Frank Capital Partners LLC

Frank Value Fund
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FRNKX, FNKCX, FNKIX

Fourth Quarter, 2014

To our fellow shareholders,

The Frank Value Fund Investor Class returned 3.74% in 2014 versus 13.69% for the S&P 500 Total Return Index. Please refer to the end of this letter for more detailed performance information. The Frank Value Fund paid a dividend of $0.60 on 12/30/14. The dividend consisted of $0.52 long-term gains and $0.08 short-term.

Nassim Taleb, author of *The Black Swan,* writes about risk, philosophy, and probability. He meticulously details the numerous dangers of the natural human thought process when applied to risk management. One such danger is recency bias, where the immediate past is extrapolated into the future, making one blind to longer-term risks. From *The Black Swan:*

> Consider a *turkey* that is fed every day. Every single feeding will firm up the bird's belief that it is the general rule of life to be fed every day by friendly members of the human race "looking out for its best interests," as a politician would say. On the afternoon of the Wednesday before Thanksgiving, something *unexpected* will happen to the turkey. It will incur a revision of belief.

By failing to see the bigger picture over the full market cycle, we can end up like the turkey. Calm markets increase the temptation to craft a false narrative of low future risk. To combat this, successful fundamental value investors always see high valuation as higher risk and low valuation as lower risk. The recent path of the market is irrelevant, and macro-economic growth is secondary to individual business growth and valuation. To blatantly extend Taleb's metaphor into stock market terms, Thanksgiving is the day when valuations and fundamentals all-of-a-sudden matter again, and every day before, when the market drifts upwards ahead of fundamentals, is another feeding for the turkeys. At Frank Capital Partners we are unequivocally anti-turkey. This requires a long-term focus and the ability to see the downside when things are sunny and the upside when skies are grey. It can be quite taxing in times like now, but the long-term rewards of keeping human psychology in check are large and well worth it. Perhaps in the future we too will have a parade with floats to celebrate the inevitable demise of the turkeys. It has certainly been a tough relative year but our confidence remains high.

The bullish narrative touts further multiple expansion, a strengthening economy, and stocks as the cheapest asset class. Here is our response.

- Further multiple expansion is unreasonable and an unsound investment strategy. We buy when multiples are low yet companies are still producing profits, and we sell when multiples expand on a higher base of earnings. We aim to win both ways with this approach, multiple-expansion on top of earnings growth. However there is a limit to how high multiples should be. Great companies still have upper valuation limits and should be sold if expectations are unreasonable. Risking your assets on indefinite, undefined, or historically elevated multiple-expansion is dangerous and a likely money-loser over time. We see valuations as stretched regardless of growth with further downside risk from potential profit margin mean-reversion as well as top-line disappointments.

- An improving economy cannot guarantee a rising stock market. In 2009 while the US economy was in recession, US stocks appreciated nearly 30% and the Frank Value Fund returned nearly 50%. Stocks are a claim on the long-term earnings stream of companies. If you are going to invest, you must account for the whole economic cycle which includes expansions and recessions. Look at the energy sector as an example of the dangers of extrapolating expansion indefinitely into the future. Oil stocks have suffered immensely as the price of crude has declined. Has the

price of crude declined before? Absolutely! Did investors value energy companies as if another decline could happen? No. We believe most stocks are ignoring potential mean-reversions yet periodic declines in revenues and profit margins have happened since the beginning of commerce. As with the decline in crude, changes can be rapid and arrive without warning.

- The claim that stocks are the cheapest asset class is similar to debating who the nicest serial-killer was. Relative comparisons are flawed and troublesome. Stocks may be cheap relative to bonds, but in absolute terms, both asset classes look menacing. In the tech bubble of 1999 Microsoft was cheap relative to Pets.com, but both had negative future returns from that point. We have already seen individual names and sectors experience significant declines from lofty heights, and we believe this will continue in 2015. If stocks and bonds are risky where do you put your money? Stock-picking is more important today than any time in the life of the Frank Value Fund. We believe the companies we own are in a class of their own.

Amidst the din of market cheerleaders, new-fed-paradigm pundits, and passive lemmings, we cling to this one and immensely important fact: **Based on our primary, EBIT/EV valuation metric, The Frank Value Fund portfolio is over 50% cheaper than the S&P 500!** In absolute terms our portfolio was cheaper in 2009, but the market as a whole was also quite cheap then. That is definitively not the case today. Our portfolio is cheap, otherwise we would not be invested in these names, but the S&P 500 is teetering on a dangerously high valuation. We believe the S&P is setup for dismal performance over the next 5 to 8 years while the Frank Value Fund's valuation indicates high single digit positive long-term returns. Any investor using valuation as an indicator of expected returns would be pleased with our current portfolio. We believe exchanging most equity strategies for the Frank Value Fund will lower the valuation of your overall portfolio and increase future expected returns. We also are holding cash, and should the market as a whole decline, we can deploy that cash quickly, nimbly, and according to our process, to raise our return expectations further.

We used some of our cash to purchase two quality small caps in Q4 after six months of inactivity. Though valuations broadly look high, our process avoids market calls. The buys we made show if quality and valuation meet, we are able to add great companies to the portfolio while remaining agnostic to the average valuation of the market. Trying to predict market peaks and valleys is impossible. Our quantitative process enables us to maintain a rational approach.

As far as turkeys are concerned, consider this. The closer the turkey is to Thanksgiving, the higher its confidence in its present condition. From the turkey's perspective, looking backward, there is more and more evidence that humans are kind and life continues status quo. In fact, the day with the most cumulative evidence of safety happens to be the morning of the turkey's demise. The past is past. We are proud to have outperformed this bull market from its beginning in March 2009 to today. It has certainly been bumpy and difficult because of the uncharted nature of central bank intervention as well as the drift beyond fundamentals in late 2013 and all of 2014. However, we believe that the future will look nothing like the recent past. A starting point in January 2015 points to a world of difference between what our fund owns and what the averages represent. This is our compass and keeps our confidence and passion high despite our relative under-performance in 2014. The Frank Value Fund is poised for a major breakout and the numbers provide all necessary conviction for this call. We would happily take this starting point at any time, as it is an active manager's dream! Good luck to anyone ignoring valuation, just watch your neck.

Summary of Q4 14 activity:

Q4 Sales: News Corp, Quality Systems, Cisco, NVIDIA.

NVIDIA (NASDAQ: NVDA)
We purchased NVIDIA in April of 2013 at an average price of $12.68 and sold in October of 2014 at an average price of $20.45 for a gain of 61.3%. NVIDIA was 40% cash at our purchase price, representing a great margin of safety. The valuation on earnings was also quite low. NVIDA increased profits during our holding period and investors, as with most stocks, rewarded the company with a higher multiple on earnings. From a historical perspective, there is little upside for multiple expansion left on NVIDA, and a lucrative deal with Intel expires in the coming years, making NVIDIA a sell.

News Corp (NYSE: NWS)
News Corp split into two companies in June of 2013, 21st Century Fox, with all the television assets, and News Corp with the newspaper, publishing, Asian real-estate, Australian cable assets, and cash. The most interesting thing about News Corp was its $9 billion valuation, with $7b in cash and liquid assets. That left an extremely low valuation on the Wall Street Journal in addition to $2.5 billion of cash. Usually with spinoffs, management aggressively buys back shares after their stock options price a few months after the spin. Instead, Newscorp management delayed all action with their cash for a solid twelve months. Afterwards, instead of buying back their stock, rewarding shareholders, they elected to destroy value to protect their position in the dying newspaper business through several stunningly overpriced acquisitions. These purchases eliminated much of cash and margin of safety, and we sold in October at the same average price as our purchase.

Q4 Purchases: Xoom, IPC The Hospitalist Company

Xoom (NASDAQ: XOOM)
Unlike almost every stock in the market, XOOM is down 50% from its peak. Unlike most stocks that have declined, XOOM continues to increase profits and possesses a sound competitive advantage. Xoom is a money transfer company, specializing in bank account to bank account transactions originated on its website, xoom.com as well as mobile phones. Money transfer in general is a fast growing business, and money transfers on the Internet and mobile are accelerating at an even greater rate. Our research shows Xoom has technological advantages versus its competitors as well as a lack of conflicts of interest because Xoom refuses cash transfers. The stock declined because the company disappointed growth investors. We believe over our holding period revenues will continue to grow and Xoom will again receive a high multiple on these revenues.

IPC The Hospitalist Company (NASDAQ: IPCM)
IPC is a similar case to Xoom except IPC competes in the healthcare industry. Also a growth company in a growing industry less subject to the wild cyclicality of sectors like energy, IPCM missed growth investor's lofty targets and subsequently fell into value stock territory. We snapped up shares and are happy to watch this hospital staffing company ride the trends of more Americans in the healthcare system, more hospitals outsourcing staffing, and the aging population using more healthcare services.

Current Holding Update RPX Corporation (NASDAQ: RPXC)

In 2014 portfolio holding RPX Corporation's stock price declined from $16.95 to $13.79 or about 20%. For the twelve months ended 9/30/14, RPXC produced $173 million of operating cash flow and $222 million of EBITDA. The company added new products, new clients, and recently participated in a multi-billion-dollar patent deal with several major tech companies, operating as the clearinghouse, a vision management has had for the company since its inception. In the past year, the company's valuation has gone from 31% cash, 3.65x EBITDA to 39% cash and 2.1x EBITDA. When the market goes against us, we focus on the fundamentals. In this case the fundamentals are strengthening and we believe it is only a matter of time when the company is valued more appropriately. In the meantime we wait and watch management grow the business.

Thank you for your investments. We wish you a prosperous 2015.

Very truly yours,
Brian Frank

Frank Value Fund Portfolio Manager

Performance as of 12/31/14	**Average Annualized Total Returns**						**Total Return**
	1 Yr. %	**3 Yr. %**	**5 Yr. %**	**7 Yr. %**	**10 Yr. %**	**Since 7/21/04 %**	**Since 7/21/04 %**
Investor Class (FRNKX)	3.74	16.79	13.66	7.99	7.82	8.87	143.02
Class C (FNKCX)	2.92	15.89	12.91*	7.24*	7.07*	8.12*	
Institutional Class (FNKIX)	4.01	17.08	13.91*	8.24*	8.07*	9.12*	
S&P 500 Total Return	13.69	20.39	15.44	7.27	7.67	8.37	131.68

* 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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