SUREFIN
INVESTMENTS

January 15, 2008

From: Amitabh Singhi

To: Investors in Surefin India Value Fund

Subject: December 2007 Quarterly Update

Dear Investor,

Please find the performance update on the website: http://www.surefin.com/newsletter.htm

Our returns have in the past been very lumpy. For as long as two years at a stretch little activity is seen and then all of a sudden the entire value of the stock unlocks in two to three weeks. It is essential, therefore to have a long term horizon with a focus on the underlying business and not on the stock price. Patience is our biggest strength. Our boat also rose with all the others in the month of December and given how lumpy our returns usually are, some of our stocks went up by factors of two and three. We are selling opportunistically and reinvesting the capital in other cheap situations.

Two of our positions unlocked in the last few weeks of the quarter. One was the company holding AAA bonds trading at a deep discount to net asset value[1]. The company was trading at this valuation for two years with low volumes. Within the next 30 days the stock rose from Rs. 19 per share to Rs. 52 per share. The current share price is Rs. 42. The stock went from being at a discount to book value to a premium with no meaningful change in the underlying business. The daily average volume went from 200,000 shares to 800,000 shares.

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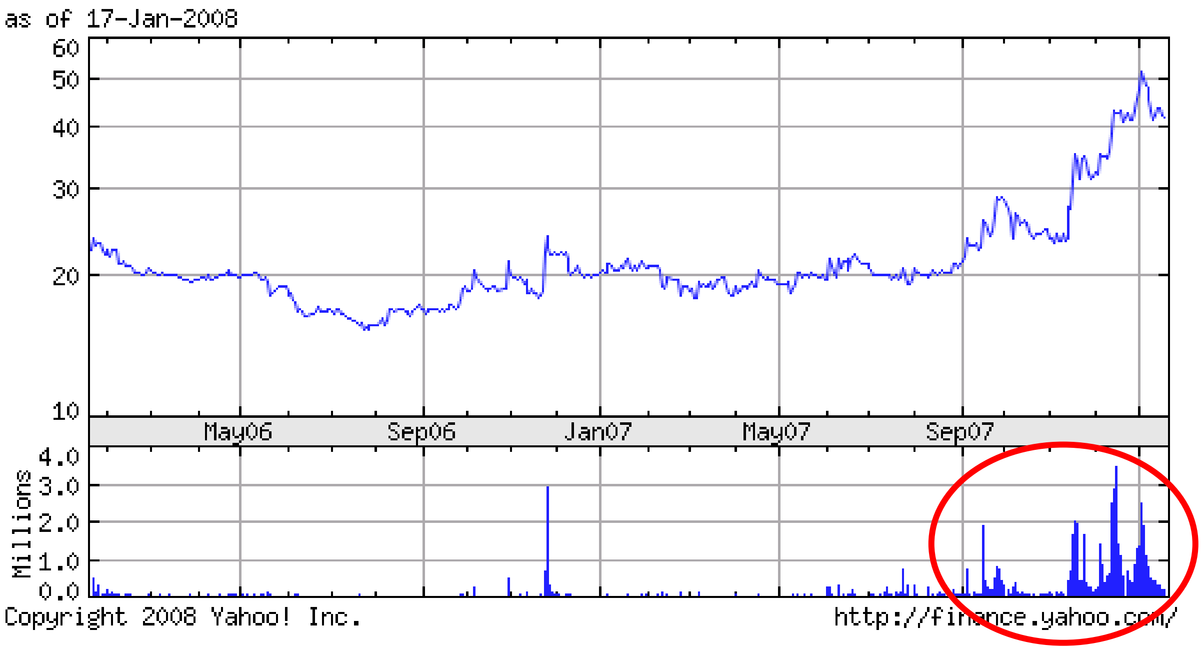
[1] Please see section labeled 'AAA Bonds at 40% Discount' in our June-Sept 2007 Quarterly Update on the website



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	Total Volume	Avg Volume	No. Of Days
Weekly	1,798,663	359,733	5
Fornightly	8,342,892	834,289	10
Monthly	18,407,182	876,532	21
Quarterly	32,122,981	509,889	63
Half Yearly	42,071,052	333,897	126
Yearly	46,049,036	183,462	251

The other position that unlocked in value was a company that was trading below net cash (cash and cash equivalents *minus* all liabilities). It is one of the smallest companies (in terms of market capitalization) we have ever bought and the stock had very low trading volumes. The stock went from Rs. 13 to Rs. 46 at the peak in three weeks and is currently at Rs. 36. The daily average trading volume has also gone up almost 15x times from 25,000 shares to 400,000 shares.

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	Total Volume	Avg Volume	No. Of Days
Weekly	2,231,554	446,311	5
Fornightly	2,615,163	261,516	10
Monthly	3,504,130	166,863	21
Quarterly	4,805,651	76,280	63
Half Yearly	5,651,284	44,851	126
Yearly	6,030,195	24,025	251

Many of the opportunities we find have good businesses, in mediocre industries, with excellent financials trading extremely cheap. Most of these are small companies that not many have heard of with low trading volumes when we buy them. We will continue to look at smaller companies that are trading extremely cheap compared to the bigger companies that are trading very expensive. We do not think that the difference in valuation between large and small companies is justifiable or sustainable.

Control Type Situations

Our current AUM in the fund is relatively small. We can do better with larger sums of money than we are currently managing as we can then buy larger stakes in companies and get into control type situations. We can get warrants (at a fair price) and also get to share our perspective with the management if we can take larger positions in some companies. Although, we are against getting cheap warrants at the expense of smaller shareholders, it is okay as long as one is buying them at a fair price.

At a scale of $100 MM we can commit $10 MM per position from the fund. While investing in small companies with lesser known auditors (not to say that the big boys are squeaky clean – on the contrary, it is the best brand sweating exercise that I know of) and a one-man show management, it is useful to go 'see the place' in a country like India. Typically, shareholder-shy-managements sometimes end up giving the wrong impression with their weak shareholder communication and their brief annual reports printed on toilet paper quality. Evaluating and meeting the management in person can thus be a far more effective exercise in assessing the true value of the company. We have found a good number of gems this way and in most cases we only invest when our personal assessment of the management agrees with our analysis on-paper.

Current Portfolio and Concentration

We remain heavily concentrated with the top four positions holding almost 50% of the portfolio. Many of the positions we spoke about in the last quarterly report have unlocked in value and we are in the process of replacing them with other positions. These in turn may take up to two years or more to unlock even against a backdrop of irrationally high or rising indices.

We are in the process of building a position in a company that has the following balance sheet: ($ MM):

Liquid assets (Cash + Marketable securities) = $25 MM
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 currently $35 MM. The company is a well managed company in a terrible industry which has been plagued by labour troubles and regulatory uncertainties with many fragmented players. This is a classic case of an industry which is ignored by institutional investors and there is a good margin of safety at current prices. The sub-prime issue will have no effect on the value of this company. At two times earnings, the business is selling at a deep discount to what it would sell at to a private owner.

Old Wolves in New (and Branded) Sheep Clothing

One should be wary of the current hype around India. Many large business houses have rigged their stock prices and many investors are exhibiting lemmings like behaviour by lining up to buy these made-up situations. Many valuations are at least two years ahead of themselves and in some cases maybe even five years ahead. Managements with terrible reputations in the year 2001 are back in new avatars having spent a lot re-launching themselves with a façade of new brands portraying a false image screaming "we are different now". We will stay away from any situation where we cannot be assured that we have partnered with able and honest people who will treat our money exactly how they treat their own.

Can Earnings Keep Up? - Case Study

Here is a quick calculation on one of the most successful companies in India. Airtel, India's largest telecom company is trading at 39 times its FY 2007 PAT of $1 Billion. This means that if we were to assume a steady state for Airtel where it would continue to earn a PAT *infinitely* it would have to start earning $3.9 Billion each year for *ever*. At that time it would deserve a valuation of $39 Billion after comparing it to a government bond that gives a 10% risk free return. So, there are two assumptions here if a *break-even* investment into Airtel was to be justified today.

One, that Airtel will earn a year on year profit of $3.9 Billion. Since the top end of the mobile-phone market has already been harnessed, average revenue per user is likely to continue falling steadily. There is also increased foreseeable competition in the industry with fresh licenses and 3G spectrum allocations being planned in favor of new players. Also, the current depreciation does not account for obsolescence. The *free* cash flow situation of this telecom giant is unlikely to cross $3 Billion. Secondly, that it will be able to *maintain* this annual profit of $3.9 Billion *for ever*. Given that no company in the history of India has ever earned a $3.9 Billion PAT, we'd rather not speculate the fate of this assumption.

So far, all telecom companies in India have been earning monopoly profits thanks to government regulation barring more entities from entering the market. We seriously doubt that such a monopoly situation will last long enough to protect the $3.9 Billion of earnings of Airtel. In practice of course, the company would have to do even better than the afore-mentioned assumption to give a positive return on the investment.

We are very excited about investing in opportunities available in India - small companies that are trading very cheap, special situations, contrarian industries or misunderstood companies. Please do not hesitate to contact me for any questions, concerns or thoughts you may have. I look forward to hearing from you.

Warm regards,

Amitabh Singhi.
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