

October 2018

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Dear Investors,

Thank you for trusting FrostGate Capital to manage your assets.

May has been a volatile month, the S&P 500's worst month of the year. Historical data supported a general market downturn since March, however the markets rarely act accordingly. With that said, the 6% downturn we saw this month was accelerated by the global trade war.

Trade Talk

Did you know President Trump tweets an average of 11 times per day? This is 11 times a day he could send the financial markets of the world into a tailspin. We've seen happen many times since he took office and most recently on May 31st when he decided to announce potential tariffs on Mexican goods of up to 25% by October. Until the trade war is resolved, potentially in the next 3 months, the markets will continue to react to news violently to news and emotion. If the Mexico trade dispute remains unresolved this could be a big problem. Trade between the United States and Mexico is fluid. Many products are manufactured in America, shipped to Mexico, assembled in Mexico, and then shipped back to America. The exports to Mexico are 299.1 billion, the imports from Mexico are 371.9 billion, a lot of this can be attributed to the value added though labor-intensive jobs. The automotive Industry has the most exposure to this potential tariff's. Many automotive parts manufacturing plants are located in Mexico. The industries that we believe to have the least exposure to a trade war with Mexico are aero space/defense, software, healthcare and bio-tech.

Please buy your coffee now, and take a hard look at the supply chain for McDonalds, Starbucks, and Dunkin Donuts if this tariff is enacted, a lot of Coffee comes from or through Mexico, don't let this tariff effect your daily dose of caffeinated deliciousness.

Global Oil

Oil prices dropped in the month of May, as lower than expected car registration in Europe and new car sales in China have decreased 15% YTD. This is an indicator of a slowdown in global growth, which has caused concerns over future demand. Oil has a lot of industrial uses, more than the average American would imagine. The price of oil needs to remain fruitful for producers and cost effective for consumers, creating the equilibrium price. The equilibrium price we have determined is between 65 - 70 dollars per barrel, equilibrium but many producers can still profit when oil is in the 40 dollar per barrel range.

Portfolio Performance

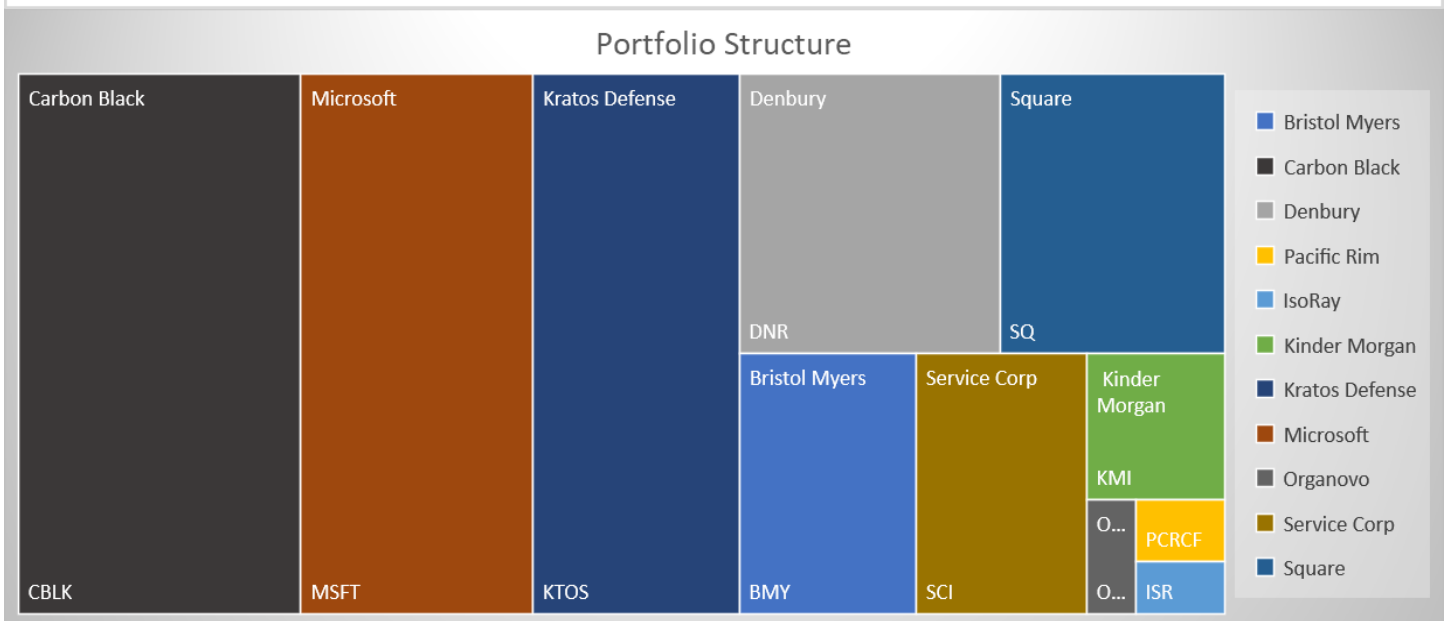
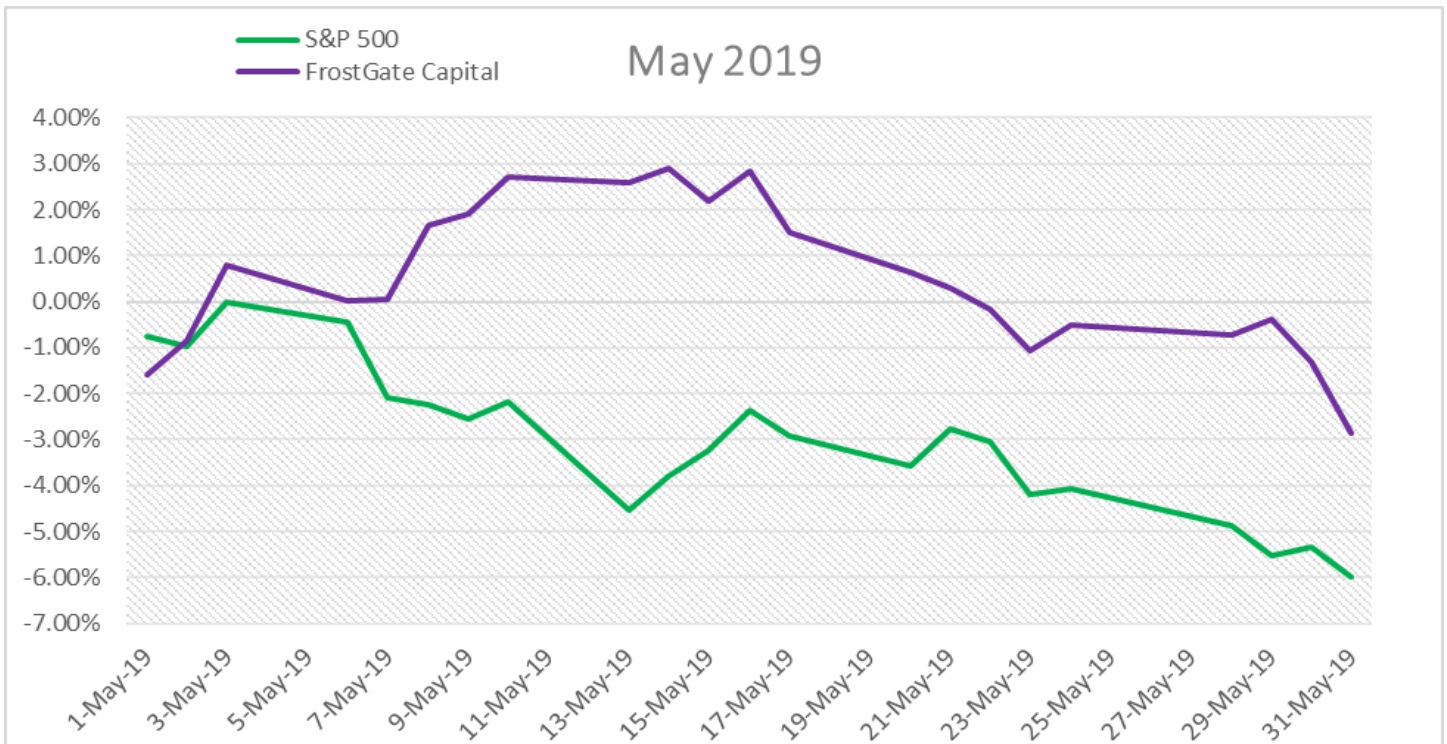
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FrostGate Capital: Not our best month to say the least but we beat the S&P 500 by over 3%. We finished -2.87% down despite finishing well above the market. Mexico tariff threats disrupted our gains on the last day of the market causing us to lose over 2% in one day. Our hedges were sold off earlier that week and re-hedging was in process but unfortunately the unexpected happened, the Mexico tariff tweet by president Trump.



Portfolio Specific

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Carbon Black

has been a diamond in the rough, even if the market hasn't totally caught up yet. They had earnings on target for the first quarter, and most of their income from reoccurring subscription-based services. We saw a substantial upside this month due to the positive earnings, later in the month, a sale of securities from an insider (executives) caused the market to worry about the value as this is usually a bad sign, which is understandable. However, most of the compensation paid to executives is in stock, so insider sales are going to be a part of this company. We believe this is worth every cent of 24 dollars, which is our target sale price.

Kratos Defense

We added to our position this month, before earnings. This company has true visionaries in charge and they are building the future of unmanned defense. Do not discount their tech as a "cheap alternative". They have very lucrative patents and partnerships in place. Anyone who second guesses this I recommend listening to their latest earnings call.

Denbury Resources

American oil producer, with a very low overhead, efficient and eco friendly production. You're probably wondering why an Oil company is in the portfolio at all. Well Denbury has made their operations sustainable and green, using CO2 to push oil out of the ground and capturing it. This process has allowed them to profit at 40 dollar a barrel oil with quality wells, and allowed them to survive 2015 with minor scratches. The restructuring plan that has lead to building them into a solid company also opens them up to target for M&A and ultimately the reason we are bullish as well as the volatility that comes along with them.

Chemours (CC) The reason we had a negative return this month is because of this company and our exposure to China. The risk of trade with China is way over done. Despite the obvious value investor play from a fundamental standpoint we had to close our position at a loss. CC had an over 40% loss in one month, forcing us to get out under 30 dollars. This is very disappointing, but the momentum has reversed.

Tesla

We have been bearish on Tesla for several years, they have finally come to a valuation that is reasonable. The most appealing part is the technology they've created. This is the tech that could actually change the world, we've always looked towards the future and this is it. Our target price is \$250.

Account Information

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