MOTIWALA CAPITAL
Responsible Investing

2022 Letter: Halal Capital Appreciation

Dear Investors,

2022 was another year of unusual global events with the war in Ukraine. Globally most equity markets declined including the US stock market, bonds also lost value and interest rates increased sharply with raging inflation. Our Halal capital appreciation strategy returned -15.7% net of fees. US markets had a losing year after a long time with the S&P 500 index total returns (including dividend) of -18.1%.

2022 Performance

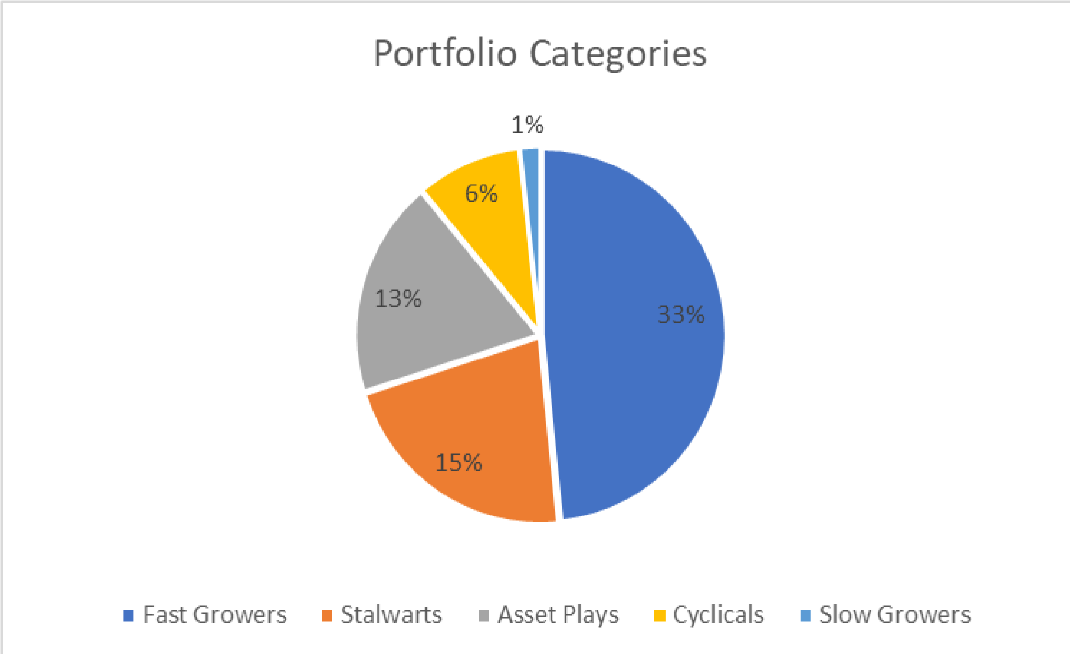
Detractors: The positions that mainly detracted from performance were Facebook (-6.1%), Google (-4.2%) and Microsoft (-2.1%). Other positions that hurt performance include NVR (-1%), Tencent (-0.9%), eBay (-0.9%), Alibaba (-0.8%), Adobe (-0.7%), SSNC (-0.7%) and SPGI (-0.7%). The outsized loss in Meta and Google were due to the large position sizes and large drops experienced in their share prices. Please note: these are mark to market losses and not realized losses.

Winners: Positions that contributed positively to performance included McKesson (+2.7%), and Dollar General (+0.5%).

Cash: Given we do not take short positions, in times when the risk reward is not favorable and doing nothing is a reasonable option, we can maintain a larger than normal cash position. As we sold several positions in 2022, most of the proceeds were left as cash. This provided the portfolio some cushion and helped in the relative performance compared to major US indices.

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.*** He placed the companies into 6 categories based on the maturity stage of the company, its steadiness or underlying nature. See Appendix for an explanation of 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. The % of portfolio in each Lynch category will vary based on the attractiveness of the opportunity set. At Jan end, the portfolio had 19 positions and 31% cash.



Company	Weight	Lynch Category
Google	7.8%	Fast Grower
McKesson	7.0%	Stalwart
Microsoft	6.6%	Fast Grower
Visa	6.0%	Fast Grower
S&P Global	5.0%	Stalwart
SSNC	4.4%	Asset Play
Facebook	4.4%	Fast Grower
NVR	3.6%	Cyclical
Alibaba	3.2%	Fast Grower
Tencent	3.1%	Fast Grower
10 positions	51.1%	

Sector	Weight
Technology	40.9%
Consumer Disc	8.6%
Healthcare	8.0%
Financials	7.2%
Comm Services	2.8%
Consumer Staples	1.9%
Cash	30.6%

<u>When do we sell?</u>

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

Portfolio Activity

Positions completely sold

We sold **CACI International** as the share price appreciated closer to our estimate of fair value.

Huntington Ingalls and **Lockheed Martin** were sold prior to Russia's invasion of Ukraine as earnings trends were looking unexciting. We ignored the defensive characteristics of these companies (pun intended) and their share prices mounted an excellent offense. Our timing was unlucky.

Mastercard was sold to reduce overlap as we also have a large position in Visa.

Positions reduced

McKesson was a big winner in 2022 and was trimmed as it became a large position and the discount to fair value reduced significantly.

We sold 10% of the **Facebook** position after disappointing Q4 2021 results and even considered selling it fully but decided to hold majority of the position. Financial results worsened each quarter in 2022 and it is possible this trend may continue in 2023 before we see improvements. Opex and capex spending has been high while revenue growth slowed and then Q3 saw a year over year revenue decline. The market punished the stock by 60% for these results and trimmed the position size for us.

New Positions

Ebay operates its namesake online marketplace at ebay.com. Its platform enables users to list, buy, sell and pay for items. In 2022, ebay would generate about $9.7B in revenues and ~2 Billion in free cash flow and $4 in eps. While ebay's operating results have been uneven over the years, it generates solid free cash flow annually and has reduced shares outstanding by more than 50% over the last decade. Ebay trades at a below average multiple and has above average profitability.

S&P Global (SPGI) provides credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity markets. It merged with IHS Markit in the previous year which increases their product depth and end markets. With the expected 19% decline in global debt issuance in 2022, SPGI results were dragged down by the key credit ratings business. It should come back as issuances normalize in the coming couple of years. The merger will provide additional cost and revenue synergies.

Dollar General (DG) is a discount retailer with over 18,000 stores in the United States. The company is still opening 100s of stores annually which are self-funded and generate excellent returns on capital. DG uses the free cash flow to pay a growing dividend and repurchase shares. This business is very resilient and remains profitable in all economic conditions.

Adobe (ADBE) is a software company with well known products such as Photoshop, Acrobat, Illustrator and so on. Adobe has been valued richly in the past due to its superior operating results as seen in the increase in revenues, profits and free cash flow. We bought shares in the in Q1 2022 but we kept the position small. The stock continued its decline and we have room to add to the position.

Global Payments (GPN) provides payment technology and software solutions for card, electronic, check payments in Americas, Europe and Asia Pacific. There has been a lot of competition entering this space over the last few years. The legacy payment tech companies beefed up with acquisitions. GPN should generate over $8B in revenue and $2.5B in FCF in 2022. While the debt is slightly on the higher side ($10B net debt), the company can reduce it using the ample free cash flow and the valuation is attractive.

Mind CTI (MNDO) is an Israeli company that provides end-to-end billing and customer care product-based solutions for telecom service providers as well as telecom expense management solutions. MNDO is making a comeback to the portfolio having first owned in 2012. Sales are about $18-$20 million annually with $4-$5m in free cash flow. The balance sheet is rock solid with $15 million in cash while the market cap at the time of purchase was $40 million. Management is very shareholder friendly with 100% of FCF being paid out in the form of dividends for more than a decade. The dividend yield based on last years' payout was 12%. The founder CEO owns 15%+ of the shares outstanding.

Positions added to

We added to **Cognizant** and **SSNC** as their declining stock prices made the valuations very attractive.

Outlook for 2023

There are interesting factors in the markets currently with high inflation globally and rising interest rates. It would be interesting to see how well company earnings hold up this year. This year we may look to add some investments outside the US as well as smaller market capitalization companies depending on the overall opportunities available.

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 2023 and beyond.

Sincerely,

Adib Motiwala

Adib Motiwala
Portfolio Manager
Phone: 817-689-5115

Appendix

Fast Growers (7 positions, 33%) – Earnings per share growth in the double digits. 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 seven fast growers that add up to 33%. Largest positions are Google, Microsoft and Visa.

Stalwarts (4 positions, 15%) – Steady earnings per share growth and offer good protection during recessions and hard times. Four stalwarts make up 14% of the portfolio. McKesson and S&P Global are the largest Stalwart positions.

Cyclicals (2 positions, 6%) – Cyclicals' sales and profits rise and fall in a regular but not completely predictable fashion. Two cyclicals make up 6% of the portfolio. NVR is the largest cyclical by weight.

Asset Plays (5 positions, 13%) – Asset plays have some kind of valuable asset that makes them attractive. The asset could be as simple as cash on the balance sheet, valuable 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. Five asset plays make up 13% of the portfolio with SSNC being the largest one.

Slow Growers (1 position, 1%) – Slow growers grow modestly at best. They are primarily purchased for their generous dividend. Mind CTI is the only slow grower in the portfolio currently.