Motiwala Capital LLC
www.motiwalacapital.com

Fourth Quarter 2013 Letter

Dear Investors,

The year 2013 ended on an even stronger note than 2012 with the US equity market as reflected by S&P 500 up ~32%. Motiwala Capital also had a good year with consolidated net return (after all fees and expenses) of ~33%. The performance information is shown in the table below:

Year	S&P 500	Motiwala Capital
2011*	-1.7%	**4.9%**
2012	16.0%	**20.3%**
2013	31.9%	**33.2%**

See important notes at the end of the letter for more information

2013 Performance

Overall performance in 2013 was excellent with only two losers in the entire portfolio. The positions that detracted from performance were Cooper Tyre (CTB) and Blackberry (BBRY) both down 25%. Our biggest winners by total return were Conrad Industries (120%), Western Digital (100%), Vodafone (56%), Microsoft (40%), Apple (40%) and Lear (40%). Conrad and Western Digital turned in excellent business results which along with an undervalued stock price resulted in outsized stock performance. Vodafone and Microsoft rewarded patient shareholders like us after a sleepy period. In the case of Apple, we were lucky to have timed our purchase close to the bottom of $400 a share. A couple of undisclosed microcaps also contributed to portfolio performance in a nice way. Micro cap A is up 76% since original purchase however we only purchased a 1% position and we did not chase the stock. We learnt our lesson when buying Microcap B and after an initial 1% position, we added to the stock before the run-up. It is up 40% since original purchase.

In addition, 22 of the 26 special situation investments during 2013 were profitable (or breakeven) and positively impacted our portfolio returns. Our success rate was lower than last year but still good enough. We will continue to look at other categories of special situations in the coming years.

Portfolio Composition

Our portfolios are divided into two sections. The 'Generals' are generally undervalued equity investments that fit the value framework. The rest of the portfolio is invested in special situations (short term investments with a specific event that unlocks value) or cash. Average cash balance at the end of 2013 was 15%. The top 5 positions add up to 33% of the portfolio.

We have 18 regular positions (Generals) in our portfolio. This makes up ~65% of the portfolio. The rest of the portfolio is currently in special situations (20%) and cash (15%).

<u>Portfolio Characteristics</u>
Weighted average P/E = 12.4 up from 10 (2012) (P/E is based on 12-month trailing earnings)
Portfolio dividend yield = 2.3%
Weighted average Market Cap = $68.5 billion

Price to Value (P/V)

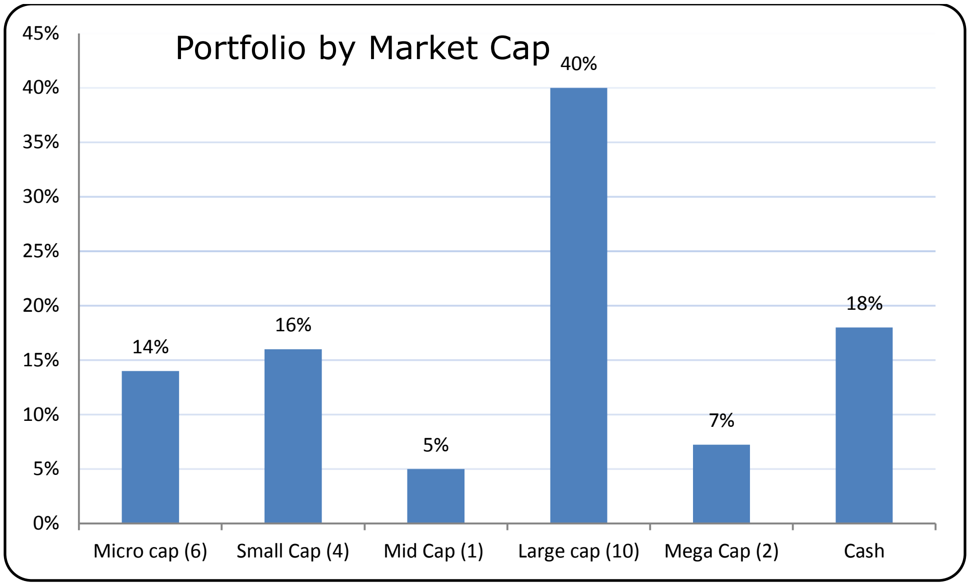
For every stock we purchase, we estimate a range of fair values. We compute a ratio of current market price (price) to estimated value (value). We monitor our current investments, watch list and the entire portfolio using this price to value. Price to value on the invested portfolio was 0.85 (up from 0.8 last year). The lower this metric the better it is both in terms of upside and limited downside. The higher P/V points to lower future upside potential for the portfolio. We will continue to look for attractive investments with lower estimated P/V that should also help to lower the P/V at the portfolio level.

<u>Top 10 Positions</u> (some clients will not have all the positions and in the same weights)

Company name (Ticker)	**% of portfolio**	**B/S**	**Div**	**FCF**	**ROIC**	**Val**
Vodafone (VOD)	9.4%	■	■	■		■
Conrad Industries(CNRD)	7.6%	■	■	■	■	■
Vivendi (VIVHY)	5.5%	■	■	■		■
Visteon (VC) - SS	5.3%	■				■
Hess (HES) - SS	5%	■	■			■
Kohls (KSS)	4.7%		■	■		■
National Oilwell Varco (NOV)	4.6%	■	■	■	■	■
Apple (AAPL)	4%	■	■	■	■	■
Micro cap B	4%	■	■	■	■	■
Big Lots (BIG)	3.4%					
% of Total Portfolio	**53.5%**					

For the above stocks, we have provided information about which characteristic they satisfy

B/S = strong balance sheet
Div = pays a dividend
FCF = solid free cash flow
ROIC = solid Return on Invested Capital (ROIC)
Val = low/reasonable valuation



For our purposes, we defined
Microcap – less than $250m
Small cap - $250m to $2billion
Mid cap - $2billion to $10billion
Large Cap - $10 billion to $200 billion
Mega Cap - $200 billion +

We have invested across the market cap spectrum and are market cap agnostic.

Portfolio by Sector

Technology: 14%
Telecom: 9%
Cons Disc: 19%
Cons Staples: 7%
Energy: 10%
Industrials: 18%
Financials: 5%
Cash: 15%
Special: 3%

We do not go out seeking specific investments by sector. We make our investments one stock at a time. However, as part of risk management, we want to make sure that our investments are across multiple sectors.

Portfolio Activity

Special Situations: Share and Closed End Fund (CEF) tenders

We participated in three new special situations in the quarter all of which were share tenders. Overall these tenders were profitable. We closed out the Spreadtrum Communications (SPRD) merger arb profitably when the spread reduced to ~1%. The Cooper Tire (CTB) merger arb turned out badly for us. Cooper recently abandoned the merger. We are still holding on to the position. Maybe January effect may help lift the stock or maybe another suitor comes by.

Generals: Portfolio exits: We sold out of two positions in the quarter.

Nintendo (NTDOY): We purchased shares of Nintendo in Q1 when the market was assigning very little value to the video game business, its popular game library and brand name. Despite continuing poor results during our ownership, the stock price increased by about 30% and we decided to take our gains as the margin of safety had reduced and we felt less comfortable holding on to a company losing money.

BlackBerry (BBRY): Blackberry is the only losing position for us in the 'Generals' part of the portfolio. We purchased shares at an average price of $8.5. We thought with the cash, patents it would be worth much more if it was acquired. We had a chance to sell out at $12 and did not take it. Soon after disastrous results were annouced, a highly conditional take over offer came on the table and then it fizzled out. We sold for a 25% loss in a very short time frame. Our 3% sizing prevented us from oversized grief. The biggest lesson learnt is that you cannot ascribe value to the patents/brand of a rapidly declining technology business. Also, cash can burn really fast when business goes south. This experience may have also played a part in us exitting the Nintento position.

Generals: New Positions:

Visteon (VC) is a leading global automotive supplier that designs, engineers and manufactures innovative climate and electronics products for vehicle manufacturers. VC reminds me of our profitable investment in Lear. VC went bankrupt in early 2009 during the global financial crisis and then emerged out of bankruptcy in late 2010. Since then, management worked hard to restructure the business. After several divestitures, Visteon is made up of two businesses. The Halla Visteon climate control business is 70% owned by Visteon. Halla Visteon holds the number two position in the industry. Halla is publicly listed on the Korean stock exchange and Visteon's stake at recent prices is worth $2600 million. Visteon Electronics should produce EBITDA of $125 million and could be conservatively worth $750 million. Visteon recently completed the sale of its 50% interest in another business. VC received $840 million and expects to receive another $180 million. VC already has net cash of $200 million. VC has announced a large buyback of $1 billion which is 25% of the current market cap. These buybacks at a discount to the sum of parts should be accretive.

Prosafe (PRSEY) is the world's leading owner and operator of semi-submersible accommodation vessels. These vessels are also referred to as floating hotels or flotels. These flotels are used wherever there is a need for additional accommodation, engineering, construction or storage capacity offshore. Prosafe currently operates 11 flotels and has four new builds under construction to be delivered over the next two years. Prosafe has a market cap of $1.7 billion and in 2012 operating profit was $222 million. Revenues and earnings should increase as additional vessels are built and contracted out. Prosafe pays an attractive (and growing) dividend and paid $0.6/share in 2013. The dividend policy allows for a distribution of up to 75% of consolidated net profits. We purchased shares at a yield of 8% and 10x P/E.

Generals: Reduced positions:

We had purchased shares of Apple early this year. I am not sure if there has been drastic change in the company or its fundamentals. However, the stock price has moved from our purchase price of ~$400 to $565. We reduced the position and booked some profits. With the recent announcement of a deal with China Mobile, there may be further upward pressure on the stock price.

Generals: Increased positions

During the quarter we increased our positions in Oracle (ORCL) and Mind CTI (MNDO) as they were attractively priced.

Special dividends: Once again Conrad (CNRD) gave us a Christmas gift and declared a special dividend of $2/share. On our original purchase price of $15, we have already received $4/share in dividends.

We wish everyone a prosperous and happy new year 2014. Starting next quarter, we will be increasing our minimum investment account size to $50,000. Please contact me if you are interested in our managed account services.

Sincerely,

Adib Motiwala
Portfolio Manager
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