FRANK VALUE FUND

UNCONSTRAINED INVESTING IN US EQUITIES

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Frank Capital Partners LLC

Q3 17 LETTER TO SHAREHOLDERS

The Frank Value Fund Investor Class returned (-0.16)% as of 9/30/17 compared to 14.24% for the S&P 500 TR Index. Please see the end of this letter for more performance information.

Psychology continues to reign supreme in US stocks, keeping our performance challenged. To reiterate our stance, we are highly confident all gains investors have currently enjoyed will be violently reversed. This valuation bubble remains unsupported by mathematics and when buyers inevitably turn into sellers, the only bids left will be at materially lower levels that attract fundamental investors like ourselves. In speaking with clients and other investors, there seems to be a consensus that there are no downside risks in sight. I have listened to investors expecting smooth sailing, with no attractive alternatives to stocks. A typical response to our macro and micro concerns on valuation is "valuation does not matter in this market." My response has been, "does that mean valuation never matters?" If you believe the world's Central Banks have achieved omnipotence, money is free and consequences are nil, and you also embrace that the S&P 500 price is a made-up number that will provide a steady 8% return from here to retirement, then no, valuation is not for you. However, if you have seen Central Banks fail to prop up markets like in 2001-02 and 2007-08, create bubbles by keeping interest rates too low for too long, and exacerbate long-term volatility by intensely suppressing it in the short-term, there is ample cause for a vigorous reexamination of current risks. Valuation may not matter today, but tomorrow it could, and ultimately valuation is paramount.

Today's environment is a dynamite cache next to a fireworks display – I can't tell you when the boom will happen and volatility explodes, but I can certainly tell you the risks are extremely high and obvious. Lack of an explosion does not indicate safety. The catalyst is math – if you were a billionaire and were to purchase corporations outright, a horrifying majority of companies are priced to deliver 0-2% real returns before accounting for business risks or recessions. These dismal returns do not include a potential rise in interest rates, unemployment rates, new competition, changing consumer tastes, demographic shifts, etc. Prices assume flawless execution with no outlying shocks, ever. If I couldn't hold my shares of the Frank Value Fund and had to choose between stuffing cash in a mattress or holding the S&P 500 for the next ten years, I would Rip Van Winkle straight to the bed.

Rather than continue last quarter's deluge of scary charts, as we are further in record high valuation territory, I will instead highlight a company on our wish list – Black Knight Financial Services (NYSE: BKI.) Although we are unable to make an investment case on 99% of stocks we follow, we can still uncover gems that we will take concentrated positions in during the next bear market. We cannot control the extremes the stock market regularly visits, but we can be patient and develop a phenomenal wish-list while we wait. Our research starts at the quantitative level, but the bulk of the grunt work is figuring out the hallmarks of quality that are even more likely to produce outsized returns than simple multiple expansion. Presently the quantitative side is bursting with risk, but company quality is slow to change and evolve. In today's frothy environment we identify low quality by observing management teams borrowing money to repurchase stock at elevated levels, maintaining unsustainable dividend policies, and attempting to grow through acquisitions.

Black Knight Financial Services hit our radar screens because a control owner is a public company – Fidelity National Financial (NYSE: FNF.) After Black Knight completed its initial public offering in 2015, Fidelity controlled 83% of the newly public Class B shares. Two years later, shareholders of FNF have enjoyed a 100% return on their Black Knight investment and FNF management is looking for a way to distribute the shares in a tax-efficient manner. Management chose a spinoff transaction, where FNF will transfer all its shares of Black Knight to its own shareholders tax-free. We track these transactions closely because they tend to be inefficient – shareholders of FNF might have no interest in holding Black Knight and elect to sell.

Par for the course in today's market, the spin off did not cause any disruption in Black Knight's stock price, and it is currently out of our valuation range. However, we believe the company is worth tracking because it enjoys a high quality competitive advantage in a large and growing market. Black Knight markets a Software as a Service (SaaS) platform to banks and other lenders for mortgage origination, servicing, and foreclosure. As the industry modernizes into SaaS platforms, BKI is the clear leader with 62 of the 100 largest banking institutions using its software. This creates a lock-in, network effect, where banks looking to adopt an updated mortgage data and analytics platform will use the market leader because it is the industry standard that most participants have already encountered.

There is a long runway for revenue growth, and management has indicated they expect to grow top-line at 7-9% per year. This is much faster than the global economy, and with margin expansion due to scale and pricing power, BKI could increase its profits in the low double digits for years to come. This setup is something we would pay a premium price for, generally around 10x EBITDA. BKI is currently trading around 16x this year's expected EBITDA, or a 60% premium to what we believe would generate an acceptable long-term return.

At the current valuation, BKI must execute flawlessly. There must be no sales misses due to botched software rollouts. New competitors must be kept benign. In a recession, sales must continue to grow with foreclosure revenue completely offsetting origination declines, and customers must maintain their spending despite internal budget cuts. Furthermore, investor expectations must remain where they are today – for 0-2% annualized real returns. Should equity holders demand higher returns because of rising rates, rising inflation, or rising risk aversion, BKI will trade materially lower than today's price. These factors lead us to believe there is far more potential downside in the stock than upside. Expectations for returns can't get much lower, which should put a cap on the stock price. There is just more risk than reward and we demand to be paid for taking risk. Currently, BKI trades at $42 per share, and our target price is around $25 which is 40% lower.

We see tremendous risks in most stocks. Due to our large cash reserves and holdings in lagging value stocks outside the steady inflows of ETFs and indexation, our performance continues to waiver. Please feel free to contact us for a detailed presentation on valuation and the absolute metrics we use to justify every purchase. In almost any time in our history we can find over 100 stocks that fit our criteria, but today that number is 10. This is why we continue to focus on our process and remain patient, and I encourage our shareholders to do the same. We aim to win by not losing here, as we believe the upcoming large losses in most US stocks will impair most investors' long-term goals.

Thank you for your investments.

Sincerely,

Brian Frank

Lead Portfolio Manager

Frank Value Fund

Performance as of 9/30/17	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)	(-0.29)	0.43	7.05	8.82	5.26	6.71	135.68
Class C (FNKCX)	(-1.03)	(-0.30)	6.24	8.05	4.51*	5.96*	
Institutional Class (FNKIX)	(-0.13)	0.65	7.32	9.07*	5.51*	6.96*	
S&P 500 Total Return	18.61	10.80	14.21	14.36	7.43	8.69	200.42

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

1 - http://www.cnbc.com/2017/03/31/stocks-had-a-solid-first-quarter-thanks-to-record-flows-into-etfs.html

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