Motiwala Capital LLC
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2016 Letter

Dear Investors,

2016 started with S&P 500 dropping 10% in January and February. There were many big events such as 'Brexit' and the US general elections. Post the elections, the US markets went on a tear upwards and ended with solid gains. Motiwala Capital accounts on an aggregate basis returned ~13%. The performance of each account could wary depending on size of account, inflows/outflows.

Year	S&P 500	Motiwala Capital
2016	11.95%	13.27%
2015	1.37%	-6.76%
2014	13.7%	3.9%
2013	31.9%	33.2%
2012	16.0%	20.3%
2011*	-1.7%	4.9%
Cumulative	90.65%	87.38%
Annualized	**11.7%**	**11.4%**

* Since March 4, 2011.

2016 Performance

Some of the positions detracting from performance included Western Digital, CVS, Viacom, and Syntel. Some of the positions that contributed positively to performance were Qualcomm, Ebay and Google.

Special situation investments contributed to the bulk of the portfolio returns.

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.

We had 14 regular positions (Generals) in our portfolio at the end of the year.

Portfolio Activity

Special Situations:

We participated in twelve special situations in the year. Three of these resulted in large gains positively contributing to portfolio performance.

Generals: Portfolio exits: We sold several positions during the year. Reviewing these sales after a year, it is pretty clear my timing was poor. Most of these investments had shown poor financial results, declined in price during 2015 and continued their decline in Q1 2016 with the drop in market. Majority of the sales were made in Q1 and all of these stocks recovered dramatically post sale as market participants got over the fear that gripped the market in Q1. Holding on to them for slightly longer would have provided a much better exit. Another lesson is to sell partial positions over a period of time. These were the lessons learnt in selling, patience and market momentum.

Positions sold included: International Housewares Retail Co (HKG:1373) , Western Digital (WDC), Qualcomm (QCOM), Virtus Investment Partners (VRTS) and some micro caps.

1373 suffered from declining profits even while sales increased as their operating costs rose faster on higher rents and compensation expenses. Western Digital suffered rapidly declining revenues over several quarters as its core hard drive business shrank much faster than I anticipated. WDC then announced a very large acquisition of Sandisk taking on quite a bit of debt, which I was not happy about. In hindsight, I should have sold WDC as soon as the acquisition was announced. Both 1373 and WDC resulted in material losses.

Qualcomm was a better sale in comparison. I trimmed the position slightly at a very low point as nothing was going right for the company. I kept the majority of the position as the valuation ex-cash was very attractive and I was hopeful of a turn round in its fortunes. That turnaround materialized over the course of 2016 and I sold at various price points in the $60-$65 range and finally sold around $69. We suffered a small loss on the entire position.

Generals: New Positions:

Virtus Investment partners (VRTS) is a diversified asset manager managing mutual funds, Closed end funds, separate and institutional accounts and ETFs. At purchase, VRTS managed $45B in assets under management (AUM) and sported a market cap of $615M. Remarkably, cash and investments totaled $383 million with no debt or 60% of the market cap. AUM and profits had been in decline for over a year. However at 6x cash earnings (excluding cash and investments) and at an EV/AUM of 0.5%, the stock was very cheap. The company announced a large tender offer and I sold into the tender thinking I would buy the shares back post tender. There was an even better opportunity to purchase the shares post the tender, but I regrettably passed on it.

AmerisourceBergen Corp (ABC) is one of the three companies in the pharmaceutical distribution services area that together control 90% of the market. ABC has generated high level of free cash flow and good returns on capital, repurchased shares consistently over the years, invested in its business and made acquisitions to augment its business lines.

Syntel (SYNT) is an Information technology and Knowledge process outsourcing service provider. SYNT has exhibited excellent revenue and profit growth over the last decade. At purchase, Syntel had $1B net cash on its balance sheet while its market cap was $3.5 Billion. Syntel operating profits averaged $270M over the last three years. After purchase, Syntel warned of tougher conditions and reduced guidance. It later paid a large $1.25B special cash dividend ($15/share). The shares have remained under pressure. The founder owns 60% that gives me comfort and I am hopeful of a recovery by 2018.

Ebay (EBAY) operates the well-known ecommerce platform along with classifieds and the StubHub event ticket platform. In early 2016, Ebay shares were under pressure possibly due to slowing growth in its core business and increasing competition from Amazon and other platforms. At purchase, Ebay had a strong net cash balance sheet and generated excellent free cash flow and available at a low valuation. After a couple of strong quarters and little change in the financials, the stock has appreciated nicely.

Gilead Sciences (GILD) is a highly successful biotech company with its market leading drugs for HIV and Hepatitis C. GILD shares were in decline due to increasing competition for Hepatitis C resulting in declining sales and profits, while the HIV franchise was increasing revenues and profits. GILD had a net cash balance sheet and produced solid free cash flow, which was used to initiate a dividend and buyback shares. My thesis was that the revenue decline in Hepatitis C would be small and gradual and the valuation was attractive.

Alphabet (GOOG): I repurchased shares of Alphabet during the decline in June. Despite its size, Alphabet is growing revenues and profits at 20% rate and sported $80B cash on its balance sheet. Despite the excellent results, GOOG stock was flat in 2016 setting up for outsized returns as the stock catches up with underlying performance.

CVS Health Corp (CVS) is one of two largest pharmacy companies in the US. CVS also has a large pharmacy benefit management business. CVS is extremely profitable and generated $10B in operating profit in 2016. Shares of CVS declined from a rich valuation and at purchase were trading at 15x forward earnings. CVS pays a growing dividend and repurchases shares consistently while investing in its business.

Infosys (INFY) is a large IT consulting and outsourcing company with a market cap of $33B. Infosys has a strong balance sheet with over $4B in cash and no debt. Infosys has a long track record of growth in revenues and profits and pays 50% of profits as dividends. On an ex-cash basis, the stock trades at 15x earnings.

Dollar General (DG) is discount retailer and sells a wide selection of merchandise in its stores. Dollar General is still growing its store footprint and is very profitable and generating solid cash flows. DG shares declined after a slow down in its same store sales and worries of higher competition and deflation in prices.

Hennessy Advisors (HNNA) is an asset manager we have profitably owned twice in the past. I initiated the position after HNNA shares hit all time highs and then declined. HNNA has $6.5B in AUM and generated $15m in net income last year. HNNA has taken on some debt for a small acquisition, which should be paid off in 2-3 years. At purchase, shares traded at 11x P/E.

Gamestop (GME) is the largest retailer for video game products. Recently, it has diversified into the largest licensee of AT&T retail stores, selling collectibles merchandise. GME shares have declined sharply due to the combination of secular decline in physical video games and cyclical decline in the video game console cycle. However, GME has been adapting by investing in other profitable businesses and its bottom line has not been impacted. As a result, shares trade for about 7x earnings while it pays a rich 6% dividend on a 30% payout ratio. I initiated a small position given the higher risk and wide outcome possibility.

Despite initiating several new positions, the initial position sizes were small resulting and combined with the sold positions resulted in higher average cash balances for the year.

Generals: Reduced positions:

I trimmed the position in Oracle (ORCL) as the company's performance was below my expectations for several quarters. The company is trying to transition future sales to the cloud versions of its database and application software while retaining its traditional installed base on the customer premises. I trimmed our position in EBAY after a solid gain that reduced the gap to fair value.

Sincerely,

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