FRAZIS
CAPITAL PARTNERS

Dear investors,

The Fund was down -0.1% vs +1.5% in the ASX200 and +3.8% in the S&P500.

	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%
31-Oct-16	-2.2%	-1.9%	-2.5%
30-Nov-16	2.2%	3.4%	3.9%
31-Dec-16	2.3%	2.7%	-0.1%
31-Jan-17	1.3%	0.8%	4.7%
28-Feb-17	1.5%	3.8%	-0.1%
Since Inception	**7.5%**	**13.7%**	**16.7%**

Macro view

The US rate rise tomorrow is top of mind. I've always been a firm believer in the power of rates. Interest rates set the price of money, which in turn prices every other asset (and this applies first and foremost to the US dollar).

A respect for rates was useful in 2011 when a well-flagged rate rise by Trichet triggered off one of the more serious rounds of the Euro crisis, and the single US rate rise last year coincided with market dislocations and panic, though it was so short-lived it's hard to remember.

On the flip side, an appreciation of the positive effect of low rates on asset prices was one of the reasons I stayed long equities throughout this ripping bull market, despite the general fear and apprehension in the market, and all those far better informed than I am who were writing bearish reports.
As I write we are 77% hedged directly with S&P500 futures (increased from 28 Feb), and have a long volatility position that corresponds to hedging about 40% of our portfolio. This is partly due to our macro view, but also due the this ripping rally: with the Fund up nearly 17% net we have been steadily building our hedges for some time.

Our strategy rewards patience – the longer it takes for markets to crack, the larger our position will be.

This positioning partly explains our flat performance last month (the futures alone subtracted over 2% from performance). Fortunately with markets in their current exuberant state, there is very cheap call protection, which we are making use of, and our stocks themselves have generally outperformed (February notwithstanding).

Timing

We are building other risk-off trades as well. To be clear, these face the opposite way to our core investment portfolio and fit in with our strategy of building hedges against a buy-and-hold portfolio of cheap, quality stocks, mostly household names.

We are short a WTI crude oil ETF, which is selling off as I write. The beauty of this particular ETF is that under normal conditions it steadily decays, currently at a rate of nearly 1.5% per month, which is a tidy return in its own right.

I am often accused of 'market timing', but am only occasionally guilty of this. Our trades in commodities fit

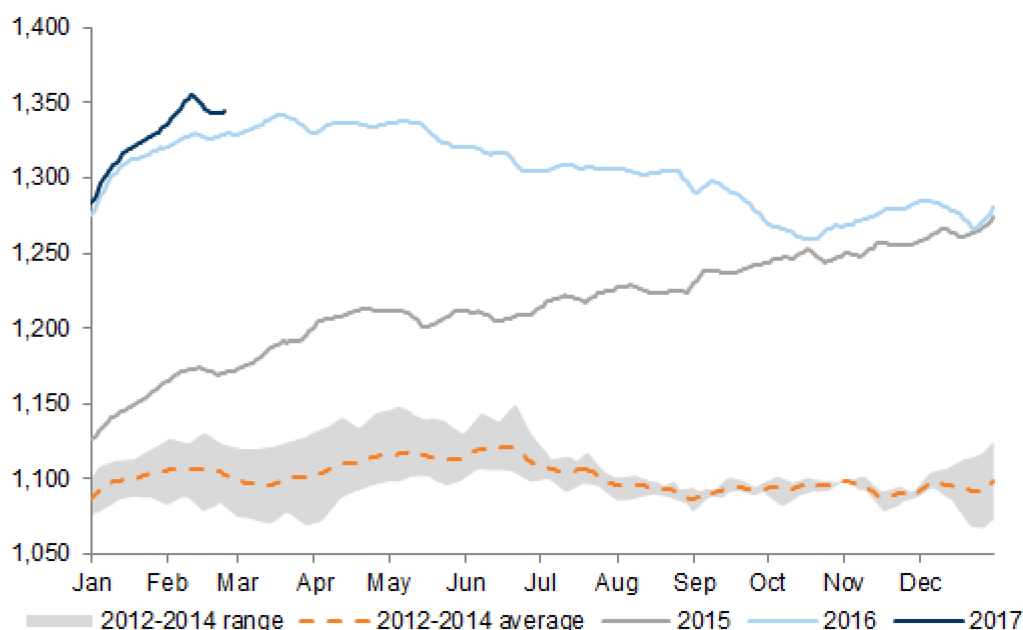
the charge. We went long Whitehaven Coal at $1.05 and cleared our position shortly after at $3, after watching the stock for years.

Why did we go when we did?

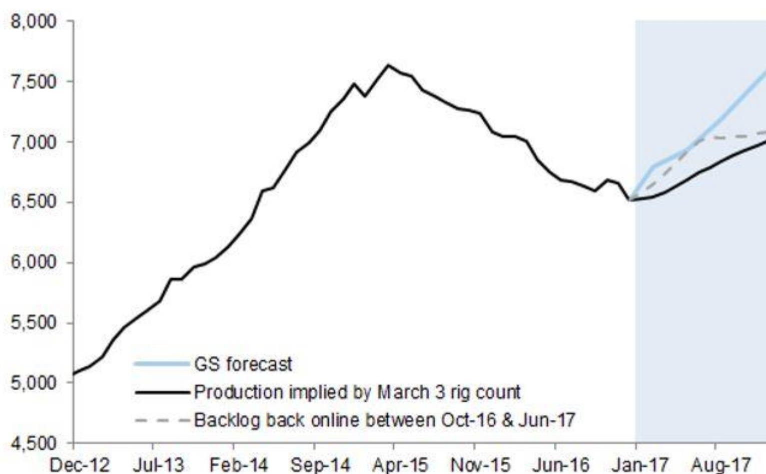
There was a 25% supply contraction in the US. This was the signal that supply was finally acting against demand, and Whitehaven itself was at an inflection point as a major asset came online.

Our short WTI position is a more temporal example. OPEC has publicly announced supply cuts, but there are immense incentives for this budget-constrained set of rogues to cheat each other. These are literally the most cynical regimes in the world, but still somehow managed to convince speculators to build record long positions in the commodity.

Record speculative positioning alone might have been enough to mark a top, but there is a major player missing from the cartel: the United States. The US oil rig count has been rising steadily, and will continue to plug this gap. Much as the mega-cap miners in Australia responded to the collapse in iron ore by drastically cutting costs, so too have the shale drillers, who are now economic at a far lower oil price than this time last year. The chart below shows US, Japan, EU and Singapore inventories:



While the US drill count has been steadily increasing:



Saudi Arabia's market power is well below that of their reputation. The US is a net energy exporter, for example, and Saudi only has 12% of the oil market. They have a Deputy Crown Prince who is about to learn a harsh lesson. He has dismissed more sensible solutions: carving off a clean sub-set of assets, for example – and has decided to let harsh light into an opaque institution.

The Prince will soon be able to enjoy watching the National wealth of Saudi Arabia jump up and down with global markets along with the rest of us.

There are dissenting opinions. Goldman Sachs, for example, believes demand growth will be sufficient to mop excess supply. Even with their own figures, however, I came away more bearish. We shall see.

The talk of Saudi and OPEC reminds me of how it was three years ago in Sydney, when people seemed consistently surprised to learn Australia's mining contribution to GDP was only 8.5%, with only 2% of the workforce in the sector. Australia's resilience was no fluke, and the oil market is bigger than Saudi Arabia.

So in short, when we do time markets, we do so for genuine supply/demand reasons, and only if it fits with the rest of our portfolio. In this case we hope to make money off both our long energy equity investments and short WTI position, and both are comfortably profitable now.

Our hedging portfolio, which contains by far the largest trades in the Fund, has little to do with timing, and much more to do with levels.

We increase our hedges steadily as our portfolio equities rise in value, and cash them out predictably when equities fall, so it's very path dependent. As is life.

We have been increasing these hedges for some time. With crude and high yield selling off together, perhaps these will soon come in handy.

Warm regards
Michael

Major gross contributions to the portfolio were approximately:

Contributors	
Apple	0.6%
Navios credit	0.4%
Bluebird bio	0.5%
Glencore	0.4%
NAB	0.3%

Detractors	
Magnis	-0.8%
Tata Motors	-0.6%
Pandora Jewellery	-0.5%
Navios equity	-0.5%
Beach Petroleum	-0.2%

Exposure

Country	%
USA	32%
Australia	30%
UK	16%
Europe	10%
China (US listed)	7%
India	4%
Total	**99%**

Investment Theme	%
Financials	23%
Energy and Refining	13%
Tech	11%
British Land Developers	10%
Blue Chip Mining	9%
Autos	7%
Mining Development	7%
Shipping	7%
Biotech and Pharmaceuticals	6%
Luxury	6%
Other	0%
Total	**99%**

Short Positions	%
Technology	-2%
USO WTI short	-9%
Total	**-11%**

Hedge book	%
S&P500 - covered with calls	-66%
Net Front Month Volatility	9%
Total Equity Exposure with VIX at 4x	**-13%**

Credit and Macro	%
Corporate Credit Risk	5%
Long-dated US Treasuries	4%
Short French 10 year	-13%