

Third Quarter 2015 Letter

Dear Investors,

The US equity markets (S&P 500) had a very rough third quarter of 2015 down 6.4%. It was the worst quarterly drop for US markets since Q3 2011. Motiwala Capital aggregate was down 2.4% for the quarter. Year to date S&P 500 is -5.3% while our accounts are -4.8%. Since inception, our net annualized return (after fees and expenses) has been 12.1% v/s 10.7% for S&P 500.

Year	S&P 500	Motiwala Capital
2015 YTD	-5.3%	-4.8%
2014	13.7%	3.9%
2013	31.9%	33.2%
2012	16.0%	20.3%
2011*	-1.7%	4.9%
Cumulative	59.11%	68.91%
Annualized	10.7%	12.1%

* Since March 4, 2011.

Portfolio Composition

Our portfolios are divided into two primary sections. The 'Generals' are undervalued equity investments. We own 17 positions, cumulatively equaling 48% of the portfolio. The rest of the portfolio is invested in special situations (short term investments with a specific event that can unlock value) and cash (49%). Our cash levels increased significantly from the prior quarter after closing several positions. More discussion on cash levels to follow.

Top 5 Positions

Company name	% of portfolio
Western Digital	6.4%
Qualcomm	4.9%
Mind CTI	4.9%
Oracle	3.6%
Google	3.5%

Portfolio Activity

Special Situations: Share tenders

There were several tender offers during the quarter that were profitable and contributed positively to portfolio performance.

Dow Chemical split-off: Dow Chemical (DOW) is merging one of its chemical businesses with Olin Corp (OLN). In this slightly more complex transaction known as a split-off, we purchased and tendered shares of DOW and in return we will receive shares of OLN at a slight discount (about 5%). Since we do not wish to own OLN beyond the transaction, we shorted equivalent shares of OLN to lock in the spread. Once the transaction completes, the received shares of OLN will close the short position.

Visteon (VC): We purchased shares of Visteon in Q4 2013 at \$80. At the time, VC had a large net cash position and was selling non-core businesses. VC recently completed the sale of all but one business and is sitting on a large \$2.5B+ cash position out of a \$4B market cap. VC intends to return most of that back via dividends, buybacks and debt reduction. Our thesis has played out and we have sold our final batch of shares at \$102.6. The VC warrants were also sold in the quarter.

Generals: Portfolio exits:

We exited several positions in this quarter. Most of the sales were profitable and significant investments.

Gamestop (GME): We purchased shares of GME in Q4 2014 at an average price of \$34. After a couple of good quarters, the market looked at GME in better light and its stock price appreciated. We sold our shares at \$46 for a solid 35% gain + dividends.

Conrad Industries (CNRD): Conrad Industries was one of the early investments made in Q3 2011. Our original purchase was made at \$13/share. Over the next three years, CNRD delivered exceptional results and benefitted from the cyclical upswing in new barge orders as well as a recovery in its repair business. We earned cumulative special dividends of \$5/share during the ownership period. EPS increased from \$1.6 at the end of 2010 to \$3.84 at the end of 2014. The cycle peaked out somewhere in 2014. We trimmed the position in 2014 as the results deteriorated with the decline in price of crude oil and hence demand for its business. We sold our final shares just prior to Q2 2015 results around \$29. Our average selling price was \$33. Overall this was an excellent outcome. Our result would have been better if we had been quicker to exit the position at the first sign of deteriorating business fundamentals. That is a lesson learnt when dealing with cyclical businesses.

Guardian Capital (GCG): GCG is a Canadian asset manager that we purchased early this year. GCG has a solid balance sheet with Bank of Montreal (BMO) shares making up a large part of underlying value. I had hoped that GCG management would reduce the BMO position and buyback its own undervalued shares. However, it does not seem like there is any urgency on this front. The asset management while profitable and growing does not move the earnings needle sufficiently. Finally, as Canadian equity markets took a tumble I became worried about its impact on assets under management at GCG. AUM at GCG declined by 4% sequentially and I decided to exit the position for a slight loss.

Hennessy Advisors (HNNA): HNNA shares were bought (for a second time) last quarter. My thesis was simply based on an earnings surprise due to the increase in fees that had gone unnoticed. After its recent earnings report, shares traded up after earnings increased sharply. HNNA then announced a large tender offer and repurchased 17% of its outstanding shares at

\$25. I sold a large part of the position before and into the tender and the remaining shares via the tender. While I think the shares were under valued, I thought the shares appreciated sharply in a very short time. This year has been particularly challenging and there has been a short window to realize gains on investments. That was another reason to take the gains. If Mr. Market presents us another chance to purchase shares, we will be willing buyers.

Generals: Reduced positions

We further reduced our position in Outerwall (OUTR) as share price appreciated into the \$80s. However, after the Q2 earnings the stock declined sharply from \$81 and continued falling to \$57. OUTR has been a difficult stock to own. There is a higher level of risk in this investment but at the current valuation, the risk reward seems favorable. OUTR has become a smaller position after the decline. While I sold 1/3 of the position in the 70s-80s, I wish I had been more aggressive in trimming it.

I reduced our position slightly in Mind CTI (MNDO) and also reduced the Seagate (STX) position as we already have a large position in Western Digital (WDC).

Generals: New Positions:

I initiated starter positions in three micro cap companies with market cap under \$100 Million. I am still building these positions.

Generals: Increased positions:

During the quarter, I added slightly to the existing position in International Housewares Retail (IHR). IHR just paid its annual dividend and the yield at current prices is ~6%. IHR also has about 40% of its market cap as cash and has no debt. Recently, the company has been buying back shares on the open market. I look forward to an improved operating performance in the coming year. IHR is trading at 10x P/E on an ex-cash basis.

Discussion on Cash:

When a portfolio position is sold, the proceeds stay as cash. Cash is the default position for us. I do not take positions in bonds or any other kinds of instruments. If there is a period where selling activity is heavier than purchases or I cannot find attractive investments, then cash builds up.

Sell process:

There are several reasons for selling a stock. The first reason is when everything has gone right with the investment and shares have hit our price target. Examples from this quarter are sales of Gamestop, Visteon and Hennessy Advisors. The second reason is the opposite of the first and happens when I have made a mistake. It is often better to sell as soon as one realizes a mistake has been made. Another reason is when the reason for owning the stock is no longer true. Business conditions could have changed. For example, last year as crude oil prices plummeted several of our energy service investments were impacted. After assessing the situation, I decided to sell / reduce most of those investments.

I am thankful to my clients for the opportunity to manage a portion of their assets. Thank you for the referrals.

Sincerely,

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Past performance is no guarantee of future results. Motiwala Capital performance is computed on a before-tax time weighted return (TWR) basis and is net of all paid management fees and brokerage costs. Performance figures are unaudited and generated using our custodian's reporting functionality. Performance of individual accounts may vary depending on the timing of their investment, the effects of additions, and the impact of withdrawals from their account. 2011 performance is from the period March 4, 2011 to Dec 30, 2011. The same period was used for S&P 500 and Motiwala Capital.