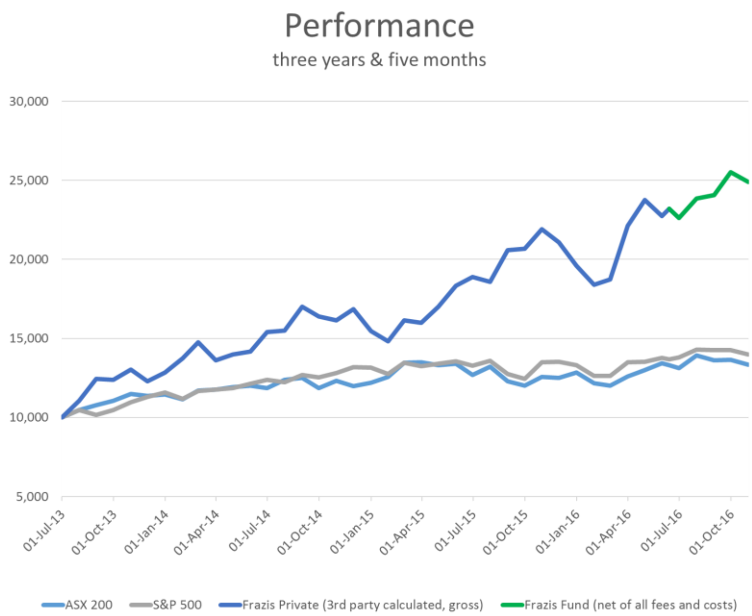
Dear investors

Performance

The Fund was down 2.46% net of fees and costs for the month, while both the S&P500 and ASX200 continued to fall.

	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%
Total	**0.2%**	**2.3%**	**7.3%**



As of 31 October, 2016, our geographic exposure is:

Country	Weighting
USA	31.1%
Australia	26.1%
China	10.8%
Britain	10.0%
India	4.4%
Other	17.6%

Major gross contributions to the portfolio were as follows:

Top Contributors	
Short US Oil Fund	0.6%
Alkane Resources	0.6%

Top Detractors	
Magnis Resources	-1.3%
Navios	-0.6%

Valero	0.5%	Persimmon	-0.6%
Whitehaven Coal	0.4%	CVR Refining	-0.5%

Portfolio

This was a tough month for the macro book. We had invested the cash from our short proceeds in a series of credit and treasury positions. We also had a moderately-sized long-held position in large cap gold miners. Combined with our FX positions, we found ourselves over-exposed to movements in the dollar and the prospect of higher rates moved all these trades against us, lifting the US dollar and crushing gold. Recognising that this unfortunate factor combination was at odds with our rate view, we closed all our credit positions and our core gold position, but kept MLX, an Australian gold and industrial metals miner about to complete a favourable restructure. We kept our existing currency exposures as they were.

The second half of the month faired far better, helped in part by a series of short positions in a poorly constructed oil fund (USO), a rate-exposed timber company (Deltic Timber) and failing 'tech' companies (GoPro, Pandora Media and Lending Club). We also shorted Santos to complement our high conviction position in ASX-listed Beach Energy.

We also added to our increasingly substantial S&P 500 short. This puts us – for the first time in years – into a negative net exposure. This will be managed very carefully, but we believe the positioning at this point in the cycle is correct.

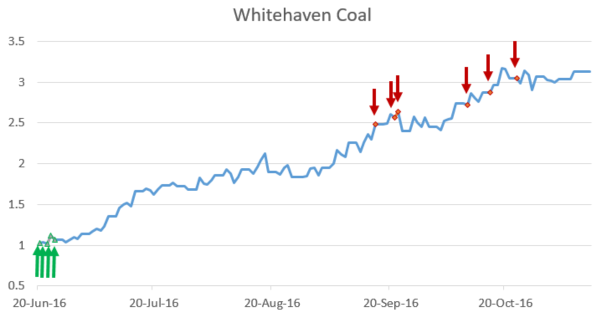
The short market case rests on:

1. Rising rates – most likely as soon as December,
2. Top-of-band valuations,
3. Extremely positive sentiment,
4. A certain collapse should Trump win, the Democrats sweep both houses. After turning strongly to the left, the prospect of a Clinton family victory offers little succour to equity markets in our default case of a close Clinton victory.

GoPro has lost money every year and is facing increasing competition from a host of angles, with an annual cash burn approximately equal to its current cash balance. GoPro management have developed their own editing and production software suite and are trying to funnel people through their own systems. This makes sense to a certain degree, but makes competitors of Adobe, Microsoft and Apple, and will weaken their own product offering. Strategically GoPro is locked into a battle against cheap Chinese mass-producers that typically bodes ill for high cost manufacturers. The lack of core profitability tells its own tale, and we expect GoPro to require capital in the near future, and debt and equity markets to be closed. The cost to carry this position is high, so we are likely to exit in the next four weeks.

There is also a strong case against Pandora, an online radio website facing competition from the toughest commercial competitors in the world: Apple and Amazon. The firm charges for an ad free version of their product where you can't fast forward or store music. Pandora's product and pricing strategy seems flawed. The core product is both fundamentally inferior and priced above competitors. By refusing to use data to direct ads they have displayed a stunning inability to understand what makes tech companies so successful. Finally Pandora's financial position is weak. Unlike most tech companies, which maintain large cash balances to fund their growth profile, Pandora carries net debt. They have about US$258 million cash and US$337 million of debt. This is a poor position for a company with *minus* $250 million of EBIT in FY16. While researching Pandora Media I came across Pandora Jewellery which has excellent fundamentals. Would be quite a serendipitous pairs trade.

We sold our final shares in Whitehaven Coal at over 3x our purchase price. This was a case of macro done right. We entered our position at sub 4x EV EBITDA when production was falling dramatically around the world. We then got somewhat lucky, as China decided to restrict domestic coal production to shift profits back to the sector. We finally sold Whitehaven Coal at an EV EBITDA of around 8x on the expectation that China would amend regulations to ensure that domestic, rather than international, producers were favoured.



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Hedging

The Fund's hedge positions had little net effect in October, 2016, contributing -0.05%.

Outlook

The outlook for the US is as uncertain as for the UK on Brexit. In this case Trump is likely to be catastrophic for markets. He plans to unwind trade and defence agreements around the world, and will no doubt be as happy to tweet offensive and incoherent material at 3am as President as he has as Presidential candidate. We can be sure that Trump would continue to offend other nations. This, combined with the sheer unpredictability of the outcome of his presidency, is something to be very much feared.

We were burnt a little in Brexit and we don't intend the same thing to happen again. So far the expectation is that Clinton will prevail. We will carefully note the key timings of announcements from swing states, and have our calculators ready to draw the correct inferences. It's generally disastrous to trade news, however if Trump comes close to winning we may make an exception and apply some straight market hedges.

If we were betting people, we would say that the most likely outcome is a sell-off into the election, a Clinton win, a sharp Clinton relief rally, and then that this would mark the mid-term top, as the reality of US rate rises comes back in to play and politics fades mercifully into the background (comparatively, anyway). Fed Chairwoman Janet Yellen is a Democrat and Clinton ally. She is most likely to raise rates early in a Clinton term to give an economic boost when the Democrats run for a second term. In light of this we will lean short risk in the macro book.

It's tough investing in politically driven environments, but that's the job! So how will we approach the mid-November elections?

In anticipation of harsh swings and a rising-rate environment, we have increased our idiosyncratic short bets significantly. We made a number of short bets on specific companies trading on high valuations with busted business models and draining cash balances. This cut our market exposure while still giving us reasonable expectation of profits should the seven year rally resume.

We also made a bet against oil at the peak of OPEC enthusiasm based on a handful of factors: 1) US drill count was increasing, signifying that the cost curve of US production had dramatically lowered. We observed something similar in the iron ore market; 2) Saudi and Russia are on opposite sides of various violent conflicts, as are Saudi and Iran. The prospect of any of these giving up market share to the other makes little sense; 3) the drive towards energy efficiency around the world continues unabated. This is also something of a 'Risk Off' trade, so we are very happy to have independent reasons to put it on. So far it has performed as expected.

We are ready to be surprised.

Warm regards
Michael Frazis