

SUREFIN INVESTMENTS

June 19, 2010

From: Amitabh Singhi

To: Investors in Surefin India Value Fund

Subject: March 2010 Annual Update

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://www.surefin.com/newsletter.htm>.

Surefin Investments (reported in INR) is up by 37.8% in the last 12 months and is up 843.5% since inception in May 2001 after fees and other expenses¹. This fund has grossed a CAGR of 28.7% since inception after fees and other expenses.

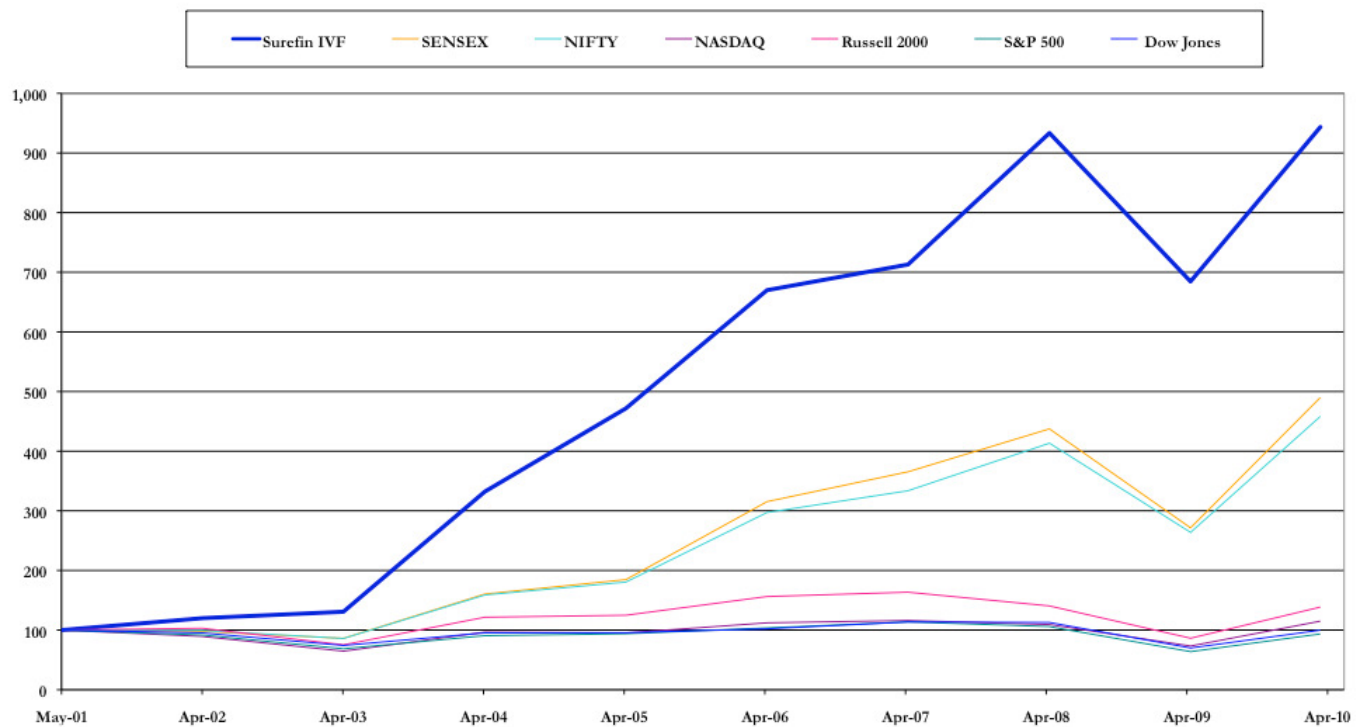
Performance Evaluation of Surefin India Value Fund

Date	Surefin IVF	SENSEX	NIFTY	NASDAQ	Russell 2000	S&P 500	Dow Jones
May 15, 2001	-	-	-	-	-	-	-
April-02	20.0%	(2.1%)	(0.6%)	(10.7%)	3.0%	(8.2%)	(4.7%)
April-03	9.0%	(12.0%)	(13.6%)	(27.6%)	(26.9%)	(25.1%)	(22.1%)
April-04	154.0%	86.3%	84.9%	49.4%	61.5%	31.9%	28.5%
April-05	42.0%	15.1%	13.6%	(1.5%)	2.7%	3.6%	0.3%
April-06	42.0%	70.8%	64.6%	17.9%	25.1%	10.4%	6.8%
April-07	6.4%	15.9%	12.3%	3.5%	4.6%	9.7%	11.2%
April-08	30.9%	19.7%	23.9%	(5.9%)	(14.1%)	(6.9%)	(0.7%)
April-09	(26.7%)	(37.9%)	(36.2%)	(32.9%)	(38.6%)	(39.7%)	(38.0%)
April-10	37.8%	80.5%	73.8%	56.9%	60.5%	46.6%	42.7%
Percent Change	843.5	390.0	358.3	15.0	38.6	(6.4)	(0.2)
CAGR	28.7%	19.6%	18.7%	1.6%	3.7%	-0.7%	0.0%

¹ 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.

Performance Evaluation of Surefin India Value Fund

Index Value							
Date	Surefin IVF	SENSEX	NIFTY	NASDAQ	Russell 2000	S&P 500	Dow Jones
May 15, 2001	1,000.0	3,577.0	1,145.3	2,085.6	489.6	1,249.4	10,873.0
April-02	1,200.0	3,500.2	1,139.0	1,862.6	504.5	1,146.5	10,362.7
April-03	1,308.0	3,081.0	984.3	1,348.3	368.7	858.5	8,069.9
April-04	3,322.3	5,740.9	1,819.7	2,015.0	595.3	1,132.2	10,373.3
April-05	4,717.7	6,605.0	2,067.7	1,984.8	611.6	1,172.9	10,404.3
April-06	6,699.1	11,280.0	3,402.6	2,339.8	765.1	1,294.9	11,109.3
April-07	7,129.9	13,072.1	3,821.6	2,421.6	800.7	1,420.9	12,354.4
April-08	9,334.4	15,644.4	4,734.5	2,279.1	688.0	1,322.7	12,262.9
April-09	6,845.5	9,708.5	3,021.0	1,528.6	422.8	797.9	7,608.9
April-10	9,435.1	17,527.8	5,249.1	2,398.0	678.6	1,169.4	10,856.6



Portfolio Evaluation and Mistakes

Last quarter we sold all of our position in a company called First Leasing Company Ltd., as soon as we realized that the investment was a mistake. In our previous letters we had mentioned First Leasing as being very

cheap. At that time it was trading at less than 50% of adjusted book value, had an over 3% return on assets and had over a 4% dividend yield and hence seemed attractive enough to buy.

What missed our eye was a peculiar transaction that the company undertook way back in 1998. It had issued partly-paid up shares to promoters in 1998 and only paid 20% of the value down. The Company then paid the final amount in 2004. In effect, they had a free call option on the shares of the company for 6 years! Although what the Company did was not illegal, it was ethically wrong because it diluted shareholders in an unfair manner.

The largest shareholders of the company have a sub-standard reputation. The management (who also owned substantial shares) of the company had a decent reputation but was very media shy. We tried reaching out to them but could not get access. We took that as almost a good thing –(how focused they were on the business!) But we were very worried about the owners and their indirect control and should have done more work. This dilution signaled very clearly the attitude of the management towards outside shareholders.

The main mistake that we made was that we bought too much of this stock in the portfolio. Except for a brief period in 2007, when the stock doubled (and we should have sold), the stock has not gone up in value. Since this stock had been “cheap” for almost five years, we continued buying it over time. We took it to almost 5% of the portfolio. We sold it as soon as we were convinced about this unfair equity dilution. We did not lose money on it (even excluding a decent yearly dividend) but it was a mistake to have not done enough work on it and to have bought so much of it.

On the same note I must acknowledge a powerful learning I’ve recently had: the importance of checklists and a systematic method of doing research. All credit goes to Mohnish Pabrai who, at his annual meeting last year in Los Angeles drove the point home rather well. It was quite a revelation.

Having checklists helps you organize your thoughts and research and running each potential investment through each point in the checklist, once you’ve made up your mind on it. It is essentially just a safety net but a very effective and objective one. It makes you document in great detail all the subtle learning you’ve had over your investing history and therefore makes the most out of all your (and others’) past mistakes of omissions, commissions, under-sizing, over-sizing etc. Having a checklist is even more imperative when one is making different types of investments, be it Graham-type, growth or falling knives.

My current checklists are works in progress. My objective is to bring my error rate close to zero as soon as possible and there is no better way to do so than by having various checklists.

Portfolio Transactions and Allocation

Our portfolio accounts were frozen in terms of buying for a large part of this quarter because we had to comply with a SEBI law change where we had to open individual depository accounts for our clients. We were not allowed to buy anything for any client starting May 10th, 2009 till the accounts opened. That took most of the first quarter when the prices were attractive. We lost an extremely important window to buy for which we had been prepared for many years. As a result our returns have lagged the indices terribly.

Although the NIFTY was up 80.5%, we could only return 37.8%. Although 37.8% is a fantastic return, we feel our returns would have been at least 25% higher had we been allowed to invest.

The cash levels in the fund vary due to new investors coming into the fund and also the prices of equities going up or down. Nevertheless our performance has come while holding a large part of the portfolio in cash. Our cash positions are generally high because of the following reasons:

- 1) we have a mindset to avoid a 'bankruptcy' of the fund. We don't mind giving up some returns in the bull market but don't want to wipe out investors' capital and in turn our reputation
- 2) we often sell quickly (if the mispricing is temporary) and therefore the portfolio churn leads to a very high cash level
- 3) the price levels of stocks has generally been high since the inception of the fund and therefore does not warrant to be fully invested. We are unable to find enough opportunities at the correct price to load up large positions into each of them
- 4) we treat the money that we get from investors as the total portfolio of the client and not only the client's allocation to (Indian) equities. Therefore we need to worry about generating a decent absolute return and not provide access to clients to Indian equities as an asset class (something that mutual funds do)
- 5) we sleep better at night knowing that if the market melts, of which the chances are much higher in India than in the US, we will have some money to put to work. Since we cannot buy disaster insurance puts for the Indian indices at decent prices, this is the next best alternative

This is not to say that we should not have been fully invested in early 2009. We did start putting money to work but the mistake we made was that we did not deploy cash fast enough. Was that because we were trying to time the market? This is an interesting question – if you like something at a value of \$60 and it goes down from a price of \$100 to \$50 in a very short span of time, should you build-up the entire position? It seems like an easy answer at first but psychologically it is very tough to act accordingly. Firstly, because when such a thing happens the business needs to be reevaluated and the research fine-tuned. Secondly, since there is so much selling, maybe one can average in. Thirdly, since everything is falling as well, there is always something else in the market that seems relatively cheaper. Fourthly, there is a lurking feeling that investors, who are looking at the NAV quarter on quarter, may have a problem. And finally, one is compelled to think that if you have had good returns in the past, why do something that will spoil the track record. This really is the classic psychological trap that investors get into and we may have been influenced by some of the factors. Although it is difficult to pin point retrospectively, it is important to think about these.

It really comes down to investing with courage. I also think a flexible mindset is critical. So the right temperament needed to invest well is that of someone with unlimited patience coupled with an ability to act fast and decisively when the moment demands it. We did take our cash levels down but we should have been more heavily invested.

Our current positions are fairly diversified. We will be publishing the consolidated financial and valuation numbers on the holdings in the June letter as we will have the annual numbers for all companies by then. Many of our holdings have decent capital structures, very high current assets and decent earning power. A few of the companies may become large holdings in the fund over time if the prices don't go up much over the next year or so.

As on 31 March 2010 we were holding investments across 20 positions.

Overall Market and Macro Environment

The year was marked with extreme volatility in the Indian markets. The indices fell 60% from the peak at the start of 2008 to a three-year bottom in March 2009 and then rallied to almost double within six months.

Although I cannot claim to be an expert on drawing investment conclusions from macro trends, I cannot help but be conscious of factors such as zero percent global interest rates and how much more inviting (and as a

result over-valued) an investment destination it makes India. Who knows how the world will look if and when interest rates go up to high single digits over the next five years? It is just not an environment to go bargain hunting.

India has received a lot of attention in the last five years but amidst all that attention surprisingly, the likely repercussions of a failed monsoon and a ballooning fiscal deficit went mostly unnoticed. In a country where over 60% of the people depend directly or indirectly on agriculture, and the agriculture GDP has grown (and de-grown in some years) at abysmal rates, it is rather dangerous to ignore such an issue. The pressure on the government to 'socially' fund the many poor dependent on the agriculture sector will take a heavy toll on overall government finances. However any business that is catering to the rural, agricultural part of the country will have tremendous opportunities over the next decade because of the sheer size and the untapped nature of the opportunity. Companies operating in fertilizers, tractors, rural finance, rural infrastructure, retail etc. will thus be rich picking grounds in the years to come.

Corporate governance in India is another question we face often. On that, I only want to point out that having a local presence in India is crucial if one is looking to invest into India for the *long-term*. There are many issues that are peculiar to how the country has developed, and how the laws operate in practice. The shades of grey in corporate governance, the uncertainty of competitive environments within industries and the ideologies of companies vary tremendously and I think someone sitting outside India really cannot get enough confidence to differentiate between what business model is sustainable (and not based on some temporary monopoly) and what is not. I think a team like ours, provides a very cost effective way to find outsized returns in Indian companies playing well within the ethical framework

I had written in June 2009 that we should be fully invested within six months. I guess that was a poor forecast. We are back to holding a large stack of cash. I guess predictions like these ought to have a caveat of the overall market valuation. Given the current investment environment in June 2010, it seems unlikely that we will be able to put all our cash to work.

Having said that I would still think that India as a country will give humongous opportunities for global investors in the coming decade. Just as an example, the debt markets are going to be a rich ground to pick from in the future. Also given the high volatility in the Indian markets, things can change very quickly. I would urge investors to maintain a flexible mind-set across asset classes and not worry themselves with things like geo-political risks, and liquidity flows when India is out of favor.

As always we have a few investment ideas that we are researching and maybe able to deploy a decent amount of capital into.

VIC, Investment Idea, et al

I spoke at the VIC in Pasadena (www.valueinvestingcongress.com) and the presentation is on the website www.surefin.com/pdf/vic_pasadena2010.pdf. I will also be speaking at the VIC in New York in October this year.

I talked about the Cheviot Company Ltd. in the VIC presentation that I gave. Given my reluctance to take a public stand on an investment idea, I must at least advance the disclaimers upfront. This is a cigar butt investment, which has a mediocre business and non-transparent operation. The management is analyst-shy and shuns publicity. There is no clear visibility on how the cash on the books will be utilized, although it is safe to assume that he will not return it back to shareholders through a payout. The promoters have been hoarding cash and have been increasing their shareholding steadily over the years. The promoters are very decent people, with a tight fist and a just mind.

Please treat this writing in conjunction with the slides on the website www.surefin.com/pdf/cheviot_vic.pdf. I think over time, this investment can give decent, but not outstanding, returns to investors. The downside though is quite low.

If you have any questions, doubts or concerns, please feel free to get in touch with us. We appreciate your support and interest in us.

Warm regards,

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

Amitabh Singhi.

Portfolio Manager

Surefin Investments

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