T11 Capital Management

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2012 RETURN: **+58.61%**	vs. S&P 500: +13.41%
2013 RETURN: **+63.57%**	vs. S&P 500: +29.60%
2014 RETURN : -6.20%	vs. S&P 500: +11.74%
2015 RETURN: +39.66%	vs. S&P 500: -0.73%

SEPTEMBER RETURN: -3.23%	vs. S&P 500: -0.12%

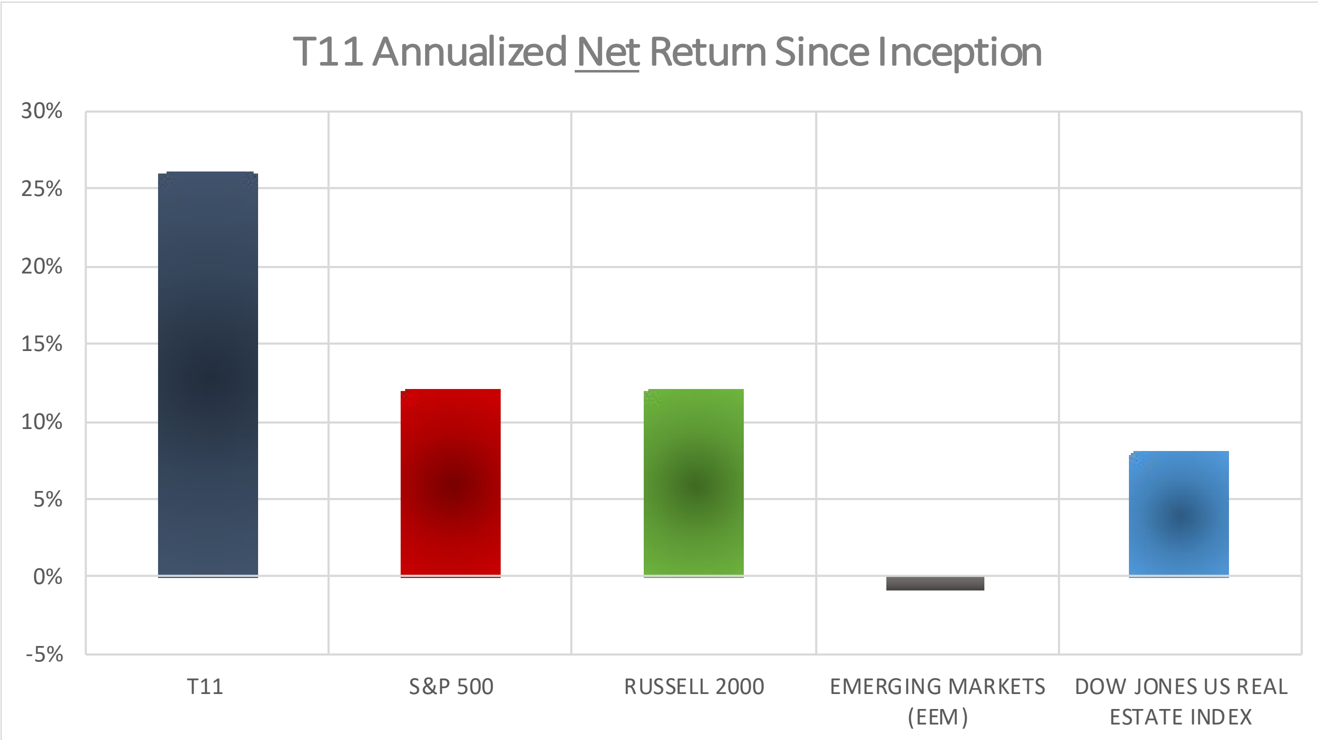
2016 RETURN: -10.74%	vs. S&P 500 +6.08%

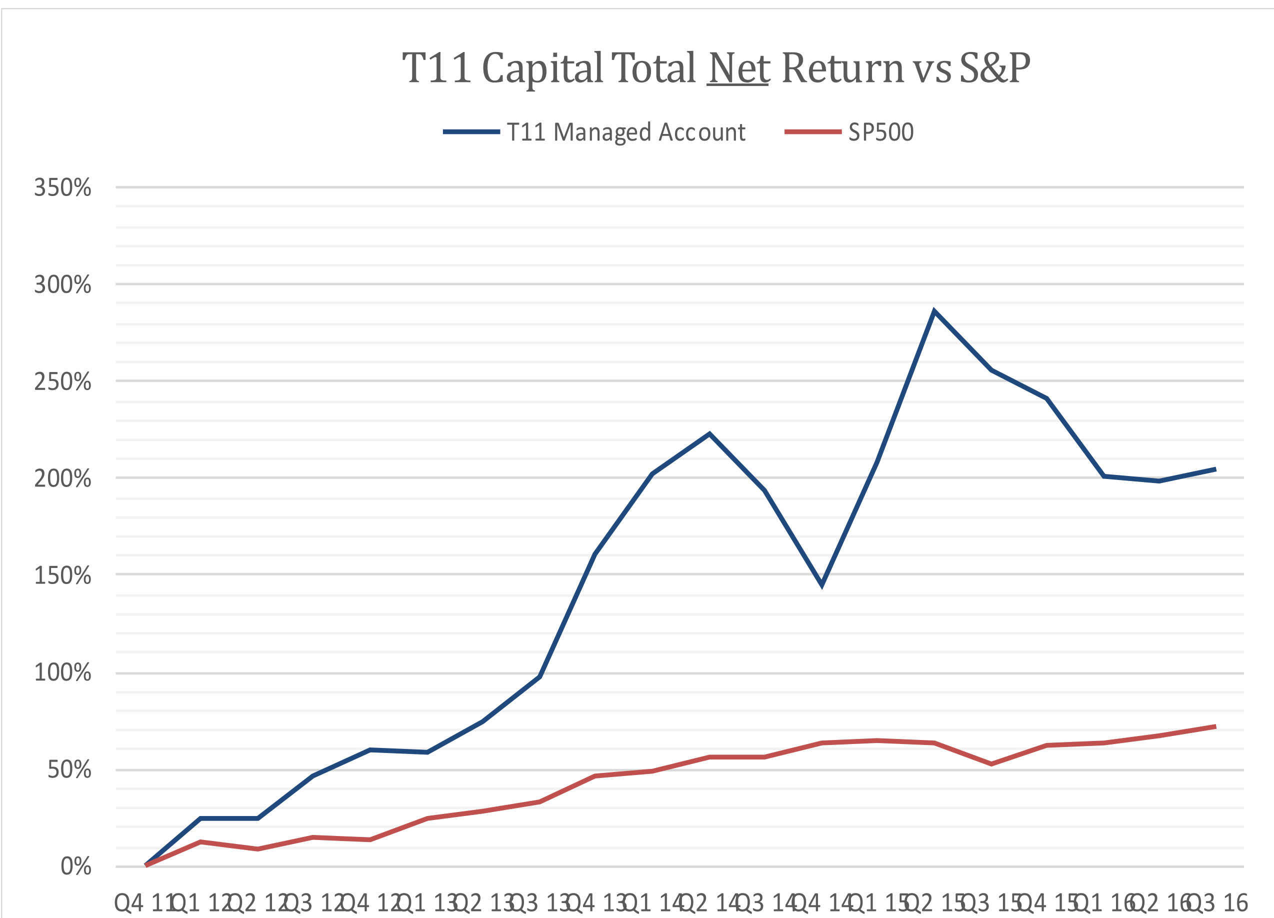
TOTAL RETURN*: +205.10%	vs. S&P 500: +72.41%
ANNUALIZED RETURN*: +**26.47%**	vs. S&P 500: +12.15%

**Inception January 2, 2012 – All return data is net of management & performance fees –*
***Lehman Brothers Capital Trust Preferred shares are highly illiquid, volatile securities. For purposes of percent change month over month last trade data is utilized. All four classes of CT shares held by T11 are averaged and combined under LEHct for the purpose of monthly return data.*

T11 Capital Monthly Net Returns

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Year
2012	4.88%	5.47%	4.76%	-1.83%	6.44%	2.45%	15.65%	-0.34%	2.96%	-9.03%	1.03%	18.45%	**58.61%**
2013	6.61%	-3.79%	-2.26%	-6.86%	13.22%	4.44%	6.81%	-0.22%	6.09%	0.10%	9.08%	20.70%	**63.57%**
2014	0.51%	8.13%	6.77%	2.11%	4.39%	-0.09%	-4.11%	3.78%	-8.61%	-9.19%	-9.42%	1.45%	**-6.20%**
2015	14.26%	10.44%	-0.11%	33.90%	-1.32%	-5.35%	-3.48%	-6.70%	2.56%	-7.38%	1.29%	2.25%	**39.66%**
2016	-7.33%	-1.38%	-3.60%	-3.68%	8.98%	-5.40%	4.75%	0.65%	-3.23%				**-10.74%**


T11 Annualized Net Return Since Inception
30%
25%
20%
15%
10%
5%
0%
-5%
T11
S&P 500
RUSSELL 2000
EMERGING MARKETS (EEM)
DOW JONES US REAL ESTATE INDEX


T11 Capital Total Net Return vs S&P
T11 Managed Account
SP500
350%
300%
250%
200%
150%
100%
50%
0%
Q4 11 Q1 12 Q2 12 Q3 12 Q4 12 Q1 13 Q2 13 Q3 13 Q4 13 Q1 14 Q2 14 Q3 14 Q4 14 Q1 15 Q2 15 Q3 15 Q4 15 Q1 16 Q2 16 Q3 16

- **Winning** positions in September: LEHct** +41.12%, PIH +2.30%, KFS +1.06%
- **Losing** positions in September: WMIH -6.02%, ARIS -0.22%
- New additions to portfolio: None
- New liquidations in portfolio: None
- Portfolio exposure as of September 30th: 100% long/0% cash
- Long Positions as of September 30th: **WMIH, KFS, PIH, ARIS, LEHct**

Portfolio Highlights

- Since initiating the position in **PIH** during Q1 of this year, the company has faced two storm events in Louisiana, the most recent being the historic floods in the state during the month of August. Both events have served as a means of temporarily interrupting the positive momentum in what is an evolving company that is poised to accelerate growth and perhaps most importantly, geographically diversify their property and casualty coverage base so that future storm events in Louisiana will no longer disproportionately influence earnings.

  The entire basis for investment in PIH is that Louisiana is simply a springboard for an insurance company that will eventually have policyholders in multiple coastal states with an effective methodology for underwriting policies based on the collective experience of the management team. Effective underwriting across a wide geographic base will allow for significant growth to take place in the bottomline that is not currently being recognized by the markets. In fact, a simple normal period of weather activity in Louisiana that doesn't cause historic flooding or widespread wind damage will result in the growth in book value that is necessary for the markets to begin assigning the premium to book that is assigned to most other property casualty insurers in the space.

  PIH is currently the lowest valued property casualty insurer in the public markets selling at a 20% discount to book value. This is due to a lack of recognition by the markets, as well as a lack of geographic diversity in policies, which is being remedied by their recent move into Texas.

  The growth available in Texas alone will change the complexion of the company, which seems to be a fact that is well understood by management as they have been hiring aggressively in the region, including management positions for those who have long-term experience in Texas. 1% of the targeted policies in Texas would translate to a tripling of current premiums from policies written. The company is targeting 2-3 percent of the Texas market over the long-term.

We are effectively getting all of this future potential growth at a discount to current book value. PIH remains a classic value proposition with a substantial backstop in overall risk given what is an *overcapitalized* balance sheet awaiting further deployment.

- **KFS** continued its ascent during September, with a small gain to finish the month. The stock has managed to gain 25% year to date, which given the continued difficulty in the small-cap space is not a small feat.

  There are opportunities that come along in the financial markets that have various different paths towards profitability. It is difficult to gauge what that path will be a majority of a time. However, with some names, there is an early recognition of the velocity that will be involved in creating value over time.

  KFS is increasingly becoming a name that has the characteristics of a company that will be a producer of capital gains in a very steady manner over a very long period of time. It has a management team, that while aggressive in the manner they have approached the restructuring of their organization over the past several years, is actually conservative and appropriately diligent in the way they approach opportunity. Everything is viewed, and this has been reiterated by management numerous times, in a very long-term lens.

  It only takes a brief look into the portfolio and investing style of the key driver behind Kingsway's turnaround and largest shareholder, activist investor Joseph Stilwell, to realize the type of return profile he enjoys, with a significant likelihood that he would want a similar return profile for his largest holding.

  Stilwell is an investor in regional bank names almost exclusively, which is a sector that enjoys long-term, slow and steady appreciation during positive financial cycles. These upward cycles are interrupted very briefly for a period of months or quarters during dramatic changes in economic policy or surprising macro events. Generally, however, regional bank shares, especially in today's economic environment where they enjoy much less of the burdens of their larger, national counterparts, are an investment that remains separated from stock market volatility, while enjoying much more steady performance.

  I expect that Kingsway will evolve into a regional bank name, not in terms of their corporate business profile, but in the way the company appreciates over time. Slow and steady, with relatively minimal volatility that adds up to above average performance over time.

Portfolio Lowlights

- **WMIH** remains a long position in the portfolios. There were no new developments during the month of September.

- **ARIS** was profiled extensively in the research report released during August. The rationale for investment here is extraordinarily simple: A company with the consistent ability to generate 90%+ recurring revenues within a SaaS business model that doesn't allow for clients to cut ties with ARI Network Service's technology solution unless they are willing to endure substantial difficulties, interruptions and expenses. That's the core investment thesis that allows for a very low risk investment with the potential for steady gains over time, which is an investment profile that is attractive.

  What elevates ARIS even further up the ladder of attractive investments currently available in the market is the two pronged nature of their strategy. The management team is extremely proficient in utilizing acquisitions as a means of furthering their market position. Since 2012 the company has completed six acquisitions.

  Realizing that this a key component of their strategy, management has undertaken the task of restructuring the balance sheet by significantly reducing debt, allowing ARIS the luxury of targeting larger acquisitions that will be accretive to earnings while being non-dilutive to shareholders. This will allow ARIS to further enhance their market position, which simultaneously enhances their appeal to both private equity investors and competitors or public market companies that want an immediate advantage in the space and are willing to pay for that privilege. ARIS itself is assuredly an acquisition target over the next few years.

  Additionally, the company on the SaaS front plays right into a key consumer economic trend of keeping cars for longer periods of time, much to the delight of automobile shops and parts companies. These same companies depend on ARIS software to power their consumer business. There will be no shortage of demand for their services in the coming years.

  The company will be releasing earnings during October. I look forward to reviewing them in the October monthly summary.

Thoughts & Analysis

The stock market is a giant distraction from the business of investing. ---- John Bogle

Let's Get Normal

The Delivering Alpha Conference took place in September. Delivering Alpha, for those who are not familiar, is basically a conference where high level fund managers take the stage for an interview where they discuss opinions about the markets, economy etc. Here is an excerpt from an interview with Marc Lasry of Avenue Capital worth noting:

Caruso-Cabrera*: We were chatting and we had our conference call beforehand. And you made the point in saying that a while ago you gave up on quarterly redemptions. If you want to give me your money, you have to give it to me for three years. No more hedge fund. Why?*

Avenue Capital Group CEO Marc Lasry*: Because I think it's gotten extremely difficult to invest on a quarterly basis. I think before, when you weren't in a zero-rate environment, a zero-interest environment, it was actually easier. But now, you actually need the luxury of time. And because sometimes things will go down, so you need to invest over a sort of two or three year period. Or not have people who get nervous who automatically want their capital. And I didn't think we could generate the returns for people if we did that. So mainly we just went to our investors and said we're going to shift anybody who is here to lock up to about three years. And whoever doesn't want to do that, you can leave, and about 75 percent of the money stayed and 25 percent left.*

In recent years, it has become of increased importance to recognize that the runway towards an investor recognizing value in a stock and the market recognizing that same value has lengthened substantially. The markets as a whole have become reluctant to assign value to uncertain situations. Given that we just so happen to dwell in the realm of murkiness and uncertainty, this dynamic will certainly effect the pattern of returns until the dynamic changes or our positions move into more certain fundamental positions that will lead to a sudden rush of value creation.

What we are truly experiencing in the current zero yield market environment is an expression of emotion rather than an expression of intellectual understanding. Investors globally are telling us that they are too fearful, skeptical and indelibly scarred to put capital at risk. This is an extreme emotional reaction to unprecedented action by global central bankers caused by a once in a generation financial crisis. Any attempt at intellectual understanding during such a situation will very obviously take a backseat to emotion as investors digest the unfamiliar territory they face.

In 2016, we have seen a new phenomenon take place as a result of this unfamiliar landscape: *The equity markets are being driven by a search for yield.* Companies that deliver yield are typically mature corporations that individuals are intimately familiar with through experience. The transition from being fearful enough to accept zero or negative yield in government debt to buying Proctor & Gamble or Phillip Morris is a warming up to risk that is a necessary first step to what will be the eventual realization that equity returns will be greater than zero or in other words, will not lose money going forward.

This defrosting of the souls of investors into accepting more risk will be a gradual process that will likely take place in phases over the next several years. Just as the lengthening of the runway for the realization of value in individual equities has occurred, the same dynamic is likely to take place in market cycles that move investors from different phases of emotion to accept more risk over time.

As investors will inevitably begin to accept more risk over time, the runway for realization of gains again shortens. Investors will become accepting of less than perfect information in order to put their capital to work. They will seek opportunities in smaller companies that have greater potential for gain while accepting the emerging nature of such an investment.

In other words, the markets will become normal again.

A Wicked Game To Play

When you really step back to observe what the market is, at its essence, you have no choice but to either be impressed by the torturous inequities that are inherent within the capital markets or absolutely repulsed by the markets due their inherent conflicting nature with the harmonious, peaceful functioning of the human mind.

What I do and what every investor who chooses to invest capital does is put money to work based on what is hopefully a well thought out thesis, be it macro or micro in nature. Immediately after putting your capital to work based on the framework of this thesis, the thesis comes under attack by various pieces of economic data, company data, other investors, geopolitical instability and sometimes the company you invested in itself. The moment your investment is made, you are subject to all of these forces creating either positive or negative impressions in your mind about the investment decision you made.

Unless you are willing to completely block yourself off from society as a whole, take up refuge in a cabin in Vermont and look at your portfolio once per year, you are subject to these influences on a nearly continuous basis.

It doesn't end there, however. While this virtual meteor shower of separate degrees of information is being absorbed about one company or a group of companies within an investor's portfolio, that same investor is being challenged by the lure of literally thousands of other investments available in the markets. There are roughly 8,000 securities listed in the US markets. At one point or another a small group of those investments gains the focus of various investment groups, analysts or financial media outlets, which then bring them into focus for investors.

Flickering red and green numbers that represent 8,000 other options for an investor. And get this, an investor's portfolio investments are subject, in most cases, to near immediate liquidity. Meaning that an investor can change his mind on a dime in the morning and completely reconfigure their portfolio by the time they finish their cup of coffee.

Of course, during periods of positive momentum in an investor's portfolio a superiority complex ensues that allows for simple blocking of any other ideas but your own. However, during periods of negative performance, the mind becomes open to influences, making it difficult to stick to a well thought out thesis in the face of literally thousands of other options that are immediately accessible.

It's akin to being a sexless marriage with 8,000 other woman sleeping on your bedroom floor. It becomes difficult to not accidentally fall out of bed one night and roll around the floor for a bit.

In this framework, as described above, it becomes relatively easy to understand why there are so many who underperform the markets on a consistent basis, eventually making the decision to drop out of the equity markets completely. The lure of immediate liquidity, an abundance of options and an overload of information on a continuous basis are a lethal combination for an investor, regardless of pedigree.

The great irony is that liquid markets take away from the business of investing while the business of investing is dependent on liquid markets for its relevancy.

In the current era of attempting to gain an edge in the markets through various exotic, often times convoluted means, a dive deep into the fruitful waters of simplicity may be the most powerful step to be taken. The simple approach of looking at the markets as a venue for long-term investment, guided by well thought out research in companies with unique value propositions.

When you add in the aspect of uniqueness and have a tangible methodology for both identifying and researching unique opportunities, it becomes much more difficult to be persuaded by the 8,000 other opportunities in front of you. The filter for identifying opportunities, allowing them to resonate for a period of time, cannot necessarily be overlooked as an important component of an investor's process. That filter basically acts as a barrier towards all sorts of potentially poor decisions that can ruin a portfolio's progress extremely quickly.

Whenever I consider a process for investment, one of the very first qualities I become concerned with is how many opportunities will this system or framework for investment allow? If the opportunities are overly-abundant I know that the framework is ineffective, causing more harm than good in the long run. It will cause an investor's attention to be divided among too many opportunities, which distract from the handful of opportunities that will actually make a tangible different to overall performance relative to benchmarks and peers. It is similar to playing an excessive number of hands at a poker table, your edge diminishes and potential for ruin increases exponentially the more hands you play.

A robust system of long-term investment should not be diversified, but instead should rely on concentration. Professionals in the marketplace who have diversified portfolios, which I define as a portfolio with greater than 15 equity holdings, generally fall into a few categories:

1) They are very large in scale, having no choice but to have a large portfolio of stocks

2) They have no defined concept of risk control, instead relying on the markets to control risk for them by essentially emulating the broad indices.

3) They possess no tangible edge in the markets but must pretend that they do in order to remain employed. A majority of MBAs and CFAs fall into this category.

Dispersion away from an individual's best ideas is a silly concept in most other areas of business except for Wall Street. In any other area of business, if you approach an individual with an idea that is promising and then tell them, “This is a great idea but I'm going to spread it out into 25 other less promising ideas just in case,” they would stop doing business with you immediately. Diversification is simply Wall Street's answer to job stability. The fact that it has become ingrained as a commandment of investing makes it neither practical nor relevant.

If you look at those who have built wealth over time, they have not done so by spreading their wealth out over sixty different ventures at once. They have done so by focusing on two to three ventures that they possessed intimate understanding of and held onto for the very long-term. This type of concentrated portfolio makeup will automatically carry with it independent performance away from the broad market indices. The portfolio functions on its own accord in a majority of market conditions.

Buy Complexity, Sell Simplicity

An excerpt from KKR's most recent piece from September 7th: *As we mentioned in our mid-year update (see Adult Swim Only: 2016 Mid-year Update, June 2016), we believe that the market is now potentially over-pricing assets with steady cash flows, while under-paying for complexity, particularly around cyclical earnings, conglomerates, and/or busted deals.*

Finally, given the bifurcation across markets, we advise folks to consider increasing exposure to complex stories, including earnings misses, restructurings, and/or corporate repositionings. At the moment, Japan appears to be one of the most actionable markets, though we are also seeing some interesting opportunities in the United States and Europe. Conversely, we think that earnings visibility and simplicity are potentially being overvalued, and as such, our inclination is to harvest existing gains in these areas.

It really cannot be much more simple than this. A 3% dividend yield becomes useless in the face of downside volatility without much in the way of earnings growth to make up for the risk of permanent capital loss or at the very least, opportunity cost by sticking with a loser while “complexity” brings in double digit returns.

It's unfortunate that a majority of those who are invested in simplicity presently are those who refuse to take losses. These are after all fixed income investors who require a substitute for income given present conditions. Taking a loss in a substitute, income producing asset is thought of as unthinkable, which will create what will likely turn into a significant opportunity cost by remaining in what will be an underperforming asset relative to complexity.

Per the usual, the markets have done an outstanding job of insuring that investors are ill prepared to keep pace with where the most substantial returns will likely emanate from in the period ahead.

Given my fondness for complexity and our positioning in nothing but complex names that are either platforms, restructurings or newly formed corporations depending on acquisitions for growth, there is a better than even chance that our investments are being completely overlooked by the markets. A testament to this fact is that we are facing one of the least volatile performance periods in the relatively short history of T11, caught within a performance range of roughly 13% for 2016, exclusively on the downside. This is not mere negative performance because of positioning in names that have blown up or are fading fast versus the competition, but rather, it's a leak. It is being caused more by the lack of steady bidders in the market to pursue risk as opposed to any fundamental negative developments in any of the names we are holding.

We are in the fortunate position going forward of having event driven value names that are rapidly coming to a point where they will begin unlocking value just as the hearts and minds of investors are beginning to open to the possibility that they have overestimated risk in the markets, while overpaying for dividend yields that now put their capital at risk much to the same extent as speculative growth names.

Regards,

Ali Meshkati

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