



2021 Letter: US Capital Appreciation

Dear Investors,

During 2021, our core US capital appreciation gained +26.5% net of fees. US markets continued their winning ways with the S&P 500 index returning 28.7%.

2021 Performance

When the entire market is rising, it is difficult to take credit for stock picking. That said we are pleased with the ratio of winners to losers was the best ever since inception. The numbers in brackets that follow the company names are the contribution to the portfolio performance.

Detractors: The only positions that detracted from performance were Alibaba (-1.4%) and Science Applications International Corp or SAIC (-0.2%).

Winners: Positions that contributed positively to performance included Google (+5.7%), IPG (+2.1%), CVS (+1.6%), Facebook (+1.5%), Anthem (+1.2%), CBOE (+1.1%), Prudential (+1.1%), Bank of New York (+1.1%) and Fidelity National Financial (+1%). Eleven other positions contributed between +0.5% and 0.9%

Portfolio Composition

Since Q3 2020, we made changes to the Portfolio composition to follow the approach outlined by Peter Lynch in his wonderful book ***One Up on Wall Street***. Peter Lynch did not label his investing style as Value or Growth. He placed the companies into 6 categories based on the maturity stage of the company, its steadiness or underlying nature. These are Fast Growers, Stalwarts, Cyclicals, Turnarounds, Asset Plays and Slow Growers. This framework helps us place the companies in the correct construct and assists in thinking about risk/reward. Lynch also provided a rough guide of the size of each bucket in his portfolio.

At year end, the portfolio had 30 positions.

Fast Growers – Earnings per share growth of 15%+. As long as they can grow, this category produces the big winners. The challenge is here to figure out when a company will stop growing and how much to pay for the growth. Portfolio has 8 companies that make up 34%. Largest positions are Google and Facebook.



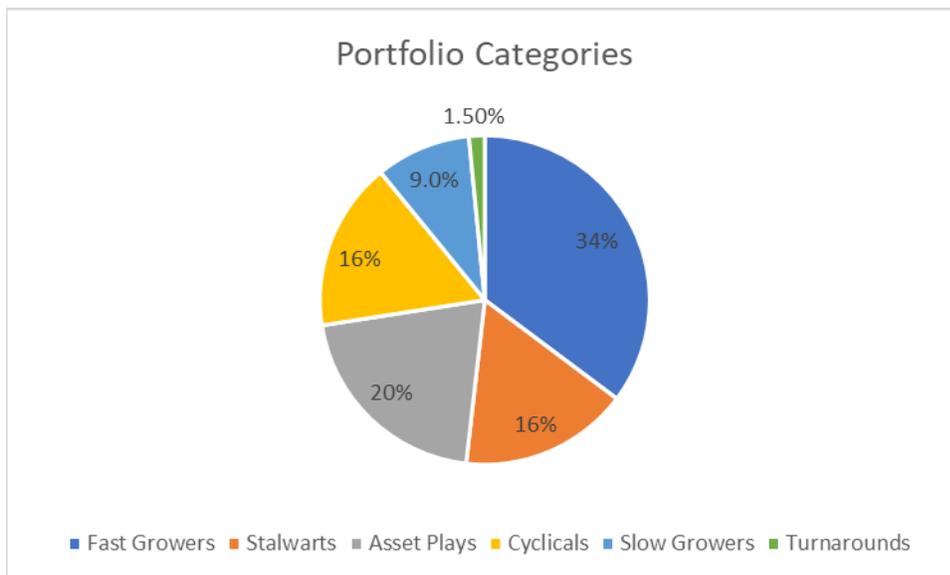
Stalwarts – Steady earnings per share growth and offer good protection during recessions and hard times. 5 companies make up 16% of the portfolio. CVS is the largest position.

Cyclicals - These companies' sales and profits rise in a regular but not completely predictable fashion. 5 companies make up 16% of the portfolio. Interpublic Group is the largest position.

Asset Plays - These companies have some kind of valuable asset that makes them attractive. The asset could be as simple as cash on the balance sheet, valuable property or real estate, tax assets, patents etc. We also use this bucket to group companies that are attractive on the basis of the free cash flow they generate. Eight companies make up 20% of the portfolio. Vistra energy is the largest position.

Slow Growers – These companies grow modestly at best. They are primarily purchased for their generous dividend. Three companies make up 9% of the portfolio with Altria being the largest position.

Turnarounds – These are companies that have fallen on hard times and are being revived by management. The best thing about investing in successful turnarounds is that their ups and downs are least related to the general market. Portfolio has one company DXC that is in the late stage of turnaround and is 1.5% of the portfolio.





Top 10 Positions

Company	Weight	Lynch Category
Google	9.0%	Fast Grower
Facebook	7.3%	Fast Grower
IPG	4.1%	Cyclical
CVS	3.9%	Stalwart
FNF	3.5%	Cyclical
Visa	3.5%	Fast Grower
Anthem	3.4%	Fast Grower
Altria	3.3%	Slow Grower
Cigna	3.3%	Fast Grower
Omnicom	3.3%	Cyclical
Top 10 positions	44.6%	

Portfolio by Sector

Sector	Weight
Technology	33.6%
Financials	17.2%
Consumer Staples	11.4%
Healthcare	11.2%
Comm Services	11%
Industrials	5.2%
Consumer Disc	3.7%
Utilities	3.5%
Cash	3.2%

Hopefully this has given you a view of the make up of the portfolio.

Portfolio Activity

Positions sold

We sold several positions in 2021 such as Hostess Brands (warrants), Big Lots, Cisco Systems, Investors Title, Walgreens and Western Digital.



When do we sell?

1. When the share price appreciates closer to our estimated range of fair value
2. When the company situation changed or we have made an analytical mistake or we lose conviction
3. Better opportunities than a current investment present themselves

New Positions

After a lot of new positions were initiated in 2020, 5 new positions were added in 2021.

British Tobacco (BTI) is one of the largest tobacco companies in the world. In 2021, BTI should have generated \$37B in revenues and \$10B in net income. The company is paying down debt while continuing to invest in new categories. BTI pays a high dividend payout that is well covered by free cash flow. BTI traded at 10 PE and 8% yield at purchase. The shares should appreciate as EPS grows, company pays down debt and continues to increase dividends.

Charter Communications (CHTR) is the second largest cable service provider in the US providing video, data and voice services under the Spectrum brand. Charter had a market cap of \$130 billion at purchase and likely to generate upwards of \$8B in free cash flow in 2021. The company re-purchases shares at a high rate and fcf/share has been growing in the mid-teens %. The company has been investing in nascent mobile services which are not profitable currently. There is potential for this business to be profitable as it scales. Another possibility is to shut down the service if it does turn a profit in a few years. Both outcomes should increase the profits at CHTR from the current levels. Debt is high but the recurring cash flows allow it to service the debt.

Microsoft (MSFT) re-enters our portfolio after a long gap. MSFT sells enterprise and consumer software products as well as hardware products such as the Xbox video game console and Surface laptops. All business segments experienced double digit revenue growth and earnings per share have compounded in the mid double digits over the last 5 years. We believe MSFT continues this momentum in the years ahead.

NVR Inc (NVR) is a home builder with half of its revenues in the Washington D.C and Baltimore metro areas. NVR was among the first home builders to move to an asset light business model wherein the company does not purchase too much land ahead of sales. It uses options that give it the right to purchase land in future to construct homes. The company requires less capital to run the business and as a result generates one of the best return on equity in the industry (over 25%). NVR has used the ample free cash flow to repurchase shares over the decade. We purchased shares at about ~13x 2021 earnings of \$320/ share. Note, the high share price of \$4000 does not indicate it is expensive, just like a \$2 share price does not mean it is cheap. What we look at is the earnings per share (EPS or E) and compare that to the share price (and many other aspects). In this case, share price was \$4000 (P) and the EPS (E) is expected to be



\$320 for a P/E of 12.5. With the booming demand for homes in the US and limited supply, we think housing industry and this company should do well. Even though this is a cyclical, it is a higher quality company in this cyclical industry with a solid balance sheet.

HDFC Bank (HDB) is the leading bank in India. HDFC bank continues to compound sales and profits at 15% and 20% respectively and generates a solid 15-20% ROE. We purchased shares in late December as the share price declined and became attractive. HDFC Bank is a fast grower, and we expect it to continue to generate excellent returns for shareholders.

Positions added to

Through the year, we added to the following holdings:

Allstate, Anthem, Baba, CACI, Cigna, Facebook, Fidelity National Financial, Lockheed Martin, Altria, Omnicom, Phillip Morris, SSNC, Visa

Thank you for the opportunity to manage a portion of your assets. We will continue to work hard to protect and grow your entrusted capital in 2022 and beyond.

Sincerely,

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