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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%

JUNE RETURN: -5.40%	vs. S&P 500: +0.09%

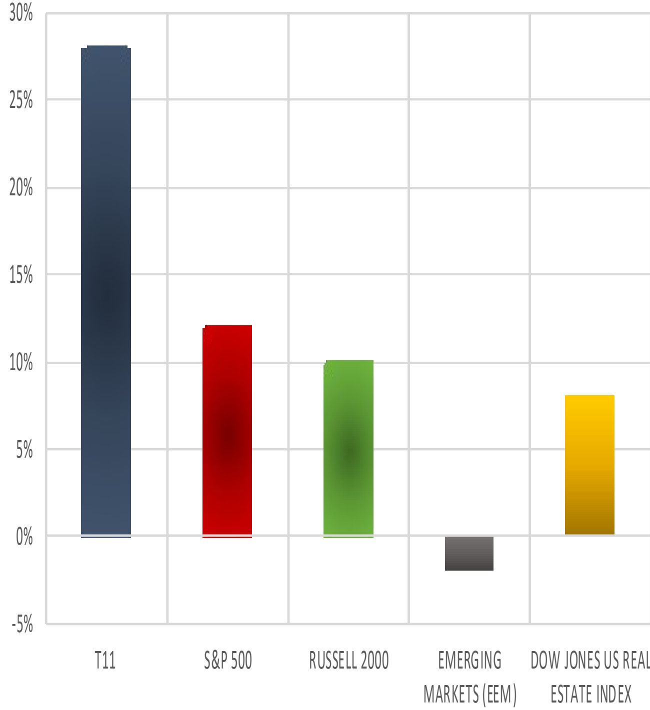
2016 RETURN: -12.52%	vs. S&P 500 +2.69%

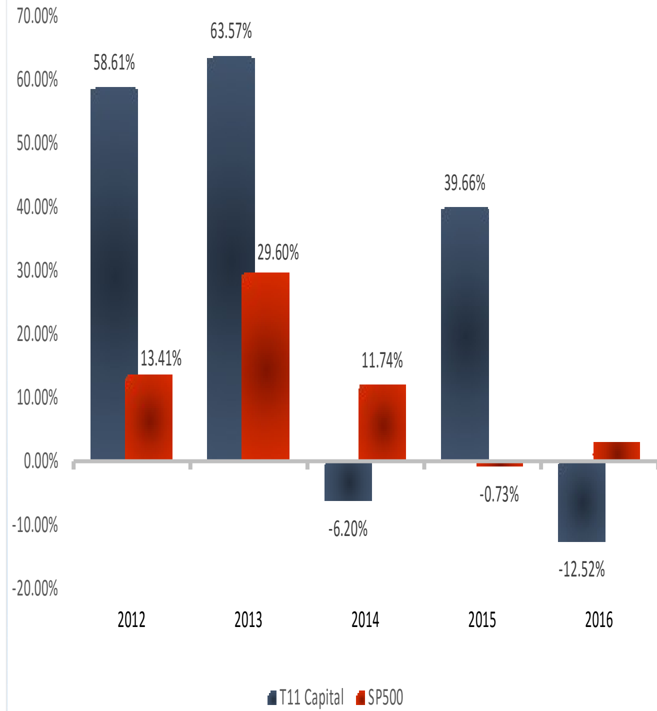
TOTAL RETURN*: +199.04%	vs. S&P 500: +66.89%
ANNUALIZED RETURN*: +27.57%	vs. S&P 500: +12.06%

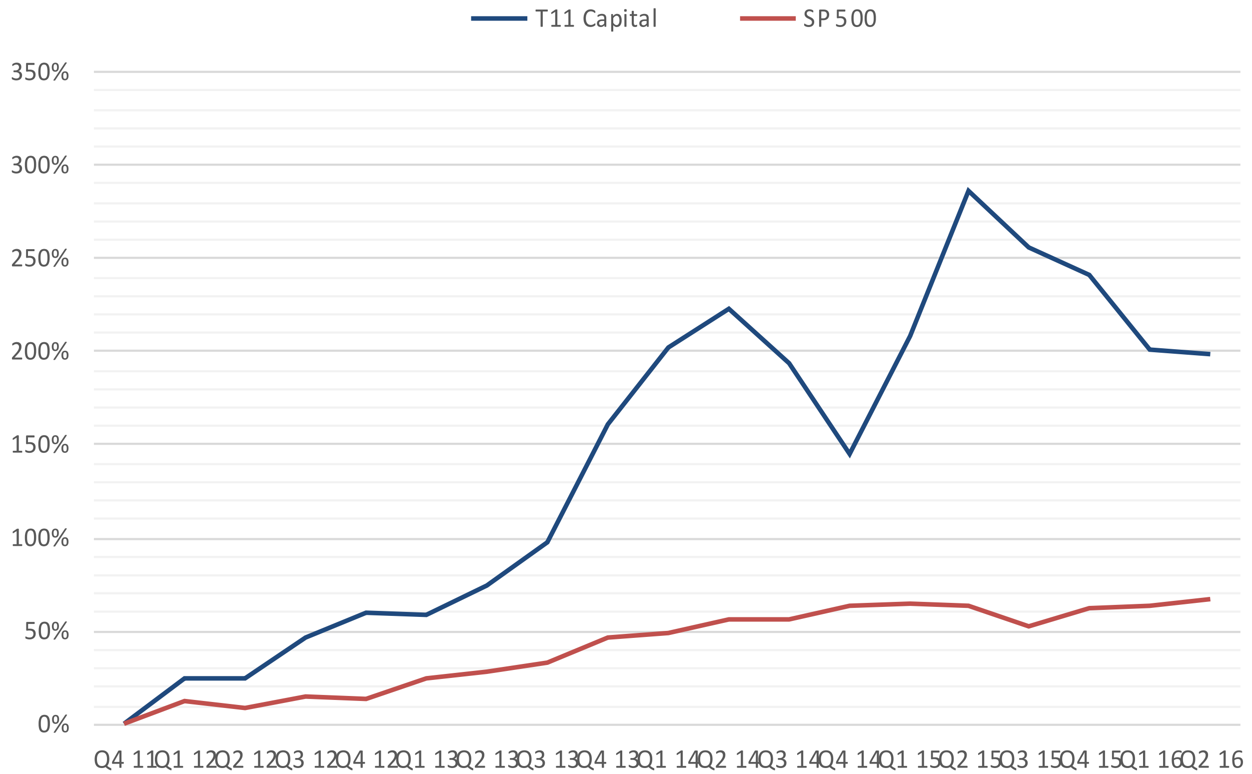
**Inception January 2, 2012 – All return data is net of management & performance fees –*
***Lehman Brothers Capital Trust Preferred shares are highly illiquid, volatile securities. For purposes of percent change month over month last trade data is utilized. All four classes of CT shares held by T11 are 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%							**-12.52%**


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 Annual Net Returns
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
-10.00%
-20.00%
58.61%
13.41%
63.57%
29.60%
-6.20%
11.74%
39.66%
-0.73%
-12.52%
2012
2013
2014
2015
2016
T11 Capital
SP500


T11 Capital Total Net Return vs S&P
T11 Capital
SP 500
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

- **Winning** positions in June: KFS +8.05%
- **Losing** positions in June: LEHct -10.25%, PIH -7.66%, WMIH -6.33%
- New additions to portfolio: None
- New liquidations in portfolio: None
- Portfolio exposure as of June 30th: 91% long/9% cash
- Long Positions as of June 30th: **WMIH, KFS, PIH, LEHct**

Portfolio Highlights

- **KFS** stock continued its steady ascent during the month of June. There is a particular insider that has been buying stock on the open market on a daily basis. If you will remember from the April investor letter, upon the announcement of John Fitzgerald to join the board of KFS, as part of his agreement to receive 500,000 in restricted stock units:

  The restricted stock units will be issued when certain conditions precedent are met including the purchase for $1 million by Mr. Fitzgerald of common shares of KFS either in open market purchases or directly from the Company at $5.50 per share should the market price exceed $5.50 per share.

  Mr. Fitzgerald then has every reason in the world to continue buying stock up to $5.50 per share. With the current stock price at $5.42 (bear in mind, $5.50 is the price he can get shares directly from the company) and with a total value of purchases to date, according to my calculations at just under $700,000, the buying pressure he has been providing in recent weeks may subside in July.

  The company continues to be a value at current levels, however. Judging by the willingness of a new board member to put $1 million of his own capital to work in the company, it would seem that insiders agree.

Portfolio Lowlights

- **WMIH** continued in what has become a prolonged holding pattern. The volume characteristics of the stock have changed as the company has been added to the Russell 2000 during June, causing a substantial increase in daily average trading volume.

What I consider to be an important piece of analysis was released by KKR in late-June. The extensive analysis provided by KKR on everything from global economic growth expectations to the future of the private credit/direct lending markets is well worth the time to read. It can be found here.

Our investment in WMIH has forced me to become more aware than I ever thought I would be of the private equity world, namely the top tier firms such as Blackstone, Apollo and of course, KKR. Given that KKR is essentially pulling the strings from high up above as to the future of this cash/tax shell, I have become what some people might consider compulsive about learning as much as I can about the firm, its founders, key personnel and their thinking.

Studying private equity firms as much as I have in recent months and years has substantially enhanced my understanding of certain components in the investment process that I did not regularly consider in the past. I suppose, when it comes down it, the greatest appeal of this profession are these spontaneous enhancements to one's analytical repertoire that occur both unexpectedly and without precondition.

I would like to share some excerpts from KKR's recent report that provide some important information about where I think WMIH is headed as an operating entity:

- Indeed, some of the more interesting risk-adjusted opportunities we are seeing from a direct and co-investment standpoint are now occurring in situations where banks have fallen away as the traditional lender of choice. Moreover, many of these opportunities are occurring when volatility heads higher, not lower; as such, we like the somewhat counter cyclical component to this offering.

- First, with leveraged lending guidelines now being enforced more strictly, corporate and financial acquirers must look beyond traditional financial intermediaries to support their deals. Second, there is less capital available for small-to-medium-size businesses, as banks reduce their footprints amidst shrinking net interest margins and heightened regulation. Finally, we think that current deal terms now often favor the lender, not the borrower, which is different than 12 to 18 months ago.

- Our basic premise is that — given the asynchronous world that we now live in — economies, markets, and flows are likely to continue to periodically seize up when macro shocks occur. If we are right, then these dislocations create excellent times for asset-based lenders to deploy capital that fills the gap increasingly being created by a smaller, simplified, and more regulated banking system. Maybe more important, though, is just the steady stream of deals that are now having to be negotiated off market, given less commitment to this part of the lending industry by traditional financial intermediaries. Key growth markets now include aircraft leasing, alternative energy financing, acquisitions, and capital spending investments.

Given the fact that KKR is essentially pounding the table on the private credit and direct lending market, having a tax free shell capitalized to the tune of $600 million in cash, with potentially billions in additional leverage at the ready to consummate the right sized acquisition, only makes WMIH that much more attractive as their vehicle of choice for the proper cultivation of private credit/direct lending subsidiary.

- Similar to a majority of thinly traded micro/small cap names in the current environment, **PIH** needs a material catalyst for appreciation. Until the catalyst comes to fruition the stock is subject to the whims of small investors, who can subject the stock to volatility simply by buying or selling a relatively small number of shares. The stock price of PIH lost 7.66% of its value during June on what can only be considered inconsequential price fluctuations while awaiting the proper catalyst.

During June, the company did announce its annual reinsurance treaties renewal for the 2016-2017 year. PIH increased reinsurance coverage by 40% from $121 million to $170 million for the treaty year. There are multiple layers to this insurance coverage all of which saw an increase in coverage by similar amounts.

Of course, the increase in coverage does come at an increased cost. *The Company estimates that its total cost of reinsurance will be approximately $23.0 million for the 2016-2017 treaty-year. The total cost for the 2015-2016 treaty-year was approximately $13.2 million.*

Implicit in the increase of reinsurance coverage are certain growth assumptions in the number of policies the company will be handling versus the previous treaty year. Given that the stock price is more than 20% below where it was this time last year, it is fair to assume that those growth assumptions are not just being ignored by the market, but rather, being discounted to a substantial degree. That discount is unreasonable, especially when you consider that PIH has the most conservatively positioned balance sheet among its peers. In other words, the markets are discounting a company achieving substantial organic growth while in a favorable position to deploy capital to increase return on equity for shareholders moving forward.

In this case, particularly, the markets are not so much irrational as much as they are completely ignorant of the dynamics involved in 1347 Property Insurance as a relatively newly listed public corporation.

Thoughts & Analysis

The Failure Generation

In no uncertain terms, we have been challenged extensively during the first half of 2016. Challenged as to the level of conviction in future economic prosperity. Challenged as to the level of faith in government to govern properly. Challenged as to the level of confidence in the financial markets. Challenged as to the degree of research into our tidy portfolio of three core holdings that have basically floundered in 2016.

These challenges are being exasperated by a seemingly perpetual modern infatuation with failure. Everyone from media outlets to prominent billionaires to overly-sensitive millennials are gripped by a near obsession with failure. Economic failure. Individual failure. Corporate failure. Governmental failure. If there is failure to be had, it peaks the interest of all classes of individuals.

Take for example the recent army of billionaires who have come out to proclaim imminent doom in the global economy and financial markets. It used to be that billionaires kept enlightened opinions to themselves as the biggest threat to a billionaire is another billionaire. Therefore, by disseminating enlightened knowledge they are only allowing the meager millionaire class to move into the billionaire status creating a form of self-cannibalization to a certain degree.

Not in today's world, however. Billionaires are only too eager to tell us all how peasantry awaits any individual who trusts in the global economy to provide any form of prosperity going forward. Soros, Druckenmiller, Rogers, Icahn, Bass and Grantham to name a few. And those billionaires that aren't delivering news of imminent doom directly delegate the responsibility to messengers who tell us they have sat in a room full of billionaires who profess total allegiance to cash in fear of economic collapse.

The failure generation has spoken most recently with the surprise vote for Britain to exit the EU. This time they have not simply expressed failure, but have voted for it, in the form of a long standing union failing to exist in its current form. The EU has failed, during a time when, not surprisingly, failure is not only the path of least resistance, but subconsciously, or perhaps even consciously, has become the path of greatest desire.

When billionaires aren't discussing publicly the storyline of impending economic failure or citizens voting for the failure of a union, then individuals pass their time by openly and viciously hoping for the failure of the innovators among us. Nobody encapsulates "innovator" better than Elon Musk. Not surprisingly, he is the most derided individual in corporate America, with a near consistent stream of articles either accusing him of fraud, rooting for failure of any one of his companies and more or less questioning his sanity, despite a string of novel successes unprecedented in recent memory.

In the midst of such a consistent obsession with failure and the ease with which that obsession is broadcast to anyone who chooses to listen, how can any individual trust the quality of the information that they digest? It is effectively being tainted by a poisoned well of misinformation rooted in a generational aversion to progress.

In very simple terms, nearly every source of information from research reports disseminated by investment banks to individual articles written about finance and the economy are influenced by this low level, despondent form of thinking, making them utterly useless, if not detrimental for those choosing to consume their language of consensus buffoonery.

Financial markets lust after environments of dismay, fear, skepticism and depression. Indeed, their most powerful gains are born from situations where pessimism is at its greatest. Conversely, financial markets despise harmony, contentment and jovial behavior in most any form. The warm and fuzzies in the equity markets are typically a prerequisite to the extermination of assets.

It's not difficult to figure out where we are currently in the greed/fear cycle. Portfolios should be positioned accordingly.

Two Paragraphs On Brexit

There are literally countless articles to read on Brexit from individuals who are much better versed on the topic than I am. My immediate thoughts are that it is a net positive for the US financial markets as it highlights the fact that, with the EU basically functioning as a third world economy due to the level of uncertainty, we are the only true developed economy in the world remaining. Global assets will trickle and eventually pour into US markets, including equities and real estate, at a tremendous pace for the remainder of this decade.

Secondly, I'm not entirely sure how independent Great Britain will be following their exit from the EU, as they will be forced to depend on the US more than anytime in recent memory. Effectively, independence in this case, means swapping the European Union for statehood.

Headline Games

"Things have gotten pretty bad and they are going to remain pretty bad ... there are some signs the worst may be over, but the best is far, far away." --

"The frenzy began quickly after market analyst Joe Granville messaged subscribers to his 'early warning' service. His advice: Sell everything. He gave no reason." --

"Nervous? Here's how you can get ready for economic disaster" --

"The current downturn will be far worse than envisioned in our earlier scenarios." --

"In the current climate ... investors would rather (invest) in a money fund than take their chances in the stock market. So far they certainly have been right." --

"Lots of investors, mostly Americans, scared by the doom-and-gloom guys, recently bought diamonds for investment." --

These are all headlines from 1981 to 1982 when the Dow hit a low of 770. At the time, nobody expected that the Dow would hit a high close to 3,000 just five years later.

What we are experiencing at present levels is arguably a more severe degree of skepticism (although the headlines we are seeing now are very similar in tone) despite the fact that the financial markets have generally been rewarding equity investment over the past five years.

The most plausible scenario going forward is not one that rewards the convergence of pessimism being experienced across all mental frameworks presently. Rather, it is one that draws upon the resources created as a result of that pessimism (uninvested cash), systematically punishing those who remain underexposed to risk. All the while, creating a sustainable, steady uptrend in equities through the slow trickle of individuals and institutions who cannot afford to miss out on returns available versus competing investments yielding near zero.

Perhaps the most important dynamic of this scenario is that the markets intentions are aligned with that of global central banks. That is forcing cash away from riskless assets into risk based assets. Markets are able to do this through the manipulation of emotions, while global central banks manipulate monetary policy. Both acts of manipulation have in mind the end result of markedly higher equity prices.

Against such a backdrop of herd driven pessimism with an affinity for failure while the markets and global central banks are diametrically in opposition, the end result, counter-intuitively, almost assuredly will end in favor of those seeking progress.

The Sport of Invalids

There is no particular magical quality involved in generating consistent returns in the equity markets. If you look at successful investors from the past, they have invariably shared two common traits: Curiosity and Patience.

Curiosity allows for the digestion of an inordinate amount of information necessary to perform appropriate research and hone the senses to a certain degree. Patience allows for that same individual to allow the markets to prove the thesis gained from that knowledge.

Occasionally, stories will come along of a trader who made the perfect timing trade, shorting the S&P, Pound Sterling, Nikkei or Crude Oil. These tales of fortunate timing send an extraordinary number of investors searching for the same holy grail of short term, generous, consistent profits on both the long and short side, which consistently has proven elusive.

Lost among such sexy tales of instant wealth are stories of long-term wealth creation by patient and curious individuals such as Shelby Cullom Davis. Mr. Davis managed to become one of the wealthiest individuals in the United States simply by investing in attractively priced, well run insurance companies, with the philosophy that his ideal holding period for good companies that continued to perform was forever. Mr. Davis managed to compound his own capital at a 23% compounded annual growth rate over 40+ years, making it one of the best track records for any investor in modern times.

If you look at any individual of extraordinary wealth, they have been able to compound capital in a limited number of assets over a very long period of time, without regard for short-term fluctuations in the business cycle or financial markets. Mr. Davis never attempted to hedge against bear markets, realizing that they were nearly impossible to predict, and even if you predicted them accurately, it was perhaps more difficult to accurately assess the timing of

reentry into equities after being parked in cash. Nevertheless, he still managed to compound capital at such an extraordinary rate by being both curious and extremely patient.

Predicting bear markets on Wall Street is the sport of invalids. Unfortunately, the present condition of the public makes invalids the majority population on Wall Street. It shouldn't be a surprise then that a majority of investor's time is now occupied by fetishizing bear markets.

The attempt to gain alpha from either protecting against a bear market through various hedges or getting net short at some point in time is a waste of energy and resources. The primary reason is because in 1915, 101 years ago, the Dow was at 55. It is currently at roughly 17,000. *Markets go up over time.*

If somehow we were in some type of reverse parallel, holographic reality where financial markets consistently went down over the past 101 years, then I would be a total advocate of shorting stocks, without worry for when they will go up. Point being that when the natural forces of time work in the outright favor or absolutely against something, they shouldn't be argued with, debated or attempted to be timed for fear that nature will reverse itself based on fluctuating, random sets of data that are presented on a daily basis.

Indeed, the time of every individual investor would be better spent attempting to gain an understanding of a certain class of equity investment that best suits their temperament and skill, without regard for whether complete catastrophe awaits the global economy due to factors ranging from a global pandemic to disintegration of the modern system of central bank policy.

Regards,

Ali Meshkati

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