

**First Quarter 2013 Letter**

Dear Investors,

The year 2013 started on a very strong note with the US equity market as reflected by S&P 500 up 10% in the quarter. On a consolidated basis, Motiwala Capital underperformed relative to S&P 500, though more invested accounts kept up with the market. High cash levels in recently opened accounts were largely responsible for the performance disparity. Accounts that have been with us for a year or more are 70-80% invested whereas accounts opened in the recent months are anywhere from 25-50% invested. With a sharp rising market, bargains have been tougher to find.

Motiwala Capital can manage individual, joint, trust and IRA including 401(K) to IRA rollovers. For more information on the firm, please check out our website ([www.motiwalacapital.com](http://www.motiwalacapital.com)) which contains past letters, presentations, and interviews with Manual of Ideas.

**Portfolio Composition**

Our portfolios are divided into two sections. The 'Generals' are equity investments that fit the value framework. Most accounts have 15 such positions that make up about 70% of the portfolio. The rest of the portfolio is currently in special situations (short term investments with a specific event that unlocks value) or cash which can vary at any time. The top 5 positions add up to 35% of the portfolio.

In the 'special situation only' accounts, cash levels were very high due to moderate position sizing (3-5%) and closing of positions.

**Portfolio Activity**

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

We participated in several special situations in the quarter which were all profitable. These included a couple of CEF tenders and several individual company share tenders.

Special Situations: Merger Arbitrage

We bought shares of Jeffries (JEF) which was merging with Leucadia (LUK) in a stock swap transaction. We got lucky on this transaction as both stocks continued to rise towards the merger close date and we closed the position with double the original 4% spread.

The next idea came from reading the conference call transcript of our holding company National Oilwell Varco (NOV) which we purchased in the previous quarter. Sell side analysts were expressing concern on the timing of closing the Robbins & Myers (RBN) acquisition by NOV. The spread which had been low throughout the pending transaction had gone up to 4%

on no news. RBN is a good business and NOV has a long history of successful acquisitions. The merger closed as expected.

A couple of merger-arb positions are open at the time of writing. See the next report for details.

#### Generals: Portfolio exits:

In the previous quarter, we had trimmed our position in Becton Dickinson (BDX). In Q1, we sold the remaining shares as the share price appreciated towards our target price. Accounts that were invested in BDX in the low \$70s earned a 20-25% total return (including dividends) during the holding period.

We also exited the tiny position in Gravity (GRVY) for a small gain on the portfolio level. Recent results have been quite poor and we used the opportunity to get rid of a low conviction name from the portfolio.

#### Generals: New Positions:

Nintendo (NTDOY) We initiated a new position in Nintendo. Nintendo is the popular gaming company from Japan that brought us Super Mario brothers, Donkey Kong and Zelda and gaming platforms such as the Wii and DS. The company has had a tough couple of years as popularity of its hand held and gaming systems (Wii) waned. Microsoft and Sony came back strongly towards the end of the current console cycle and there is competition from social and smart phone based games. Nintendo does not make its games available on other platforms. That said, Nintendo's balance sheet is something to be seen. At purchase, cash and investments almost equaled the market cap of the company with no value assigned to its game library and brand name. The company released its new console (Wii U) which has had a slow start. This is like a turnaround situation however the balance sheet and brand value give us comfort. We would not mind if someone helps Nintendo unlock their value. In some sense, Nintendo is a good swap for GRVY and hence the higher position size as well.

#### Generals: Reduced positions:

We reduced our positions in Western Digital (WDC) and Lear (LEA) as share prices appreciated strongly over the last few months. WDC had become a very large position in most accounts as we had averaged down aggressively in the last drop to the low \$30s. As the price hit the mid \$40s, we trimmed the position. Even though the stock appears quite inexpensive, we had experienced many round trips on this stock and felt prudent to take gains and also right size the position. WDC still remains a top 5 holding for us.

Lear's share price was rewarded for consistent business results over the last two years and with excellent capital allocation to boot. We trimmed the position as the gap to fair value shrunk.

### Generals: Increased positions:

We added to our positions in Microsoft (MSFT) and National Oilwell Varco (NOV) in most accounts. NOV had a pretty decent 2012 but shares came down in price. We took the opportunity to add to the position.

We have owned Vodafone (VOD) since inception. It has been a range bound stock between \$25 and \$30 over that period and the business has been relatively steady with poorer results in some regions recently. On the recent drop from \$28 to \$25, we doubled our position in Vodafone. The reasons were pretty much the same as the original thesis - the stock was cheap on an absolute basis using Price to free cash flow, it was cheap compared to AT&T and Verizon, the dividend yield was juicy (5% not counting special dividends) and well covered, the market seemed to be ignoring VOD's 45% stake in Verizon wireless. We also had plenty of cash to deploy and this looked like a good candidate for a very large position.

### **Media / Recent blog posts**

I pitched Conrad Industries (CNRD) as an idea at the online-only Small Cap Investing Summit 2013 organized by Value Conferences and Manual of Ideas. You can find the presentation and audio at <http://alturl.com/dx5mj>. I recommend these conferences as they are a great value for money and one can participate in the comfort of your home without spending huge sums on attendance, flights, hotels and so on.

We have had a good start to managing investments so far. Our performance for 2011 and 2012 is now available on our website. Please read the notes associated with the performance.

Capital allocation is an important consideration when we make investments along with free cash flow, solid balance sheet, low valuation and high ROIC. An example of good capital allocation exhibited by one of our companies, GameStop (GME) can be found on this blog post - <http://alturl.com/x6ipp>

We wanted to thank all clients for their faith shown in us. We would welcome referrals to like-minded investors. If you have any questions or comments, please don't hesitate to contact me.

Sincerely,

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