



Frank Capital Partners LLC

Frank Value Fund

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FRNKX, FNKCX, FNKIX

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## First Quarter, 2014

To our fellow shareholders,

The Frank Value Fund Investor Class returned 0.34% in Q1 2014 versus 1.81% for the S&P 500 Total Return Index. Please refer to the end of this letter for more detailed performance information.

Author Michael Lewis has caused a well-deserved firestorm with his most recent book, *Flash Boys*, an entertaining but appalling look at high frequency trading in the US equity markets. Some industry insiders at the major exchanges have offered a full-throated, red-faced defense of these algorithmic, extremely-short-term oriented trading firms, but our anecdotal experience buying and selling equities over the past thirteen years wholeheartedly sides with Lewis' point of view. High-frequency trading has absolutely nothing to do with the business behind the stock price, and these co-located scalpers have eliminated the ability of normal market participants to execute trades in block sizes.

Articles in 2009 – 2010 on the financial website Zerohedge.com brought this issue to our attention, and we drastically changed our execution in order to minimize the legal front-running from harming us and our shareholders. Luckily, our low-turnover strategy means we are “in the market” much less often than most other asset managers, further cushioning the potential damage.

One of our two current brokers is ramping up access to IEX, the stock exchange *Flash Boys* protagonist Brad Katsuyama founded. We plan to test IEX for best execution, and should the average order size be greater than any other of the other exchanges we route business to, we will happily direct all our trades through IEX.

Claiming the stock market is “rigged” is a dangerous and misleading statement, however it is an easy sound bite for the media to perpetuate, and it rightfully gets the attention of the government regulators. At worst, high frequency traders are taking fractions of a penny from the average order. Cumulatively this adds up to billions of dollars, but for any one investor, the cost of avoiding equities over the past three years has been much higher than paying the high-frequency piper to have stocks in your portfolio.

Understanding the separation between stock price and business further illustrates the importance of focusing on the underlying fundamentals while accepting that some market participants are unethical. There will always be cheats in the game, but we believe our research process, low-turnover, and insistence on long-term competitive advantages tilts the scales in our favor. That said, any edge, any opportunity we can attain to avoid those trying to take advantage of the system is fervently implemented. We continue to believe in the strength and soundness of the US financial markets, and we are fully confident to have our money invested alongside our clients.

Summary of Q1 14 activity:

Q1 Sales: Valassis Communications, Crocs, Humana, Calamos Asset Management

Crocs and Calamos (NASDAQ: CROX, CLMS)

In February of 2013 when we purchased CROX at \$15, we believed the stock was cheap enough that we wouldn't lose money should the business continue to deteriorate. Of course, we hoped for improvement and gains, but unfortunately profits plummeted over the next thirteen months. Thanks in part to multiple-expansion from the bull-market, we were able to sell CROX at \$14.87, taking a small loss. Meanwhile, the S&P rose significantly in the same time period making the relative comparison much worse. We lump Calamos Asset Management into the same bucket because it is a similar story.

Cheap price, deteriorating business, March '13 buy price of \$12.04, March '14 sell price of \$12.90 plus a 4% dividend. CLMS business continues to weaken while management inexplicably adds to the cost structure, and we consider ourselves lucky to escape with a small gain. We have been gravitating towards businesses with better growth prospects without compromising our value principles. CROX and CLMS are mistakes we have learned from and will avoid in the future.

Valassis Communications (NYSE: VCI)

July 5, 2013 purchase price \$26.22, February 11, 2014 takeover price \$34.04 plus dividends. Unfortunately Valassis agreed to a takeover a mere few months after we initiated a position. Fortunately it was at a 29.8% premium to our purchase price. Valassis was our fourth takeover initiated in 2013.

Humana (NYSE: HUM)

We are sad to see Humana hit our valuation targets at \$118.53 per share. Humana has been a part of our portfolio since April 9, 2009 and has returned 310.71% since then. The double attack of the financial crisis bear market as well as the uncertainty created by Obamacare caused Humana and several other health insurers to trade below liquidation value in early 2009. Frank Value Fund shareholders benefitted greatly from these purchases, and we learned a lot about the healthcare system, maintaining conviction, and long-term holding along the way.

Q1 Purchases: Goldcorp, Roadrunner Transportation, Blackhawk Network

Goldcorp (NYSE: GG)

Goldcorp is one of the lowest cost producers of gold while owning mines in the safest, most stable countries like Canada and Mexico. The company also has the strongest balance sheet in the industry. Despite these stats, the plummeting price of gold in 2013 caused major declines in stock prices for all miners including Goldcorp. We simply chose the best one and initiated a position while the price was below book value. We believe GG can stay profitable even at significantly lower gold prices from here, and thus, the book value will grow.

Blackhawk Network (NASDAQ: HAWK)

Leading the gift card revolution, Blackhawk Network is an extremely high return on capital, high growth company. After its initial public offering in 2013, we remained on the sidelines due to the high valuation. A weak quarterly report and announced spinoff of the remaining shares owned by parent Safeway caused the stock to decline 20% in early 2014. Thirsty for high quality at value prices in a late stage bull market we pounced on HAWK and are thrilled to have the company in our top ten.

Thank you for your investments.

Very truly yours,

Brian Frank

Frank Value Fund Portfolio Manager

Performance as of 3/31/14	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)	25.78	15.62	24.29	8.09	9.22	135.05
Class C (FNKCX)	24.84	14.79	23.54*	7.34*	8.47*	
Institutional Class (FNKIX)	26.23	15.90	24.54*	8.34*	9.47*	
S&P 500 Total Return	21.86	14.64	21.14	6.30	7.82	104.47

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

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