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1/5/15

Dear «Company\_Name»,

The Fourth Quarter (4Q) was volatile, but overall the market continued to move higher and set new records, as I mentioned it would do in my 3Q letter. The Dow Jones Industrial Average (DJIA) managed to cross 18,000 for the first time and the S&P 500 (SPX) is quickly approaching the 2,100 mark. For the quarter the DJIA was up +4.58%, SPX +4.39%, NASDAQ +5.40% and the Russell 2000 +9.35%. We also saw a major decline in the price of oil during the fourth quarter, with prices moving from about \$100 per barrel to the low \$50's. All of the volatility created some excellent buying opportunities for us, as we picked up new positions early in the quarter and then again later in December. Meanwhile, we closed out some of the losing positions. I have highlighted below some of the newest investments, along with the winners and losers.

First I would like to start with the winners for the 4Q. As a reminder, performance in this letter may vary from your individual account due to the cost basis and timing of your initial investment. The three biggest gainers for the quarter were shares of Avanir Pharmaceuticals, Inc. (AVNR, +41.95%), Alkermes plc (ALKS, +36.60%) and Visa Inc. (V, +23.03%). AVNR for the second quarter in a row was the top performer, as it continued to march higher following the Alzheimer data that was released in September. The biggest driver for the stock came in the beginning of December when Otsuka Pharmaceuticals announced they would be buying the company for \$17 per share. With that news we exited the position in mid-December and locked in our gains. After a rough third quarter ALKS came on strong after reporting its third quarter earnings results as investors began to look forward to what could be an exciting 2015 for the company. The company filed a new drug application (NDA) for their newest drug, Aripipazole Lauroxil for the treatment of Schizophrenia. They also have the potential to have data available for up to four trials during 2015. With success in any of these trials we could continue to see the stock move higher. Finally, Visa had a fantastic quarter after reporting a great fiscal 4Q earnings and the stock reacted in a very positive way.

Turning then to losers for the quarter, The Greenbrier Companies, Inc. (GBX, -51.08%), US Silica Holdings, Inc. (SLCA, -35.30%) and Stillwater Mining Company (SWC -18.50%) were all closed out prior to the end of the year. GBX and SLCA unfortunately got caught up in the whole mess with declining oil prices. Both of these stocks are very highly levered to

performance of oil especially with US shale production. The sharp fall in the price of oil and share prices were completely unexpected. SWC was simply a story of poor earnings due to the higher costs of mining palladium making it too difficult for the company to meet analysts' expectations.

With the downturn in the market and having freed up cash I decided to look for bargains in the market place. We picked up shares of The Walt Disney Company (DIS, +10.86%), Acadia Pharmaceuticals, Inc. (ACAD, +18.51%), NXP Semiconductors NV (NXPI, +3.64), Hain Celestial Group, Inc. (HAIN, +1.01%) and Xenoport, Inc. (XNPT, +8.27%). As you can see there has been some solid gains in our new positions over this short period of time. DIS needs no introduction, as I am sure all of you are aware of this company. My thought process on it is simple, they own iconic brands such as Disney, ESPN, Marvel and Lucas Film. These brands have produced many blockbuster hits and I expect that trend to continue well into the future. ACAD, is a biotech company with a drug called NUPLAZID, this drug had a successful Phase III trial in Parkinson Disease Psychosis. The company plans to file a NDA with the FDA in 1Q15 with potential approval approximately 10 months thereafter. The same drug is currently in phase II trials for Alzheimer's disease psychosis, and if successful then ACAD should see a big benefit. NXPI creates the chip that helps to make Apple Pay work, they also make the chip that should be used on credit cards in the future. HAIN is an organic food company and organic food is something that to me is more than a trend. It is here to stay and will only continue to grow. Finally, XNPT is perhaps to me the stock that I am most excited about and could potentially generate the biggest returns. They are working on developing a drug for the treatment of moderate to severe forms of plaque psoriasis and relapsing forms of multiple sclerosis. Many are hopeful that this drug could be an improvement to current drugs treating the same indications. XNPT carries the most risk of the five new positions, but to me it provides the most excitement and potential for return.

Quickly, I will highlight the exited positions for the quarter. Ford Motor Co. (F, -3.43%), Fiat S.p.A.(FCAU, - 7.06%), The Greenbrier Companies, Inc. (GBX, -51.08%), Post Holdings, Inc. (POST, +10.70%), US Silica Holdings, Inc. (SLCA, -35.30%), Stillwater Mining Company (SWC, -18.50%) and Vale S.A. (VALE, -11.78%). F and FCAU was simply because I did not want to be heavy into automobiles if the global economy was indeed slowing and at the time of the sale that was the main worry of the market. POST, although the story is still very much intact of transforming into a diversified food producer, the balance sheet of the company and its debt load made me feel too uncomfortable. VALE even though valuation was dirt cheap the company is very highly levered to growth in China, and with growth in China slowing VALE will continue to suffer. Also, it was unexpected that major iron ore producer would essentially enter a production battle, pushing the price of iron ore lower and lower. Finally GBX, SLCA and SWC were all previously highlighted in the top losers.

I am very excited about the portfolio going into 2015, I think it is well positioned to see solid gains. Each company that is in the portfolio has an exciting story behind it. I think the market should work in our favor again this year. There is the potential for the European Central Bank (ECB) to embark on their own form of quantitative easing, which will flood Europe with cheap money weakening the Euro further. Additionally, this could result in the

European bond yields to fall further. Japan will continue with their own form of stimulus, further weakening the value of the Yen. Even with the Fed potentially raising rates in the second half of 2015, I expect to think they will delay any action until 2016. However, even if the Fed does start in the second half of 2015, I expect that it would be slow, with a rate increase to 25 basis points. With all the easy money in the world I think this will force investors to look towards risk assets again, essentially pushing them into stocks. Due to this, I think the markets will continue to react in a very positive way. The one potentially negative event to watch for is on January 25<sup>th</sup>, when the Greeks will hold a general election. Leading up to this day you may see some volatility in the markets, depending upon which party is leading in the polls. I believe things could get interesting if there are signs that Greece maybe exiting the Euro zone, which would cause fear that some of the weaker European nations might follow the same path. However, I think that if the worst case scenario were to happen the ECB and the governments of Europe would quickly act to stabilize the situation.

I would like to thank each of you for investing with Mott Capital Management. The Mott family continued to grow in the 4Q with several new clients. I would like to offer a warm welcome to our newest investors. Finally, I will be reaching out to each of you over the next few weeks to schedule our quarterly conference call. As a reminder, if you have any questions please do not hesitate to give me a call.

Best wishes in the New Year with lots of health and happiness to you and your family.

Regards,

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Disclosure: Past performance is not indicative of future performance.