Dear Investors,

It's interesting time in Indian financial markets. There is political certainty, it's been a year since the new government came into power with clear majority and global interest rates cycle is accommodative. However, companies are waiting for the upturn in business cycle and investors are anxious about earning. In addition, worries of reversal of easy global monetary accommodation and non-performing assets (NPAs) in the banking sector resurface time and again.

In midst of this; we ended last year with a good note. Our performance is as below.

Portfolio Performance	Vallum India Discovery	BSE S&P Mid Cap
1 Year (March Year 2014-15)	113.8%	49.5%
CAGR Since Inception (Oct 11)*	45.1%	17.3%

*returns over 1 year are annualized; return for each investor will differ based on entry horizon.

Our strategy for stock selection and portfolio construction remains the same - invest in mid-market companies or business turnarounds and make sizable bets. Our rationale is simple – these two pools attract fewer investors and equity value is mispriced. This gives us a **margin of safety**, adequate compensation for illiquidity, volatility and concentration. During our meeting with investors, some worried about volatility and illiquidity associated with investing in equities. Volatility is wrongly used as measure of risk. One can defines risk as the chance of permanent capital loss adjusted for inflation. I am reminded of observations by legendary investor Howard Marks on liquidity - "Usually a particular asset isn't liquid or illiquid by its nature. Liquidity is ephemeral, it can come and go. As asset's liquidity can increase or decrease with what is happening in markets. In other words, the liquidity of an asset often depends on which way you want to go and which way everyone else wants to go. It is also function of the quantity you want to buy or sell. The bottom line is that it can be wrong to assume it will be easy and painless to get out of your holdings, and especially to exit a position after has begun to drop".

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One of our holdings, a pesticide company with unique intellectual property rights and trust of key global players has contributed significantly to this year's performance. Our year-old investment in a pharma company with edge in oncology has paid us handsome return. At the beginning of the year, we invested in a carton packaging company, after following it over the last few years at its Annual General Meeting (AGM). The packaging business was trading at compelling value, two times cash profit, although it was one of the most illiquid stock, I would ever bought in my investing history. The stock has contributed manifold return in short span of time and we plan to remain invested in this exciting space. Our few good investments ideas have come from visiting AGMs of those companies. We found AGMs to be far better for scouting investing ideas in mid market segment than analyst calls which are generally well rehearsed and carefully guarded. At Vallum, we visit AGMs for varied reasons - thanking management your behalf for their tireless efforts in managing affairs of the company, updating ourselves on business strategy and gaining insight, taking response to our queries, excising our voting rights, meeting second generation and sifting difference of perception about a company from reality. There is further room to improve the culture and investor participation at these AGMs of the companies.

We invested in wonderful home textile company, which draws its competitive advantage from availability of cotton in India. The company was recovering from Corporate Debt Restructuring (CDR) and had all right ingredients including good second generation management, potential of high Return on Equity and favorable global business environment. We have made more than threefold return on our initial investment and plan to remain invested for considerable period of time. Usually investors shun turnaround ideas due to ignorance, fear of compounding a past mistake, and fatigue. I would be doing injustice by not mentioning about another turnaround cement and ceramic tile manufacturer we invested this year. The company was in peak of losses due to unfolding of unforeseen events over the last few years. We were sold out to sincerity of purpose of promoters along with strong professional managerial capabilities. We are more than adequately compensated for our efforts of digging far deep while investing.

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Here, I would like to highlight observation by Sequoia capital in their latest annual report about the importance of professionalism and its perils. The British take pride in their system of independent board chairmen, but the chair is often a retired CEO from an outside industry rather than an owners' representative who knows the business. These gray alpha males frequently seem determined to inflict their will on the management teams they oversee. The U.S. system, in which one person often controls both management and the board, can be problematic when the leader is mediocre. But in the UK system it sometimes feels like the boards can't bear to let management lead. Perhaps that helps explain why the FTSE 100 has lagged the S&P 500 by wide margins over the past five, ten- and thirty-year periods. My observation is investing in India has been more like the US system due to promoter driven zeal and we have paid lot of attention in their intent and capability. We are witnessing transition in many companies to next generation of promoters. Unlike developed world we do not have board room activism to improve the managerial bandwidth of the company. Hence, in many cases, merit or mediocrity of next generation will decide future returns for the equity holders.

We invested in another industrial company in steel business that went thorough painful transition of product portfolio and financial restructuring over the last few years. The enthusiasm and charisma of second generation management, its capability to scale business has overjoyed us. In our quest for turnaround companies, we arrived at the doors of a metal company which looked promising due to its backward linkages, high margins and future prospects of business model. However, our investing experience was not very pleasant and we faltered in mid course on our conviction. We sold our position, albeit at no loss no profit and do not plan to visit that company again.

During the end of year we have made a significant investment of in a leader in agricultural products and rice. The company has formidable brand in domestic and international markets and financial ratios comparable to a FMCG company. The investment thesis reminded me of classic proverb of kindergarden: a rotten apple spoils a barrel. This sector was fraught with few bad companies which have shaken the faith of investors over the last few years which led to complete neglect of this sector by investors. Our investment emerged amidst chaos with strong corporate governance standards and moat in the business. Initially we endured the overhang and fog in the sector but embrace the on ground insight gain, well in time. When a new business or sector emerges, the governance of leaders makes way for emergence of other small players. Let me highlight this by example of IT industry in India. It had benefit of good role model in like TCS, WIPRO, Infosys, etc. The governance, financial prudence, shareholder return and positive experience of investors with leaders paved way for second tier companies to raise capital from the capital markets. In contrast, investor's poor experience in media and entertainment sector has closed the fund raising gates for many second tier companies.

As discussed last time, we remain switched off from public sector banks and believes "value is governance trap." The valuation difference between Public Sector Unit Banks (PSU Banks) v/s Private Sector Banks or NBFCs explain this to the whole world. I suspect earnings of banks will get masked by shrinking need of working capital funds due to decline in prices of oil, agri commodities and metals, this year. We also reinforce our bearish stand on current prices of real estate and strongly believe that optimistic should study how prices have been kept in check with augmentation of supply in Gujarat during leadership of Mr. Narendra Modi.

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The current government is making enough efforts to resuscitate the manufacturing sector by various incentives and means. I foresee strong renaissance of manufacturing sector in India. However India story can expedite if it hits around its circle of competence. The country has created natural advantage in few sectors like auto ancillaries, pharmaceuticals, chemicals and textile. This advantage has come on back of strong supply chain, raw material benefits, investment in research & development, "juggad" innovation techniques and support of good entrepreneurs, who have been torch bearers during its formative years. It has multiplier impact on upstream industry and job creation by virtue of economics of scale resulting in unit price. Thereby government should formulate strategy to encourage private sector to capture dominant world market share in these segment. The Price to Earnings multiple of our portfolio remains around 17x much lower, generating superior return on equity than relevant indices.

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