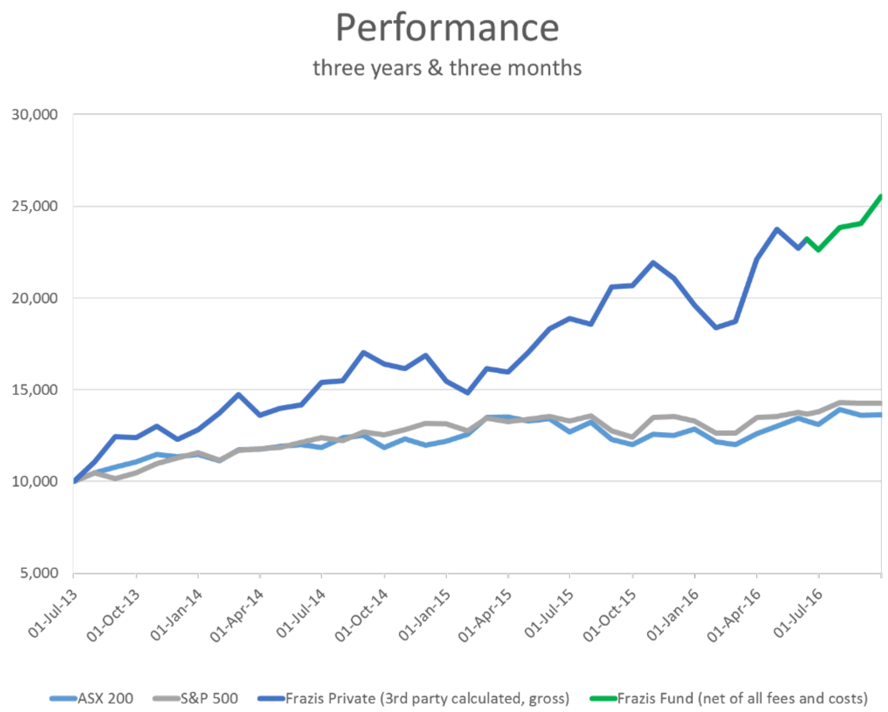
Dear investors

Performance

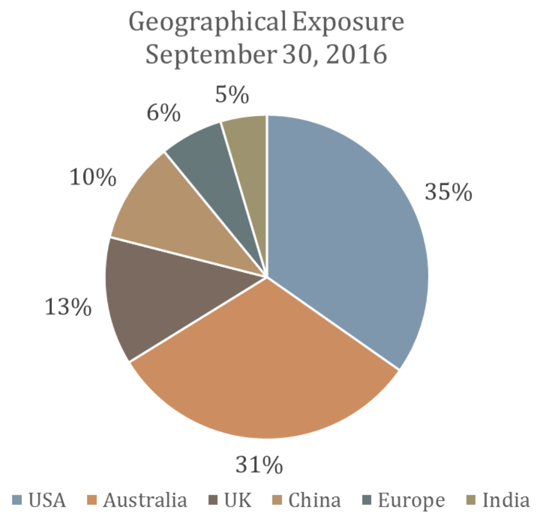
The Fund was up 6.1% net of fees and costs for the month, comparing favourably to the S&P 500 (-0.1%) and the ASX 200 (0.2%).

	ASX 200	S&P500	Frazis Fund Net
30-Jun-16	-1.5%	1.0%	-2.5%
31-Jul-16	6.3%	3.6%	5.4%
31-Aug-16	-2.3%	-0.1%	0.8%
30-Sep-16	0.2%	-0.1%	6.1%
Total	**2.4%**	**4.3%**	**10.0%**



We have engaged KPMG to verify our track record from July 2013 to June 2016.

As of September 30, 2016, the state of the portfolio was as follows:



Investment Theme	%
Tech	14%
Autos	10%
Energy and Refining	8%
Blue Chip Mining	13%
Mining Development	8%
Biotech and Pharmaceuticals	10%
British Land Developers	7%
Gold Equities	4%
Financials	14%
Other	9%
Total	**97%**

Important contributions to the portfolio in September were as follows:

Top Contributors	
Alkane Resources	1.8%
Whitehaven Coal	1.1%
Navios	0.7%
Glencore	0.6%

Top Detractors	
Barclays	-0.2%
Valero	-0.2%
KKR	-0.1%
Biotech Sector ETF	-0.1%

Macro

The month ended with dramatic movements in Deutsche Bank after the US Department of Justice levelled a US$14 billion fine at the bank. This was destabilising. US$14 billion doesn't move the needle on the US debt but was certainly enough to rattle Europe's banking system.

A few encouraging words from the Bundesbank or Merkel would have quickly calmed the situation. But the main actors are bound into the opposite position by their rhetoric and growth-destroying policies toward the Greeks, Italians, Spanish and Portuguese. There is some irony in the Germans now having their own banking problem and crisis of confidence.

The episode was a good reminder that no matter how hard an investor studies the financials of an investment bank, there's no way to know its actual trading position and risk profile. My favourite anecdote is the Morgan Stanley trader Howie Hubler, who lost US$9 billion betting that subprime mortgages would go ***down.*** We simply don't know how Deutsche is positioned.

We took a look at Italian equities, which are trading on after-tax earnings yields of 10%, levels that typically lead to excellent multi-year returns. So far we are holding fire – it's too hard to invest while the EU places such consistent barriers to economic success.

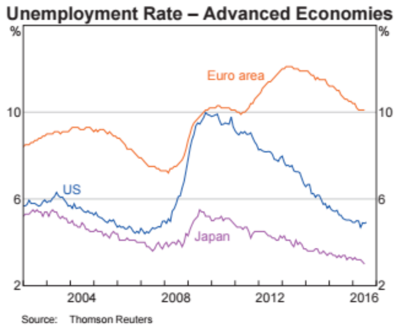
Matteo Renzi planned to draw a line under Italy's financial crisis by recapitalising the nation's banks. However his policies were declared illegal by EU bureaucrats, and in breach of recently written arbitrary EU guidelines. The EU ruled that bond holders should lose money in any bail out. With ideology comes tragedy. In Italy's case banking bonds are widely held by retail investors, and the situation so stressed a Roman pensioner that he hanged himself.

To make matters worse both Italy and Spain were in breach of arbitrary EU deficit rules, leading to both their Governments being Euro-slapped on the wrist. While this was seen as a positive development –

there were fears the EU would punish more harshly – it's hard to see what was achieved, or why the EU is not encouraging investment, instead of hindering it.

If a Government shrinks its deficit by firing people and backing out of financial commitments, the deficit necessarily grows in percentage terms, prompting a cycle of further sackings and broken promises. The European political structure has triggered this kind of doom loop all across the Mediterranean as a matter of principle.

These are the reasons we stayed away from the Italian trade.



Given our recent returns and the political risks highlighted by Friday's Deutsche volatility we are far more hedged than usual. Should these trades pay off we will be well positioned to take advantage of the resulting investment opportunities.

Our diversified global portfolio of stocks combined with short market and long volatility hedges sounds as attractive as ever.

Portfolio

We made a number of changes to the portfolio.

We re-orientated our biotech positions. We sold Amgen and Abbvie and purchased a biotech ETF (IBB) with the proceeds. Both Amgen and Abbvie are brilliant companies trading at circa 10x forward EBITDA multiples, but this is common across the biotech sector and we decided this view was best expressed with a 4% industry-wide position. Furthermore Abbvie's dependence on Humira and a web of patents was concerning. While Amgen has an excellent Phase III pipeline we decided to take the pipeline of the industry as a whole instead. We retained our positions in Celgene, Horizon Pharma and Gilead.

We added two pharmaceutical development companies to the portfolio: bluebird bio and Bionomics. We generally won't invest in a developing pharmaceutical company based on research pipeline alone, as such outcomes are known unknowns, and notoriously fickle. To put capital at risk we must also be convinced the company has leading *expertise* in a particular area of research.

A high quality research platform improves the risk/reward in such a risky sector by adding strategic value, and increasing the likelihood of a buy-out *above* the risk-weighted market value of the pipeline. In this case bluebird bio is a market leader in viral vector gene modification while bionomics has an extensive drug discovery platform.

There will always be majors earning >40% margins on products with imminent patent cliffs and mountains of cash (like Gilead) that need to fill their pipelines. We are moving toward a high risk/low risk barbell position in biotech: an index of the best companies and two in the development stage.

We entered a position into Navios, now at a 5% portfolio weighting after a 10% rise. This is our punchiest position and a stock that will appear on nobody's value screen. The risk is high but there is a reasonable chance of a 4x-10x return from here. Navios Maritime (NM) is the parent shareholder of a series of dry and wet shipping, port and logistics companies. Navios has market leading costs and the value of the equity is currently below the value of the public shareholdings. Rates in the industry are cash-flow profitable but negative on a capital basis. With debt due in 2019, we see Navios as comfortably placed to ride out the next wave of shipping distress. We may reinvest any profits into the credit.

We sold our position in Barclays for a +5% profit. Of all our Brexit purchases this was our lowest conviction. Lloyds would actually make a better UK financial as it has the strength of brand without any pretensions to being an investment bank, but we believe the post-Brexit theme is best played elsewhere, namely in our portfolio of real estate developers focussing on London and the South-West.

Short positions

We discussed two Australian ideas but unfortunately there were no shares to short. We will follow closely and see how these develop. One declares themselves the largest citrus grower in China, with no evidence save a buggy investor relations website, and no reason to have listed in Australia anyway. The other we will keep private for now.

We will look to expand the short portfolio in coming months. We plan to do this conservatively, and would not risk more than 1.5-2.5% on a position. 5 of these would improve the net exposure position of the Fund and provide opportunity for uncorrelated alpha.

The situations we're looking for include:

- Single product companies with rising competition and negative profitability (eg GoPro)
- Companies valued on growth multiples with negative top-line performance
- Losers in winner-takes-all markets (tech is a fruitful sector for both longs and shorts here)
- Businesses with fundamentally unprofitable economics
- Roll-ups (Valeant, Surfstitch)
- Companies with excessive stock-based compensation. Some pay >20% of revenue to employees (Twitter pays 35%) and are only profitable before this is taken into account.

Hedging

The Fund's large hedge positions cost very little over September, and we achieved some excellent entry levels into our 'short risk' portfolio. Despite the large exposures the contribution from these activities was small.

Gross portfolio contribution	
VIX hedging	+0.2%
Equity index hedging	-0.3%

Implied volatility (the type you can trade) dropped precipitously the whole month. When implied volatility is low, the cost of holding the position tends to rise. This impels those who purchased protection to close their positions, driving down implied volatility further.

When hedgers are selling market makers are buying, which leads them to increase their delta-hedging. When market makers increase delta-hedging, there's more capital buying every dip and selling every rally. This behaviour pushes *realised* volatility down further completing the cycle, leading to such periods as the last few weeks where markets broke records for moving barely at all, with spot VIX well below the futures curve.

Such cycles encourage risky vol-selling from the market makers themselves, and extended periods of low volatility are invariably followed by volatility storms. In this market patience tends to be rewarded. We are positioned for such a storm now, and see these flows as opportunities.

Early in the month we purchased November S&P 500 volatility at 12% and began capturing the value of US stock price movements in either direction between now and November 21.

We like this trade as there are a number of contentions dates during this period, with two more presidential debates, and the US election itself. We are aware that a Clinton victory would likely lead to further rallies, though may damage our biotech portfolio as Clinton has very publicly targeted drug pricing. We see this as unnecessary populism. Pharmaceutical development needs *more* investment rather than less.

A Trump victory would likely lead to a sharp increase in volatility.

Delta hedging S&P500 call options has an excellent advantage over our long VIX strategies – we are compelled to hold a substantial short positions in the S&P500 overnight. This is good for our sleep, and good for your portfolio if there's any trouble in the Asian or early European trading sessions.

As a final note, it's striking how many sectors of the S&P 500 are trading at the top of their valuation ranges.

Sincerely

Michael Frazis

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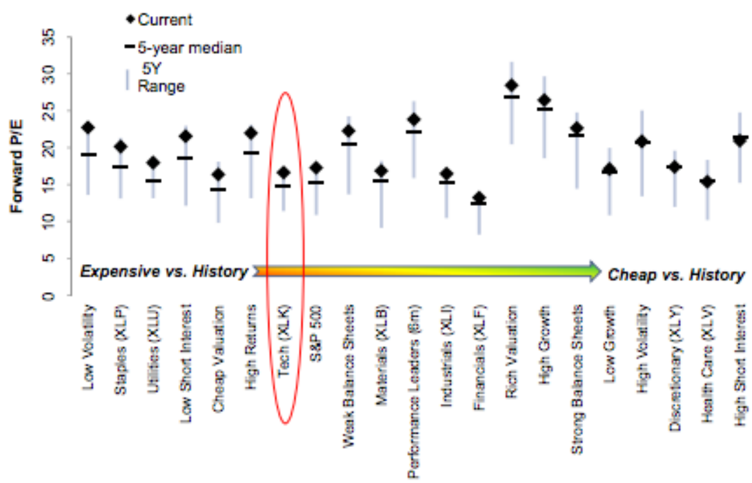
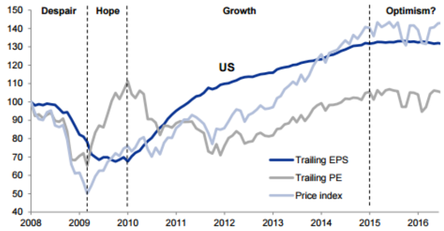
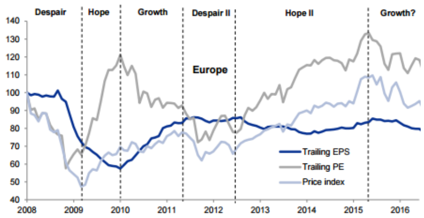


Late cycle concerns are growing for equities

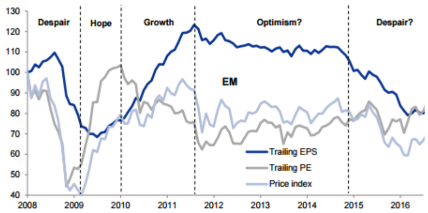
The US equity market has followed a relatively normal cycle, until recently
Change in earnings, P/E and price index for the US



Europe has been 'atypical' owing to 'Wave 2' of the financial crisis



Emerging markets entered 'Despair' territory as earnings collapsed



Equities: Fundamentals in detail

	P/E (X)	EV / EBITDA (X)	FCF Yield (%)	Div Yield (%)	P/B (X)	Net Income Margin (%)	ROE (%)	Implied ERP (%)
S&P 500	17.1	11.3	4.4	2.1	2.8	8.5	14.2	5.8
STOXX 600	14.8	10.3	4.9	3.6	1.6	6.3	6.9	8.6
MSCI Asia Pacific ex-Japan	13.2	7.3	8.7	2.9	1.5	8.6	10.4	9.6
Topix	14.4	7.7	2.9	2.3	1.1	4.0	7.8	7.6

Note: TOPIX EPS is based on fiscal, not calendar, years (i.e 2015 represents the fiscal year ending in March 2016). As of September 15, 2016.

	Earnings growth forecast (%)			
	GS top-down		Consensus bottom-up	
	2016E	2017E	2016E	2017E
S&P 500	9	12	0	12
Stoxx Europe 600	-5	10	-3	14
MSCI Asia Pacific ex-Japan	2	6	0	11
Topix	8	9	9	9

** TOPIX data based on March-ending fiscal year. The rest based on December-ending fiscal year.*
** Growth rates are based off local currency. US Consensus Bottom-Up reflects adjusted EPS.*
** As of September 15, 2016.*