Mott Capital Management, LLC

101 Seventh Street
Garden City, NY 11530

4/6/16

1Q'16 has been a story of Jekyll and Hyde. The first six weeks were Hyde, filled with terror and fear; while the last six weeks were Jekyll, filled with calm and exuberance. In reality the market was in a period of hallucinations and delusions. The truth of the matter was that nothing had actually changed. The US and global economies were in the same precarious position as they were at the end of 4Q'15. The market feared a China economic slowdown and an overly aggressive Fed: But the markets lived in a world of alternate reality. The idea, to us at least, of the Fed raising rates four times in 2016 seemed absolutely preposterous. The Treasury and Currency markets were certainly indicating four rate hikes were not in the cards. Additionally, the overall health of the US economy did not support such an action. Growth rates, inflation and lackluster job growth as percentage of the overall population, made it evident that four hikes was nearly impossible. As we had written many times, it was and still is more likely to see Negative Interest rates or QE 4, before we see another rate hike. As the Fed backed off rate hike talks and became more "Dovish", meaning less aggressive, the market's mood began to shift. We expect the talk to continue to lean even more dovish and the idea of Negative Rates or QE4 likely to become the direction of future talks. As for China, if GDP growth was to decline from 7 percent to say 3 percent, the global GDP would lose a mere $400 billion in growth. I say "mere" because global GDP is nearly $80 Trillion. The US and the Eurozone GDP make up nearly $40 Trillion, while China makes up only $10 trillion. The problem the world face is a lack of growth from the US and the Eurozone, not a Chinese slow down.

<u>Non-Annualized Performance 1/1/16 – 3/31/16</u>

MCM All-Cap Growth Composite	S&P 500 Total Return Index
-5.96%*	+1.35%

*Net of Fees and Transaction Cost

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Now that, that is out-of-the-way, we shall turn our focus to the performers in our portfolio. Certainly, we are never immune to the under currents of the market. However, we certainly have tried our best to minimize were we can the ebbs and flows. There were a handful of very uncomfortable days, however in reality nothing had fundamentally changed with the companies within our portfolio. That being said we made no new additions or deletions. I think as you read further a long you will get a very clear sense as to those decisions.

MCM Top 3 Winners & Loser for 1Q'16

Verizon (VZ) +17.01%	Alkermes (ALKS) -56.93%
Altria (MO) +7.64%	Acadia Pharmaceuticals (ACAD) -21.57%
Unilever (UL) +4.78	Celegene (CELG) -16.42%

There was nothing special about VZ, MO or UL this quarter. The only thing these companies have in common is they offer income and safety. Safety, because they have pretty stable and consistent revenue flows. Income, because they offer a very good dividend yield. I thought I'd take a moment to highlight VZ. VZ has a stranglehold on a very important demographic that is literally just being born. If you have children or grandchildren around the age of 5 or younger, than perhaps you have noticed this shift as well. Any child born around 2010 or later is part of this new "On Demand" Generation. These children are being born into a world where they only know getting content without interruption and at the click of a button. They will never know or experience anything else in their life. One of the key players that will benefit from this is VZ, as they literally control the keys to the pipes in the homes and the data into mobile phone. The amount of data consumption I believe will be transformative and will be like nothing seem in the past.

The biotech sector was hit very hard in the 1Q'16 which is perhaps why ALKS, ACAD and CELG led the pack lower. However, for ALKS the major damage was

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caused when their lead drug candidate ‘5461 for depression failed due to a high placebo rate. However, it was noted the two studies showed a path to efficacy and adjustments are being made to the next trail due sometime in the second half of 2016. Additionally, ALKS in my opinion has a very deep pipeline, with drugs that have very large potential. So despite the massive decline in the stock price, we decided at current valuation the growth drivers still made it worth holding on too. Unfortunately, it will just take a bit longer to develop, but we feel it will be worth it in the end. ACAD is a perfect example of waiting, because on March 29th a FDA Advisory Panel supported by a vote of 12-2 that the benefits of Nuplazid outweighed the risk. This should be supportive of a FDA approval by May 1st. Nuplazid will bring relief to patient with Parkinson’s disease that suffer Psychosis. Additionally, we should have a read out for their Alzheimer’s Psychosis trial in 4Q’16. In this case, the long wait is beginning to come very close to fruition. CELG has a very exciting story ahead of it as it continues to develop and partner with companies on a multitude of new drugs.

Although Tesla (TSLA) was not a winner or loser I thought it is a company worth mentioning. TLSA’s ride during the quarter was perhaps one for the ages. The stock at one point traded as much as 41.2% lower for the year, this was on February 9th. The market was expecting it to fall on its face and announce delivery delays and production issues on its quarterly report. This is of course were being long-term and understanding stories as oppose to quantitative models really helped to benefit us. We are invested in TSLA not for short-term production, but for its long-term growth and because of the disruptive nature it is creating in the Auto Industry. When TSLA did not fall on its face, the market quickly brought the stock back. On March 31st the growth story continued with the introduction of the Model 3. This is TSLA’s mass market car that will start at $35,000 and have an electric charge range of about 225 miles. TSLA began taking reservations for the Model 3 on April 1st with a $1,000 deposit. It was reported that through the end of day April 2nd they already had nearly 275,000 reservation. The car will be available towards the end of 2017. As of April 1st, TSLA stock was only down 1% for 2016.

Although, 1Q'16 is over, the volatility is not. It’s is my belief the giant movements we had in the 1Q will dissipate. However, there will still be brief periods were the volatility will ramp up. As the currents being created by global central banks begin flowing in the same direction again, volatility will continue to diminish.

I have decided that we will no longer have mid-quarterly updates. My feeling is that with all the daily commentaries and frequent publications, the last thing I want is an overload of communications. So for that reason, there will only be a letter every quarter.

If you have any questions or concerns please feel to reach out anytime.

Thank you for your continued trust and support.

Regards,
Michael Kramer, MS
Member
Mott Capital Management, LLC
516-642-5788

	Total Assets			Composite Performance	S&P 500	Annualized 3-Year Standard Deviation**		Internal Composite Dispersion
Year End	Firm	Composite	Number of Accounts	Net	Total Return	Composite	Benchmark	
2015	1,681	1,325	17	1.52%	1.40%	-	-	N.A.
2014†	1,026	628	8	3.82%	7.60%	-	-	N.A.

N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.
† Performance reflects the non-annualized performance from 8/1/2014 to 12/31/2014.
** For periods with less than 36 months of composite performance, no 3-year ex-post standard deviation measurement is available

Disclosure: Mott Capital Management, LLC ("Mott") *claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Mott has not been independently verified. Mott Capital Management, LLC is an independent registered investment adviser. The firm maintains a list of composite descriptions, which is available upon request. The All-Cap Growth Composite is a blend strategy of different market capitalizations, which is approximately divided equally among three sectors. The Core Growth sector includes large multi-national companies, the Growth Sector includes mid- to large-cap companies, and the Aggressive Growth sector includes small- to mid-cap companies. The strategy is concentrated, and typically includes approximately 20 positions, and 5% cash. The strategy only invests in stocks, ADRs, and ETFs denominated in USD. The All-Cap Growth Composite was created June 2015. The S&P 500 is a free-float capitalization-weighted index of 500 large-cap common stocks actively traded in the United States. The*

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index is shown as a general market indicator, and may not reflect the same exposures as the composite. The investment management fee schedule for the composite is 2% on the first $250,000, 1.5% on the next $750,000, and 1.0% on the remainder. Actual investment advisory fees incurred by clients may vary. Further information regarding investment advisory fees is described in Part 2 of the firm's Form ADV. Past performance is not indicative of future results. The U.S. Dollar is the currency used to express performance. Performance shown represents total returns that include income, realized and unrealized gains and losses. Net of fee performance was calculated using actual fees. Composite performance is presented net of foreign withholding taxes on dividends, interest income, and capital gains. Withholding taxes may vary according to the investor's domicile. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. The annual composite dispersion presented is an asset-weighted standard deviation calculated using accounts in the composite the entire year. The 3-Year Standard Deviation represents the annualized standard deviation of actual composite and benchmark returns, using the rolling 36-months ended each year-end. The 3-Year ex-post Standard Deviation of composite and benchmark returns is not presented because the composite strategy has less than three years of history.