

Third Quarter 2013 Letter

Dear Investors,

On a consolidated basis, Motiwala Capital accounts year to date net return is ~23%. The consolidated performance information is shown in the table below:

Year	S&P 500	Motiwala Capital
2011*	-1.7%	4.9%
2012	16.0%	20.3%
YTD 2013	20%	23%

See important notes at the end of the letter for more information

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. Average cash balance at the end of the quarter was 20-25%.

Portfolio Activity

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

We participated in five new special situations in the quarter which included two share tenders, two mergers and the liquidation of a closed end fund. Three out of the four closed positions yielded profits while the liquidation situation has not been fully paid out. The open position is a merger arbitrage. Spreadtrum Communications (SPRD) is being acquired by a subsidiary of Tsinghua Holdings for \$31 per ADR. We purchased when the spread was about 4.5%.

From the previous quarter, we had two open positions and one closed profitably. The other position is the CTB merger which is still pending and has run into some interesting situations with union issues and the buyer wanting to renegotiate a much lower price than the merger agreement of \$35 a share. The buyer and seller are now fighting a court case. (see discussion in q2 2013 letter). We added to the position slightly as the spread widened over 10%.

Generals: Portfolio exits: We sold out of one position in the quarter.

Lear (LEA) is one of the largest global automotive parts suppliers. We bought shares at \$42 in early 2012. Over that period, sales and profits have increased. The company had been buying back shares and then under pressure from an activist investor increased the pace in 2013. We

sold our shares at \$60 and \$72 for a total return of 60%. Our thesis has been played out. The excess cash on the balance sheet has been returned, stock has re-rated nicely.



Generals: New Positions:

Despite markets hitting new highs, we were able to find attractive investments and purchased seven new positions. Some of these are highlighted below.

Franklin Resources (BEN) is an asset manager that manages \$840 billion in various mutual fund products. Asset management is a great business with high margins, recurring free cash flow and low capital needs. BEN has a solid balance sheet and great history of capital allocation via buybacks and dividends (and special dividends). The founding family still owns a large ~20% stake in the business. Shares came under pressure when interest rates rose. Fearing asset outflows and lower prices (since 45% of their assets are fixed income products), the stock sold off its highs. Their fixed income products are mostly international and they are not sensitive to interest rate movements. We were able to purchase a growing and high quality compounder for 12x FCF.

Oracle Corp (ORCL) is an enterprise software company. In some ways it is similar to an asset manager. It exhibits high profit margins, earns recurring maintenance and license revenues driving stable free cash flow and low capital intensity. ORCL has \$17b in net cash and investments and is run by a founder CEO who owns 20% stake in the business. Oracle has grown greatly via acquisitions over the last decade but their acquisitions have borne better fruit than most of their peers. Shares have been weak after lower than expected results in the last two quarters giving us a chance to acquire shares at ~10x FCF (ex cash). Oracle has been aggressively buying back shares and recently doubled its dividend.

Hess Corp (HES) is an exploration and production company and has several other mid-stream and downstream assets. Under pressure from an activist and after a proxy fight and resolution, Hess is focused on the E&P business and selling non-core assets. Using the cash generated, Hess has pared down debt, increased its dividend 150% and started a sizeable buyback program. On a sum of the parts basis, Hess was undervalued by 20-30%. This idea came from the legendary Mike Price when he spoke at a conference earlier this year.

Vivendi (VIVHY) is a media and telecom conglomerate which owns several high quality assets. Vivendi has been cheap on a sum of the parts basis for a long time. However, recently Vivendi sold most of its stake in Activision and is close to selling its stake in Maroc Telecom. The board recognizes that the shares are undervalued due to the conglomerate discount and is taking steps to reduce that. There are also plans to spin off the French telecom unit SFR. This will leave Vivendi with media assets Canal Plus, Universal music group and telecom business in Brazil. Vivendi pays a nice 5-6% dividend while we wait for market to recognize value of its assets.

Hess and Vivendi were also purchased for the 'special situation only' accounts.

Generals: Reduced positions:

In the quarter, we pared positions in Western Digital (WDC), Nintendo (NTDOY) and Vodafone (VOD).

We purchased Vodafone in early 2011. Our thesis was pretty straight forward. The market was not recognizing its 45% stake in Verizon wireless (VZW) and there were doubts about receiving consistent dividends from VZW. We were content receiving a 5.5% yield from Vodafone without any contribution from VZW. We felt Vodafone's stake in VZW would be worth about \$100 billion. After several years of wrangling, VZ decided to buyout the 45% stake from Vodafone for \$130 billion, significantly more than we had estimated. We pared the position but VOD remains a top 5 position. Vodafone is still attractive on a stand-alone basis and could be acquisition target.



Other news

Motiwala Capital held its first investor meeting in Plano, Texas on September 21, 2013. I was encouraged by the turnout. The slides of the meeting have been put up on the reports link on our website.

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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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. 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.