



Frank Capital Partners LLC

Frank Value Fund

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FRNKX, FNKCX, FNKIX

Third Quarter, 2013

To our fellow shareholders,

The Frank Value Fund Investor Class returned 31.05% YTD as of the end of Q3 2013 versus 19.79% for the S&P 500 Total Return Index. Please refer to the end of this letter for more detailed performance information.

This bull market continues to defy skeptics and harm the bearish. Rather than constrain our investments to a directional bet, we have been selling holdings as they approach fair-value while only executing buys when our quantitative process mandates. I believe all active portfolio managers should remain true to their strategies. Proclaiming “this market is over-valued,” or any other blanket statement, is a market call, not a process. A series of market calls will inevitably turn out to be wrong. Why this treacherous obsession with the market? Active managers like us are never buying the whole market! Within this lengthy uptrend we are finding opportunity both on the buy and sell side, which is another way of saying we cannot predict the direction of the stock market as a whole and are therefore playing both sides. We view cash hoarding, in some cases, to be a contrarian move for contrarian sake.

The most poignant piece I have read regarding contrarianism comes from Bradley Nowell of the punk/ska band Sublime. The book *Sublime's Brad Nowell: Crazy Fool (Portrait of a Punk)* contains an essay Nowell wrote in high school about seeing a car with a bumper sticker reading “Question Authority” on Highway 405 outside of Los Angeles, California. Tongue in cheek, Nowell notes that since the car was driving the same direction as the flow of traffic, the bumper sticker must mean something far more important. He goes on to describe his neighbor, a Polish immigrant, who in World War II risked his life to hide Jewish friends from the Nazis. Nowell writes that his neighbor had nothing to gain, everything to lose, and yet deliberately went against authority to stand up for something morally right. To state the obvious, what we do with stock picking is nowhere near as important or life-altering as what Nowell's neighbor did during World War II, but the lessons I took from the essay are both its moral message and the different levels of contrarianism that can exist. Driving the wrong way on the 405 is certainly contrarian and questioning authority but utterly counterproductive. Defying an evil regime however is both contrarian and noble.

When investors are abandoning a sinking company en masse due to deteriorating financials and business prospects, often, but not always, the contrarian move to buy is a mistake. This is similar to driving the wrong way on a highway. Alternatively, when Wall Street analysts bemoan “uncertainty” and a lack of “clarity” while the fundamentals behind a business's stock price are strong, contrarian buying against the consensus is often the right move. Within our process we must differentiate between these situations as they are not always obvious. Contrarian for contrarian sake might make for good headlines and a trendy image of skepticism, but even today we are finding specific situations that defy such views. Of course, in many other aspects of our opportunity set skepticism is warranted, like our focus on interest rates.

We are hawk-like in our government bond rate vigil, as rising rates have a significant effect on credit availability, economic activity, and asset prices. What the Fed says or does is less important than how interest rates respond. Though tapering failed to materialize in September, rates have remained elevated relative the levels seen in the past few years.

Our process has led us to hold a bit more cash than usual, but the bear market in retailers has been fertile ground for deployment on the buy side. Credit-driven industries like autos and homes could be in for a shock should rates continue to rise. On the other side are all equities should the Fed continue down its uncharted road by increasing quantitative easing into a slowing macro economy. With more quantitative easing come lower rates, bond price declines, and more pressure to own equities. This is an unlikely scenario but our portfolio and shareholders are prepared for both outcomes, more or less QE.

Summary of Q3 13 activity:

Q3 Sales: American Express, Dun & Bradstreet, NeuStar, J2 Global Communications, True Religion Apparel, Vonage, Western Union, Nu Skin Enterprises, BMC Software

Our selling was a bit above our normal due to both the BMC Software and True Religion Apparel acquisitions closing in the third quarter. Additionally, July churned out another significant upward move in stock prices, and we took advantage with a small flurry of sales.

NeuStar (NASDAQ: NSR)

Last quarter we highlighted the wonderfully boring AmerisourceBergen. If you thought talking about pharmaceutical delivery would bore your cocktail party guests, try discussing NeuStar! NeuStar's cash cow business is operating the one and only database of phone numbers in all of North America. Increased telecom regulation as well as customers winning the right to take their phone number to a new carrier created the need for this database, and thus, NeuStar was born, originally owned by telecom providers like Verizon. With zero competition, an increasing number of phone numbers and customer churn, as well as expansion into new businesses, NeuStar is an enterprise of extraordinarily high quality. In February of 2010 we initiated a position in NSR at an average price of \$23.00 and an EBIT/EV trailing valuation of 12.5%. Compare this to the pre-tax yield on a 10-year bond at the time of at or below 2%. Additionally, NSR had growth prospects! Over the next few years NSR grew its operating income from \$173 million to \$283 million, an increase of 63%. Investors put a premium on the stable, recession-proof income of NSR and we sold at an average of \$51.94, a trailing valuation of 7.5% EBIT/EV, and a gain of 125.8%.

Nu Skin Enterprises (NYSE: NUS)

Nu Skin is a globally diversified multi-level marketing company that enlists representatives to sell skin creams and diet pills. Our entire focus during the research process in late July of 2012 was a short-case by a reputable short-seller. No, it was not Bill Ackman, who came out with his case against NUS competitor Herbalife in December of 2012. As a result of approaching NUS from the short-side, we were quite prepared when the Ackman case arose. Short-sellers lose the cash flows of these companies through the dubious marketing claims and incentives to recruit new sellers to the "scheme." I challenge our shareholders to find a consumer product not making dubious claims, like a can of coke turning your life into a happy-go-lucky musical number or an Apple product miraculously transforming you into a cool hipster equipped with dance moves. I assure you Cokes and iPads cannot save yours truly (though I still buy them.) That leaves us with the "Ponzi" system of adding new recruits. However, looking at the 10-K of NUS you can easily find 895,000 active sales people while only 54,028 are "executive" or top-tier. Less than 6% of sales people contribute anything of significance to Nu Skin's revenue. Even more sales people quit in a given year. Within the top tier, however, not many are quitting! The rewards are great if you can make it to the top of a MLM like Nu Skin, and those people tend to stay and keep selling. This thesis sounds a lot easier in words than in stock price though. We initiated on October 16, 2012 at an average of \$43.63 and a trailing valuation of 12% EBIT/EV, and after Bill Ackman went public with his HLF case, NUS plummeted to \$33.05. We elected to hold our position while sitting on a paper loss of 24% because fundamentally nothing had changed. Investor scrutiny is different than consumer behavior or competitive disadvantages. Eventually, after a few phenomenal earnings reports, NUS rocketed upwards, and we sold our entire position at \$93.54, a trailing valuation of 6.6% EBIT/EV, and a gain of 114.4%. We also collected \$0.90 of dividends.

Q3 Purchases: Valassis Communications, Liquidity Services, American Public Education, Francesca's Holdings

Liquidity Services (NASDAQ: LQDT)

Of all the competitive advantages businesses can have, "network effect" is our favorite. To understand the great value of a network, think of the telephone network. If only one person has a phone, the value is zero because that person has no one to call. The more people that get phones, the more calls can be made to more people. When a critical mass has telephone numbers, the pressure to get a phone becomes enormous, ascribing negative value to NOT having a phone. Even the most stodgy, stubborn person without a phone will be forced to get one. You can substitute "Facebook profile" for "phone" in the previous sentences for a modern example. Networks are extremely powerful things. Liquidity Services operates one such network – a series of scrap and liquidation websites. As LQDT wins more buyers and sellers to its websites, both sides of the transaction find more value. Large sellers like Wal-mart Stores choose LQDT to perform closeout functions on unsold merchandise due to LQDT's national reach and broad base of buyers. Buyers choose LQDT due to its high

quality sellers like Wal-Mart and the US Government. More sellers attract more buyers which attracts more sellers and so on. This has always been the Liquidity Services story, but only recently has the company disappointed growth investors and gone into our acceptable valuation range. We believe the long-term advantages to be intact and patiently wait while LQDT's network increases its gravitational pull.

Example of Liquidity Services consumer website: <http://www.secondipity.com/>

Example of Liquidity Services commercial website: <http://www.liquidation.com/>

Example of Liquidity Services government website: <http://www.govdeals.com/>

Francesca's (NASDAQ: FRAN)

Retailers' stock prices were pummeled in the third quarter after posting weak short-term sales. As a result, most retailers including Francesca's qualified for research based on our quantitative screens. How did we choose FRAN from the pack of low valuation retailers? Growth prospects. When we purchase an ownership stake in a company, we are entitled to a portion of all future cash flows. Though FRAN's cash flows might be similar to many of the beaten-down retailers in the past twelve months, FRAN management is opening about 20% more stores every year, with the goal of growing the store base by 150% in 8 years. Impressively, new stores have a cash return of 150%! Due to this exceptional cash production, management has authorized a \$100 million stock buyback, which is quite material on a company with a market capitalization of \$800 million. Compare that to your old-line retailer that has saturated the market and will be operating roughly the same amount of stores in the future as they are today. Old retailers can only increase profits by squeezing more out of existing stores. Newer retailers have the ability to open new stores in new markets and grow profits significantly faster than their competition. Normally, investors put a large premium on growth, and when a newer retailer fits our low-valuation criteria we aggressively take the opportunity.

Francesca's Website: <http://www.francescas.com/>

Very truly yours,

Brian Frank

Frank Value Fund Lead Portfolio Manager

Performance as of 9/30/13	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)	29.70	18.51	13.25	8.75	8.84	117.94
Class C (FNKCX)	28.73	17.68	12.50*	8.00*	8.09*	
Institutional Class (FNKIX)	30.00	18.26*	13.50*	9.00*	9.09*	
S&P 500 Total Return	19.34	16.25	10.01	5.59	6.88	84.39

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

Please see our website for distribution information: www.frankfunds.com/distribution-history. Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. You may obtain performance data current to the most recent month-end by calling the Fund at 1-800-869-1679 or visiting our website at www.frankfunds.com. Returns include reinvestment of any dividends and capital gain distributions.

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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