



September 30, 2016

## **March 2016 Annual Update on the Surefin India Value Fund**

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Dear Investor,

Please find below the performance of the fund. This is the performance of the master series. Each of you will receive your individual performances separately. Please find the performance update also on the website at

[http://surefin.com/newsite/?page\\_id=178](http://surefin.com/newsite/?page_id=178).

### **Returns Table and Other Important Data**

Surefin Investments is down (5.6%) in the last quarter, registering a 6.9% returns for the year (since April 1st, 2015) and is up 2307.5% since inception in May 2001 after fees and other expenses<sup>1</sup>.

This fund has grossed a CAGR of 23.8% over the last 15 years after fees and other expenses.

Total assets managed by Surefin Investments in public equity investments<sup>2</sup> as of March 31<sup>st</sup>, 2016 are Rs. 82.0 Crores.

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<sup>1</sup> Fees are calculated differently for different clients, depending on when they entered the fund. However, now fees are charged at 0% management fees and 25% carry, over a 5% hurdle rate, with high water marks.

<sup>2</sup> As per Indian Portfolio Management Scheme (PMS) regulations. Includes capital outside the Surefin India Value Fund. Surefin has also made a private investment into a real estate company on behalf of some clients. Including the real estate investment at book value the AUM currently stands at approximately Rs. 137.0 Crores.

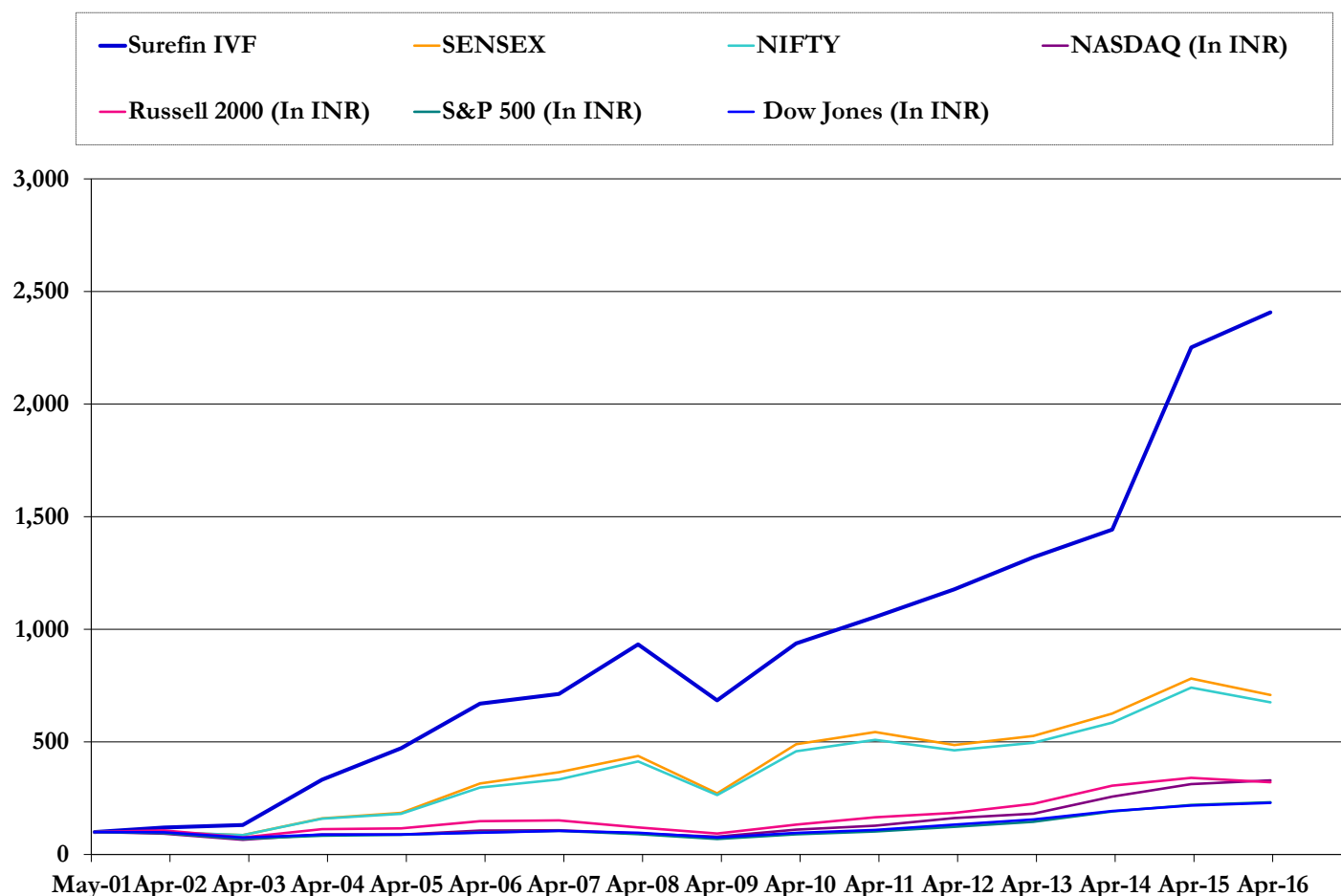
### Percentage Return

Date	Surefin IVF	SENSEX	NIFTY	NASDAQ (In INR)	Russell 2000 (In INR)	S&P 500 (In INR)	Dow Jones (In INR)
May 15, 2001	-	-	-	-	-	-	-
April-02	20.0%	(2.1%)	(0.6%)	(7.2%)	7.1%	(4.6%)	(1.0%)
April-03	9.0%	(12.0%)	(13.6%)	(29.6%)	(29.0%)	(27.2%)	(24.3%)
April-04	154.0%	86.3%	84.9%	36.7%	47.6%	20.6%	17.5%
April-05	42.0%	15.1%	13.6%	(0.7%)	3.6%	4.5%	1.1%
April-06	42.0%	70.8%	64.6%	20.1%	27.5%	12.5%	8.8%
April-07	6.4%	15.9%	12.3%	1.0%	2.1%	7.0%	8.5%
April-08	30.9%	19.7%	23.9%	(13.2%)	(20.7%)	(14.1%)	(8.4%)
April-09	(26.7%)	(37.9%)	(36.2%)	(15.1%)	(22.2%)	(23.6%)	(21.4%)
April-10	36.9%	80.5%	73.8%	39.1%	42.3%	29.9%	26.5%
April-11	12.6%	10.9%	11.1%	16.4%	24.7%	13.7%	13.8%
April-12	11.6%	(10.5%)	(9.2%)	26.1%	11.7%	20.6%	21.7%
April-13	12.1%	8.2%	7.3%	12.2%	21.7%	18.3%	17.2%
April-14	9.3%	18.8%	18.0%	41.6%	35.8%	31.5%	24.4%
April-15	56.1%	24.9%	26.7%	21.7%	11.3%	15.1%	12.6%
April-16	6.9%	(9.4%)	(8.9%)	5.2%	(5.8%)	5.5%	5.4%
<b>Percent Change</b>	<b>2,307.5</b>	<b>608.5</b>	<b>575.7</b>	<b>229.1</b>	<b>220.7</b>	<b>132.3</b>	<b>129.2</b>

### Comparable Returns

#### Performance Evaluation of Surefin India Value Fund

Month-End	Surefin IVF	SENSEX	NIFTY	NASDAQ (In INR)	Russell 2000 (In INR)	S&P 500 (In INR)	Dow Jones (In INR)
May-01	100.0	100.0	100.0	100.0	100.0	100.0	100.0
April-02	120.0	97.9	99.4	92.8	107.1	95.4	99.0
April-03	130.8	86.1	85.9	65.3	76.1	69.4	75.0
April-04	332.2	160.5	158.9	89.3	112.3	83.7	88.1
April-05	471.8	184.7	180.5	88.6	116.3	87.4	89.1
April-06	669.9	315.4	297.1	106.5	148.3	98.3	97.0
April-07	713.0	365.5	333.7	107.5	151.4	105.3	105.2
April-08	933.4	437.4	413.4	93.3	120.0	90.4	96.3
April-09	684.6	271.4	263.8	79.2	93.4	69.0	75.7
April-10	937.0	490.0	458.3	110.2	132.9	89.7	95.7
April-11	1,054.8	543.6	509.4	128.2	165.7	102.1	109.0
April-12	1,177.5	486.6	462.4	161.8	185.1	123.0	132.6
April-13	1,320.1	526.6	496.2	181.6	225.2	145.6	155.4
April-14	1,442.8	625.8	585.4	257.1	305.9	191.3	193.3
April-15	2,251.8	781.6	741.4	312.7	340.5	220.3	217.6
April-16	2,407.5	708.5	675.7	329.1	320.7	232.3	229.2
<b>CAGR</b>	<b>23.8%</b>	<b>14.1%</b>	<b>13.7%</b>	<b>8.3%</b>	<b>8.1%</b>	<b>5.8%</b>	<b>5.7%</b>



## Performance Evaluation and Mistakes

The fund is up 6.9% compared with the best of the main indices, which is down (8.9%) for the year. In comparison, the BSE mid-cap index in India is up 0.3% and small-cap index in India is down (3.2%) during the same period. These indices represent smaller companies. I think we did just about okay for the year. Some of our stocks unlocked after the year ended and the June quarter returns are materially higher. We have converted all the international indices to INR for a more relevant comparison. A comparison with USD prices is given in the appendix.

Clients who started with us in 2014 or added capital subsequently have had their portfolio lying substantially un-invested. There is nothing more frustrating for me than to see this year on year. We make no money for the client or for ourselves in such a situation. We really ought to return the money to investors if we cannot find anything intelligent to do with it. Our incentives do not encourage hoarding capital unnecessarily. However in the past we have found that whenever we have had the capital, we have been able to put it to work suddenly. Typically the opportunities come all of a sudden and it is not possible to call for the capital then. Therefore having the capital with us usually has an option value that does pay off every now and then. We appreciate the patience that clients have exhibited and want to assure you that there is no one more bothered by this than us. We also want to repeat something we wrote on this topic last year:

*“We remained un-invested for newer clients in the fund as prices were not where we wanted them exactly. Some of the prices of existing holdings have gone up further in price and these clients have been left out. This may seem like a mistake but we do not think so. Buying at the right price is one of the most important things in this business and we will stick to our knitting in that matter. Over time the returns for all investors will converge.”*

## Portfolio Transactions

We sold four positions during the year. The details of the positions sold are given below:

Industry / Product	Bought	Sold	Average Months Held	Absolute Return (Including Dividends)
Textile Related	March, 2008 to March, 2011	July, 2015 to Aug, 2015	76	181%
Real-estate Linked	Oct, 2009 to Dec, 2013	Oct, 2015 to Dec, 2015	57	680%
Real-estate Linked	Oct, 2009 to Dec, 2013	Dec, 2015 to Jan, 2016	57	654%
Real-estate Linked	Jul, 2014 to Aug, 2014	Oct, 2015 to Nov, 2015	17	1007%

As promised in our last annual letter, the following is the explanation for the mistake we made in one of the investments. This is the investment that we sold with a return of 1007% in less than two years (yes you read that right - that is a 10X) but unfortunately we bought too little. Here is what we wrote last year:

*“In one case we wanted to build a substantial position but the stock went up substantially before we could do that (the story of our lives!). This was probably a mistake and it looks like it has cost us a lot of money. We wanted to buy 10% of the company and started buying. The price moved up a little (a few Rupees) and we stopped. The stock ran up hugely while we waited. Expect a rant on this one in the next year’s annual letter! Such mistakes are the ones that we need to rub our noses in. I am reluctant to talk more about this in this letter as we were still holding the position at the end of the year.”*

The company had a market capitalization of only \$10 MM. As we dug deeper, we realized this was a remarkable investment opportunity. We started buying and internally made up our mind to buy as much as we could get (even 10% of the company if it were available). The price went up by 10% and we stopped buying. It came down to our buying price and we resumed. It went up again and we stopped again. We were just beginning to enjoy the cat and mouse game when it suddenly ran away from us. Here is the punch line – it went up more than ten times in the next ten months! We don’t feel bad that we missed the return because small-caps can give returns like this. But we understood this industry well, we had done our work and we were ready to buy. The company was in the real estate industry. It was in a business we understood very well. Real estate had been plagued by unpredictable and long-term back-ended cash flows and hence there was a perception that the markets would never value the business appropriately. Our understanding of the company was that it

was in a sliver of the market where the cash flows were going to be much better than perceived and there was an opportunity for this company to carve out a sizeable position for itself in that niche of the industry. If I had given a blanket buy instruction and left for the Maldives, and let the brokers execute, we would have been much better off. Maybe \$5 MM better off on almost no capital invested! I think in this case, we could have built a sizeable position quietly had I not nicked and dimed on the price.

These mistakes are very costly, especially in years where the overall market is down. It was our chance to outperform substantially and we blew it.

The other company we sold was in an industry related to textiles that we held for over seven years. It was a good quality cigar-butt (let's just say it was lying discarded on the floor but was not soggy) with decent management. Here is what we wrote about this position in our March 2008 Annual Letter:

*"In one of the companies where we were building a position the numbers during the fall became even more compelling. Here is what the balance sheet looks like now:*

*Liquid assets (Cash + Marketable securities) = \$22.5 MM (down from \$25 MM before the fall this quarter)*

*Interest Free Debt = \$3 MM*

*Free cash flow 2007 (minus income from investments) = over \$5 MM*

*Five-year average FCF = \$4.5 MM each year*

*The market capitalization of the company is now \$25 MM. It has fallen almost 30% from \$35 MM since we started buying it recently. The company is a well-managed one in a mediocre industry, which has been historically plagued by labor troubles and regulatory uncertainties with many fragmented players. What is most compelling is that the industry has about 40 companies in the organized sector that are all at full production capacity. The market however is yet to see the potential. This is a classic case of an industry remaining overlooked by institutional investors even though there is a good margin of safety at current stock prices. The company deals in two products, both of which produce very high margins with a decently strong moat. For one of the products they are the largest suppliers in the world. The sub-prime mess will have no effect on the value of this company. The business is selling at a very deep discount to what it would sell at to a private owner. We bought the stock at a price which was the lowest in the last three years, a period in which the business and its future prospects have only improved year-on-year.*

We sold this position because the stock ran up and we thought we could use the capital better elsewhere. The management is very conservative and will continue to preserve cash and compound steadily over time. We admire them for staying true to their natural inclination and building a good quality balance sheet year after year.

The other positions that we sold are something that we had bought some time ago. The two companies where we made over 600% returns were related and one was spun out of the other. We have sold one of the companies entirely and kept most of the other. We will write more about this in future letters.

We bought one new position and added to another in the fund this year. Both were bought in small quantities on purpose.

One of the two companies that we bought is a fast growing Non Banking Finance Company that was super focused on its core business of gold finance. It was in a little bit of trouble and the stock had tanked before we bought it. We sized the position small as the management was not stellar and like with any other finance company, there was some leverage on the books (although much less than that of normal finance companies). The underlying business was not likely to grow fast and the management was paying out a lot of the earnings as dividend and buying back its own stock. We credit a friend for introducing us to this position.

But while we had valued the company for its core competence, which was gold finance, the market started valuing it for verticals that the business had never operated in previously and it was clear that the business would grow into operating in other verticals that the management had not been in before. The leverage began to increase and the interest in the stock rose sharply. It went up substantially after that and we have already exited the position on the day of this letter being put out.

This is a situation where we know that if certain things were to fall in place, the company could be substantially bigger in the next few years. However, the reverse is also true and we would not be able to psychologically stomach a substantial fall in business (and/or market) value if the risks were not to pay off. The management just did not inspire enough confidence and we sold.

The second position is in the real estate industry and was quite levered. The company was priced as if there was a 50% chance of bankruptcy. We really wanted to participate in the space and found this to be a reasonable way to do it. The stock has fallen substantially since our first purchase and we added to the position at a lower price. We did not want to size it because the management was mediocre, the capital structure was not ideal and this was clearly not a high growth situation in the medium-term. You may be wondering why we bought this in the first place. Sometimes we do too.

One thing we do not want to do is relax our buying criteria when easy opportunities dry up in India. Management competence (and ethics is a subset of that) is one of them. We want managements that have long operating histories across competitive business cycles. Most companies today are lacking on this front and that is why we are sizing these positions small. The true test of management competence is to see how well the management has fared in the past, especially through business cycles. In that context, it is instructive to see how nascent most of the listed businesses in India are. For example, if you screen out businesses that were say larger than \$100 million in sales and market capitalization only ten years ago, most of the companies today would get filtered out.

## **Portfolio Allocation**

As on 31 March 2016 we were holding 14 positions that made up about 61% of the fund. The balance was held in cash, money market mutual funds and other current assets. Here is a break-up of the industries we were holding companies in:

<b>Allocation (March 2016)</b>	<b># of Cos.</b>	<b>% Allocation</b>
Holding Company (Many Industries)	2	26%
Real Estate Linked	4	24%
Special Situation	1	7%
Financials	3	2%
Other	2	1%
Media	1	1%
Agriculture Linked	1	<0.5%
Cash, Money Market (including Margin Money)		39%
<b>Total</b>	<b>14</b>	<b>100%</b>

Our top five and top eight positions make up 90% and 96% of the non-cash portion of the fund; and 55% and 58% of the total fund, respectively.

The company that is our largest position has done well. All three of its verticals have been growing, albeit at different rates but overall all have either met or exceeded expectations. I might add that one of the verticals has a chance of becoming a very large business in the near future. Also it seems like all the three verticals will start growing faster than before on a larger base than before, which is exciting. The management has become more vocal about the underlying business and is also committed to making the business structure and financial reporting more transparent going forward.

We will refrain from saying anything more on this company right now. But what is important for investors at this time are a few questions that we ask ourselves when holding a position, especially in size.

Are we looking to sell our stake down? If not, are we willing to buy for new investors? Are we holding something at a price that is too high and outside our circle of competence? If this position were to fall 20% from its current price would we be buyers?

After some thought, I think it is fair to say that we are in uncharted territory with this position, in terms of its valuation (having gone up by quite a bit since we bought it first) and its sizing in certain portfolios. It is a business undergoing a transformation and what happens often in good companies is that as time goes by, both the business and the valuation are very different from when one invested.

Experts are often quoted saying that investors should sell when something reaches intrinsic value (or when something better comes along, or if you have made a mistake). But many times I don't think that is the case. There is really no "Graham-like" science on selling that I have come across. I think many people sell based on the appreciation of the price from their buying price, or for some pre-ordained rule on position sizing etc. Their justification is that the rules prevent us from getting caught up in bull markets, or falling in love with the stock, or taking risks that one can not assess in the middle of a heady upward ride in price.

Typically we used to sell early and felt “left out” of the subsequent run up in prices. But I would console myself and believe that those returns were not mine to be had – “that they were someone else’s money”. Recently, we decided to finally not to sell and (as Peter Lynch used to say) “cut the flowers and water the weeds”. Few of the main reasons for this change are:

- a) we have enough money and credibility in the bank to know that we will not go bankrupt if the returns are terrible from the peak for a few years;
- b) we have learnt to study the underlying businesses better;
- c) we have become better at assessing what someone else is willing to pay for an asset we are holding (typically a thinking that develops and corrodes in a bull market);
- d) we have nothing substantially better to do with the cash and also know that we could always approach our investors for more cash;
- e) we have realized that good companies, especially within industries that have almost unlimited scope for growth (without chances of disruption) are very rare and buying them cheap and holding them is easier than buying them at full valuations. But most importantly, once in while, it is a big mistake to sell them early.

The last point is the most important learning that I am going through right now. One of the biggest deterrents to this is the structure under which one manages money. An open-ended fund structure where there is an underlying fear that investors can pull out the money any time, and that most investors will not have a ten-year holding horizon, compels one to “trim” the largest position and prevent potential style-drift.

The structure of the money and the expectations of the investor under which someone manages is also important. Is it short-term money (under 3 years) or long-term money (over 7 years)? Does one trust his or her investors to stick with him if the NAV falls in the fund? Asked another way, if one were managing one’s own money with no answerability to any one else, how would one’s actions be different? Ideally there should be no difference.

In this case, we can say that we would not sell. Given that we have enough cash at hand, and investors that have reposed their faith in us (in some cases for over ten years or more), and also given that the business has a long runway ahead and is run by a person we like a lot, we will hold on.

This never happens when one is running a private company in one or more industries or in a portfolio of high quality (yield earning) real estate assets. You do not get in and get out once every two years as long as the sustainable ROEs are decent (say north of 15% to 18% at current interest rates). You just sit on your ass and fight through the tough times and grow during the good times.



The negative of other structures, including a company structure, over our existing fund structure are taxes. Realized long-term capital gains tax on securities is zero for individuals and partnerships (for the most part). In a company they will be 20% or 33% (plus surcharges). That is a huge drag. So the trade-off is taxes versus long-term returns.

“Style-drift” is a real concern, especially in a bull market. We are trying to be as conscious about it as possible. Writing about it here also helps us in thinking it through. There really is no way to tell if one’s head is full of dopamine at a particular time. We have discussed this position with trusted friends. We have also read about other investors’ experiences with concentrating within their portfolios with a special focus on situations that did not work out as well. They usually employed leverage and were also committed publically to the position. As long as we are not betting the farm, and our investors are not in a quarterly race against an index, we think we should be okay here.

We did trim this position after the year was over, and there really was no scientific reason for this. We just did it purely for psychological reasons. If this thing falls, we feel less bad. Any other reason would be a lie. The only good thing is that it made us look at the company deeply and value it again with whatever information we could get. Please look for more colour on this position in future writings.

Our investments in the NBFC space in India have yielded decent results so far. India’s bank assets are going to grow substantially over the next five years. Many small and mid-sized finance companies, which bring regional or product specialization, are lining up to take advantage. This was probably the best way to play India’s NPA problem. This is going to be a very interesting space to watch.

Additionally, we wrote the following last year:

*“In fact some of our new positions are similar to the opportunities we had described in last year’s letter. We have bought into situations where the companies and the industries are ignored by almost everyone – the investor community, the research houses, the banks and most other funds. In some cases cash flows are constrained and in some others the underlying business is not as great as it used to be. However, we think that prices are so compelling that we will still get a satisfactory return on our positions. In a few cases the businesses may even have some pleasant surprises over the next few years.”*

*“... we have old media companies trading at multi-year lows, and high end real estate stocks are reeling under subdued cash-flows and trading at discounts to book (which under Indian accounting are undervalued themselves). It is in such tempting grounds that we’d rather fish whilst the spotlight is elsewhere.”*

Our investments in contrarian opportunities like old media companies (small allocation at cost), a few PSU banks (even smaller allocation at cost), investment holding companies etc. have not done well. The returns on average have been between terrible and poor.

In one case, we are sitting on a substantial loss on our buying price. But fortunately, we had sized the position well under 1% of the portfolio at cost a few years ago. We think it will take at least three years before we see any clarity on the strength in the business model to play out.

Another position that has not worked out well is something where we had a long-short position that we have held for almost five years. The discount narrowed a little but I sat there, stupidly I might add, and watched it go back up. In any case the annual return on capital invested has been just north of bond yields (and a little better in entities that could take advantage of the tax losses) and looks like we will end with a very mediocre result.

After the year ended, we sold a few positions that have done well at the end of the year and early parts of the first quarter. We recently bought one position soon after the year ended, which we could size moderately even as the price started going up. We are ready for many more like it.

My attempt to get fully invested has failed over the last few years. Here is what I wrote in last year's annual letter:

*"As promised earlier, we plan to get more and more invested in the fund and that will improve returns over the long-run (though will make them lumpy as well)."*

Though we have tried to find new things to buy, we have also had to sell at a much faster rate than we had anticipated. As a result we are in a situation where cash is up again and we are left scratching our heads. I feel particularly bad with the portfolios of the newer investors with us who have been patient and are still seeing abnormally high cash levels in their portfolio (some as high as 80%).

We have made an investment into an affordable housing company outside the fund for some investors. This is a long-term investment, which will have low liquidity, but the returns should be good.

### **Portfolio Concentration – Important**

Holding on to one's winners where the company has grown substantially is important. And if one has a success then the company will become very large in your portfolio and then you have a problem. Now if you owned a private business, and it has success, you would not think of selling the business down, only for that reason. So why do it in managing one's portfolio? Control is one reason. If something goes wrong in a business, one can fire management, sell assets or change direction. In public markets, that is not possible. But the benefits far outweigh the costs. For starters, there is a chance that the company that has grown a lot is probably much better than the private business in your portfolio.

Second, it is easier to get in and get out of companies when the fundamental economics change. Now, you may realize it too late, and the market may be ahead of you. But there is a higher chance of it happening in a private business where you never realize it because of various biases. The most obvious one is commitment bias where the board prides itself on being the "best at making steel" or something like that. The inherent flexibility of the public markets is a huge plus over time.

Ideally you want to have good private businesses along with a solid investment operation to balance things out.

We are repeating something we have mentioned in our previous annual letters to you because it is going to be important for us going ahead:

Mr. Buffett in his 1965 year letter has an excellent section labeled Diversification. He wrote *“We are obviously following a policy regarding diversification which differs markedly from that of practically all public investment operations. ... We have to work extremely hard to find just a very few attractive investment situations. ... We probably have had only five or six situations in the nine-year history of the Partnership where we have exceeded 25% [in a single investment]. ... We presently have two situations in the over 25% category – one a controlled company, and the other a large company where we will never take an active part. It is worth pointing out that our performance in 1965 was overwhelmingly the product of five investments. ... If you should take the overall performance of our five smallest general investments in 1965, the results are lackluster (I chose a very charitable adjective).”*

Mr. Buffett said that he had invested more than 25% of the fund in a single investment only five or six times in the last nine years! How many fund managers can say that for themselves today?

We are happy that we concentrated on our best ideas. Our returns would have been materially less had we not concentrated.

### **India Long-term Business Environment**

The opportunity to make money for entrepreneurs in India is substantial. Even though we are wary of indulging in a conversation based on statistics (GDP calculations is one classic example in most countries including India) and macroeconomics (relative valuations of currencies is an example), it is sometimes instructive to look at the larger picture. Especially when living in and investing in India, where people tend to get over cynical (or over optimistic) from time to time.

If we assume that the US economy grows every year at 3.8% for the next ten years (which may be optimistic), the incremental \$ GDP created is about \$8 trillion. If India grows at 10% in nominal terms, and the INR depreciates by 3% every year, then for the next ten years the incremental GDP is about \$2.7 trillion. So for every \$3 of opportunity in the US, there is \$1 to be grabbed by an entrepreneur in India. The incremental opportunity in India is about 33% of the US. Not bad, especially given that the competition in India in many new industries is probably much less than in the US.

Simple mathematics suggests that the total GDP of the US would grow from \$18.0 trillion to \$26.2 trillion and India would grow from \$2.3 trillion today to \$5.0 trillion by 2026.

And magically, if the US grows only at 3% and India grows at 12% and the currency only depreciates 3%, the incremental opportunity in India is almost 60% of the US opportunity! (I do sound much like Nostradamus, who also, I might add, had no accountability about his predictions).

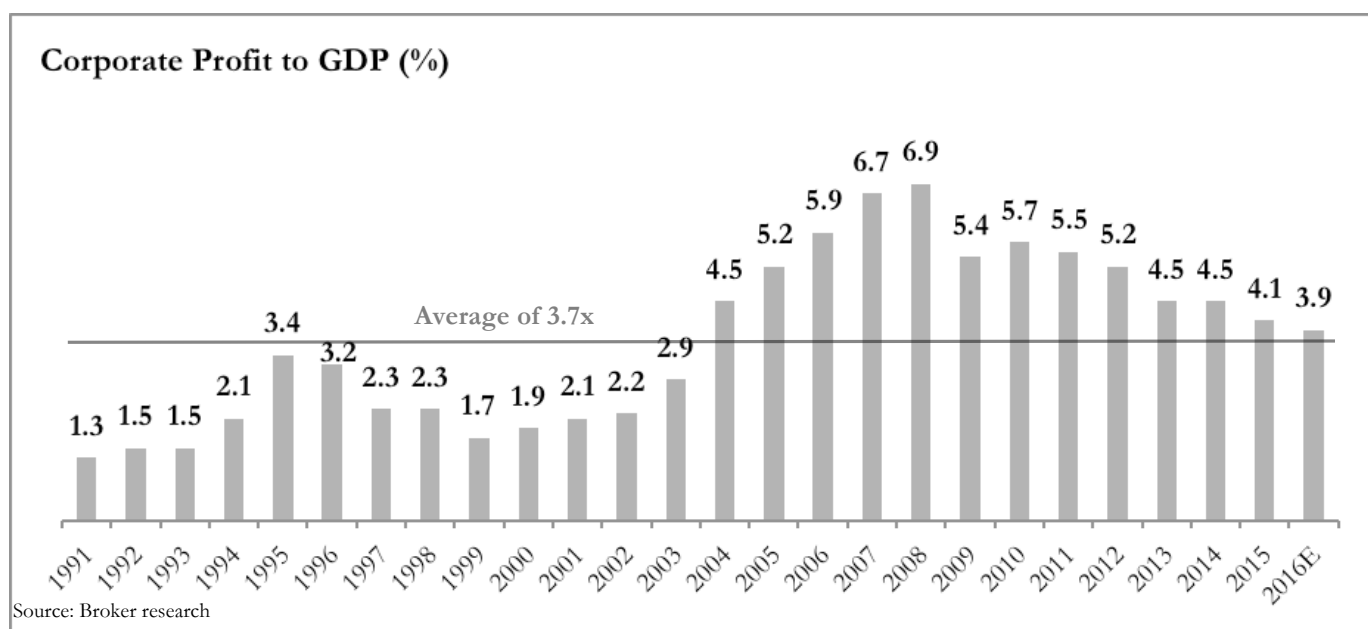
For an entrepreneur who wants to build something, I cannot think of a better place to start something outside the US than India. There may be broken roads, too many regulations and people everywhere, but eventually work will get done and returns will be made. Our job is to buy equities in companies run by those entrepreneurs but only if available at reasonable prices. Here is something we said last year:

*“It is very important in investing to not focus on where the puck is currently but to focus on where it is going to be. Capitalism exerts a ruthless force on all companies and industries, often destroying any chance any one company or industry may have of making above average returns on equity over long periods of time. Therefore it is imperative to buy at an attractive price no matter how rosy the prospects.”*

Another important thing to remember about India is that the capital markets will see large inflow towards equities over the coming decade. We want to repeat something we wrote on this last year:

*“India remains severely under-invested in equities. The historic trauma of deep volatility and unchecked speculation has left many people born in the 1960s and who were old enough to take care of their finances in the 1990s, permanently biased against equities. What made the bias worse was how well their real-estate investments did during the last decade. But there is a current movement by the government to “squeeze” investors into equities. Long-term bond yields post-tax are under inflation or close to zero. Real estate industry had bubble prices that are finally deflating now. The multi-year metal commodities boom seems to be bursting. Savers in India will be (rightly) forced to invest into long-term equities. The tax treatment of long-term equity investors with 0% capital gains taxes for listed equities and equity Mutual Funds is superb in India. It seems obvious that the only way for investors to make over 10% post-tax return in large quantities is to be invested in equities in India over the next many years.*

Many people today fear that the markets are over-valued and given that we are sitting on a lot of cash may indicate that we are in that camp too. However, it is interesting to note that many companies have profits at all time lows and capacity utilizations in some industries are also low. The Corporate PAT / GDP indicator is going to be at a multi-year low:



The last ten years have led to weak managements exiting industries and many of the remaining players to tighten their belts. Some of the remaining companies are lean and mean.

Therefore, if underlying businesses grow as some of the incumbents in the private sector garner their fair share of the trillions of dollars of new GDP that will be created in India, the valuations for those companies may not look too high. Our job is to find those hidden gems early without having to pay up too much for them.

## **Time Management, Expectation and Miscellaneous**

Many investors meet managements regularly to get information that is not really public (especially with small companies) but may not strictly be insider news either. We have never found that interesting or useful. However, I find that quarterly reporting in India has been diluted heavily over the last few years especially as business structures have become more complex. We may have to start meeting managements to find out how the business is panning out and have access to the same information that other investors have. Also, I think it may lead to our understanding a few companies better if we meet the managements without an agenda to buy the stock. This is something we will be forced to do. Otherwise we will get outcompeted.

Allocating one's time in investing is something that is a very interesting problem. The effort and time it takes to make one's largest investment is almost the same as the time spent on, say, the fifth largest investment. Further, sometimes a small position whose underlying business develops a problem, ends up taking a huge amount of time and mind-space; much more than what was warranted given the size of the position. Therefore, it is important to say "No" right at the beginning of certain type of investment situations no matter how desperate one is to find a new investment at that time.

We feel blessed to be able to manage money for the investors that we have. They are all opportunistic, business-minded and patient and they value us for who we are. This allows us to focus on what is important in getting returns and not waste any time in managing them and their expectations. We want to stick to our knitting, compound capital for investors while avoiding any loss of capital. Our incentive structure, which rewards only returns and not reserves, keeps us focused on the right things. We could not be happier.

Here is something we said last year:

*"With our incentives and value system completely aligned, investors can be rest assured that we will invest your money like we invest our own. We will invest in things we understand completely, steer clear of trying to predict where the market or a particular stock is headed and instead focus on picking stocks by valuing individual companies and looking for bargains/deep discounts. Our returns may therefore be lumpy at times and perhaps even fare badly in the short run but over a time frame of five years or so we believe this is the only strategy that works for us and therefore for you as investors."*

I would like to repeat something specifically for our new set of investors. The returns for them are far lower than for the others for the last few years (and will be so for this year as well where the older investors will see a spike in returns for the June and September quarters). We do think the returns will converge to the mean and become the same for all investors over time. If we ever feel otherwise, we will be the first to return the capital.

We deeply appreciate your faith in us. If you have any questions or thoughts please feel free to get in touch with us.

Warm regards,

A handwritten signature in black ink, appearing to read 'Amitabh Singh'.

Amitabh Singhi.

Portfolio Manager  
Surefin Investments  
[www.surefin.com](http://www.surefin.com)

## Appendix

### Performance Evaluation of Surefin India Value Fund

Index Value											
Date	Surefin IVF	SENSEX	NIFTY	NASDAQ	NASDAQ (In INR)	Russell 2000	Russell 2000 (In INR)	S&P 500	S&P 500 (In INR)	Dow Jones	Dow Jones (In INR)
May 15, 2001	1,000.0	3,577.0	1,145.3	2,085.6	97,813.7	489.6	22,963.6	1,249.4	58,598.7	10,873.0	509,942.3
April-02	1,200.0	3,500.2	1,139.0	1,862.6	90,784.1	504.5	24,589.3	1,146.5	55,882.4	10,362.7	505,078.0
April-03	1,308.0	3,081.0	984.3	1,348.3	63,882.5	368.7	17,468.5	858.5	40,674.8	8,069.9	382,350.0
April-04	3,322.3	5,740.9	1,819.7	2,015.0	87,300.3	595.3	25,792.2	1,132.2	49,051.3	10,373.3	449,424.5
April-05	4,717.7	6,605.0	2,067.7	1,984.8	86,702.5	611.6	26,714.3	1,172.9	51,236.7	10,404.3	454,491.0
April-06	6,699.1	11,280.0	3,402.6	2,339.8	104,132.8	765.1	34,052.7	1,294.9	57,628.4	11,109.3	494,422.5
April-07	7,129.9	13,072.1	3,821.6	2,421.6	105,142.0	800.7	34,765.0	1,420.9	61,690.5	12,354.4	536,397.5
April-08	9,334.4	15,644.4	4,734.5	2,279.1	91,281.6	688.0	27,554.3	1,322.7	52,976.3	12,262.9	491,148.4
April-09	6,845.5	9,708.5	3,021.0	1,528.6	77,514.6	422.8	21,437.6	797.9	40,459.9	7,608.9	385,847.6
April-10	9,370.1	17,527.8	5,249.1	2,398.0	107,810.4	678.6	30,511.1	1,169.4	52,576.6	10,856.6	488,105.4
April-11	10,548.0	19,445.2	5,833.8	2,781.1	125,440.4	843.6	38,048.4	1,325.8	59,801.7	12,319.7	555,682.7
April-12	11,774.9	17,404.2	5,295.6	3,091.6	158,242.0	830.3	42,498.9	1,408.5	72,092.5	13,212.0	676,258.3
April-13	13,200.8	18,835.8	5,682.6	3,267.5	177,606.0	951.5	51,721.0	1,569.2	85,293.3	14,578.5	792,416.5
April-14	14,428.5	22,386.3	6,704.2	4,199.0	251,447.3	1,173.0	70,244.9	1,872.3	112,121.0	16,457.7	985,530.8
April-15	22,518.3	27,957.5	8,491.0	4,900.9	305,909.5	1,252.8	78,197.0	2,067.9	129,076.2	17,776.1	1,109,573.0
April-16	24,074.8	25,341.9	7,738.4	4,869.9	321,891.7	1,114.0	73,636.2	2,059.7	136,146.5	17,685.1	1,168,965.0
Percent Change	2,307.5	608.5	575.7	133.5	229.1	127.5	220.7	64.9	132.3	62.7	129.2
CAGR	23.8%	14.1%	13.7%	5.9%	8.3%	5.7%	8.1%	3.4%	5.8%	3.3%	5.7%

### Note:

The returns till 2005 are calculated on an XIRR basis. XIRR is the internal rate of return of an investment that does not necessarily have periodic payments. This function is closely related to the net present value function (NPV). The IRR is the interest rate for a series of cash flows where the net present value is zero. FY is from 1st April to 31st March.

During the early part of the year 2009, SEBI had changed the way that PMS providers operated the accounts. SEBI mandated that each provider open separate Demat Accounts for every client and till a Demat Account had not been opened for every client, the PMS provider could not buy securities on behalf of any of the clients. Given the new laws in opening Demat Accounts and the tedious KYC norms by the NSDL and various custodians, it was impossible to meet the deadlines set by SEBI and our buying was in effect frozen for a good part of May 2009. Most stocks rallied soon after and it was painful to sit with cash (that we had hoarded so painstakingly for a period like 2009) and not be able to buy anything due to this back-end and regulatory glitch. We estimate that we lost a potential 40% return in addition to the existing return due to this. The substantially lower returns in FY 2010 have lowered our overall return substantially (from a 5-year perspective). We have spruced up our back-end operations and team since then to make sure that this does not repeat itself.