

SUREFIN INVESTMENTS

June 17, 2011

March 2011 Annual Update on the Surefin India Value Fund

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>.

The Surefin India Value Fund (reported in INR) is up by 12.6% in the last 12 months and is up 954.8% since inception in May 2001 after fees and other expenses¹. This fund has grossed a CAGR of 27.2% since inception after fees and other expenses.

Total assets managed by Surefin Investments² as of March 31st, 2011 are Rs. 56.40 Cr.

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.

² As per Indian Portfolio Management Scheme (PMS) regulations. Includes capital outside the Surefin India Value Fund.

Percentage Return

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	36.9%	80.5%	73.8%	56.9%	60.5%	46.6%	42.7%
April-11	12.6%	10.9%	11.1%	16.0%	24.3%	13.4%	13.5%
Percent Change	954.8%	443.6%	409.4%	33.3%	72.3%	6.1%	13.3%

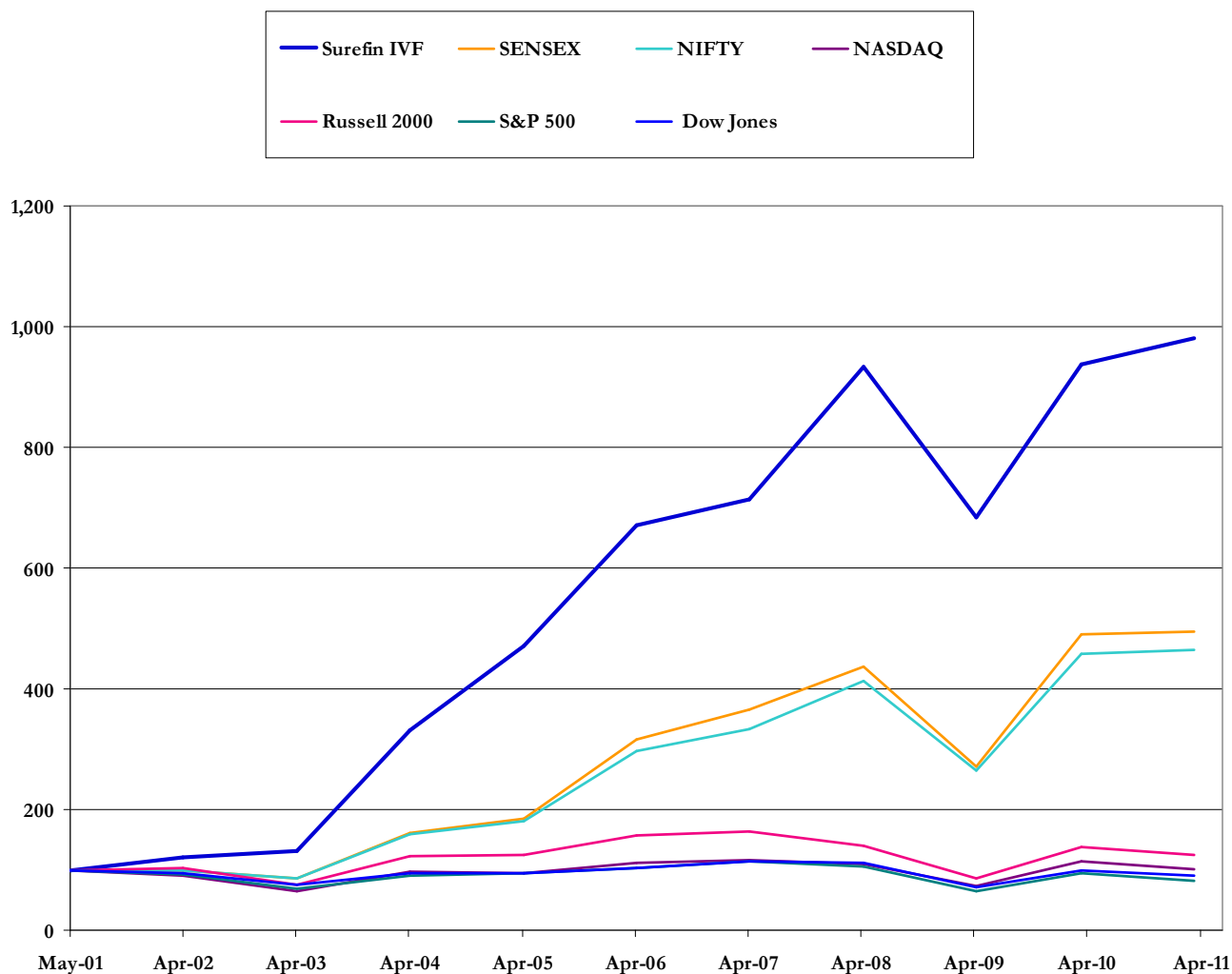
* The returns till 2005 are calculated on an XIRR basis.

* 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.

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	9,370.1	17,527.8	5,249.1	2,398.0	678.6	1,169.4	10,856.6
Apr-11	10,548.0	19,445.2	5,833.8	2,781.1	843.6	1,325.8	12,319.7



Portfolio Evaluation and Mistakes

We are glad to report that we have not made any new mistakes in the fund during the year. We have made decent exits from a few investments (which are detailed ahead in the letter) and also have bought into some good new companies.

We want to explain the reason for still holding a company that we said we made a mistake buying and also why we plan to hold it for a little longer. This was the textile company that we wrote to you about in the June 2008 quarterly letter available here: [www.surefin.com/pdf/Quarterly Letter to Investor Jun 2008.pdf](http://www.surefin.com/pdf/Quarterly%20Letter%20to%20Investor%20Jun%202008.pdf). We had given a detailed account of the mistake we made and what went wrong with the company.

The company is called Himatsingka Seide. We have bought and sold this stock and made money on it a few times in the past. We again bought this stock first for Rs. 102 per share in Sep-2007. We bought more later and our weighted average buying price is Rs 82. The stock price as of 31st March 2011 is Rs 34. The return on the stock has been negative (58%) in INR terms. We had invested about 9% of the fund into this investment. Clearly we have got our head handed to us in this investment. This is the worst return we have had on any investment in the history of our funds on an absolute basis.

Today the company is suffering all headwinds it possibly can; from a weak home furnishings market globally to high levels of debt because of the acquisitions done at peak valuations, to stabilization problems in all their expansions (they had gone 6x in sales in two years), to high cotton and silk costs. There is no interest in the stock as all investors are sitting on high marked-to-market losses on their buying price. We feel that today there is some upside in the price in terms of the business improving over the next two years. Even if a few variables come back to normal we may see some upside in the business.

We are watching the company closely, and will sell the investment if we feel that the current price is fair in terms of the future possibilities. We are mentioning this today to comfort investors that we do not have any loss-aversion with regard to this investment.

We sold the small remaining part of our holding in First Leasing Company of India Ltd. during the end of FY 2010. We have written in detail about this company in the March 2010 annual letter to you. Incidentally, the stock has run up by a 100% recently (after our sale) on rumors that it might get bought out by some good quality investors. Sometimes buying something very cheap (which this investment was) with a huge margin of safety (and some luck) becomes its own catalyst.

Portfolio Transactions and Allocation

We bought 4 new positions, added into older ones and sold 5 positions through the year. The details of the positions sold are below:

Industry / Product	Bought	Sold	Months Held	Absolute Return	Comment
Real Estate	Aug to Sep-09	Aug to Sep-10	12	189%	Debt-free real estate company trading at a big discount to current inventory at conservative prices
Shipping	Jul to Aug-09	April-10	9	39%	Have bought and sold this company in the past. Was selling at a discount to NAV and a subsidiary was to get listed
Chemicals	Oct-09	Mar-11	16	71%	
De-listing	March-11	March-11	1	6%	This was a de-listing situation where we made an absolute return of 5.8% in one week
Media	Jul to Oct-09	Jun-10	11	3%	

We remained in a high cash position for most of the year. The implications of this problem were exacerbated by new inflows into the fund throughout the year. However, I am happy to report that we have added new investors to an already exceptional set of investors whose ideology completely matches ours.

We were sitting on 57% cash at the beginning of the year and it was 39% at the end of the March 2011 quarter. We have bought a few positions in the June 2011 quarter which will bring our cash levels down.

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 it is evident that our performance has come while holding a large part of the portfolio in cash. That really does not mean much beyond a point as we can do a lot of things *because* we have a lot of cash.

We have been trigger-lazy in our investing. Thumb-sucking leads to huge opportunity loss although we look very good in the short-term like now when the indices have lost value but our fund is probably flat or up slightly (June 2011 quarter).

So our only job this year is to put the cash to work. We think we will be able to deploy some cash in a few concentrated positions. We are currently evaluating a position to which we have deployed 10% of the fund (during the June 2011 quarter) and it is down since our buying level, which is a wonderful thing because we intend to make this an even larger position starting now.

Concentration of the Portfolio and Asset Allocation - Important

How concentrated a portfolio should be depends on the quality of value available in the market and the amount of cash at one's disposal. For example, if one is sitting on cash and the number of things available are limited, then concentrating makes a lot of sense. But in times like 2009 when things were cheap across the board and many things were falling, it made sense to buy many investments quickly instead of choosing between them and wasting time.

Most times though it makes sense to concentrate more than less. The benefits of concentration are manifold. Primarily it makes you think harder about each investment. Also, it probably helps you to stay invested longer which is a sensible thing to do in the case of a good company because good things happen to good companies. Also, many times things that one has not sized up appropriately do go up a lot in price but they don't really move the needle on the overall portfolio. Isn't the entire benefit of running a small portfolio that, even a few investments can have a significant impact to the overall portfolio?

Also, courage is critical. It is a very important weapon in one's temperament. I have come to realize this more and more as I gain experience in investing. Without a courageous mindset (and a healthy dose of general optimism) certain types of investments get precluded automatically. Specifically the ones that are either not exceptionally cheap on purely the balance sheet or the ones that have something slightly wrong in them.

This is a lesson well learnt and we will concentrate heavily, going forward. Sometimes it makes sense to "back-up the truck". This will increase the volatility in the fund, and maybe we will look like damp squids compared to indices for a year or two. But in the long run it will be beneficial.

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)."

He said that the fund had invested more than 25% *only* five or six times in the last nine years! How many fund managers can say that for themselves today?

Another thing we have started doing is that we are investing in “buckets”. What this means is that investments that are similar in nature are grouped together and treated as one investment in the overall allocation of the fund. For instance, today we have five or so investments that we consider growth type situations wherein the companies are expanding and if the expansion goes awry over the next few years, we may lose about 30% of our investment (which ordinarily would not be an acceptable type of investment). But if the expansion plays out well, we will make a 2x and maybe even a 4x (if we are lucky) of our investment within 3 or so years. We had mentioned Balkrishna Industries at the Value Investor’s Congress in New York (mentioned later in the letter). This fits into that bucket.

We exited one such investment recently (April to May 2011). The company was Gujarat Fluorochemicals. We initially bought this stock at around Rs. 82 per share and then sold it at around Rs. 150 within a few months. We then bought it back at Rs 170 about a year later and finally sold our stake above Rs 370 within the next six months. All of this happened within a few years. This is also the reason that we are very hesitant naming our holdings or even the stocks that we have sold. Many times we may realize that the stock is a buy again or we have made a mistake selling and may want to buy it again. Gujarat Fluorochemicals was also in the expansion bucket.

We also have initiated purchases into a branded ply board, laminates and MDF manufacturing company which has a \$100 MM market capitalization. We also bought into a very well run automobile company which had a market capitalization of \$ 7 BN when the price fell dramatically within the year.

As on 31 March 2011 we were holding 16 positions that made up about 61% of the fund. The balance was held in cash. Here is a break-up of the industries we were holding companies in:

Allocation (March 2011)	# of Cos.	% Allocation
Cash		39%
Holding Company (Many Industries)	3	15%
Automobiles Linked	3	12%
Chemicals	2	11%
Real Estate Linked	2	10%
Agriculture Related	2	7%
Media	1	3%
Other	3	3%
Total	16	100%

Our top five and top eight positions make up 61% and 81% of the non-cash portion of the fund respectively. The cash portion of the fund is mostly invested in risk-free, money market debt funds in India yielding about 7% annual returns in INR.

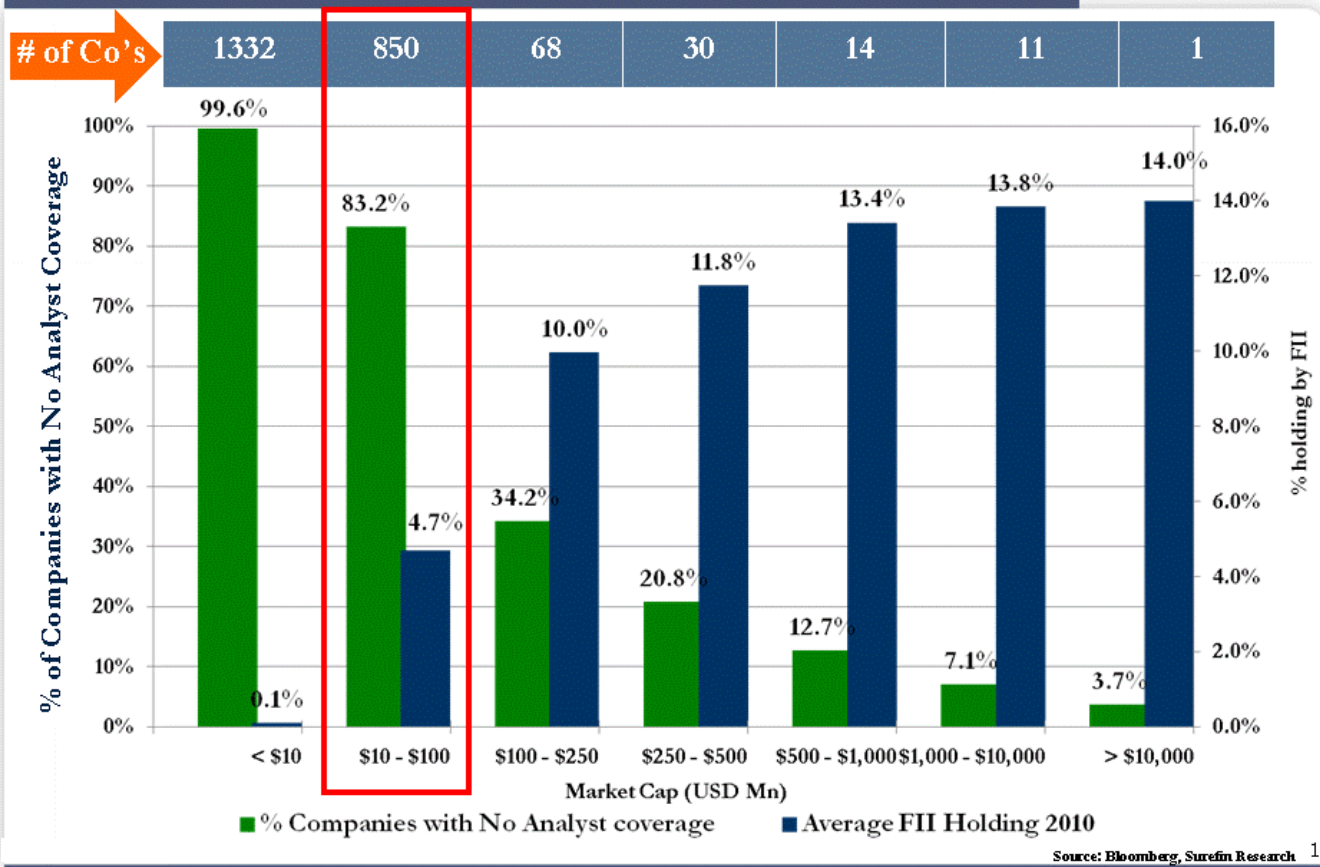
Relative performance

The fund has matched the performance of the indices in India and it has done so sitting with a lot of cash and much lower volatility. It has handily beaten the global and US indices since the inception of the fund. We think we will outperform the local indices in the future. One of the main bases of this conviction comes from our intention to get more invested in the fund.

Overall Market Environment

We believe that money in India will be made by buying under-researched, often small, unknown companies that have solid and sustainable business models. We think there is tremendous value in micro-caps and otherwise ignored companies in India. Please see the data below which shows that the opportunity clearly lies in the \$10 - \$100 MM market capitalization companies that have very low institutional shareholding and very low analyst coverage. There are 850 companies in this bracket that have no analysts covering them!

Opportunities Lie in Ignored Companies



Our fund is probably the best suited to find and invest in such companies. For instance, we have invested in a company that has an Rs. 40 Cr. market capitalization. It makes Rs. 10 Cr. profits after taxes, even with the business heavily impacted by the recession. The normalized earning potential of the business is probably Rs. 15 Cr. to Rs. 20 Cr. a year, if one were to discount any growth in capacity (which the business is investing in currently). The liquidation value is probably Rs. 80 Cr. and the net worth on the books is Rs. 110 Cr. This business is selling at a considerably lower price than it would if it were to be sold to a private owner today.

We have a list of 300 companies that we have looked at in the past. We have invested in 70 such different companies and more importantly we are tracking and waiting on many more. We will continue to find and invest in such companies and given our small size be able to move in and out quickly. We are building the fund's position in some of such companies

even as we write this today. The returns that these investments can give us will be many times what we can make in the index with low actual risk. Expect a lot of this from us in 2011.

India is an exceptionally vibrant country where there will be a lot of wealth creation going forward. The high volatility in businesses and markets and the heavy dependence on foreign capital which in turn sets prices in the short-term makes it ideal for investors like us sitting with patient capital from an excellent set of investors.

Interviews

Amitabh Singhi recently gave an interview with The Manual of Ideas which is a very good value investing publication. Please find the interview at www.surefin.com/pdf/moi_2011.pdf.

VIC, Investment Idea, et al

As we wrote in the previous letters to you, Amitabh Singhi spoke at the Value Investors Congress in New York in October 2010. The gathering was a 600 member prestigious group of investors and we thank John Schwartz and Whitney Tilson for the opportunity. The slides presented at the Congress are on the website at: http://surefin.com/pdf/VIC_Presentation_NY_Oct_2010.pdf.

The investment idea discussed at the Value Investor's Congress was Balkrishna Industries Ltd. The presentation can be found on the website (http://www.surefin.com/pdf/Balkrishna_Industries_Ltd.pdf). We are usually reluctant to publicly present an investment idea as every investment has disclaimers and operates in an ever changing environment. But in a larger public setting, these details are often lost. We are putting down below some of the disclaimers and nuances of the Balkrishna investment that we had mentioned in the presentation and in the earlier quarterly letter for the benefit of greater clarity.

- **Basket bet:** This company has been bought as a part of a group of companies that are all expansion stories. If the expansion goes awry for any one of the companies for any number of reasons, the individual investment may not work out as well but the group as a whole should do okay.
- **Inflated capex:** The capital expenditure on the business seems inflated based on our preliminary research. The reputation of the management is mediocre but the business seems to be a good business.

- Business profits maybe affected materially by rubber and other raw material prices: The earnings in 2010 seem to be “peak earnings” whereas the business should be evaluated based on depressed earnings. Rubber prices are on the rise so short-term earnings may be much lower than what the recent history has presented.

On the economics of the fund, we are close to recovering the operating cost of the fund on an ongoing basis if we make reasonable fees along with the management fee. We are happy to fund the deficit for as long as it takes. We will not compromise on the type of investors we will bring in, nor make any brash investment or business decisions. We have only bitten what we can comfortably chew for a long period of time.

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

Warm regards,

Amitabh Singhi.
Portfolio Manager
Surefin Investments
www.surefin.com