Mott Capital Management, LLC
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The year has closed, and as I write this letter and reflect, the only word I can think of to describe 2016 is bittersweet. 2016 was full of challenges and this past year coupled with 2015 has been one of the most challenging two-year stretches I can remember in a very long time. Would you believe that on December 31st, 2014 the S&P 500 closed at 2058.90? That means up until November 4, 2016; the S&P 500 had been up only 1.2% for two years! All of the gains we have seen and record highs have just occurred Post-Election, November 9th to be exact or 7 weeks.

Non-Annualized Performance 1/1/16 – 12/31/16

MCM All-Cap Growth Composite	S&P 500 Total Return Index
(-2.10%)	+11.96%

*Net of Fees and Transaction Cost

2016 was supposed to be the year where a bunch of catalysts came together and helped to propel the portfolio higher. Instead, we got a market filled with volatility and uncertainty. Unfortunately, due to this multiples contracted and valuations came down as well. Except for the last seven weeks of the year, the market did almost nothing. How can I justify this statement? Easy, on December 31st, 2015 the S&P 500 closed at 2043.94 and on November 4th, the Friday before the US Presidential election the S&P 500 closed at 2085.18, a small increase of about 2%. From November 4th, the S&P 500 rallied to a close the year at 2238.83 an increase of nearly 7.5%. Expectations, for the Trump administration, sent the market higher, as investor began to bet on pro-growth economic policy. Lower tax rates, deregulation, and infrastructure spending caused the market to rally, yields to surge and the Dollar to strengthen as thoughts of inflation and growth stoked Wall Streets' animal spirits. As a result, the four best-performing sectors from November 8th until December 30th were, (using the Select SPDR ETF's as proxies), the Financials (XLF) which soared nearly 17%. Followed by Energy (XLE) up approximately 8.5%, the Industrials (XLI) up almost 7%, and Materials (XLB) up about 5%. If you did not invest in these four sectors, you pretty much got left dust.

So why do I say the only words to describe my emotions were bittersweet? For the most part, many of our companies just did not perform in 2016 despite hitting on many of the expectations and hopes I had planned on when starting 2016. More on that later, for now, let's focus on the fourth quarter.

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MCM Top 3 Winners & Loser for 4Q'16

Netflix(NFLX) +26.62%	Vodafone (VOD) -16.69%
Alkermes (ALKS) +18.18%	Unilever (UL) -14.14%
Walt Disney (DIS) +12.23%	Diageo (DEO) -10.43%

I thought I would start with losers this time because these three all fall into the same bucket. They all have a couple of things in common, they are multinationals, they are ADR's, and their ordinary shares trade in London. The losses you see in these stocks have nothing to do with underlying fundamentals of the companies. The losses have to do with the British Pound, which has fallen from a Pre-Brexit level around 1.50 to the Dollar, to its current level around 1.23 to the dollar. Therefore parity or the level were the ADR's equals the same price as the ordinaries, a one to one ratio, falls as well. Vodafone on the London Stock Exchange trading in Pounds fell from 221.75 Pence on September 30th to 199.85 Pence on December 30th, a decline of only 10%. However, the Pound fell from 1.30 to 1.23. At 199.85 pence an exchange rate of 1.23 gets us to a US Dollar price of $24.58, this is versus a NYSE close of $24.43. Had the Pound remained steady around the 1.30 level, the impact would have been far less than the one seen in the chart above, only 10%, which would have been the same as in London. However, these short-term headwinds should turn to tailwinds as a weak British Pound, and Euro should help to boost earnings of these companies as the cost for their good become less expensive to international buyers. As a result over the next few quarters, the growth of these three companies should benefit, and we should see an acceleration in growth.

Turning now to the winners, we start with NFLX, which showed an adamant performance for the quarter. The performance, driven by its third quarter results surprised Wall Street. Netflix is a highly well-positioned company on the forefront of a major paradigm shift which is just in its infancy. A new generation will drive this change; I have given this generation the moniker the "On-Demand Generation." The On-Demand Generation is the generation following the Millennial's, the Children born around or after 2010. These Children, my Children, are growing up in a world of constant media content. These Children have the ability to watch what they want, when they want, and where they want. They are growing up in the era of the YouTube Star, gone are the days of watching only media content from professional media companies. Today, anyone can be a Star, and a new Star is coming online every day it would seem. Netflix to me seems like the most logical and well-positioned of these companies to benefit. Not to mention it is one of the only businesses that has figured out how to make money. ALKS move higher was driven by the positive result of ALKS '5461 in its FORWARD 5 study. If you remember it was January of 2016 that saw '5461 fail in both FORWARD 3 & 4, which caused the stocks massive decline. However, in FORWARD 5 '5461 showed a positive effect, as the company was able to successful deal with the placebo effect. The company is currently working with the FDA on a process to file for '5461 as a New Drug Applicant. Depending on and if this filing occurs, it is possible '5461 could be approved for an adjunctive treatment in Depression towards the end of 2017. Finally, DIS shares can back to life as investors began to feel better about subscriber losses at ESPN as well as the launch of Rogue One: A Star Wars Story. DIS is another perfect example of a company that fits into the On-Demand Generation Theme, as it is my belief that DIS will eventually launch its own streaming subscription service.

MCM Top 3 Winners & Loser for FY'16

Netflix (NFLX) +27.30%	Alkermes (ALKS) -29.98%
NXP Semiconductors (NXPI) +16.33%	Vodafone (VOD) -24.27%
Altria (MO) +16.17%	Acadia Pharmaceuticals (ACAD) -19.10%

Here is where the bittersweet part comes in, that I mentioned at the top of the letter. I will not review NFLX, as we just discussed this. NXPI came on strong at the end of the year, because as I mentioned during the third quarter letter, there were talks of Qualcomm (QCOM) looking to acquire NXPI. During the fourth quarter, QCOM officially announced their intention to purchase NXPI for $110 per share. The shares are currently trading at a discount to the offer price, due to the length of time investors are expecting for the deal to close and due to potential regulatory risk. My belief is the deal will get completed, and we should be able to get out near $110 price, shares were trading at $98.01 on December 30th. MO had a fantastic year, as it sold its SABMiller unit, while the market rewarded the higher dividend yielding stocks in a low-interest rate environment.

ALKS, despite the stock's fourth-quarter performance as mentioned above, the stock overall performed poorly in 2016, due to an overall change in sentiment in the biotech sector space over drug pricing concerns. Many investors have grown fearful of the government getting involved in drug pricing limits or regulating prices. However, I think the answer to the solution will come in the form of increased competition likely spurred by faster FDA approval of generics and competing drugs. Meanwhile, for ALKS it continues to show strong revenue growth in its opioid addiction treatment, Vivitrol. I have very high hopes for Vivitrol, as there are only two other medications on the market to treat Opioid Addiction, Methadone, and Suboxone. Vivitrol offers some key benefits, the most obvious is that it is a monthly injectable. Methadone and Suboxone are medications that need to be taken daily. Vivitrol has a minuscule market share, and I expect for that share only to grow as rehab center become more educated on the benefits of Vivitrol. My estimates and calculations show the company to have only about 1-2% market share currently. VOD, I will not discuss again, as we covered the topic earlier. ACAD sums up my 2016 bitter sweetness. The company hit on everything I expected them to do. Nuplazid became the first and only drug for the treatment of Parkinson Disease Psychosis (PDP). Nuplazid was approved at the end of April and launched at the end of May. Sales for the first full quarter were stronger than Investors had expected. The stock just continued to languish as it got mixed up in the weight of a struggling biotech sector. The company announced just a couple of weeks ago positive results in Phase II trial for Alzheimer’s Disease Psychosis; I expect them to proceed and launch a Phase III study likely in late 2017. The company also has started trials in Depression, Schizophrenia, and Alzheimer's Agitation. The future for ACAD looks bright, 2016 was just not the company's year.

Also, during the quarter we sold our position in Hain Celestial (HAIN). The findings of the audit committee showed the company did not commit fraud; however, the results had not been released at the time I decided it was best to sell. The longer it took for the results of the audit committee to be released the more uncomfortable I grew with the position. The biggest fear that began to arise for me was around restatements of past quarterly results. For me, I just no longer felt it was worth the risk of holding the position anymore. I did not replace HAIN yet in the portfolio. Therefore we are carrying more cash in the portfolio than usual.

2017 is here, and investors have high hopes for it. My fear is that the new Trump Administration is unable to deliver on all of its promises or that things take longer to develop than investors would like. For that reason, I am feeling very cautious going into this New Year, which is why I have delayed finding a replacement for HAIN. I am fairly confident the market will give us an opportunity to get into the right position, as oppose to forcing a new position at the wrong time.

Finally, I wanted to let you know that Mott Capital Management, LLC continues to grow in many shapes and forms. During the year I began not only to focus on raising assets and managing money in the Thematic Growth Portfolio but began to publish research products. I announced last quarter I was publishing on Seeking Alpha and launched a Premium Membership area. This past fourth quarter, I formed a relationship with Investopedia, and I am now publishing research and other materials on their site as well. Additionally, the research publishing business not only helps me to continue to build a solid revenue base but also extends the MCM brand and reach. Additionally, these research products help me focus on other areas of the markets; this opens me up to new ideas and furthers my knowledge base, which in turn should benefit you. Asset Management and Research falls into my vision of how I plan to grow Mott Capital further.

I want to thank you for helping me complete our second full calendar year of investing. It means a great deal to me that you have given me your trust to handle and invest a portion of your assets. I have put a lot at stake in starting Mott, and nothing means more to me than those that have been there with me from the outset. Words cannot describe how lucky I feel to be pursuing my dream of running my firm. The future today for the business and myself seem brighter than at any time before.

To a Happy, Healthy, and Prosperous 2017!

Regards,

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Year End	Total Assets Firm	Total Assets Composite	Number of Accounts	Composite Performance Net	S&P 500 Total Return	Annualized 3-Year Standard Deviation** Composite	Annualized 3-Year Standard Deviation** Benchmark	Internal Composite Dispersion
2016	1,717	1,377	17	-2.10%	11.96%	-	-	0.90%
2015	1,681	1,325	17	1.52%	1.38%	-	-	0.60%
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.

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