FRAZIS

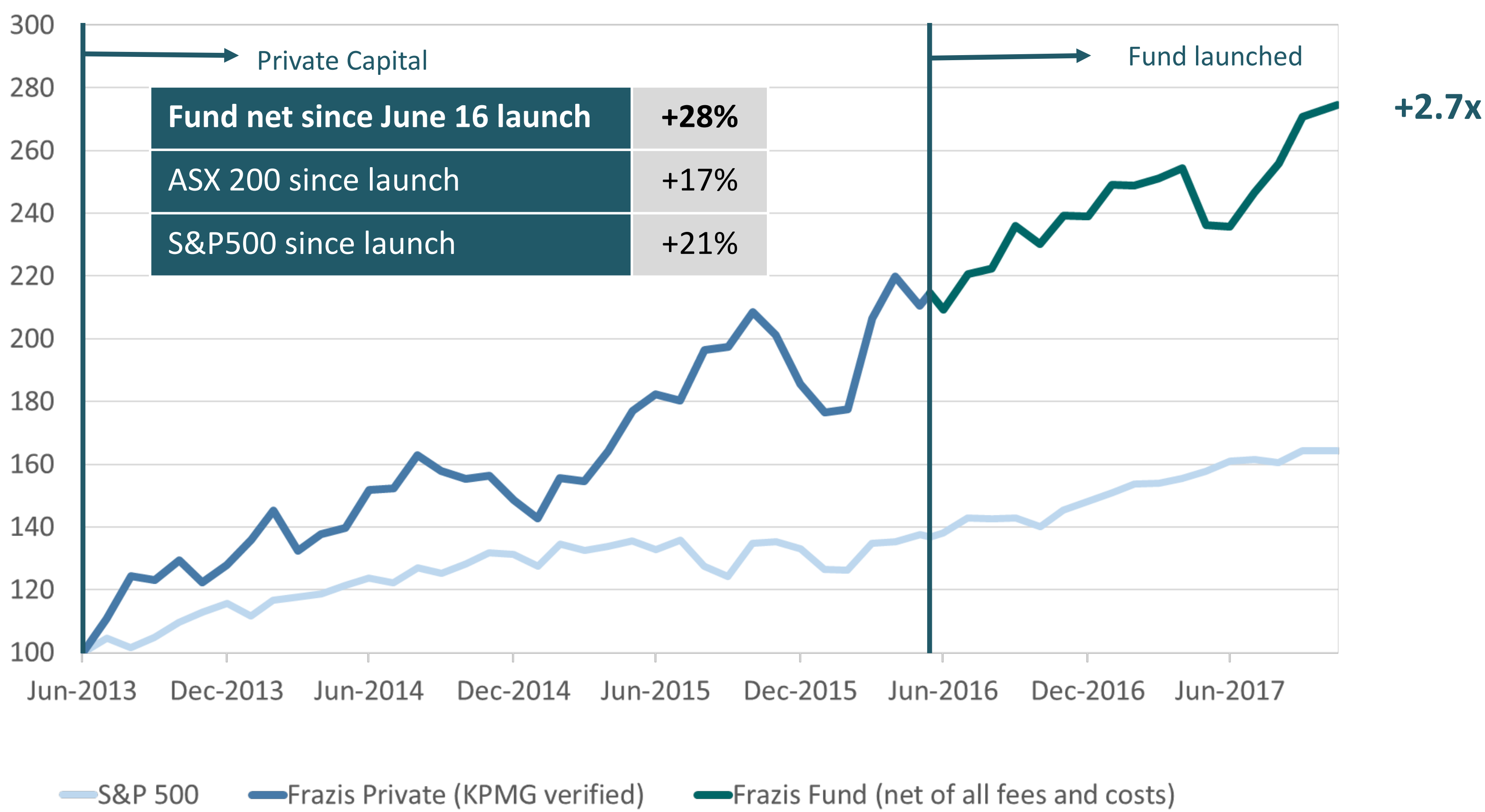
• CAPITAL PARTNERS •

A global equity-focused USD investment fund

Performance

Performance

Four years & four months



Why do we do what we do?

We invest in the trends changing our world

We provide a capital bridge for companies changing the world.

We commit capital now when the future is uncertain, and realize profits when vision is achieved

We allocate capital to companies, industries and countries in need – at low prices - and sell in times of abundance – at high prices

We hedge, paying money when times are good, for cash when times are tough

We target high returns, and measure success to determine our impact

We are here to build the best fifty year track record in the business

What are we investing in?

1. **Gene editing and immunotherapy**
2. **The growing value of healthcare**
3. **Premium land at ~20% yields**
4. **The value of truly global brands**
5. **The rise of China and discretionary spending**
6. **Artificial intelligence and data**
7. **Exponential growth of financial capital and the increasing concentration of asset managers**
8. **Commodity dislocation**
9. **A Brazilian recovery**

Investment Portfolio – November 2017

AEGEAN

afterpay

Alibaba Group

Bellicum PHARMACEUTICALS

Berkeley Group

bluebirdbio

COOPER ENERGY

FIAT

FMG Fortescue The New Force in Iron Ore

HCA Hospital Corporation of America℠

juno THERAPEUTICS

KKR

Navios Maritime Holdings Inc.

NetEase Games

PERSIMMON Together we make a home

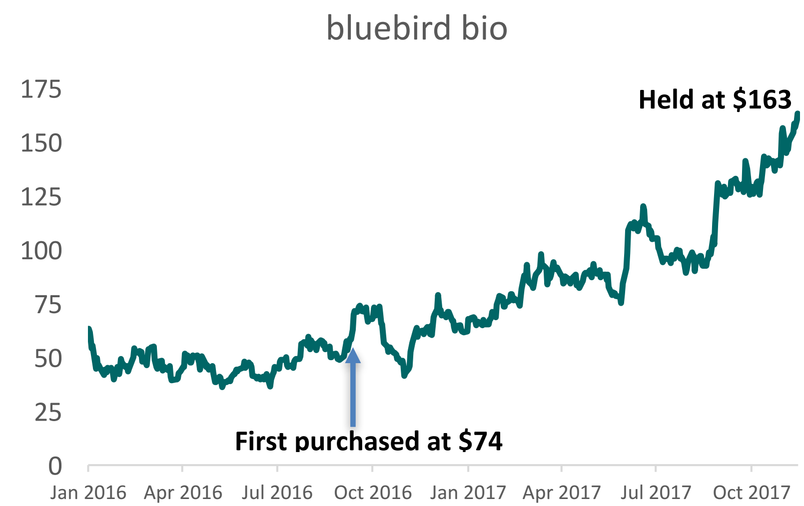
Santander

xero

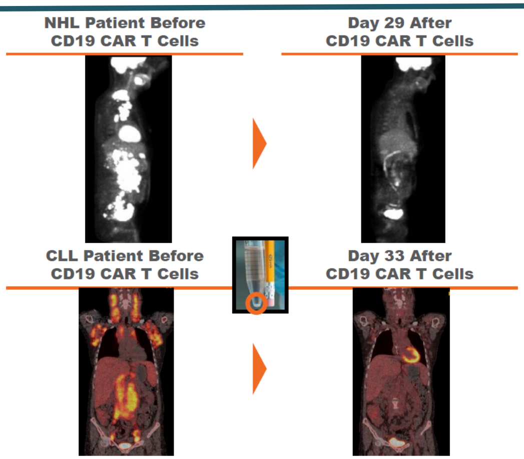
Case Studies

Gene editing and immunotherapy

- After decades of promise, immunotherapy is finally maturing, with the first CAR-T therapy for non-Hodgkins lymphoma approved in 2017 (by Kite pharma, purchased by **Gilead**).
- Companies like **bluebird bio** are on the brink of curing genetic conditions like Sickle Cell Disease. They harvest patients' cells, correct the faulty gene, and reinsert the cells back into the patient, resulting in a permanent cure. See our detailed write-up for more information.
- There are **excellent economics** here. Such treatments may cost up to $500,000, which looks expensive compared to a pill, but is ***cheap*** compared to the life extension gained.
- The complex processes involved are rapidly maturing. **Juno** has cut their treatment timeline from nearly a month to a few days.
- **Gilead**, the owner of the **Hep-C cure** and a **daily single-pill HIV treatment**, is trading at a historic EV EBITDA of 6x, and a $94 billion market cap, and is well placed to harvest the profits from mid-cap developers.



Juno's treatment for two cancers



Premium Land: British developers purchased after Brexit

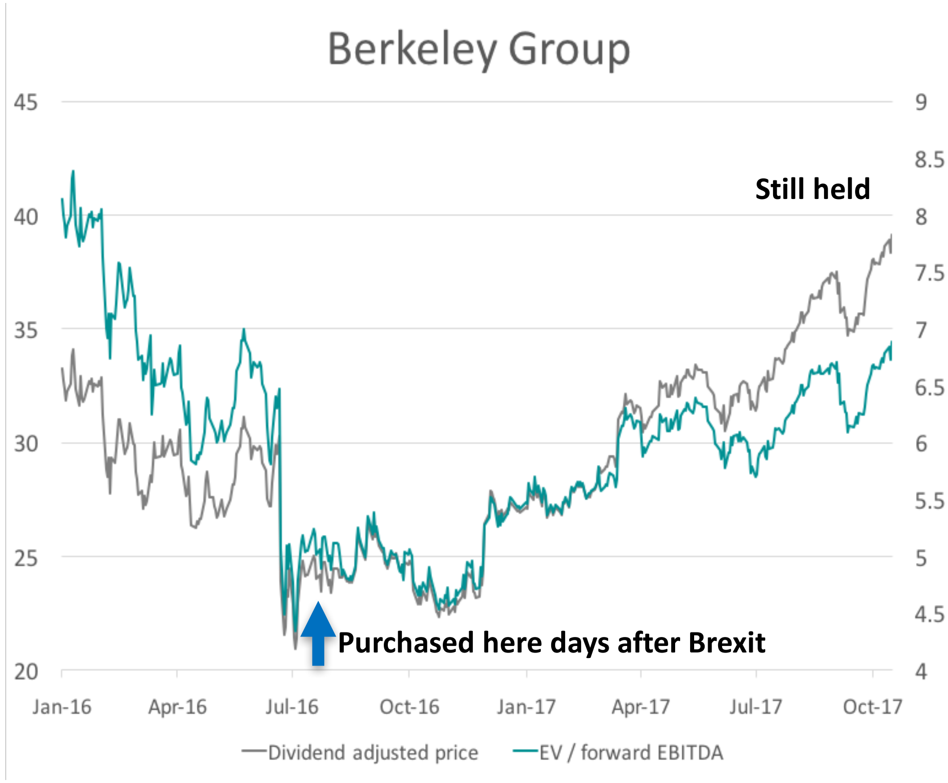
Case study
In the days after Brexit we purchased the British land developers Berkeley, Persimmon and Crest Nicholson.

As an example, Berkeley had net cash at purchase (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 sub 5x EV EBITDA, for a base return on enterprise value of over 20%.

This has returned over 70%, and we still hold the position.

We found prime real estate at 20% EBITDA yields in one of the most liquid and well-researched markets in the world



Berkeley Group | PERSIMMON Together we make a home | Crest NICHOLSON

Global brands now reach billions of people

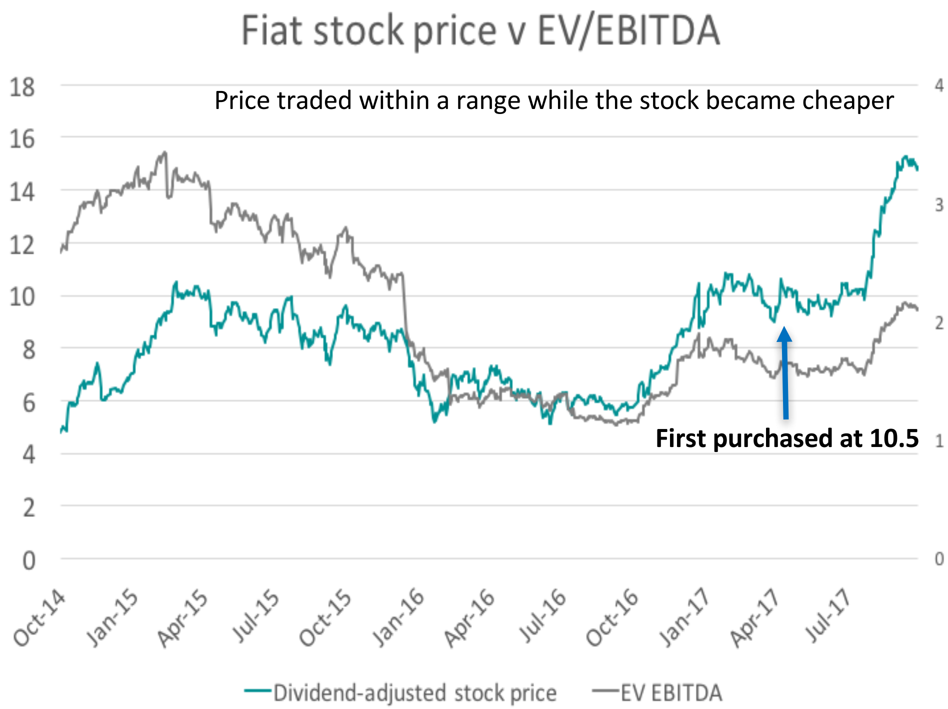
We take advantage of temporary price dislocations to buy the best brands cheaply, often at a fraction of the value of the market.

Even a company as successful as **Apple** can trade be bought at a steep discount to the market, effectively assigning negative value to the brand. Please see our August 2017 investor letter for more detail.

Valuation discounts in **Fiat** and **Aegean Airlines** (a local brand leader) are even more extreme, both were trading ***below*** 2x EBITDA at purchase.

Global brands: Fiat – which comes with Jeep, Alfa Romeo and Maserati

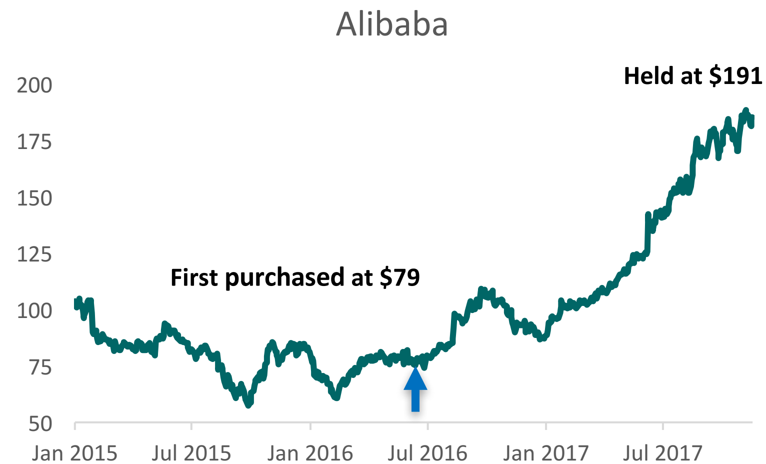
- After immense fundamental improvement, Fiat's forward EV EBITDA had **dropped from over 3x to 1.2x.**
- Fiat's brand value alone may be higher than the current market cap: Jeep (80% of revenue), Maserati, Alfa Romeo, the parts manufacturer Magneti Marelli.
- We purchased at an equity valuation of ~14 billion euros when Fiat was **making more than 10 billion euros** of operating cash flow every year.
- CEO Marchionne is actively looking for shareholder-friendly ways to sell or break up Fiat.
- Ferrari was spun out in Jan 16 and promptly became more valuable than original Fiat itself, showing the immense break-up value here.



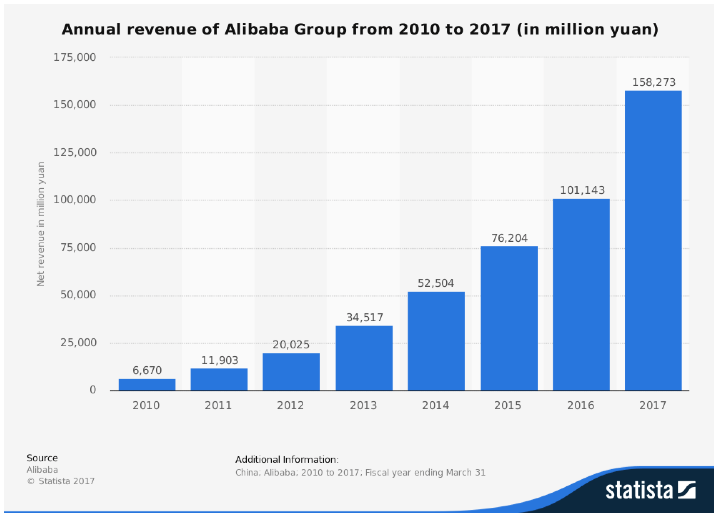
Rise of China and online retail: Alibaba

Alibaba Group

- Chinese retail is growing at over 10% per annum – and online retail is growing even faster, at **well over 30% per annum.**
- Chinese leadership is racing towards 18 trillion economy by 2021, the centenary of
- This is not a Chinese GDP thing – this is more to do with growing wealth.
- China is already larger than the US on purchasing power parity. Reported growth figures are now off a very large base indeed.



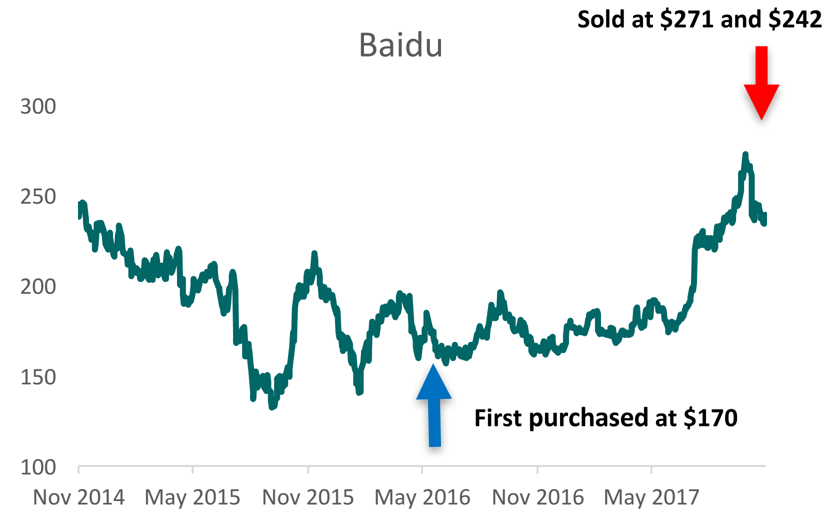
- **Alibaba is growing its top line at a rate of 61% (3Q17).**
- Alibaba was one of the Fund's first positions and we've held it ever since.
- We bought it on a 2017 EV EBITDA **multiple of 20x**, and expected a 2018 EV EBITDA multiple of sub 15x.
- Alibaba is **NOT** the Amazon of China, generating 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 China and online retail: Baidu and Netease

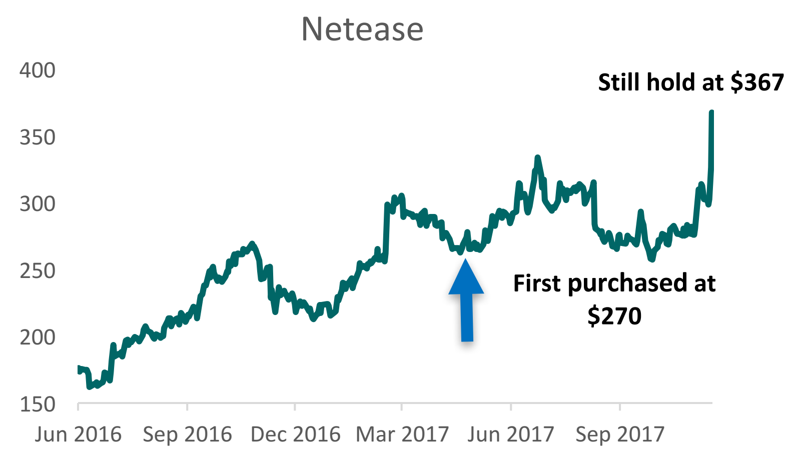
Bai du 百度

- We purchased **Baidu** at a forward EV EBITDA multiple of 16x.
- The firm was reeling after losing medical revenue after a scandal and as 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.



NetEase Games

- **Netease** is currently growing 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.
- The firm has a rapidly growing e-commerce division (including the Kaolo brand) that is **growing at 80% per annum.**



Artificial intelligence and Data: Appen

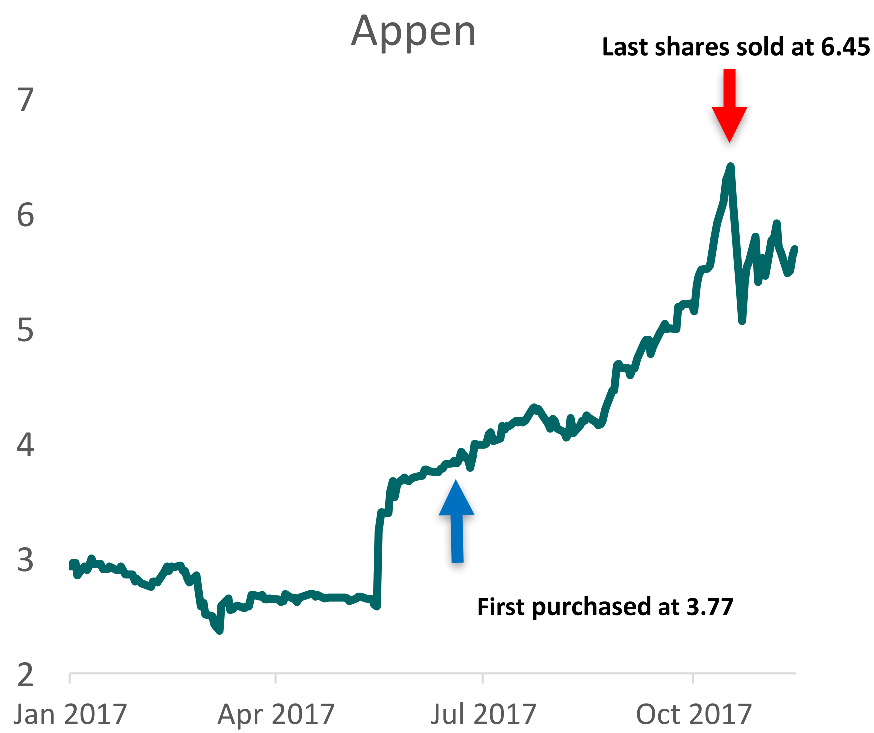
The market for artificial intelligence and data is growing at around 70%, and will increase from US$2.4 billion in 2017 to US$60 billion by 2025.[1]

Appen 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/

AI and data in financial services: Xero and Afterpay

Both **Xero** and **Afterpay** have accumulated extraordinarily valuable datasets.

Xero offers cloud accounting software and is growing at ~40% per year. This field is wide open as accounting shifts from PCs to the cloud, and 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.

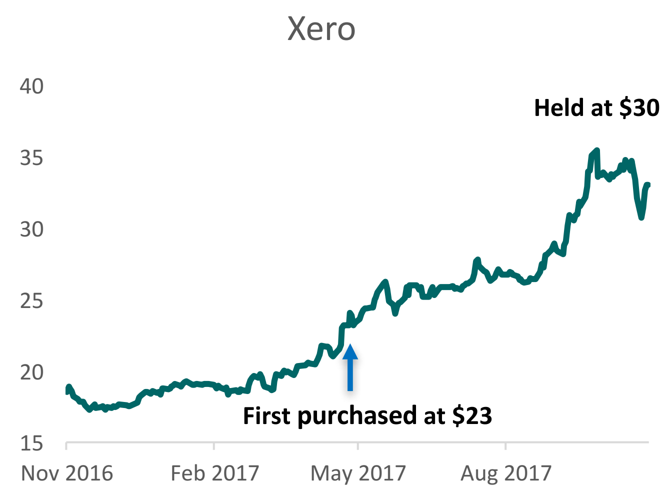
Afterpay has a current revenue run rate of $60 million, and is growing at with a ~20% margin. They have over 1.2 million customers, many of whom are in highly desirable demographics.

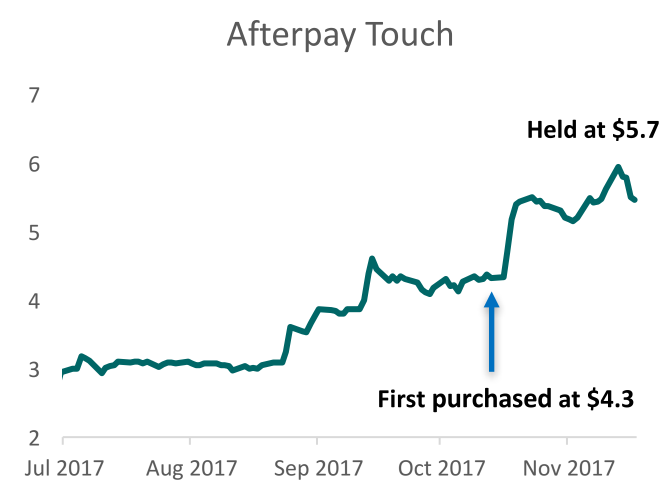
The value proposition is clear: customers get 30 days free credit, ~merchants get dramatically increased sales, and **Afterpay** gets ~4% fee from the merchant.

In addition to the circa 200k new accounts each month, we think there are four *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

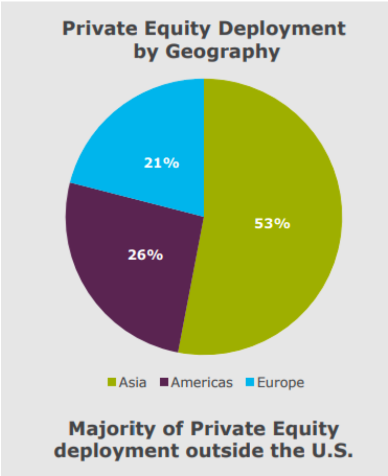
No doubt, there will also be considerable and growing value in the data of both of these companies

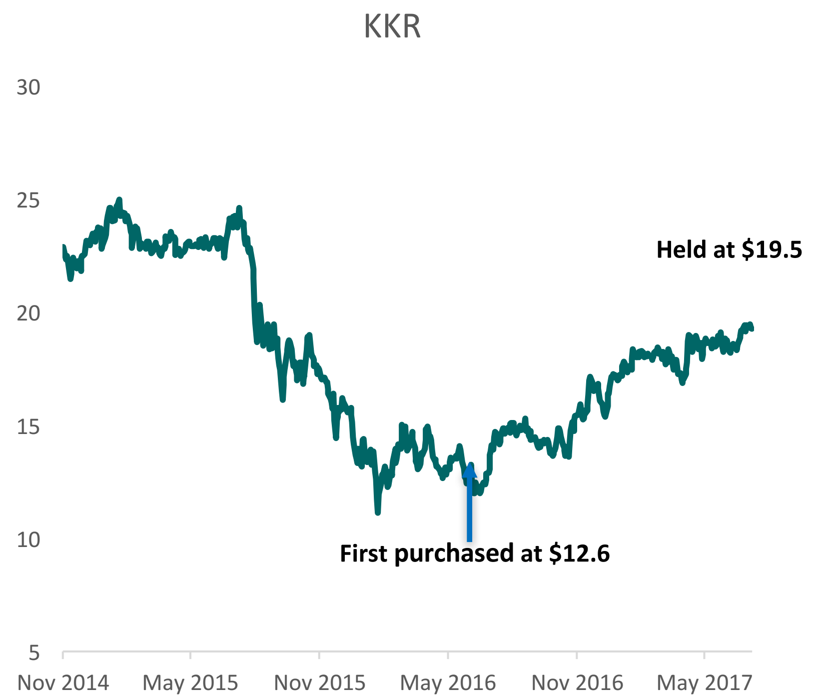




Exponential growth of financial capital and trend towards quality

- 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 **$2.5 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** > 140billion portfolio would likely lead to significant profits in our hedging program.

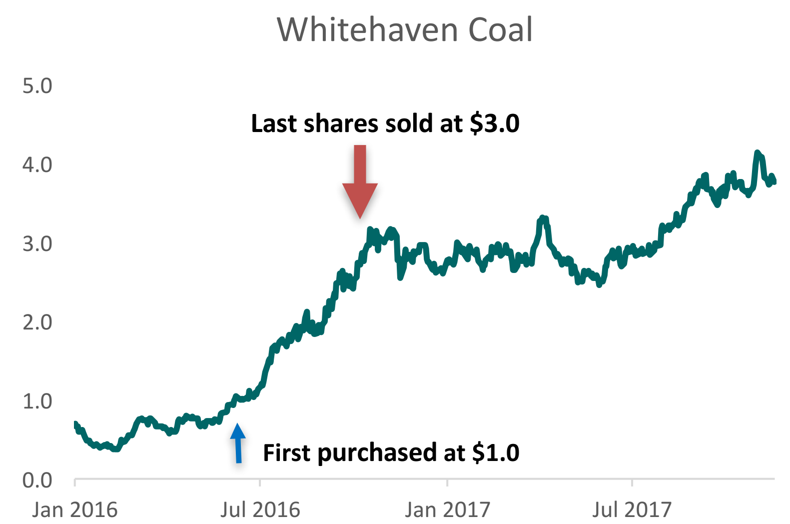




Energy case study: Whitehaven and US Oil ETF

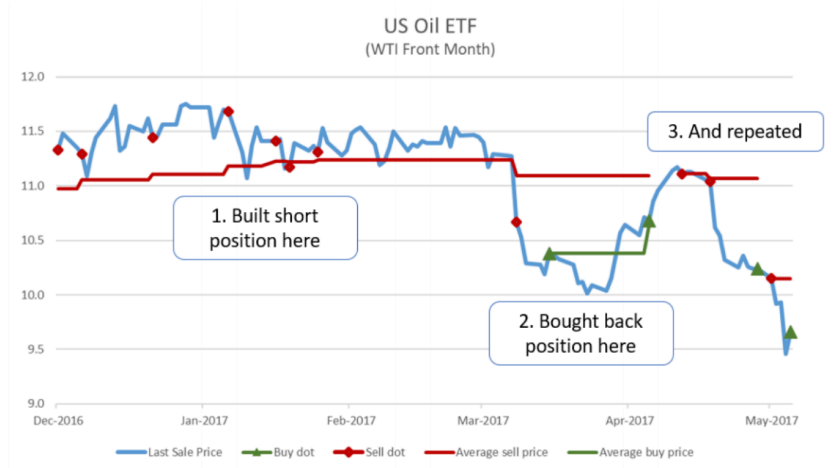
Whitehaven

- There are two things we look for in a commodity play:
    1. Rapid production expansion
    2. 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 the market. In many cases solar is now cheaper.
- We watched coal price fall for years.
- However, eventually there was 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 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 takes advantage of the structure of the oil futures market.
- 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 (~2% at 21 Nov 17).



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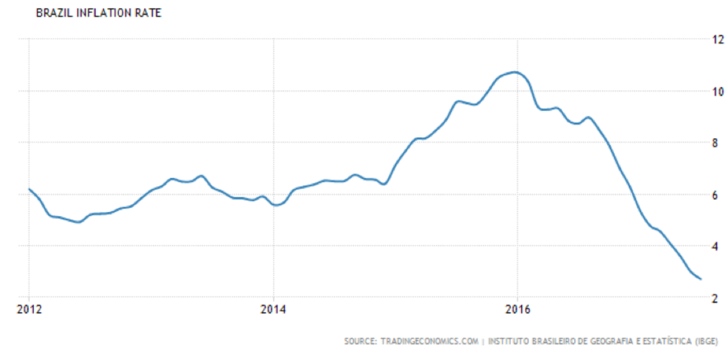
Brazilian recovery

Brazil

- The story of **Brazil** should give Australians chills.
- When commodities collapsed in 2013, Brazil 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 collapsed, 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 at the start of the fund. However, we re-entered and substantially increased the position in mid 2017. See July 2017 Investor Letter for more detail.
- The trade is expressed in highly liquid ETFs.
- The investment has contributed ~200bps to the Fund's performance



Why are we hedging?

We are late cycle

S&P 500 Cyclically Adjusted Price-Earnings Ratio

Our hedging strategy allows us to be fully invested in our best ideas

Note: the lower zero bound of the VIX exists as option prices can't be negative. A VIX at 0 implies free options. 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.

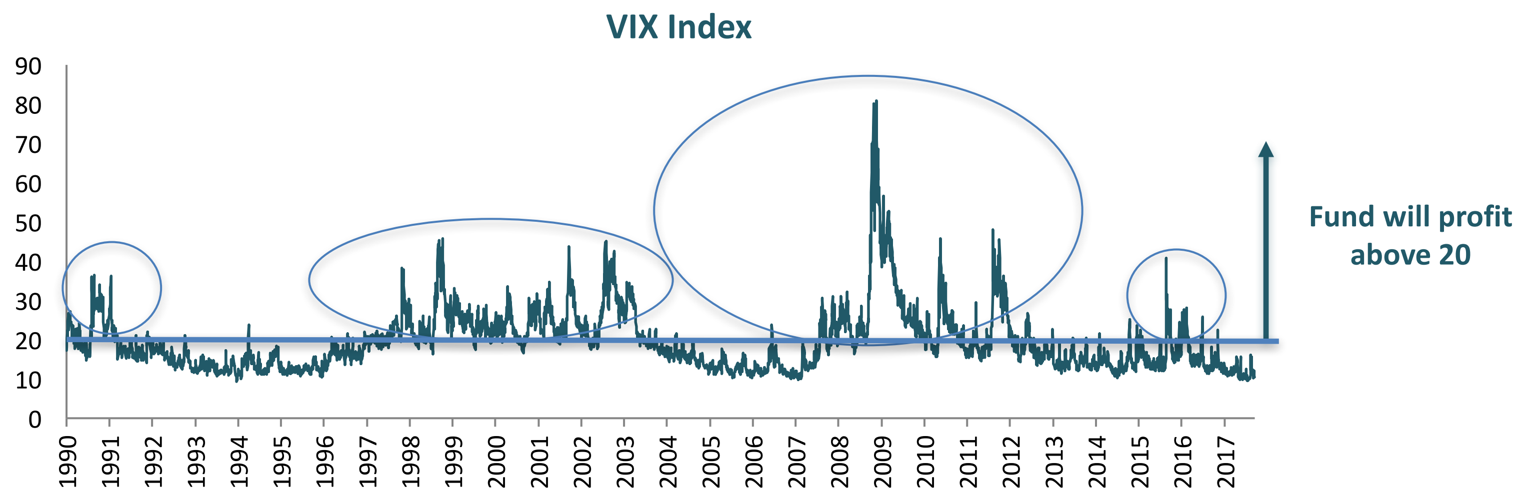
How are we hedging?

We currently hedge by buying calls on VIX. We know our maximum possible hedging loss at all times.

Example: We bought four month calls struck at 18 and 20 on the VIX equivalent to about 13-14% of our Portfolio in September. This cost us about 1% of the portfolio, so we would expect to pay 3-4% per year to maintain the strategy.

If the VIX moves to 40 at expiry we would expect to realize 13-14% cash, **which we would then reinvest at the bottom of the market.**

In a Lehman type scenario we would expect to generate **three times** this.



Our portfolio is structured to outperform its component stocks

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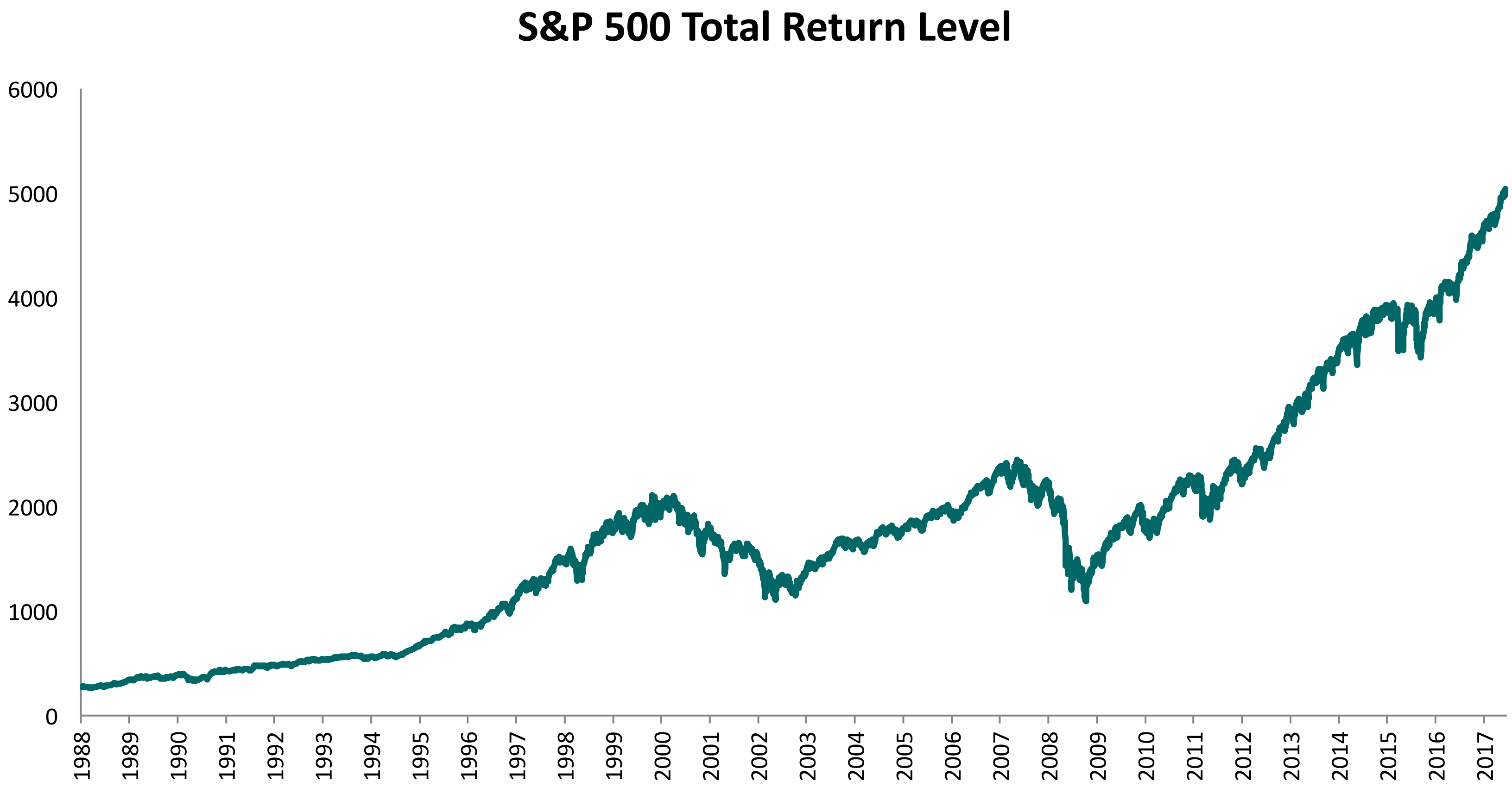
The defining features of markets are a steady up-drift in value, roughly, equal to corporate profits, and short, sharp crises



Our hedged equity strategy captures both of these dynamics

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Risk Management

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

1. Investments are limited to 100% of the portfolio at initiation.

2. We **ALWAYS** have a hedge in place.
    - As markets decline, we incrementally cash profits from our hedges and reinvest them.

3. We take **no uncapped risk** in our derivatives portfolio.

4. Equities are typically sized around 3% to 6%. We **never** initiate over 10% at initiation. **Why?**
    1. The opportunity set is so great in this world that we expect to always find a wide range of ideas.
    2. The factors driving stock returns lie mostly in the future. Small positions ensure idiosyncratic events have limited impact.

5. Where possible, we buy multiple companies to express a theme. For example, after Brexit we purchased three land bank developers, not just our favorite. Similarly, with gene editing and immunotherapy we have picked five companies, rather than a favorite.

6. We invest long-term in the largest and best companies in the world, as often the clearest trends are global.
    - Consider the slow-motion train wreck of Nokia and Blackberry vs the ten year run of Apple's iPhone. This profitable opportunity was available to anyone who cared to study the trends, especially as valuations also pointed in the correct direction. Apple was cheap, RIMM and Nokia were expensive.

We are always partly hedged

What about currency?

The Fund selects investments from the full set of global opportunities.

We manage our FX exposures separately to investments.

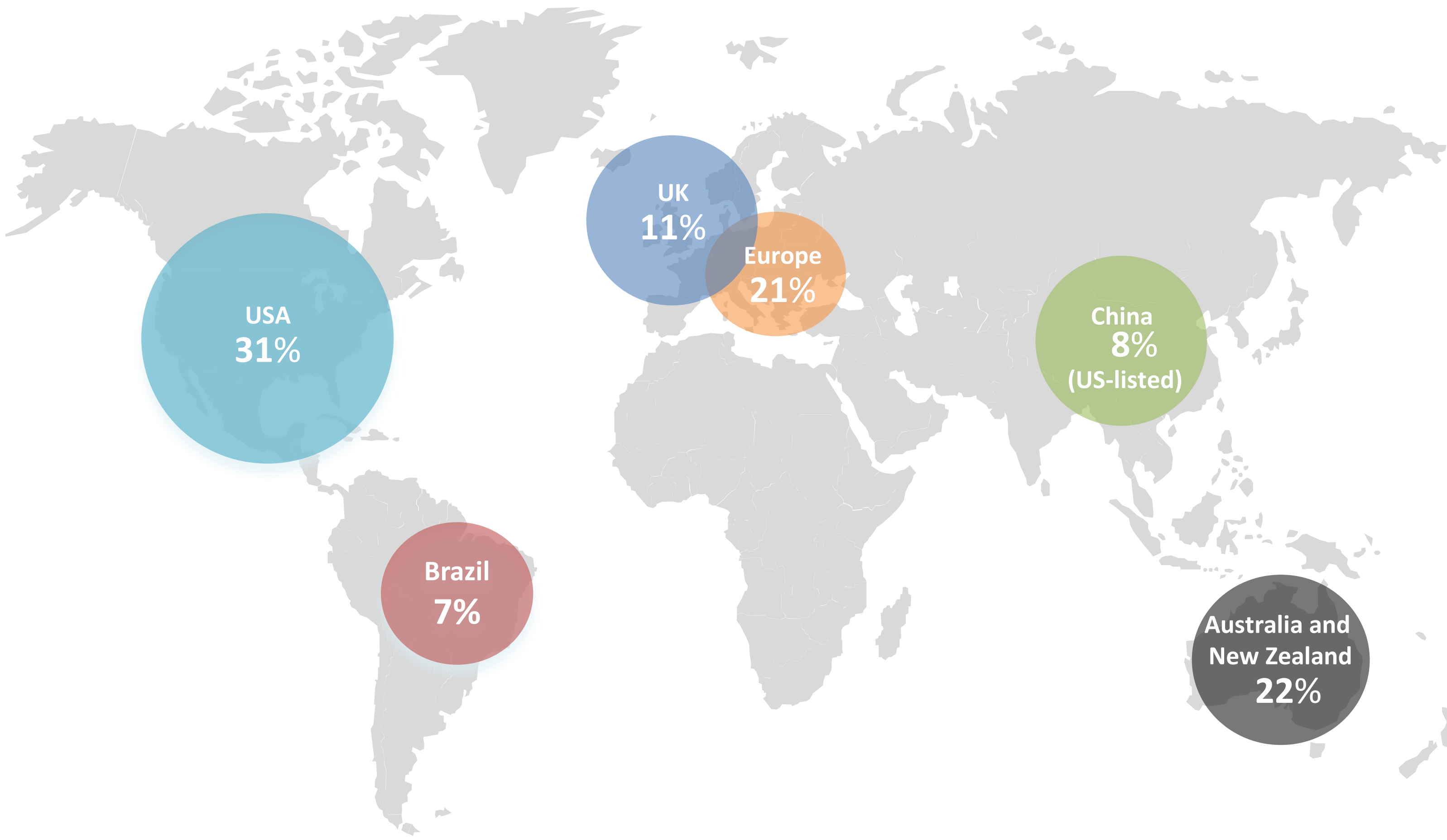
We minimize risk-taking in FX

- We keep our exposures in clear ranges.
- We aim to keep AUD exposure in a range between 20% and 80%.
- FX exposures are reported monthly.

14 November 2017	FX Exposure
USD	62%
AUD	19%
EUR	10%
GBP	9%

The Fund is a USD investment

Geographic Exposure



Note: as of 14 November 2017

Portfolio Manager

Michael Frazis

Michael has eleven years of experience trading in public markets. For the past four years he has been working for a private equity firm analyzing and executing public and private market investments. Before that he completed internships at Goldman Sachs in their Asian Special Situations Group and Credit Suisse.

Michael was awarded an MSc (Finance) from the London School of Economics and Political Science. He completed his undergraduate degree at Magdalen College, Oxford University, and was awarded a Master of Chemistry. His research focused on the scale-up of enzyme-catayzed fuel cells in the same laboratory that pioneered lithium batteries. Michael came first in Australia in the 2006 Chemistry Olympiad.

Key Terms

Management Fee	1.5% per year Waived from launch until November 2017
Performance Fee	20% of net profits
Minimum investment (fund is USD-denominated but takes investment in AUD or USD)	A$500,000
Withdrawals/Redemptions	Quarterly
Reporting Frequency	Monthly
High Water Mark?	Yes
Redemption Fee	0.25% paid to the Fund (not Manager). This ensures redemptions do not disadvantage remaining investors.

Full terms are outlined in our Private Placement Memorandum

Reporting

Monthly Statement	Generated by our third party administrator Apex shortly after the close of the month, clearly stating Net Asset Value and return.
Monthly Investor Letter	Additional commentary, FX exposures, theme exposures, and so on.
Online portal	Apex247 allows an investor to login and see the value of their investment at any time: https://www.apexfunds247.com
Fund equity holdings	Investors may request the Fund's current equity holdings at any time, subject to confidentiality

Past investment letters available at www.fraziscapitalpartners.com

Contact Details

How to invest

1. Read Private Placement Memorandum
2. Complete subscription and KYC/FATCL/AML forms
3. On confirmation of receipt, transfer funds to designated bank account

Subscription forms and further information:

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+ 61447559606
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Regulatory information

ABN: 24 609 648 026
Frazis Capital Partners Australia Pty Ltd is a Corporate Authorised Representative (AFS Representative Number 001240825) of Lanterne Strategic Investors Pty Ltd of AFSL license number 238198.

Monthly letters available at www.fraziscapitalpartners.com

Appendix

Appointed Service Providers

Function	Firm	Notes
Prime Broker	Interactive Brokers	Interactive Brokers is a full-service broker listed on the New York Stock Exchange. Founded by computer scientists, the company has a market capitalization of over US$20 billion.
Administrator	Apex Fund Services	Apex acts as middle and back office for the fund, including • Liaison with investors, investor letters, holding certificates • Net Asset Value calculation, reconciliation, reporting and verification • Preparation of accounts.
Accountant	Ecovis Clark Robertson	Tax accounting.
Cayman Legal Advisor	Walkers Global	Fund documents and review of prime broker and administration agreements. Registered office for Cayman Fund.
AFSL authorisation for the Australian investment advisor	Lanterne Strategic Investors	Frazis Capital Partners Pty Ltd (ACN 607 648 026) is a corporate authorised representative of Lanterne Strategic Investors Pty Ltd (ABN 49 098 472 587, AFSL No. 238198).

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