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%

DECEMBER RETURN: +2.25%	vs. S&P 500: -1.75%

2015 RETURN: +39.66%	vs. S&P 500 -0.73%

TOTAL RETURN*: +241.82%	vs. S&P 500: +62.53%
ANNUALIZED RETURN*: +35.97%	vs. S&P 500: +12.91%

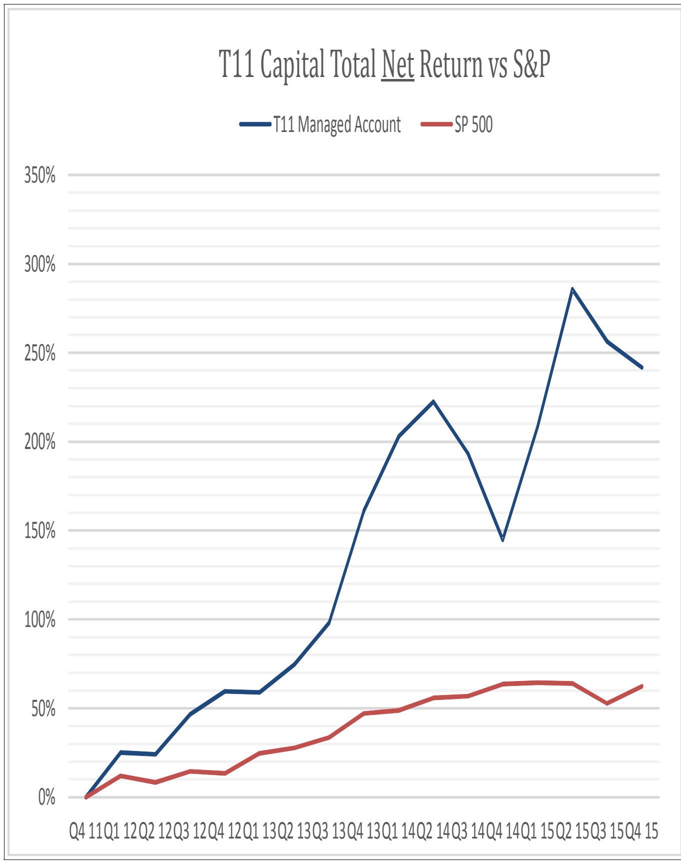
**Inception January 2, 2012 – All return data is net of management & performance fees –*
***Lehman Brothers Capital Trust Preferred shares are highly illiquid, volatile securities. For purposes of percent change month over month last trade data is utilized. All four classes of CT shares held by T11 are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

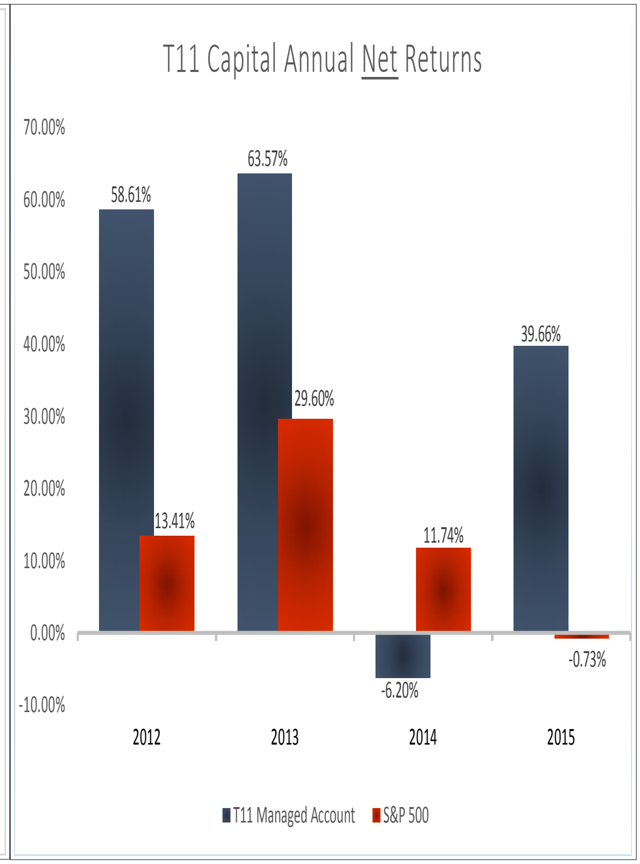
T11 Capital Monthly Net Returns

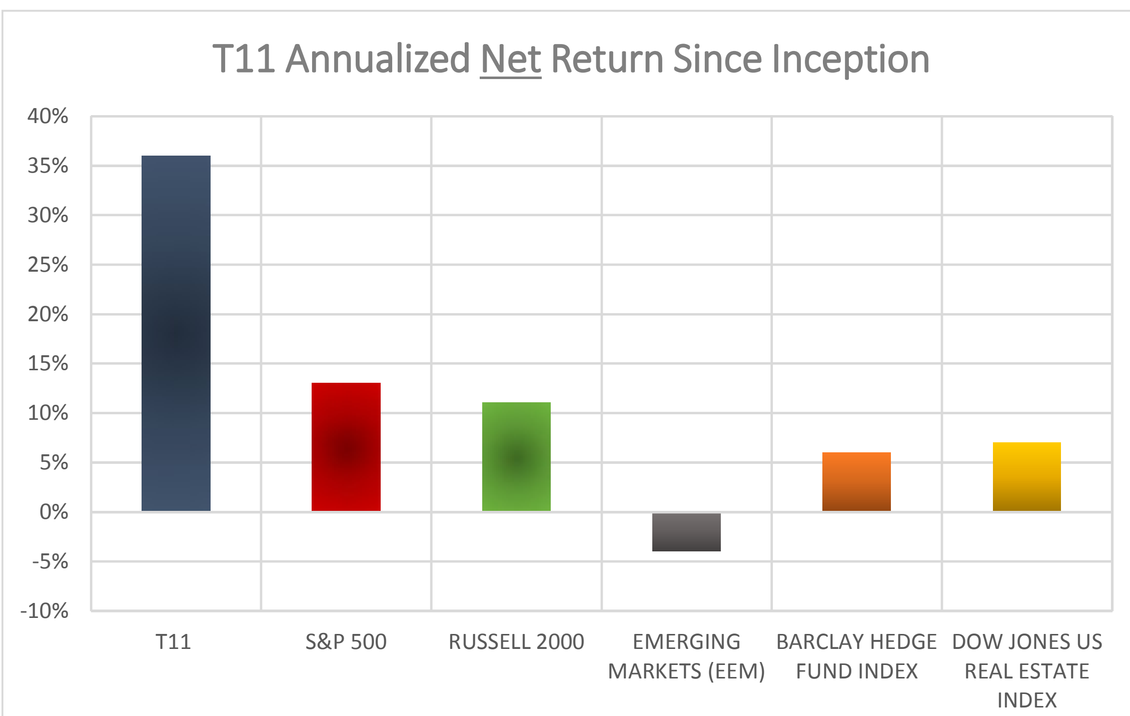
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Year
2012	4.88%	5.47%	4.76%	-1.83%	6.44%	2.45%	15.65%	-0.34%	2.96%	-9.03%	1.03%	18.45%	**58.61%**
2013	6.61%	-3.79%	-2.26%	-6.86%	13.22%	4.44%	6.81%	-0.22%	6.09%	0.10%	9.08%	20.70%	**63.57%**
2014	0.51%	8.13%	6.77%	2.11%	4.39%	-0.09%	-4.11%	3.78%	-8.61%	-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%**

2015 Performance Breakdown

REALIZED GAINS	**REALIZED LOSSES**	**UNREALIZED GAINS**	**UNREALIZED LOSSES**
IMH +206%	MERR -83%	WMIH +26%	KFS -18%
	IWSY -37%	SCMR +15%	LEHct -4%
	EMAN -19%		
Total +206%	**Total (139%)**	**Total +41%**	**Total (22%)**


T11 Capital Total Net Return vs S&P
T11 Managed Account
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


T11 Capital Annual Net Returns
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
-10.00%
58.61%
13.41%
63.57%
29.60%
-6.20%
11.74%
39.66%
-0.73%
2012
2013
2014
2015
T11 Managed Account
S&P 500


T11 Annualized Net Return Since Inception
40%
35%
30%
25%
20%
15%
10%
5%
0%
-5%
-10%
T11
S&P 500
RUSSELL 2000
EMERGING MARKETS (EEM)
BARCLAY HEDGE FUND INDEX
DOW JONES US REAL ESTATE INDEX

- **Winning** positions in December: SCMR +6.25%, WMIH +5.71%
- **Losing** positions in December: LEHct -10.75%, KFS -3.79%
- New additions to portfolio: None
- New liquidations in portfolio: None
- Portfolio exposure as of December 31st: 88% long/12% cash
- Long Positions as of December 31st: **WMIH, KFS, LEHct, SCMR**

Portfolio Highlights

- WMIH outperformed a majority of small-cap names in 2015 with a gain of 26%. This comes in the midst of a Russell 2000 that lost nearly 6% during the year. That 6% loss, however, does not properly frame the scope of losses faced by most who are invested in small-cap names, especially of the special situation/event driven type.

In 2015 investors used the lack of visibility that special situation names offer as an excuse to sell shares. The fact that WMIH did not succumb to this path of least resistance in small-cap names is a positive in and of itself, especially when you consider that most investors expected 2015 to be the year an operating entity would be folded into the shell. An M&A event to unlock the value of company did not occur despite best efforts by management as announced in the recently released 8k regarding expenses relating to an acquisition attempt.

Over the past three and a half years I have written over 100 pages of research on WMIH disseminated via monthly performance updates, private emails and presentations made to various investors. I have looked at nearly every significant NOL shell that has been capitalized since Congress changed the carry-forward rules from three years to fifteen in 1981.

In essence, when stripping away all the jargon, modeling and regulations governing their use, investing in a company with tax attributes is simply a bet that intelligent, skilled capital allocators will compound capital at a greater rate without being hindered by corporate income taxes. The taxes that a skilled management team saves can be put to use in further growth opportunities which creates a spiraling up effect for earnings that markets very simply can't properly estimate. This in turn leads to what is effectively a gravity beam from high up above being held over the share price during a period of years, as the company grows.

This remains an early stage opportunity that will provide a tremendous platform for future growth as I'm confident management will make a series of beneficial decisions in the coming years.

- **SCMR** announced the sale of a real estate asset that is the final step in the liquidation process for the company. Of course, the only reason we are invested in SCMR is because I don't believe the liquidation will reach completion with a distribution of what amounts to 33 cents per share in cash to investors. In the case of being completely incorrect in my analysis the downside versus our cost basis on the stock is 26%. This comes against upside that is exponential in nature.

  To reiterate we have Lloyd Miller III who is one of the most prominent small-cap investors of the past twenty years involved. In addition we have Andrew Bellas who just left Tiger Global to start his own firm involved in the activist process to halt the liquidation in favor of a restructuring around the abundant tax benefits.

  It is simply a waiting game at this point, the results of which should become evident during the first half of 2016.

<u>Portfolio Lowlights</u>

- **KFS** had a disappointing year, especially when taking into account the expectations I had for the name following an outstanding performance in 2014. We have been invested here for nearly two years now. During that time the company has done a fantastic job of streamlining the balance sheet in favor of what I assume will be a clean releveraging of the balance sheet to grow earnings at what will be a more rapid clip than we have seen in recent years.

  During 2015 KFS sold its Assigned Risk Solutions unit for $47 million in cash. This sale allowed KFS to pay the deferred interest remaining on its trust preferred securities that were in deferred status since 2011. This is essentially a burden lifted for future financing, which should play an important part in the future plans for Kingsway.

  More recently the company has announced plans for a one million share buyback launching in late January. The $4 range is an attractive enough area for the stock that the company is justified in reducing their outstanding share count at these levels. I'm expecting the $4 range to act as a bit of a floor for the name going forward, especially with the newly announced share buyback. It is not out of the question that I may add to our KFS position in coming months.

  If you look at KFS in 2015 from a more macro perspective, it really was the perfect name to fall victim to the chronic weakness small-cap names fell victim to during the year. An illiquid, unknown Canadian insurance company that is in the final stages of a restructuring that has been ongoing for the entirety of the current decade. In other words, a “forget me” stock in an environment that excels at forgetting.

At the very least we know that there is very little downside in KFS from here, which is my first consideration in every investment. The upside will depend primarily on how aggressive management would like to be in future endeavors. With such a large net operating loss on their balance sheet paired with skilled operators running the show, I have a difficult time believing that management will be adequately satisfied with the current snail's pace of growth. The current growth model very simply doesn't fit into what the balance sheet has been built into since 2010. We are basically looking at Ferrari with a Prius engine at the moment. I expect that engine to be swapped out in 2016 to the benefit of equity investors in the company.

- For **LEHct** I am posting the comments I made in a recent interview with ValueWalk. That interview can be found here: http://www.valuewalk.com/2015/11/t11-capital-aum/ for those interested.

  Lehman Capital Trust Preferreds are our smallest position, representing about 2% of overall equity. The recovery for Lehman creditors has been more than $100 billion to date. The TRUPS receiving a creditor recovery is a low probability proposition. However, there is a possibility that the TRUPS can be converted into new equity representing the various profitable operating remnants of Lehman to take advantage of the $50 billion-plus net operating loss that is leftover.

  Shortly after the Lehman bankruptcy, those in charge of the liquidation formed a company they named LAMCO to assist in the liquidation of the remaining assets. This wasn't a small operation, as LAMCO originally had close to 500 employees. The assets in liquidation have exceeded even the most aggressive estimates. In the meantime, LAMCO has become a substantial business, although the exact numbers are difficult to ascertain.

  The most logical move forward would be to create a public traded company that would take advantage of the NOLs leftover from Lehman through LAMCO initially, possibly rolling in smart acquisitions over time. This would give former equity, including the TRUPS, a stake in the newly formed company.

  The stick in the wheel is the cancellation of debt income that can nullify the NOL. There is precedent through the courts for preservation of the NOLs working around the cancellation of debt income requirements, however.

  Our position in the Capital Trust shares is basically a call option on a positive outcome for the reemergence of Lehman in a yet to be determined form.

Looking Ahead

Four Years Later

As we have now completed our fourth full year of performance it is a good time to look at not only our performance relative to the most relevant benchmark (S&P 500) but also our performance relative to competitive investment vehicles.

By having a simple methodology of taking losses quickly and allowing profits to run opportunistically, T11 managed accounts have outperformed all relevant benchmarks and nearly all of our peers over the past four years. A hybrid approach incorporating a trading mentality when necessary while having long-term investing as our foundation allows the portfolios to be agile in the face of risk while being committed enough to see opportunities through to their full potential.

In 2015 T11 managed accounts outperformed most other investment vehicles on a net basis. Below is a list of the top performing hedge funds for 2015. Our gain of nearly 40% puts performance among the top funds in any category.

Top & Bottom 20 Funds of 2015

Top

Investment Funds	Return	Date
HIGHER MOMENT CAPITAL OPPORTUNITIES, LP	32.27	30 Nov 15
PERCEPTIVE LIFE SCIENCES OFFSH FUND, LTD	27.87	11 Dec 15
SEGANTII ASIA-PACIFIC EQUITY MULTI-STRATEGY FUND	27.60	11 Dec 15
TT LONG/SHORT FOCUS FUND	25.39	30 Nov 15
MILLBURN COMMODITY PROGRAM	25.26	15 Dec 15
LANSDOWNE EUROPEAN EQUITY FD, LTD - A (EUR)	24.71	11 Dec 15
ALCENTRA GLOBAL SPECIAL SITUATIONS FUND	24.33	30 Nov 15
AMAZON MARKET NEUTRAL FUND CLASS A USD	23.62	04 Dec 15
ELEMENT CAPITAL FUND	20.96	31 Oct 15
FJ CAPITAL FINANCIAL OPPORTUNITY FUND LTD	20.12	30 Nov 15
PENSATO EUROPA FUND LTD EURO CLASS	19.84	30 Nov 15
TRIAS L/S FUND	19.84	15 Dec 15
HORSEMAN GLOBAL FUND USD	19.52	16 Dec 15
ABRAX MERGER ARBITRAGE S.G. FUND	19.05	31 Oct 15
GOLDEN CHINA FUND NR CLASS	18.99	11 Dec 15
GSA TREND RISK PREMIA FUND	18.76	11 Dec 15
CAPEVIEW AZRI 2X FUND	18.45	11 Dec 15
PORTLAND HILL OVERSEAS FUND LTD	18.10	04 Dec 15
MARSHALL WACE - MW MARKET NEUTRAL TOPS A USD	17.88	15 Dec 15
OKUMUS OPPORTUNISTIC VALUE FUND, LTD CLASS A	17.13	30 Nov 15

Below is a table of cumulative gains and annualized gains over the past four years for both the Russell 2000 and the *top performing* small-cap mutual funds in the industry versus T11 managed accounts. While my methodology differs substantially from any of the funds listed here, these small-cap funds do travel within the same universe of companies as T11, making for the most relevant comparison possible. Additionally, much like the funds listed below, T11 is an unlevered, long only investment vehicle.

Name of Fund	Cumulative Gain Since January 1, 2012	Annualized Gain Since January 1, 2012
Nuveen Small Cap Value I (FSCCX)	72.13%	14.54%
CornerCap Small Cap Value (CSCVX)	72.89%	14.67%
Undiscovered Managers Behavioral Value (UBVLX)	85.65%	16.73%
Russell 2000 (RUT)	53.31%	11.27%
T11 Capital Management	**241.82%**	**35.97%**

Going into 2016 my goal is to keep our speed boat as steady as possible amid the rough seas that are a prevalent feature of the equity markets. With that said, there has been a consistent trend over the past few years of steadily doing less in the portfolios. This attitude of less in order to achieve more is a direct consequence of opportunity. There very simply aren't as many opportunities for extreme appreciation in share price in exchange for a sliver of risk as there were in years past. Compromising the standards that have allowed us to arrive at this point for the simple desire to act isn't an option for this portfolio manager.

Our current portfolio of small companies in various stages of development should continue to achieve an above average rate of return. My primary responsibility lies in the way of insuring that mediocre opportunities do not damper the results of outstanding ones.

The Only Opinion That Matters

In the 4th grade I had a teacher named Ms. Quamen. The only reason I remember Ms. Quamen is because she expressed displeasure with students in a very unique manner. She had some level of patience, as I assume every school teacher requires to sit in a class full of children for hours each day. However, when she would get to the point that she thought the lessons she was trying to teach were being ignored, she would hurl a piece of chalk at students. A practice that I would imagine would be frowned upon in today's world. However, back then, it got the point across without parental litigation commencing against the school. I remember very few, if any, of the other punishments I was given in grade school for misdeeds. But I remember well having a small projectile lobbed at my head during class in 4th grade.

In 2015, the market took on the role of Ms. Quamen in hurling a piece of chalk at my head in front of the entire class.

I have always been skeptical of talking to management or affiliates of a company I am invested in. My reasoning is that self-interest and promotion take precedent over relevant information in the eyes of your standard public company CEO. These are master sales people that have found success by delivering a story in repetition to a captive audience.

By getting on the phone with management I am, as an investor, basically at the mercy of a master story teller. He will frame his argument in such a way as to get me to invest in his company. Otherwise, he wouldn't take the call in the first place.

I realize that I am not Carl Icahn. I can't simply shake the truth out of management simply by showing up. When a CEO accepts my call it is with the sole intent of selling me on investing in his company.

There is rarely any malicious intent on the part of a CEO, they are simply doing their job. This blog post from Ben Horowitz of Andreessen Horowitz regarding a conversation with Andy Grove sums up the CEO mentality well:

"Later, in 2001, I met with Andy again and I asked him about a recent run of CEOs missing their numbers despite having told investors that their businesses were strong. The bubble had burst for the first wave of Internet companies nearly a year prior, so it surprised me that so many many of them had not seen this coming. Andy replied with an answer that I did not expect: ***"CEOs always act on leading indicators of good news, but only act on lagging indicators of bad news."***

"Why?" I asked him. He answered in the style resonant of his entire book: "In order to build anything great, you have to be an optimist, because by definition you are trying to do something that most people would consider impossible. Optimists most certainly do not listen to leading indicators of bad news."

Taking this valuable piece of wisdom into account, it may serve an investor better to locate CEOs who are despondent regarding future business prospects keeping in mind that they are responding to "lagging indicators of bad news" according to Andy Grove. Taking a contrarian perspective, these lagging indicators often only gain traction among the consensus when the trend is set to turn.

In 2014 & 2015 I decided to become more proactive in reaching out to both management and board members of companies I invested in. While management and board members may have been convinced of their own arguments in favor of their companies, their input actually interfered with my process.

Much as I feared the external input I received from these individuals caused me to take on larger positions than I would have while allowing losses to run further I would have liked. I was beholden to their analysis instead of a system of investing I have developed through trial and error over more than 20 years.

Those who consistently reach out to management in an effort to gain an edge in the markets do so because that is their system of investing. I have no idea of the relevancy of returns within such a system. However, judging by the fact that relationships with management are considered nouveau chic by the current generation of asset managers, paired with the performance numbers that are being released by these managers, I would say that the relevancy of relationships with management as a component of investing is questionable at best.

Bringing me to my next point: Writing letters to CEOs of public companies is not an investment strategy. It is not even activism. It is just a letter.

I can't help but snicker at those who think that because they have read a few letters from Dan Loeb and watched Wall Street a dozen times, they are in a position of relevancy when it comes to running a public company.

In most cases, your letter doesn't make it past the secretary. Those letters that do make it to the CEOs desk end up stained with coffee rings and covered in cookie crumbs.

Instead of writing a letter to a CEO of a company that is not creating value as fast as you would like, if at all, perhaps the investment managers that participate in this activity can write a letter to themselves, asking why instead of putting pen to paper or fingers to keyboard they aren't focused on moving away from opportunities that do not perform well?

Perhaps questioning themselves would be a better use of their time rather than exalting high praise for their analysis while blaming corporate management for not taking cookie cutter actions to raise the stock price while sacrificing the long-term integrity of the business.

There are absolutely some bums for CEOs in corporate America. It may even be true that a vast majority of them are lazy, self-ingratiating, gluttonous baboons that couldn't strategize their way out of a pickup truck. But from what I have seen on Wall Street, those doing the letter writing in a majority of situations are detached from relevant experience in a corporation away from a trading desk, bringing little in the way of truly transformative experience to the situation. Instead, they simply complicate things further, wasting managements time in addressing their concerns, if they choose to do so.

The only time an activist letter is relevant is when a control position is taken with the know-how and network available to take a private equity approach to restructuring the company. In other words, the letter needs to be backed up by both real and intellectual capital in order for it to be effective. Otherwise, it is nothing more than an opinion from one individual to another.

While I like to think of myself as being fairly intelligent, I also know my limitations. I'm certainly not a builder of organizations or a manager of individuals. I don't have the network or capital at hand to restructure or streamline a corporation.

I excel at researching small companies while drawing parallels from past situations, both quantitative and qualitative in nature. And I especially excel at knowing when I am wrong.

So in 2016 I plan on focusing on where I excel rather than pretending I'm something I'm not.

2015: A Perfect Year For The Markets

For all the loathing that has taken place in 2015 with respect to current conditions, this past year was perfect for the markets. Investors should, in fact, thank the investment gods for the good fortune of participating in such an eloquent, well thought out display of all that is right in finance, as put on by the market of 2015.

When you grind 2015 down to its essence it was a year that headline fear increased exponentially, led by the demise of commodities, emerging markets, loose Fed policy and popular hedge fund managers. All the meanwhile, individual stocks, except for a chosen few mega-cap technology names, suffered dramatic corrections as a consequence of real fear gripping investors.

In essence, we have had a significant correction in stocks that would typically be observed within a market that is down 10 or 15 percent for the year, putting it into bear market territory. Instead, all of the aforementioned has taken place with the major averages doing absolutely nothing. They have flat-lined while this internal upheaval in the markets takes place.

And lest we forget, it is not simply an internal upheaval that is gripping the consciousness of investors. It is also an external upheaval as the reversal of direction in Fed policy after such a prolonged period of an accommodating stance is a significant liquidity event.

The market has essentially shrugged off every ghoulish creature that has appeared in its midst during 2015. If it wasn't junk bonds that were supposed to take us down the path of purgatory it was declining earnings. If it wasn't declining earnings it was interest rates. If it wasn't interest rates it was China.

The importance of this act of shrugging off persistent bad news expressed through a flat-lining S&P 500 is perfect behavior for this stage of the bull market. We have a market that has now put together a text book consolidation, gaining a much needed deep breath after sprinting upward in 2012, 2013 and 2014.

Most importantly a significant portion of the investor population has mistaken that deep breath for an imminent death. Interest in participating in the equity markets is tepid at best. There is no conviction with respect to equities as a result of the constant drumbeat of fear perpetuated by past crisis events that have made both professional and retail investor skeptical of equities as a long-term investment. As a result of this skepticism, investors have been and continue to be quick to jump ship causing shallow corrections that have been the hallmark of this bull market.

While contrarianism is not a guarantee of future gains in the equity markets, investing is certainly a sport that is counter-intuitive in nature. The best gains are made when you are isolated in an opinion and the worst losses are to be had when an opinion becomes widespread. Anytime an opinion with respect to the markets gains consensus popularity it becomes

inherently unstable. We have seen numerous examples of consensus popularity of an idea, sector or investment lead to an absolute pummeling of the net worth of those involved. It is ubiquitous in the world of capital allocation, whether real estate, equities or tulips that when everyone zigs a market will zag. It never makes sense except in hindsight.

There has been no greater contrarian position than to be bullish on U.S. equities over the past five years. It remains the same today. Nothing has changed. Equities are despised by the general public and greeted with skepticism by the professional investment community.

2015 only served to ingrain the hate further through a constant regimen of headline assassins targeting investor psyche while the major averages went sideways following three straight up years. In other words, a perfect market.

Regards,

Ali Meshkati

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