FRANK VALUE FUND

UNCONSTRAINED INVESTING IN US EQUITIES

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Q1 18 LETTER TO SHAREHOLDERS

The Frank Value Fund Investor Class returned 1.13% in Q1 2018 compared to (-0.76)% for the S&P 500 TR Index. Please see the end of this letter for more performance information.

We are pleased our portfolio posted a positive return in the first quarter while the indices declined. This is merely a step in the journey to normal valuations. This could be the beginning of a topping process, or the markets could have already peaked in January, as the top will only be obvious with the benefit of hindsight. What remains under our control is attention to process. Let's revisit McDonald's, last quarterly letter's topic, to see how the slight decline in markets affected the valuation and future return expectations.

McDonald's declined from $173 to $156 by the end of the first quarter. This shocked blue chip dividend investors used to the daily bid higher, but since MCD and almost every other company began 2018 at record high valuations, this decline failed to present an attractive entry point for long-term gains. As mentioned in the Q4 2017 letter, McDonald's started 2018 with a 2.0% FCF/EV yield, or roughly a 40-50 year wait just to make back your principle. At the end of Q1 2018, MCD's FCF yield was 2.4%. The median FCF/EV range over the past 12 years is 3.7-5.1%. That means MCD is still trading above the high end of its range. The stock has to decline to $90 to hit its most expensive median valuation! For a 5.1% FCF/EV yield, the stock must trade at $58. In plain English, the mere blip in McDonald's stock price in Q1 is just a McFlurry while we are waiting for the blizzard.

At least the weather is changing! We see cash-burning companies like Tesla face tightening credit conditions, and high-flying momentum stocks like Facebook, Amazon, Netflix, and Google leading the violent reversals on down days. These warning signs are new in 2018 and most investors are hoping the good times will return. With our focus on valuations we believe there is much more downside to come, and this failure of the stock leadership is more likely an indication of risk aversion which has been spreading from crypto currencies to bond yields, to momentum stocks. Only when stocks decline do investors search for meaning, looking to rationalize their losses by blaming something other than the underlying weakness in fundamentals and record high valuations.

Earlier in the quarter we took advantage of investors' voracious appetite for technology issues and sold our Shutterfly position at $80.72 for an average long-term gain of 83% in the twelve-month holding period. Our thesis had played out perfectly, with the new, cost-conscious CEO closing money-losing businesses and focusing on the main brand. The company's Q4 earnings reports exceeded analyst expectations, boosting the stock, but what really caused a rush of buying was the announcement of a questionable acquisition. Shutterfly is buying Lifetouch, the largest elementary school photography business in the United States. While we agree this is a perfect market for Shutterfly, taking school photos of kids and offering all kinds of personalized products to the parents, we are disappointed at the price and reporting of the takeover. According to management, they paid 8x adjusted EBITDA for Lifetouch. This is a cheap multiple for most companies, and when you think about the potential cross-selling between Shutterfly and Lifetouch, it looks like a bargain! Buried in the investor presentation is Shutterfly's definition of Adjusted EBITDA. They remove $72

million of costs from Lifetouch's profit and loss statement because these are employee non-cash compensation costs. This is stunning because we believe these are real costs, and the entire adjusted EBITDA for Lifetouch in 2017 was $100 million! Taking these costs out reduces the true income to around $28 million, or nearly 30x what Shutterfly paid for the company. We consistently include employee non-cash compensation costs in our company valuations. These are real costs required to keep employees and regardless if they are non-cash, the shareholders always end up footing the bill through dilution. A rising market hides sins like these as adjusted numbers now make up most headlines and lead to large gains, but fundamentals are always truthful and they are demanding more attention lately. Digging into these details and getting the analysis right is what differentiates us from other investors and protects our profits.

Though it is early in Q1 earnings season, the few companies we follow that have reported are facing margin pressure. This is a sea-change from 2017 when companies enjoyed record-high margins due to the absence of input inflation and stagnant employee wages. Both these have changed in 2018, with commodity producers passing on costs to their customers, and the extremely tight labor market finally putting upward pressure on wages. These pressures remain something to watch.

What should cause investors pause is almost all the metrics participants use to value companies are based on income, either pre-tax or post-tax. If margins decrease, income decreases, even in cases where sales are increasing! This is known as an "earnings recession." The economy may be bumping along at 2-3% growth, but companies could potentially report income declines as the percentage of profit they receive from every dollar of sales decreases. With analysts expecting huge gains in earnings in 2018 and 2019, a reversion to the mean in margins is certainly a potential downside surprise.

We are still scouring every corner of the public markets for acceptable investments, but it is going to take more than the S&P 500 reverting to December 2017 levels to enable us to deploy capital at acceptable levels of risk. However we are encouraged. Our portfolio did what it is positioned for on the down days in Q1, outperforming the broader market. We believe this will continue, though not in a straight line. Investors are slowly becoming more risk averse which usually leads to multiple compression. Fundamentals like margins, car registrations, and loan delinquencies are showing cracks even if the narrative is focused on taxes and tariffs. Frank Value Fund portfolio companies are in a great position to act opportunistically when others are burdened by debt or cyclicality. Add our current holdings to the optionality embedded in our cash and we believe there is potential for superior future returns.

Thank you for your investments.

Sincerely,

Brian Frank

Frank Value Fund Lead Portfolio Manager

Performance as of 3/31/18	Average Annualized Total Returns					Total Return
	1 Yr. %	3 Yr. %	5 Yr. %	10 Yr. %	Since 7/21/04 %	Since 7/21/04 %
Investor Class (FRNKX)	-3.16	-0.41	4.42	6.24	6.34	131.99
Class C (FNKCX)	-3.83	-1.14	3.65	5.49*	5.59*	
Institutional Class (FNKIX)	-2.90	-0.46	4.70	6.49*	6.59*	
S&P 500 Total Return	13.99	10.77	13.30	9.49	8.81	217.95

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

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