FRAZIS

• CAPITAL PARTNERS •

Global, hedged, thematic investment strategies

Executive Summary

Frazis Capital Partners Pty Ltd manages a USD fund that has returned **21% net IRR** over nearly 2 years. Over the past four years and ten months, the strategy has grossed over 3x the return of the ASX and over 2x the return of the S&P500.

The fund targets a ~100% allocation to independently-discovered global, thematic, value stocks. After careful consideration of risk and fundamentals, the manager only invests when the forecast return annualizes to over 25%. The average holding period of current equity investments is over 300 days.

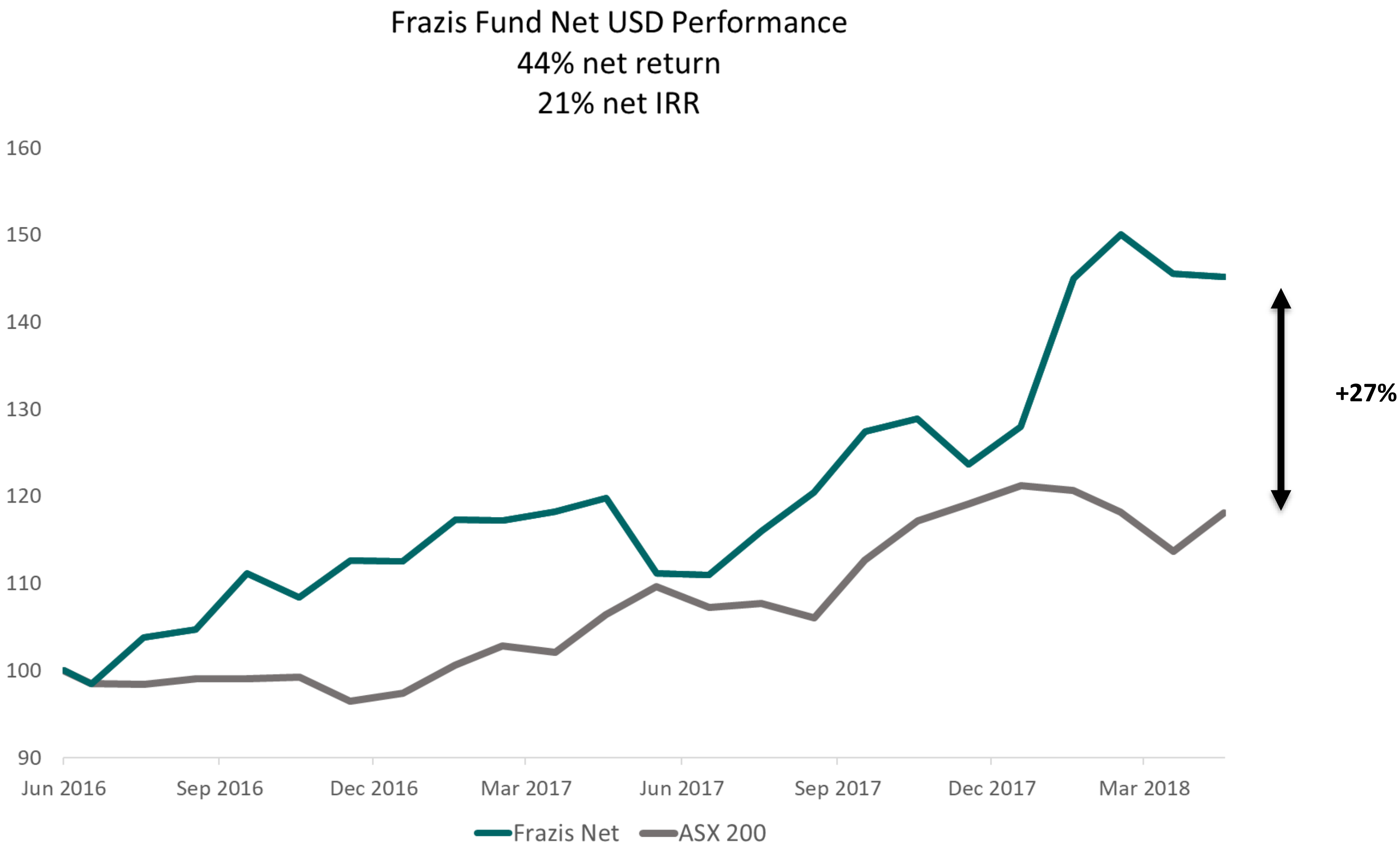
The manager is singularly focused on risk and hedges extensively. Effectively, the fund purchases market insurance, and opportunistically sells stocks short (targeting 5 to 30% exposure). When the insurance pays off, the proceeds are incrementally invested in global equity markets.

The fund runs multiple strategies that are designed to complement each other, and has discretion to take advantage of opportunities where they come.

On 1 July, Frazis Capital Partners is launching this unique strategy as an AUD-denominated, Australian-domiciled unit trust, which is optimised for Australian investors.

Investors who commit more than A$500k before 1 June 2018 will be classed as 'Founding Partners', and receive a 50% discount on the management fee and performance fee. This will apply for the lifetime of their investment, as well as to any additional investment.

Performance



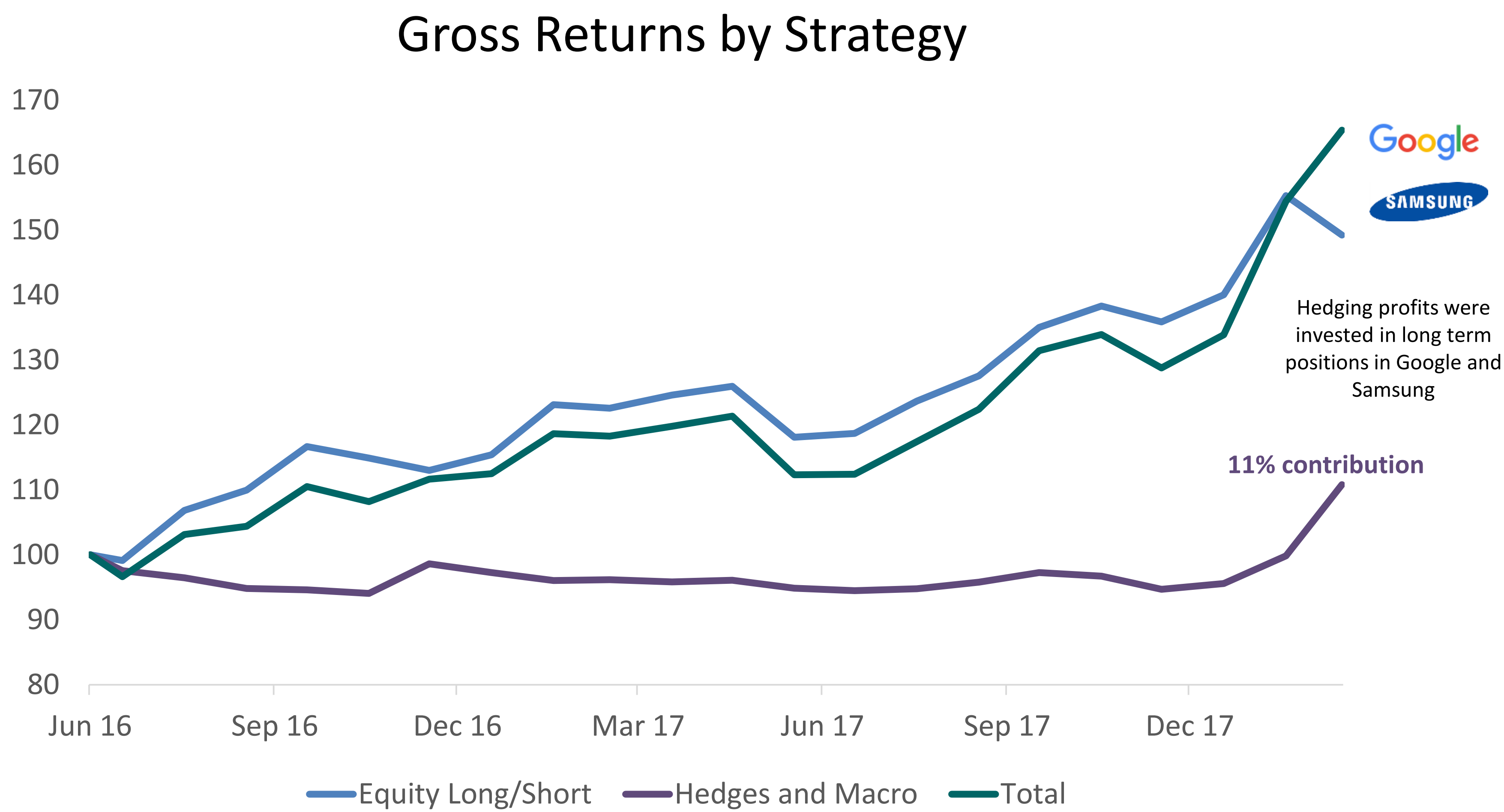
Strategy

We monetise the two defining market dynamics

Market Dynamic	Portfolio Structure
1) A steady upwards drift in price, roughly equivalent to after tax corporate earnings	• We identify 25-40 high quality companies, industries and themes • We stay 100% invested in our best ideas • We buy earnings as cheaply as possible
2) Short, sharp crashes	• Effectively, we buy insurance, and when it pays off, we reinvest the proceeds in stocks. • Practically, we buy options on equity and volatility indices.

Our strategies combined outperform either one alone

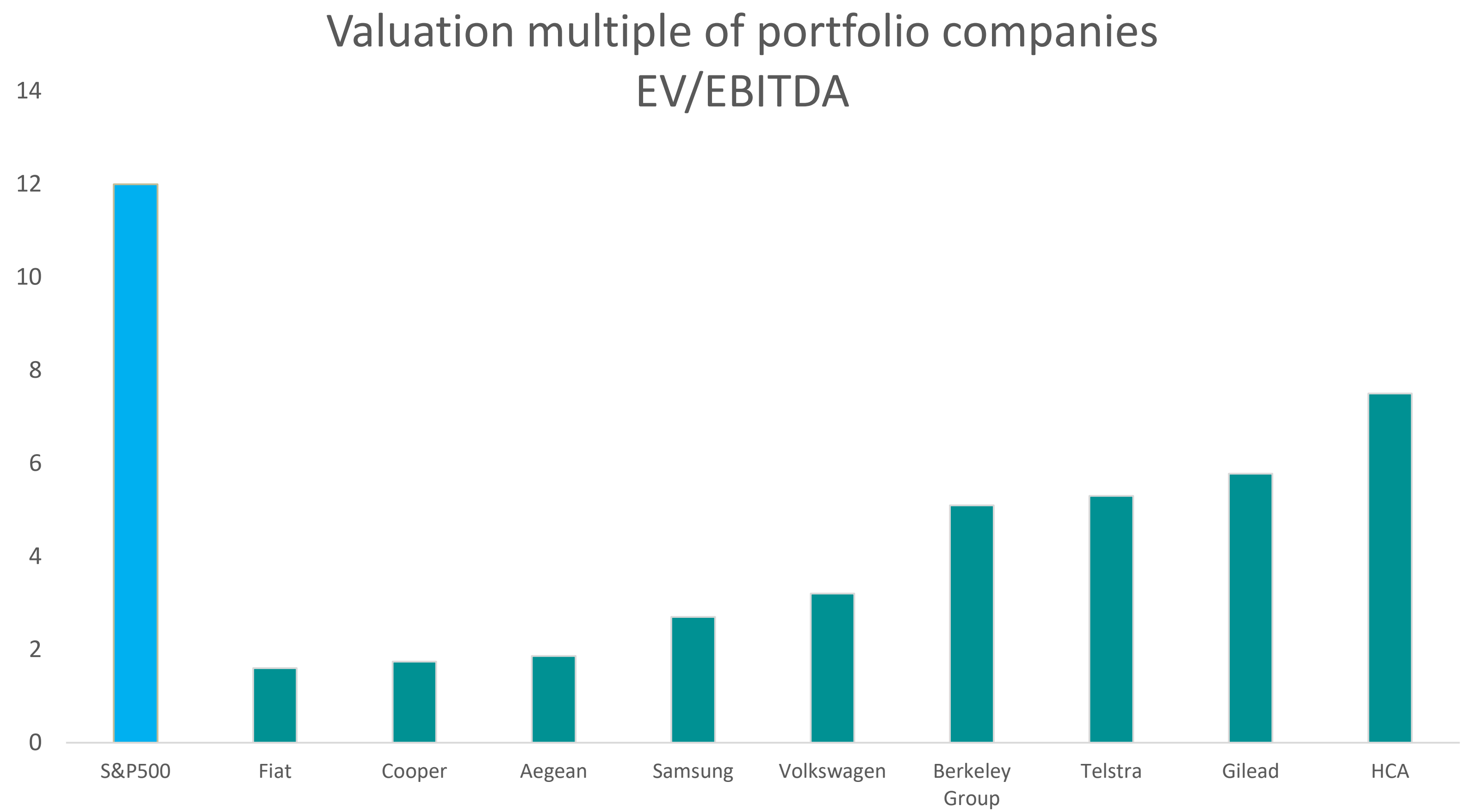
Hedges generate profits in sell-offs which are then invested in our core portfolio of high quality stocks



What are we investing in?

1. **Global brands**
2. **Gene editing and immunotherapy**
3. **Healthcare**
4. **Premium land at ~20% yields**
5. **The rise of discretionary spending in China**
6. **Artificial intelligence and data**
7. **Growth and increasing concentration of financial capital**
8. **Recoveries in Brazil and Europe**

We identify high quality companies with thematic tailwinds at low prices



We only invest when expected returns are above 25%

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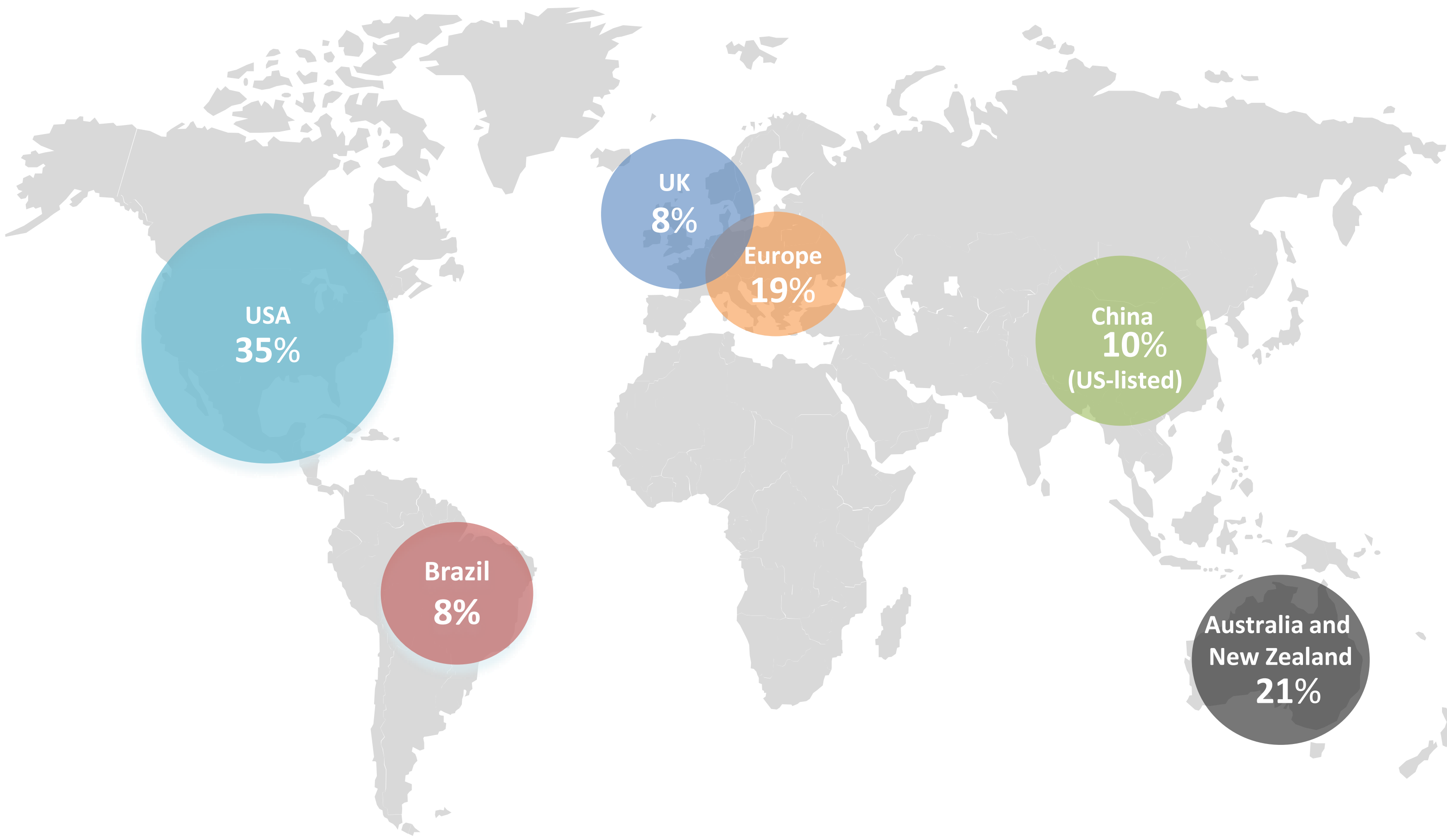
Note: Cooper Energy is 1.63X 2020 consensus EV/EBITDA, Volkswagen is 3.5X 2018 Goldman Sachs EV/EBITDA

Our mandate is global

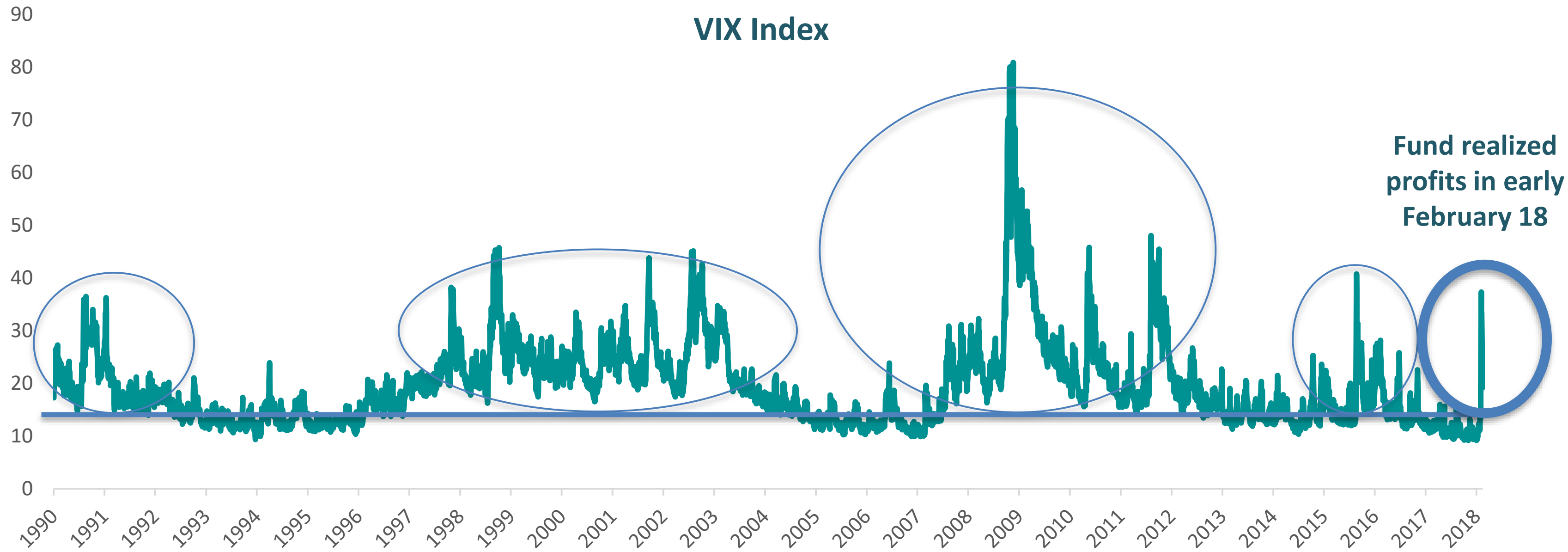


How are we hedging?

We hedge using a wide range of instruments.

We often buy exposure to the VIX index for its **asymmetry**.

In a crisis we expect to make far more than we risk.



Our portfolio outperforms its component stocks

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Note: The VIX is calculated from a range of option prices on the S&P500. A lower zero bound of the VIX exists as option prices can't be negative. A VIX at 0 implies free optionality. The upper limit is technically unbounded, but in practice, an option will never trade above the value of the underlying. Given options have set expiries, will almost always trade at a significant discount.

Risk management drives returns

We use **simple rules** to manage risk:

1. We limit direct equity investments to 100% of our portfolio at initiation.

2. As markets decline, we incrementally realise profits from our hedges and reinvest them in our best ideas.

3. We don’t sell insurance, but we often buy it.

4. We like to buy multiple companies to express a theme.
   - For example, after Brexit we purchased three land bank developers.
   - Similarly, we invested in five genetic engineering companies, rather than only our favorite.

We always own portfolio protection

How do we manage currency?

We select investments from the full set of global opportunities.

As currencies oscillate, our strategy captures mean reversion.

We keep currency exposures within well-defined ranges.

March 2018	FX Exposure
AUD	38%
USD	37%
EUR	10%
GBP	10%
JPY	5%

We measure our performance in USD

Who are we?

Michael Frazis – Portfolio Manager

Prior to founding the firm, Michael spent five years in private equity in London, after completing internships in Goldman Sachs Special Situations Group and the Boston Consulting Group. Michael read Chemistry at Oxford University, Magdalen College and has a Masters of Finance from the London School of Economics. At Oxford, Michael's research focused on the scale-up of enzyme-catalyzed fuel cells in the same laboratory that pioneered lithium batteries. Michael came first in Australia in the 2006 Chemistry Olympiad.

Peter Stevens– Analyst

Peter has completed internships in stockbroking (JB Were), M&A advisory (Brenowen Cross Capital), wealth management (Yellow Brick Road), and shipping (AM Nomikos). Peter is qualifying as a civil engineer at UNSW, while studying commerce. He is a fervent student of the traditional Graham and Dodd school of value investing.

Samuel Diacos – Advisory Committee

Samuel became an advisor to Frazis Capital in January, 2018. He also serves as the Managing Director of Spring of Life, a US based supplement brand selling through e-commerce channels. Prior to joining Spring of Life, he worked in Goldman Sachs' Sydney, Australia office, in the M&A division. There he advised on several prominent transactions including the $1.5bn sale of Swisse Vitamins to Biostime, and Treasury Wine Estates' $700m acquisition of Diageo's US and UK wine assets. Sam holds a Law Degree and an Arts Degree from the University of Sydney.

Key Terms of new AUD Fund

Management Fee	1.5% per year
Performance Fee	20% of net profits
Minimum investment	A$100,000
Withdrawals/Redemptions	Monthly, 30 days notice
Reporting	Monthly
High Water Mark?	Yes
Buy / sell spread	0.25% paid to the Fund (not Manager)
Reporting	Monthly Statement Monthly investor letter Online portal
Legal advisor	Minter Ellison
Administrator	Mainstream
Tax and distributions	Pitcher Partners
Trustee	Evolution Trustees

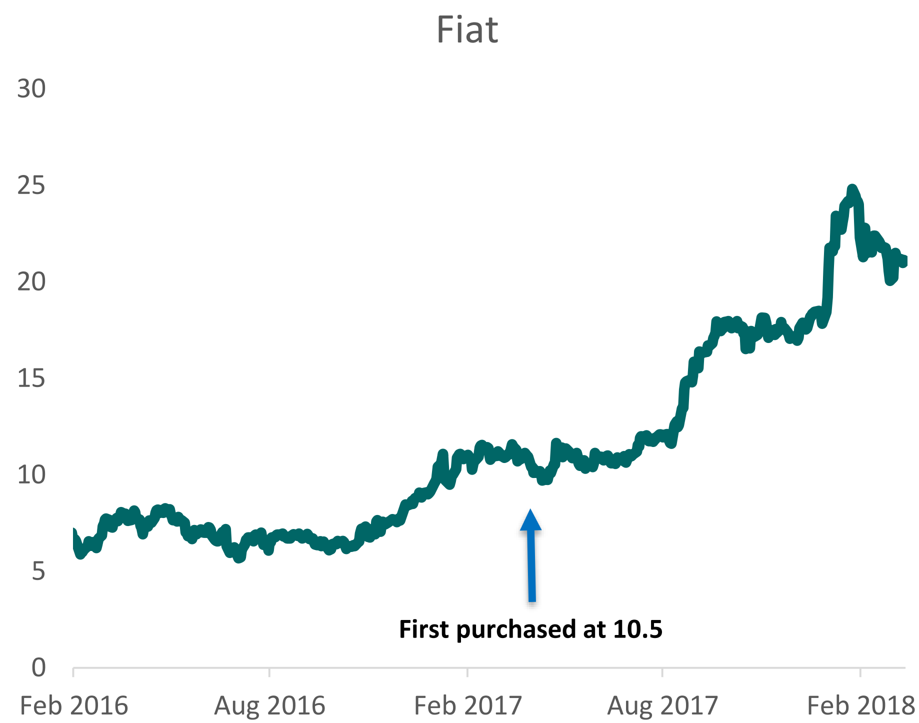
Full terms will be outlined in our Investment Memorandum

Case studies

Brands: Fiat (and Jeep, Alfa Romeo & Maserati)

Theme: Fiat was trading at one tenth the value of the market, with a suite of valuable brands and a highly favorable product mix.

- After significant fundamental improvement, Fiat's forward EV/EBITDA **dropped from over 3x to 1.2x.**
- CEO Marchionne has been actively looking for shareholder-friendly ways to sell or break up Fiat.
- Jeep alone may be be worth more than the current enterprise value. Maserati and Alfa Romeo may soon be spun out as a luxury brand, and the parts manufacturer Magneti Marelli could also be spun off.
- We purchased at an equity valuation of ~14 billion euros when Fiat was **making more than 10 billion euros** of operating cash flow every year.
- Ferrari was spun out in Jan 16 and promptly became more valuable than original Fiat itself, showing the break-up value on offer.

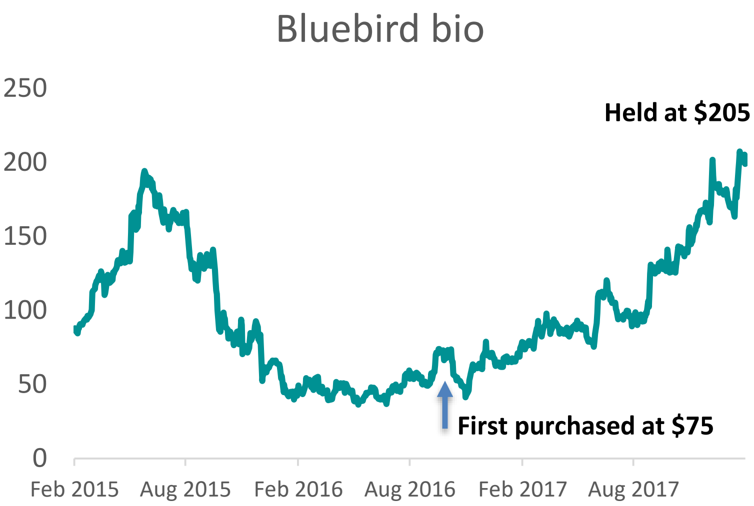


Gene editing and immunotherapy

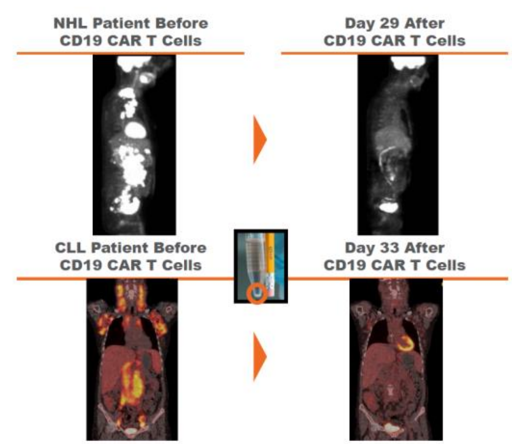
Biotech is fraught with risks. **But we are not in the business of gambling on trial outcomes.**

However, there are three reasons why we believe immunotherapy offered an excellent investment opportunity.

1. **Early trials are more significant**
   Most drugs are small molecules, and by their very nature, hit multiple receptors in the body. This causes side effects that are only apparent in large scale trials, leading to high rates of failure. Genetic therapy is highly targeted, so we believe a Phase 1 cure is far more likely to make it to market.
2. **Sustainable competitive advantage**
   Unlike drugs, which can be easily copied by generic manufacturers, these treatments are highly complex, requiring complex supply chains and expertise. Specialist companies are prime acquisition targets for large pharmaceutical companies.
3. **Treatments are cures, extremely valuable, and priced accordingly**
   Some may be priced at $500k. This is still a commercial benefit to insurance companies, who save on decades of medical care, and the patient receives decades of productive life.



Juno's treatment for two cancers



avexis GILEAD bluebirdbio JUNO THERAPEUTICS

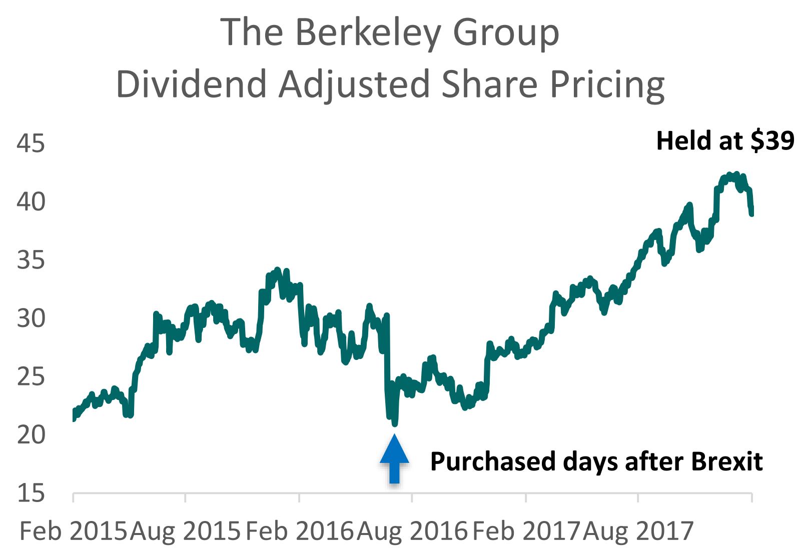
British developers purchased after Brexit

We purchased these in the panic after Brexit.

UK land has excellent supply/demand fundamentals, mostly as land release is highly restricted in the UK.

Furthermore factors that increase their major costs (land and wage inflation) are likely to be greatly supportive of asset values.

- At purchase, Berkeley had net cash on its balance sheet (over £500m now) and was real estate-backed by some of the most valuable land in the world, in London and South East England.
- The firm traded on a base return on enterprise value of over 20%.



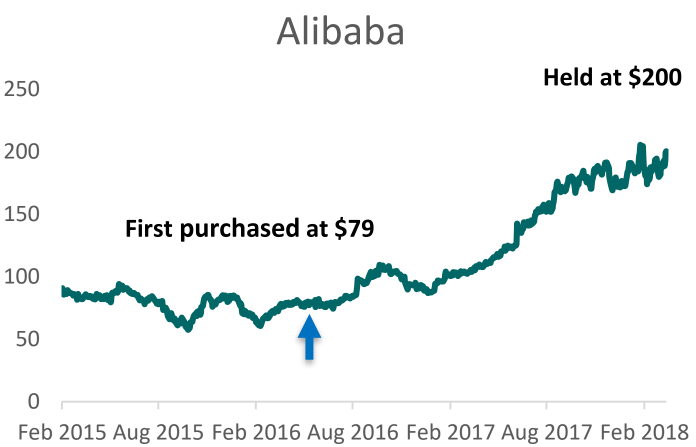
Rise of the Chinese consumer: Alibaba

Theme

Chinese retail is growing at over 10% per annum.

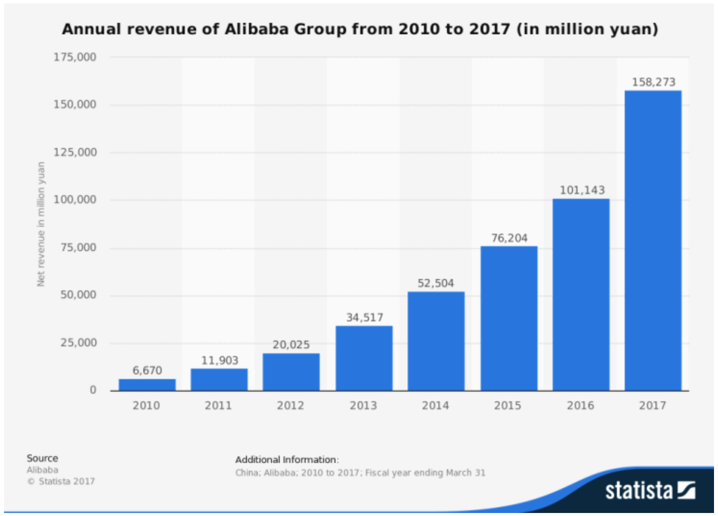
Online retail is growing even faster, at **well over 30% per annum.**

- Chinese leadership is racing towards 18 trillion economy by 2021.
- This is about **growing wealth**, not GDP.
- China is already larger than the US on purchasing power parity. Reported growth figures are **now off a very large base** indeed.



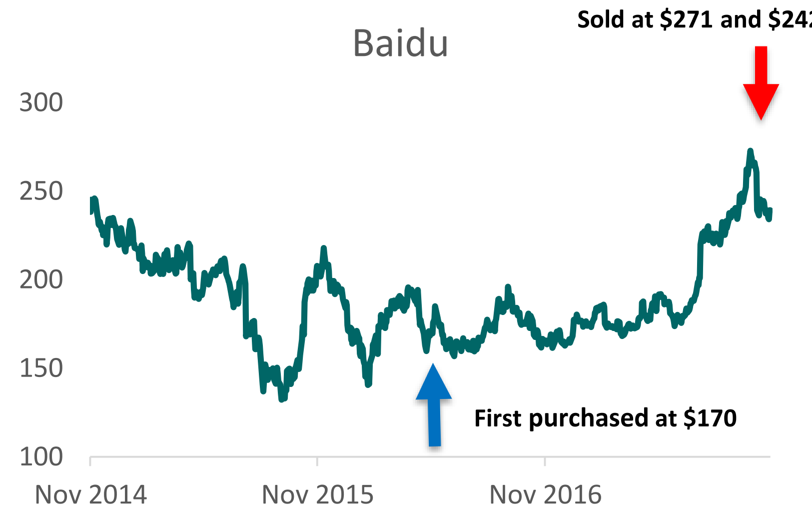
Alibaba

- **Alibaba is growing its top line at a rate of 61% (3Q17).**
- Alibaba was one of the Fund's first positions.
- We bought the stock **below the valuation of the market.**
- Alibaba is **NOT** the Amazon of China, generating most of its revenue from advertising, with a rapidly growing financial services division.
- The firm is highly profitable, with net income margins of ~35%.

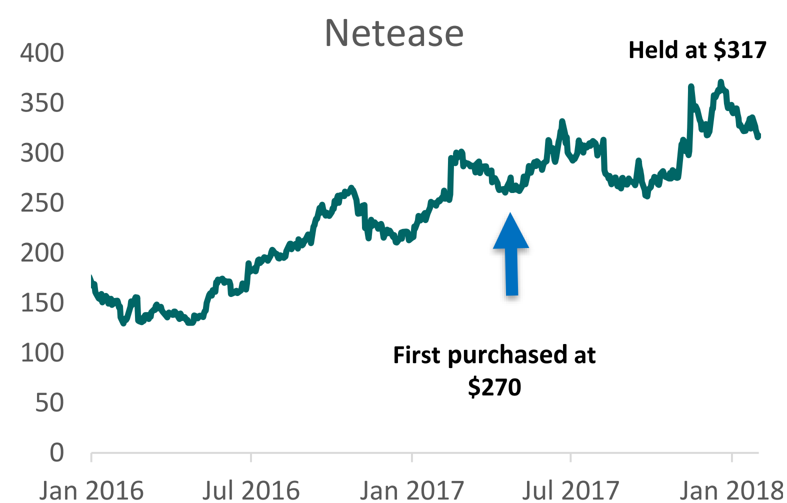


Rise of the Chinese consumer: Baidu and Netease

- We purchased **Baidu** at a forward EV EBITDA multiple of 16x.
- The firm was reeling after a medical advertising scandal and was trading at 1/10th the market cap of Google.
- However, we sold out after valuation expanded to nearly 25x and it become **increasingly likely that Alibaba and Tencent would capture the growing market for advertising spend.**
- **Baidu** is **NOT** the google of China (though we sold out when it was trading at 1/7th of the value).



- **Netease** is growing revenue at over 50% per annum.
- The firm owns exclusive rights to Blizzard and Minecraft, as well as developing in house games.
- We purchased **Netease** at a forward EV EBITDA of 10x.
- **Netease** also has a rapidly growing e-commerce division (including the Kaolo brand) that is **growing at 80% per annum.**
- **This is our favored pick** in the sector, as we expect both fundamental *and* multiple growth.



Artificial intelligence and data: Appen

Theme: The market for artificial intelligence and data is growing at around 70%, and will increase from US$2.4 billion in 2017 to US$60 billion by 2025.[1]

While searching for a suitable investment in the sector, we came across Appen, which offers annotated datasets to train artificial intelligence/machine learning systems to improve search and voice recognition.

We purchased at a 2 year forward valuation of 10x, though we considered it highly likely that Appen would exceed the implied earnings forecasts.

We exited after the stock rallied over 70% in a few months, judging that much of the firm's mid-term success is priced in.

We are firm believers in the company (if not, currently, the price) and if confidence is shaken we are prepared to re-enter the position.

1: Statista estimates, accessed 20 November 2017 https://www.statista.com/statistics/607716/worldwide-artificial-intelligence-market-revenues/

Artificial intelligence and data: Xero and Afterpay

Accounting is moving from the PC to the cloud. This has barely begun.

Xero offers cloud accounting software and is growing at ~40% per year. Xero is the market leader outside of the United States.

Xero's SAAS revenue is very sticky – **who wants to change their accounting software?**

Xero offers a platform for advisors who can access their clients information and offer accounting, tax and strategic services. They provide an AWS-hosted backend for developers to build apps.

There are extraordinary opportunities in fintech.

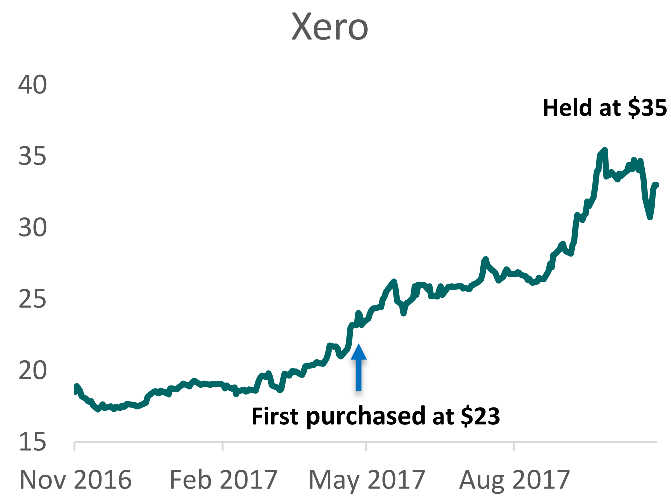
Afterpay has a current revenue run rate of $114 million at a ~25% EBITDA margin. The firm has over 1.5 million customers, many of whom are in highly desirable millennial demographics.

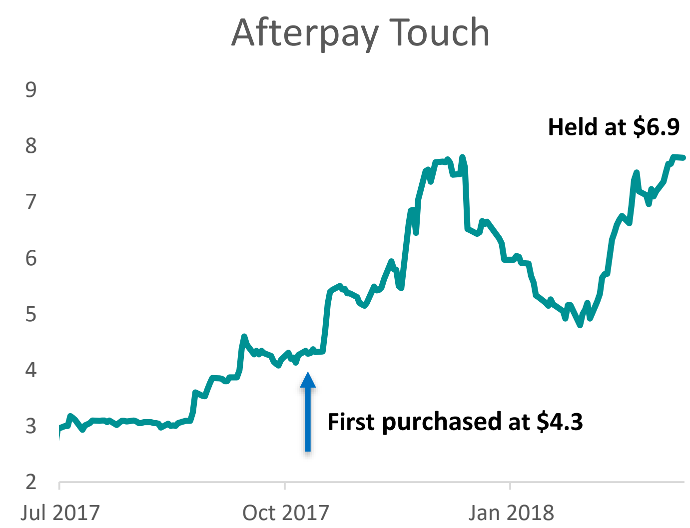
The value proposition is clear: the customer get 30 days free credit, ~merchants get dramatically increased sales, and **Afterpay** gets ~4% fee from the merchant.

In addition to the circa 200k new accounts each month, we think there are *multiplicative* axes of growth:

1. International expansion
2. Travel services
3. In-store purchases
4. Expansion into financial services for millennials, like savings and superannuation

No doubt, there will also be considerable and growing value in the data of both of these companies





Growth and increasing concentration of financial capital: KKR

Financial assets are growing exponentially.

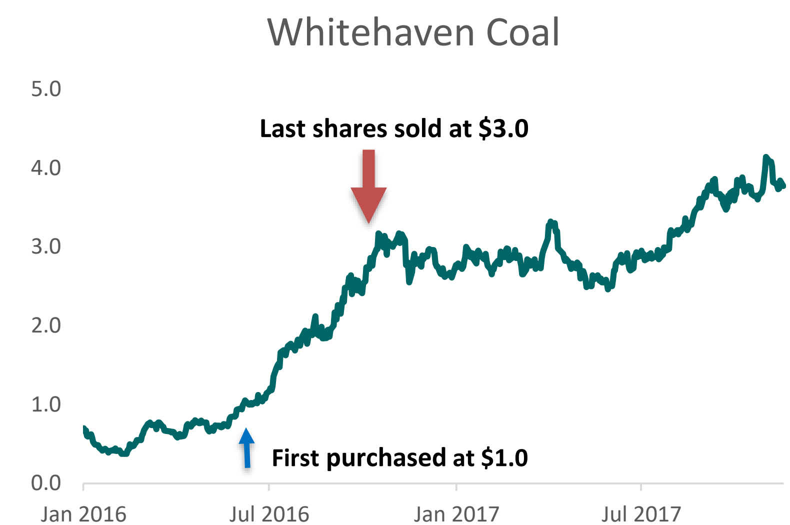
With regulation and scrutiny increasing every year, the vast majority of capital is flowing to established managers with a proven ability to attract talent and create value, such as KKR.

- At purchase **KKR's** market cap was approximately US$16 billion.
- However, this included about $12 billion of net cash and investments.
- **KKR's** business generating management and performance fees was **valued at only $4 billion** – and the firm generated over **$2 billion** of after tax profits over the previous year alone.
- With a stellar reputation, the firm is a major beneficiary of the world's exponentially growing assets, and the asset-management trend towards quality.
- 75% of **KKR's** assets are locked up for eight years or more at initiation, giving excellent stability in short term crises.
- Any downturn that would rock **KKR's** > $140 billion portfolio would likely involve significant profits in our hedging program.

Long/short energy case study: Whitehaven Coal and US Oil ETF

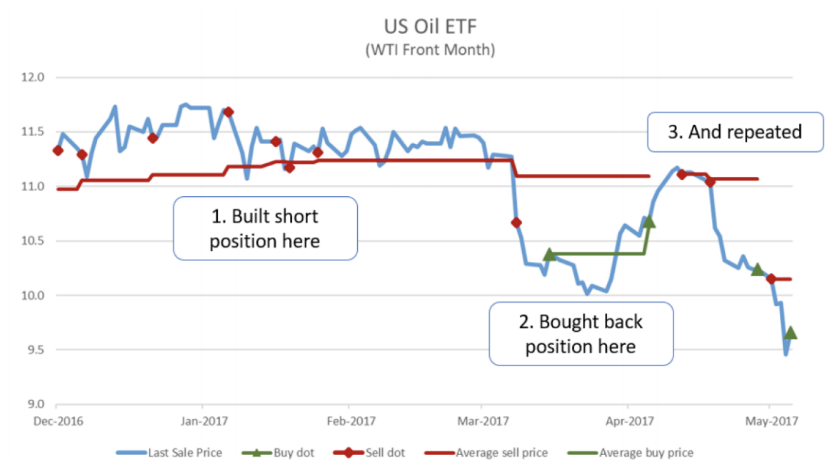
Whitehaven

- There are two things we look for in a commodity play:
  1. Rapid production expansion
  2. A convincing bull case in the underlying commodity
- We are long term bears on the price of energy, and coal in particular, as incremental solar installation every year reduces demand. In many places solar is now the cheapest form of electricity.
- We watched the coal price fall for years, until eventually we saw a supply response.
- We noticed that production in the US dropped 25%, with similar drops occurring elsewhere.
- This was our signal to enter at a forward EV EBITDA of 5x.
- After a 4x rally, the forward EV EBITDA is still 5x….



US Oil

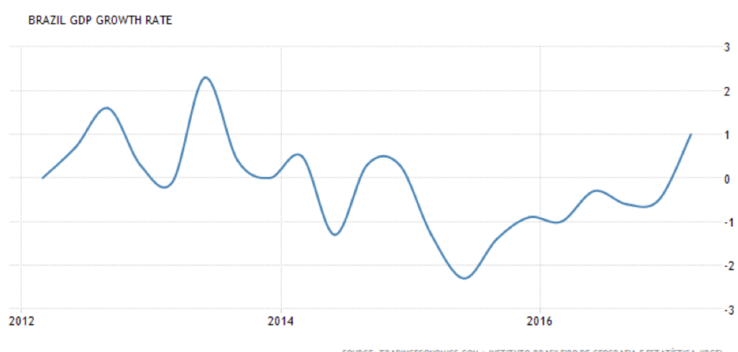
- See our February 2017 investor letter for reasons why we are so bearish on oil. It's no electric vehicles, as much as domestic supply in the US and chronic overinvestment.
- This trade profits from the term structure in WTI futures.
- OPEC talked up the market, but we judged they would be ineffective, given many of the states involved were basically at war with one another and all needed the cash.
- In November 2017, we re-entered the position in small size, and realised another profit.



Recovery in Brazil

Brazil

- When commodities collapsed in 2013, Brazil's economy went down with it.
- Unlike Australia, which invested heavily in infrastructure on the East Coast, Brazil faced astronomical inflation, at over 10%.
- Interest rates were lifted to 14%, which sent the economy into a double dip.
- Now inflation has fallen to 3%, and rates are likely to follow.
- Employment is recovering, and so is GDP.
- The market is trading on a CAPE of 10 - **lower than where the US bottomed in 2009** – and corporate profits are likely to follow the same path as the US.
- **We have seen this story before.**
- We first expressed the trade in liquid ETFs at the start of the fund. However, we re-entered and substantially increased the position in mid 2017. See our July 2017 investor letter for more detail.



Contact Details

How to invest

1. Read Investment Memorandum
2. Complete application form

Subscription forms and further information:

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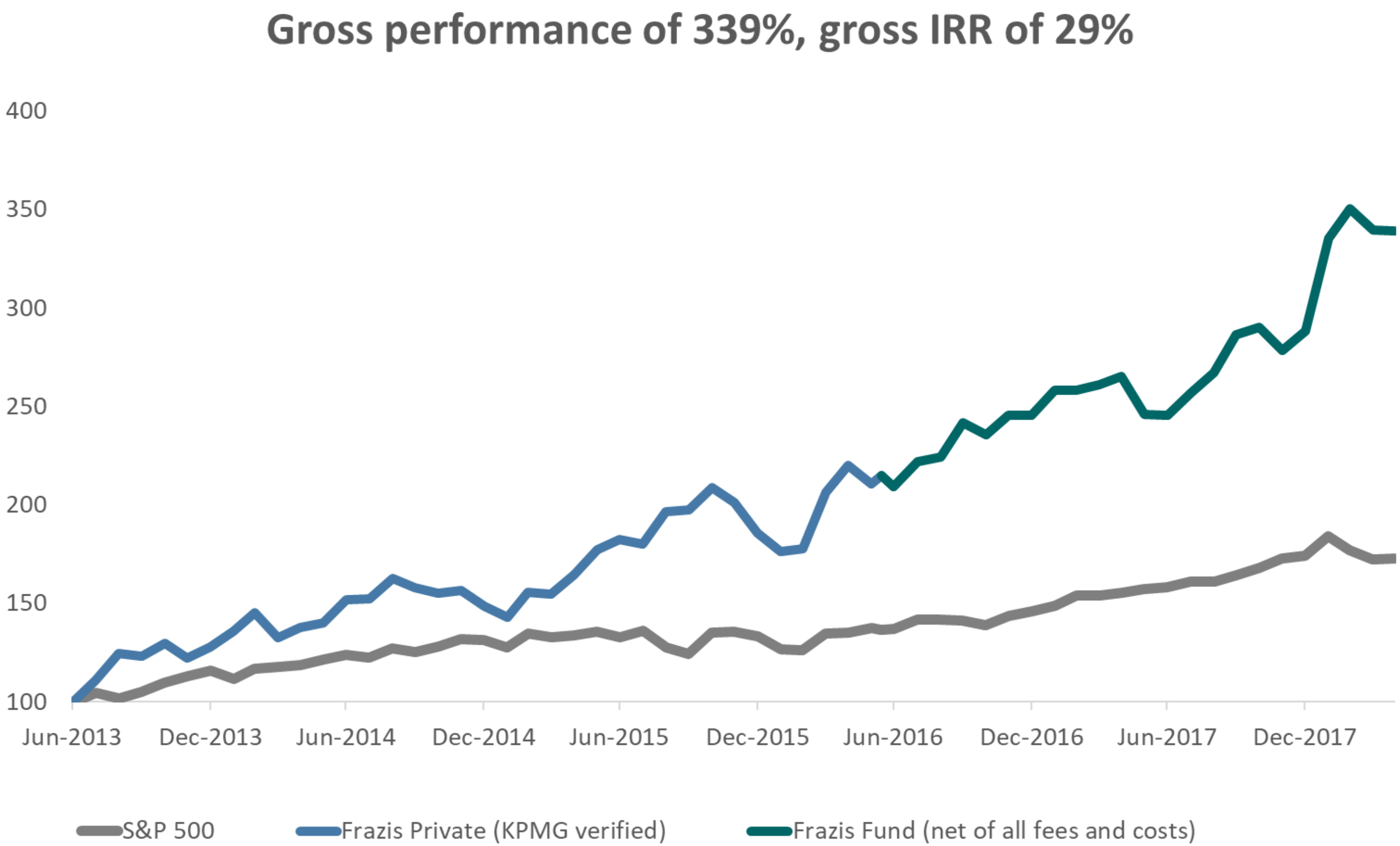
Monthly letters available at www.fraziscapitalpartners.com

Performance including period preceding fund launch



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