or not it will continue to exist in its current form. This is where HSII became jaw-dropping and a top priority. With limited competition and a solid, long-term reputation, Heidrick and Struggles is in a great, high return on capital business. At the time of purchase, HSII had no debt and 60% of its current market capitalization in cash. Earnings were flat year-over year but solidly profitable. Generally, if you can pay 2x EBITDA for a company and it still exists in a year, you will make money. We are sold on the continued existence of HSII, and our research indicates it will thrive. The company will produce cash in its niche business, which appears to be at a cyclical trough. At some point in the future there will be more turnover at the executive and board room level, and cash flow will increase even more.

We wish you a healthy and prosperous 2013!

Very truly yours,

Brian Frank
Frank Value Fund Lead Portfolio Manager

Performance as of 12/31/12	Average Annualized Total Returns					Total Return
	1 Yr. %	3 Yr. %	5 Yr. %	7 Yr. %	Since 7/21/04 %	Since 7/21/04 %
Investor Class (FRNKX)	9.02	9.09	3.22	5.56	6.56	66.31
Class C (FNKCX)	8.11	8.34*	2.47*	4.81*	5.81*	
Institutional Class (FNKIX)	9.18	9.34*	3.47*	5.81*	6.81*	
S&P 500 Total Return	16.00	10.86	1.66	4.12	5.24	53.92

* Represents an estimate based on the performance of the fund's oldest share class, adjusted for fees.

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Non-FDIC insured. May lose value. No bank guarantee. The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the Fund, and it may be obtained by calling 1-800-869-1679. Please read it carefully before you invest or send money.

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