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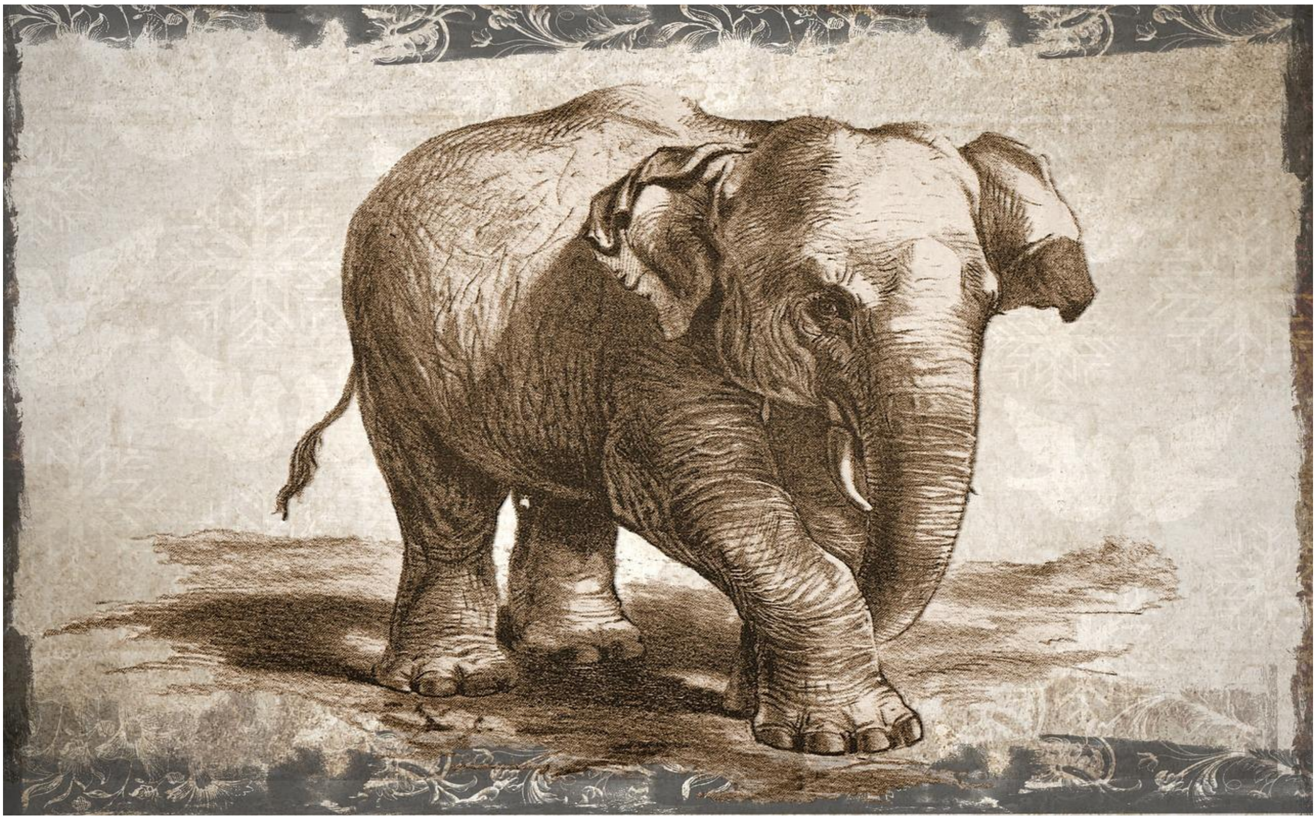

Dear Investor,

This year's challenges came at us on a number of fronts. The continuing European ground war, the recent Hamas invasion of Israel, US interest rate hikes still on the table, a likely European recession, and the slowdown of global trade and growth in the face of increasingly hostile interactions between the China-Russia axis and the west. In spite of these challenges, I believe the Indian economy, and specifically our portfolio companies, warrant cautious optimism. In the face of these upheavals nearly all our companies have increased revenues, earnings, and profitability. I have confidence over the long run, the gravitational pull of our companies' earnings will drive stock prices up. In the short run, it's anyone's guess where stock prices will go. For now, we rest with great confidence in our companies, while remaining vigilant.

We are out of the direct line of fire, for now. India is not a major player in the great countries power game, it is not at the center of the upheaval, and most likely, India will not be drawn into a regional conflict. India is a relatively low debt, high growth, domestic economy, making it less vulnerable to global eruptions. So far, so good.

To buttress cautious optimism, the below hit the press last week. I was considering putting it at the end of the newsletter as an exclamation point to India's growth story. Problem is, I don't think anyone reads that far. Plus, for the readers of this newsletter this is not news. It is a continuation of the Indian growth story you have been reading here for the last 17 years. Growth is happening and 2030 is seven years and a heartbeat away. India probably will be the third largest economy in the world in a short seven years. Now that's something. Global investors may think this happened fast, all of a sudden like. We know better.

The Indian Story Continues

India set to be world's third-largest economy by 2030: S&P Global *(Economic Times)*

India's economy will more than double to $7.3 trillion over the next seven years. Today India is the world's fifth largest economy, having surpassed the UK in 2020.

New Delhi: Brisk digital transformation and a rapidly growing middle class are expected to drive India's growth, lifting its economy to the third place by 2030, according to S&P Global Market Intelligence. This will put it behind only the US and China, overtaking Germany and Japan.

The economy will more than double to $7.3 trillion over this period, from $3.5 trillion in 2022, the financial information services firm said. "An important positive for India is its large and fast-growing middle class, which is helping to drive consumer spend," said Rajiv Biswas, chief economist (Asia Pacific), S&P Global Market Intelligence, in a report released earlier this week. "India's digital transformation that is underway is expected to accelerate the growth of ecommerce, changing the retail consumer market landscape over the next decade."

The International Monetary Fund expects the Indian economy to exceed that of Germany in 2026 and that of Japan in 2027, and hit $6 trillion in 2028. (Economic Times, 24 October 2023)

To ram home the point, a double in seven years is roughly a 10% growth rate. As you know smaller companies over time tend to outperform the overall economy. That's why we are in India and that's why we are in Indian small caps. Simple stuff.

Drivers of India's Economic growth:

- Domestic consumption is increasing as increasing income per capital is driving growth in everything from air conditioners to artificial leather.
- Government infrastructure initiatives are real, making an impact and a real difference.
- Manufacturing is moving to India, China plus 1 (India has a long, long way to go. We are skating to where the pug will be).
- Increased domestic investment in equity markets-digital retail accounts, will offer strong support for the market over the next 20 years. If you want to be dramatic, call it a tsunami.
- Generally good earnings expectations, very good earnings expectations for our companies.
- *PWC* reports e-commerce FDI (Foreign Direct Investment) plus homegrown VC and PE investment has increased 3X in 2023 compared to 21 and 22. Short term yes, but in the right direction.

It's not all rosy.

One problem/opportunity: Women are still unrepresented in the work force. Globally, women in the work force are 47%. Both Japan and South Korea had low women participate before increasing their economic output. In 2022 women's participation was 60% in South Korea, 74% in Japan, 56% in the US. India, 25% (*World Bank*). Women participation in India is increasing, but slowly. Should participation increase, more growth will follow.

Skate to where the puck will be.

India's per capital income is USD 2400.00, one fifth of China's, which has grown much faster since 1978. The question is, with all the social and infrastructure improvements over the last 10 years, is India now ready to steepen its growth curve? I think a real possibility.

The World

India staddles a smoldering world as geopolitical gunpowder awaits a spark.

China, Russia, Iran, and North Korea come knocking. While this is not the cold war redo, it is a challenge. This global squaring off is more like a, the enemy of my enemy is my friend, get together. The world in two is gathering pace and India is walking a tight rope between these coalescing forces, as it always has done. In my previous newsletters I have often referred to the world becoming a more dangerous place. Like the wind, you couldn't see it, but you could definitely feel it. The winds of change are not offering any calm, but potent a gathering storm. Such is the dangerous world we live in today. There is no investment destination to take shelter from a global change in wind direction, so we navigate with care. That said, to us India seems to be better place than most to take shelter. It's nonaligned and not likely to get pulled in.

Since Nehru, India has honed the art of not taking a side. Nonalignment. India needs Russian oil, and it was getting the oil at a bargain. India is also heavily skewed to Russian military arms, not having much choice when the US decided to favor Pakistan in the cold war. Now India is entertaining US and European arms as well as business and commerce as the world looks to hedge its global factory floor away from China. Meanwhile, Prime Minister Modi meets the US President on a state visit and cozy ups to Putin and Xi in other global forums. The US is hoping India will shift its way. It is, to a degree. But I don't see how the world's most populous country will benefit from entering into the fray. Defend itself it must, go out to fight, I think not. Can India escape the strengthening vortex? Who knows, but I predict the US's hope of the elephant coming into the west's tent will be frustrated.

We will see where the wind pushes the world as one action begets another, and another, taking us far and wide. If we do not pay attention, we find ourselves in a place that bears little resemblance to where we started. The West is facing multiple enemies on multiple fronts in an assault on the rules-based world order. A blusterous wind, another crisis, another action, and reaction. Crisis, meaning to distinguish, to choose, to decide is always with us, always around the corner, now more than ever. In India - we will stay the course. We will invest for the long term, and we will weather every squall, every storm, and every current, because we have our eyes on the horizon and we will pay attention to where we have been and where we are going, maintaining a steady course.

India rides the waves and slowly lumbers on.

All good young man, but what about the Indian market if the world catches on fire?

The last time the world was on fire India was not independent so comparisons are not straight forward. Below is a recent list of crises and the effect on the Indian economy and its earnings. Next to the date and event, not precise regarding dates, are the India GDP and its BSE S&P500 earnings. Earnings ultimately drive stock price and you can see India's earnings remain upwardly bound.

Events	Year	INDIA GDP USD (Trillion)	BSE/S&P 500 EPS
- Tiananmen Square, 4/15/89, 6 months before the Berlin Wall falls. Demonstrations erupt in China - 1989, Berlin Wall Falls - peace dividend, democracy wins. US military budget reduced	1989	0.265 T USD	55
- Early 90's. East European countries lean into democracy/capitalism, communist regimes fail. - 1991-92 Shock and Awe. Iraq invades a sovereign nation. UN mandate upholding rules-based system.	1991	0.270 T USD	35
- Rare 1998-2000 US budget surplus. It is a 40-year outlier.	1999	0.458 T USD	87
- 9-11, US into Afghanistan and Iraq, gets stuck, disorientated, loses focus. China modernizes its military as economic might grows. - USAF Chief of Staff Gen Moseley warns the US to prepare for "the high-end fight" with China. Moseley, is fired.	2001	0.484 T USD	42
- 2007-09 GFC, the world recoils. *Passage to India launches Nov 2007 into the teeth of the GFC-and survives!*	2007	1.216 T USD	96
- 2010 recovery	2010	1.675 T USD	108
- 2020 Covid. World recoils-again.	2020	2.671 T USD	110
- China's 2020-23 growth and economy seem to be faltering; high debt, youth unemployment, real-estate. - Chaotic Afghanistan abandonment, US polarization, political gridlock, toxic environment, high debt, enemies see a weakened US. Ukraine is invaded. Hamas invade southern Israel. Israel faces threats to the north, Iran complicit.	2022	3.385 T USD	178

In the above crisis' the world order established after Britian's slide and America's ascendancy, remained intact. Winners of conflicts set the rules and the UN, World Bank, WTO, money transfer system SWIFT, all were created in the likeness of the winners of WWII and remained critical to the global operation of trade and commerce. In the 1990's, after 45 years of cold war struggle, Russia's communistic system falters. China is rising. Since 2016, US and China have been locked in a trade war, a technology war, a geopolitical influence war, and a capital war (*Ray Dalio*). The rules based global system remained unchallenged, until now. China and friends are creating parallel institutions and mechanisms to challenge the existing global structures. As the world divides, the last and most destructive of Ray Dalio's wars is a military war. This has not happened…………. yet.

Why are the winds of change upon us now? Enemies smell weakness in a chaotic retreat from Afghanistan, political dysfunction, high debt, and social disenchantment. In my opinion they see a *relative decline* of economic strength, plus dilution of hard and soft western power. Our enemies sense a lack of will and compromised conviction. International rule is governed by one thing, power. Countries seek to maximize power, that is what countries do. So, as other players make a move, I say hang on, I think we are in for more disruption, not less.

How does India fit into this puzzle, the great powers game? There is one very important aspect of investing in the Indian economy that is implicit but not emphasized - Diversification. It is a very important part of our India story. India's lower correlation to other markets gives almost any portfolio added diversification. Investing in smaller Indian companies gives us even better diversification from the major indices of global markets.

Why? Because India is a domestic economy. Yes, global investment flows do ebb and flow into India like they do in the rest of the world. But a domestic economy, plus a growing Indian investor is slowly mitigating the hot in and hot out flows of foreign capital. Furthermore, most foreign investors invest in Indian large caps. The power of diversification is better in mid and smaller Indian companies which are held by the retail investor who has an entirely different investment objective compared to the foreign investor. Our fund capitalizes on this. When Passage first invests in a company, typically we are the only institution investor. Hence our portfolio has a lower correlation to the moving herds of the other large market indices. No matter which way the wind is blowing we believe India is a good place to be. If we see increased conflict today or in the future, the Indian economy, smaller companies specifically catering to the domestic Indian consumer, will continue to be a good place to sail.

We stay, we persevere, maybe even flourish.

The elephant lumbers on.

Although India's growth has not been a fast elevator to the top floor, it has been solid. With the wind at our back, India is important, and becoming even more important, economically and politically. Until now India's rise has been stealthy. It is now coming into view for many US and European investors. But this growth, this rise, this change, has been a continuous process since the first day I came to India in 2005. Change is a long process. Whether it is observed or appreciated, doesn't mean it isn't happening. On the other hand, just because India is strong right now, doesn't mean there will not be set backs or reversals. Nothing in life is absolutely certain, you can only think in probabilities and history. I think today in India, both are on our side.

There will be ups and downs in the market, but overall Indian's lives are improving. We see it. The companies participating in improving Indian lives will benefit. Passage's job is to find these good companies and invest in them for the long term. Sounds easy.

Economic growth comes from three sources and India is on the right side of all three. Population increases, productivity increases, and increased efficient capital allocation. India's population is growing and still young. India's productivity is better than the west, but it continues to punch below its weight (Growth in productivity has been as high as 10%+ and is currently at around 3%. I think this will improve.). The government is funding large increases in infrastructure in hopes of stimulating productivity growth on a path to a first-rate manufacturing hub. That's a stretch. India has a long way to go to be on China's level and scale in manufacturing prowess. But it is heading in the right direction. Rome wasn't built in a day, and neither will be India's manufacturing hub. Again, it's going in the right direction.

Plus, India's government is stable in an unstable world. The government of India passes laws, passes budgets, and runs the largest free elections in the world resulting in peaceful transfer of power. We may take it for granted but there is something to say about that.

The Investment Neighborhood

Meanwhile, the other Asian big dog, China, is challenged on all three economic growth fronts and the luster has come off its economic miracle. Its aging population, declining productivity, and debt issues are conspiring to create pain. India may not be the best house in a bad neighborhood, but India is a house under improvement in a changing neighborhood.

India; growing, improving, lumbering on.

A fully developed, deep, wide market - getting deeper and wider before our eyes.

Investors are able to participate in this growth. India has a fully developed, fully functional, deep and wide market, period. You can put any label on India's market as you wish. Emerging, developing, the next best thing, whatever you wish. Problem is once a label is attached, then a host of inferences and inaccuracies follow, obscuring investors vision of India's real place and potential. Recall the beginning of this newsletter. Currently India is the 5th largest economy in the world. In seven years, it could be the third. Call it what you want. It is real, it is big, and it is going to make an impact. And we are in India, now.

India has over 7000 listed securities, well over 1,000 listed mutual funds and 44 Asset Management Companies (AMC). Because of local investor participation, AMCs are projected to grow revenues by 14% annually for the next 5 years. We are convinced greater and greater retail participation in the market will continue at a strong pace driven by systematic investment plans. It's very similar to what happened in the US market after the creation of 401(k) plans and IRA's. Retail penetration is now low, around a fifth of what it is in America, but growing. In Feb 2022 there were 126 million mutual fund accounts, by Sept 30, 2023 there are 157 million accounts. The estimated growth of AUMs in the MF industry is expected to be greater than 21% for the next five years.

The previous generation in India would get a job after university, buy a two-wheeler in their twenties, a car in their thirties (maybe), and a house with cash in their forties. Their stores of wealth were gold and real estate. Trust in the equity markets was lacking. Today's generation is tech savvy, open to investing in equities for their retirement plans, and comfortable doing all of this on their phone apps. Over the last 30 months, 12.7 million retail accounts have been opened by Gen Z according to the BSE. These 18–20-year-olds now have a total of 16.1 million accounts compared to 3.4 million in March of 2021. Times are a changin.

The domestic retail investor is a real and a growing counterweight to the fickle foreign investor who blows in and out, hot and cold, depending on the day of the week and what the portfolio manager had for dinner in Singapore or Hong Kong. That's right, antidotally most large foreign institution investors do not sit in India. Most do not visit plants in the hinterlands either. And, nearly all do not invest in smaller caps. Furthermore, foreign investments in and out of India are only partly because of India. They will pull out often because of nothing to do with India.

We invest, we stay, we build for the long term. Steadfast in our conviction.

The Indian retail investor is becoming more important, building their accounts slowly, lumbering on, uprooting trees as they walk.

Our fund is small, an advantage.

Because our fund is small and nimble, it can invest nearly anywhere in the Indian market. The Indian market itself is robust, fast, and well-functioning. Passage can troll for small promising companies where other funds simply cannot go. For example, the BSE SME and the NSE Emerge platforms.

BSE SME/ NSE Emerging; an opportunity to leverage our small fund advantage

The BSE, formerly known as the Bombay Stock Exchange, began as the "The Native Share & Stock Brokers Association" in 1875. Today the BSE is the world's largest exchange by listed securities, numbering over 5000. India's other exchange, the NSE (National Stock Exchange), has over 1700 active listed securities. The BSE is the fastest exchange in the world operating at 6 microseconds, it is the world's 2nd largest currency option market, and it is the 3rd largest currency futures market (*World Federation of Exchanges*). In addition to the normal smaller listed companies on the BSE and NSE, in 2012 the BSE created an entry level exchange called the BSE SME. Similarly, India's other exchange, the NSE has its own small company platform, the NSE Emerge.

Both exchange platforms facilitate smaller company's listing bringing in equity financing, lowering debt burdens, creating a larger investor base, and enhancing visibility to the smaller India company who cannot meet the big boards listing standards. Today there are 360 companies listed on the BSE SME sporting a market capitalization of 6.6 B USD. 130 companies have migrated to the main BSE board. Furthermore, there is ample supply of future listings of the 63 million SMEs in India. As a group, Indian SMEs are the largest contributors to employment in the country.

Small, powerful, bursting with animal instincts, the BSE SME index has returned over 13,000% since its launch in 2012. While BSE SME companies are by no means the heart of the fund's investments, the fund has owned, and does now own, two of these opportunities.

Numbers-Short News

India's export of services, think software, increased 37% from 2019-2022 (*WTO*), other exported services declined 5%. Meanwhile, the US share of global services exported has fallen from 17.4% in 2019 to 16.5% in 2022.

In another measurement, India reigns supreme. Share of digitally delivered services gig workers as share of global workers.

India	27.0%
Bangladesh	14.6%
Pakistan	12.0%
US	5.6%
Philippines	2.6%

For those of you new to the Indian story, India is a 63% domestic economy and not dependent on exports. Yes, its software exports are a large percentage of its overall exports, but India is hardly a one trick export pony.

There is a concerted push to increase manufacturing: Tata Electronics PVT buys Wistron, the Indian company that makes iPhones in India. Sahasra Semiconductors is India's first company to manufacture and ship micro-SD memory chips in India. Micron is setting up an 825M USD new assembly and test facility in Gujarat. Manufacturing of DRAM and NAND is expected to begin in 2024.

Applied Materials announced a 400M USD facility to serve as the company's new engineering center in Bengaluru. AMD's 400m USD facility serves as its largest design center in the world. Vedanta committed to 20B USD to build semiconductor, integrated glass, and display fabs in India.

Telecom: Jio, Reliance's mobile phone operator, subscriber base is 460M subscribers. Operating margin-50%. US population, 330 M. Jio is deploying a 5G cell tower every 5 seconds across India. Airtel will cover 100% of India with 5G by March 2024, it is the fastest rollout in the world.

On my recent visit during the cricket world cup, it seemed every person in India is watching the cricket world cup on their phones. The India vs Pakistan World Cup cricket match attracted 225M viewers on streaming (free to mobile users), plus 173M viewers on TV. Did I mention US population is roughly 330M? Think about the size and power of the Indian market.

India is in the news.

India Inc has recently been getting media attention in the west. This is a combination of: The west's new perception that India is a counter balance to China's increased aggression, the world bifurcating into China-Russian verses the Europe-US spheres: India surpassing England in economic power, India becoming the world's largest population, plus most importantly from my viewpoint, a China plus 1 policy courting multinationals to hedge supply chains as China's becomes less stable given the current trade war.

Not to see the world in rose-colored glasses, India is also in the news because of the ruling party, the BJP's, nationalistic stridency. Not to mention the most recent bombshell of Canada's PM Trudeau's accusation the GOI (Government of India) was directly involved in the murder of Sikh separatist Hardeep Singh Nijjar in BC, Canada in June. It's never a clean story.

Not a half empty glass, nor a half full one, just a glass of milk.

Good news, the number of internet users has increased from 350 million in 2015 to 692 million today. Bad news is digital rights group Top10VPN says India has had the greatest number of internet shutdowns by authorities at 84. The number two was the Ukraine at 22. The Muslim majority of Kashmir region was subject to the most shutdowns. Good news, in 2015, a year after Modi assumed power, he promised to build a "Digital India". Give the steep rise in internet users and a host of other improvements linked to internet access, it appears PM Modi has been successful in the endeavor. More good news, India joins the US, Russia, and China landing on the south side of the moon days after the Russians failed at the same mission. Cost: 70 million USD (Less than a Hollywood movie about space). India's total space budget, 1.3B USD, 0.04% of its GDP. The US's space budget, 69B USD, 0.28% of GDP. In space, India is clearly punching above its weight.

India Macro Drivers

Population - 360 million children 14 years and younger in 2021 by World Bank estimates. That is 112 million more than China. But, only 26% of India's households make greater than $10,000 in 2021 (*Morgan Stanley*).

Geopolitics – fragmentation, geopolitical rivalry, technology uncoupling, and protectionism, will benefit neutral India. Unaligned GOI (Government of India) will lean towards the US is a probability. A full jump into the west's camp is more hope than reality in my opinion.

In the past lack of manufacturing due to infrastructure, expensive and unreliable electrical power, labor laws, and bureaucracy hamstrung the process of increasing manufacturing in India. Today, new GOI initiatives and private sector's investments, international firms like Apple and Foxconn are building manufacturing plants in India as part of China plus 1. Years of investments in highways, railroads, and ports plus regulatory reforms have reduced obstacles. Today, in India a world class information economy is here, and increased manufacturing momentum is in sight.

Multinationals Invest

In 2016 India made 9% of all smart phones built, in 2023-19% (*Counterpoint Technology Market Research)*. Apple-has assembled lower end phones in India since 2017. Today it manufactures the iPhone 14, the newest. JPM predicts by 2025, 25% of new phones will be manufactured in India.

FDI (Foreign direct investment) - averaged 42B USD annually 2020-2022, doubling in a less than a decade.

Vestas, the wind turbine manufacturer, built two new factories in Sriperumudur, Tamil Nadu, India in 2021. Eventually, 85% of Vestas suppliers will be Indian. Forecasts expect India to be the world's second largest wind market prompted the build.

Exports

India's current exports are one tenth China's, but exceed all other EMs except Mexico and Vietnam (*World Bank)*.

Brief history of India's development.

In early 1991 India was in an economic crisis, in part, because of its reliance on imports. The Government of India secured an emergency loan from the IMF. Part of the debt deal was for sweeping reform of the economy. As a result, the Indian GDP grew slowly at first then picked up steam, increasing from 1.8T USD in 2011 to 3.81T USD 2021 (*World Bank*). India is on track to become the world's third largest economy and to have the world's third largest stock exchange by 2030 (*Morgan Stanley*), MS also says economy could double to 7.5T USD by 2031.

India is no China, but it will grow nicely. India's GDP as a percentage of China's: 1980-64%, in 2001 when China joined the WTO-28%, by 2021-17%. If India had kept up with China its GDP today would be roughly 10T USD. It didn't grow as fast as China, but that was then. Today India's growth rate is expected to be higher than China's for the next several years. Will it be a rip-roaring tiger like China, I don't think so.

India is no tiger, but like the elephant, it lumbers forward.

Economy

Recent articles have given the impression of an exploding infrastructure cap-X investment by the Indian government. To be sure, infrastructure spending has increased, in some cases significantly, but it is hardly an explosion, more like a major fire. I noticed these infrastructure projects in 2005, 2010, 2015, 2020, and today, 2023. No explosion here, just lumbering on.

In a similar vein, the Modi government passed the GST tax law in July 2017 when much of the economy was not paying taxes. This is improving. Numbers in this week for the month of October 2023: Goods and service tax revenue increased 13%, the second highest month on record. On the other hand, MPI (manufacturing purchasing managers index) fell from 57.5 to 55.5. Auto sales were up 16% YOY to about a 4 million annual run rate. Indian Railways freight tonnage rose 8.4%. Electricity consumption up 21% YOY. October was hot, that's for sure. But wait, if October was hot, and electricity usage surged, that means Indians have air conditioners. Yup another growth area, times are a changin. Think the 70's when Americans started getting their first AC units. Whirlpool, Carrier, etc then were growth stories.

Internet

In 2021, latest year data available, roughly 46% of India's 1.4 billion people have internet connections. That is up from 17% in 2016.

Inflation

Inflation is trending at 6.5-7.0% and the Reserve Bank of India's target is 4%. The central bank has been steadfast in its 4% inflation goal. For the past 20 years, at least, India has had inflation. Higher interest rates are not as shocking for an Indian.

The RBI (Reserve Bank of India) is expecting the Indian economy to be resilient in the face of global headwinds based on strong domestic demand, recovery in the industrial sector, robust PMI manufacturing and services growth, government supported infrastructure investment, urban consumption, reviving rural demand, general financial stability, and credit growth. Some risks include the change of El Nino due to climate change, a higher inflation number, and a further weakening of the Rupee to the dollar. India is a large oil importer and oil remains a risk. Mitigating this risk are large- and small-scale solar and wind power initiatives that have produced admirable results.

India, still not a global investment destination, but investments are coming.

India's per capital GDP is around USD 2,400, the same as China's in 2007. In the last 5 years India's MSCI country index performance is up about 130%, while China's MSCI country index is down about 10%. The World bank expects India's market to grow 6.3% in the current fiscal year, China slowing to 4.3%. Indian shares make up roughly 14% of the MSCI Emerging Markets index, but international investors have persistently held less than that level. This too is changing.
Speaking of foreign investors, they are playing a declining role in the stock market while the small domestic retail investor with his or her SIP (systematic investment plan), like the US's 401(k) plans, are supporting the market when the fickle international investors piles in, and pile out. A Jefferies report says 4.8% of the 10.7 trillion of Indian households' assets are held in the stock market. Today, roughly 39% of US households have market holdings totaling approximately 20% of net worth.

Skate to where the puck will be. Times are a changin.

The elephant lumbers on.

Passage Portfolio

Components of the Portfolio in order of percentage.

Top 5 companies, roughly 70% of portfolio.

- A digital transformation company – Passage has owned this previously small digital transformational company for nearly 9 years. The company caters to the mid-market segment in industries of Fintech, Logistics, Healthcare, and Utilities. With an inch thick, mile deep business strategy, our company has greatly benefited from the natural progression of leading-edge technology moving down from the largest to mid-sized companies. The company has done really well, and its stock price has reflected this growth. So why not sell? The business has a very long runway and we are not entertaining a sale in spite of its serious increase in market cap and percentage of the portfolio.

- The often talked about plastic bucket manufacture. I'll spare you the redo.

- A top 10 global manufacturer of positive displacement pumps. The company sells in 55 countries, has 12,000 customers, and has 275,000 pumps installed over its 55-year track record. This company produces industrial pumps to move water, viscus fluids and abrasive mixtures. The company's products include progressive cavity pumps (PCP), twin screw pumps (TSP), and retrofit parts. Its products serve a cross-section of industries including infrastructure, oil and gas, power, mining, paper, and pulp. A long-term hold of over 9 years, the company has consistently increased its revenues and profitability. Gross margin-67%, Net Profit Margin-14.6%, 10/10 years of profitability, growing revenues at >20% CAGR. D/E on the higher side for the portfolio at 0.26. The company exports 60% of its products and is in the process of expanding its international footprint. It is a low-cost, high-quality supplier.

- A water solution provider. The principal activities consist of construction and maintenance of water treatment plants, manufacturing, and supply of water treatment chemicals. The company operates its business through three segments: Engineering, Chemicals, and Consumer Products. Its Engineering division is a key revenue driver that comprises water treatment plants, spares, and services in connection with the plants. The Chemicals segment consists of resins, water treatment chemicals, sugar chemicals and paper chemicals. The Consumer Products segment comprises domestic water purifiers. The company caters to both domestic and international markets. GM-37%, NPATM (net profit after tax margin)-17%, 10/10 years profitability. 3 years rev growth 10%. D/E- 0%, Net cash of 50M USD.

- An artificial leather producer. The largest Indian manufacture of artificial leather/foam leather and other substitutes for leather and coated textile fabrics. The company's products are used in areas such as footwear, furnishings, automotive (Mercedes, BMW, plus every domestic auto OEM is a customer, and the automotive replacement market. It produces PVC vinyl for the footwear industry, and upholstery for sofas, chairs, cushion covers and bean bags. The company sells its products predominantly to manufacturers and wholesalers in India. It also exports to various countries, including the United States and the United Kingdom. GM-40%, NPATM-14%, 10/10 years profitability. 3 years growth rate 15%. D/E-0%. Net cash of 20M USD. A problem child for the portfolio. In spite of great margins, reasonable growth, the stock price is a relative underperformer.

Next 5 companies, top 10 roughly 90% of portfolio.

- A coding and marketing solutions provider operating as one of four manufactures in India. It is the only domestic manufacturer. Think the date time stamp on FMGC goods. The core business area is branding and product information, QRC, barcoding, manufacturing, batch and date codes, and traceability. Its products include continuous inject printers, high-resolution printers, thermal transfer printers, large character printers, and laser printers. The company offers services to the industries of food, beverage, healthcare, FMCG and many others. GM-57%, NPATM-18%, 10/10 years profitability, 3 years. growth rate-16%, D/E-0%, 9M net cash.

- The company manufactures recycled polyester staple fiber (RPSF) and recycled polyester spun yarn (RPSY) from consumer polyethylene terephthalate (PET) bottle scrap. The firm's products have applications in the manufacture of textiles (T-shirts, body warmers), functional textiles (non-woven air filter fabric, geotextiles, carpets, car upholstery) and fillings (for pillows, duvets, toys). Nearly all of the company's revenue is domestic. At its heart it is a recycling company that collects, purifies, and transforms waste PEP (plastic bottles) into yarn. A growing business serving a dire need in India. GM-21%, NPATM-9%, 10/10 years profitability, D/E is higher than our typical company at 0.74. Debt is elevated as it builds out its manufacturing plants in two new locations in India. After ramp up, revenue will reflect a doubling of capacity, margins should improve, and debt reduced. One of two publicly listed recyclers in India. Number one in market share. 3 years. rev growth has been essentially flat. We will watch for improvement. Market Cap 254M USD, Enterprise value, 304M USD.

- Company is engaged in the business of dealing, marketing, and manufacturing rubber contraceptives and allied prophylactic products. Its products include Male Condoms, Female Condoms, Water Based Lubricant Jelly, Hand Sanitizer, and Hair Removal Cream, of which key revenue is derived from the sale of condoms. Along with the sales in domestic markets, the company also exports its products to Brazil, South Africa, Tanzania, and Uganda. GM-57%, NPATM-19%, 10/10 years profitability, D/E-0%, Net Cash of 12M USD on a market cap of 40M USD. This company was a value play until its share price increased 246% in the last year. Now we look to Indian social norms to shift, making sexual health a much larger business, driving growth given today's significant under penetration. Pun unintended.

- Company develops, manufactures, and markets a comprehensive portfolio of dental materials for diagnosing, treating and preventing dental conditions as well as improving the aesthetics of the human smile. The company's product portfolio covers a wide spectrum of materials for endodontics, prosthodontics, orthodontics, periodontics, restorative dentistry, aesthetic dentistry and laboratory consumables. India will soon be the largest dental market in the world and it is seriously underserved. This company is a new holding. GM-75%, NPATM-32%, 5/10 years of profitability, D/E-0%. net cash 5M USD. 3 years. growth rate 18%, 3 years EPS growth rate 47%.

- One of the global leaders of food coloring manufacturing. The company offers synthetic water-soluble colors, natural colors, aluminum lakes, federal food, drug, and cosmetic colors. Their products are used in providing color solutions in the application of food and beverage, confectionery, pharmaceuticals, feeds, cosmetics, inkjet inks, pet food, healthcare, and salt-free color. The majority of its revenue comes from domestic sales. As India's relentlessly increases consumption of packaged goods, this company will benefit. As will the plastic packaging company, and the coding company. The company is just now tripling its capacity after two years in construction. GM-19%, NPATM-10%, D/E-0.28 (factory build), 3 years. rev increase 33%, 10/10 years profitability. 3 years. EPS growth 26%.

Remaining 5 companies are each between 0.8% and 1.9% of the portfolio. Think of these companies as in the AAA league, possibly being brought up to the majors after a period of evaluation.

- Company operates mainly in transportation, warehousing, and trading of goods. It also has a cold chain logistics vertical which India is woefully short. The company generates revenues from freight, warehouse, sales of traded goods, and sub-leasing.

- A company engaged in interactive marketing solutions. It offers hi-tech automotive e-retailing solutions. Geographically, it derives majority of its revenue from exports. It has a presence in North America, Europe, and Asia. The company's solutions include Automotive Solutions; Business Websites; Interactive Media Solutions and Enterprise Products. It has the world's largest inventory of auto images.

- Provider of vertically-focused enterprise technology solutions. The company's offering portfolio consists of information technology consulting, application maintenance, application development, application management outsourcing, testing, data warehousing, business intelligence, and application security. It also focuses on agile consulting, legacy modernization, oracle cloud, Oracle ERP Cloud, product-as-a-service solutions and machine learning, and digital e-commerce. Geographically the company exports its services to the United Kingdom, North America, the Middle East, and other regions. The United Kingdom region generates maximum revenue for the company.

- A manufacturer of quality labware products. The company's product portfolio is classified into three broad categories including consumables, reusables, and others. This company produces high-quality, low-cost plastic lab equipment. If there is a paradigm shift from glass to high grade plastic in labs then this company will be in another orbit. GM-71%, NPATM-25%, D/E-0.19, 3 years rev growth-18%, EPS growth-25%. If this wholesale change does not occur then I made a mistake. New Holding.

- A company engaged in the manufacture of semi-finished plastic products. The company's only operating segment being, the Polymers Processing business. Geographically, it operates only in India. Its product portfolio includes BOPP Films, Co-ex Cast Films, Co-ex Sheets, Dielectric Films, and Thermoformed Liners. The company generates revenue from Coextruded sheets, cast films and liners and Biaxially oriented films. Think EV's as a major growth driver. GM-25%, NPATM-8%, D/E-0.19, 3 years rev growth-10%, 3 years EPS growth-300+%.

Indian Market Efficiency Think Small Cap US in the 80's

In my opinion the US has gone from an efficient market and price discovery mechanism to a highly efficient bemouth driven by massive movements driven by programed trades, ETFs, and mutual funds turning over 90% of holdings in any given year. An undesirable side effect is greater concentration in the US market: 1983, not that long ago, the top 85% of market capitalization included 800 companies. Today the largest 500 companies in the US market represent 90% of the market, up from 75% in 1983 (*WSJ*). Modern markets have become very difficult to find natural inefficiencies in. They are highly regulated, costly to operate in, and have pushed smart money into PE which is either delaying coming to the market or not coming at all, finding private exits.

Furthermore, VC and PE investors are driving the valuations higher in the US. In a recent WSJ article, Charlie Munger said the US market does not now offer the value opportunity set that he and Warren Buffet enjoyed over the last 50 years. Food for thought. May I say, India does.

In the Indian small company space, you can ride an elephant through its market inefficacies.

Change is a coming as our smaller companies grow larger. As our companies manufacturing grows in size, it has a tendency to begin to market internationally. Make in India and the sheer size of the India market, combined with a low-cost producer advantage, is driving this expansion. This is neither good nor bad, it is just a subtle change I have observed in our companies. Our portfolio's aggregate revenue is still solidly in the domestic market. But as the revenues of our some of our smaller companies crests 50 to 100M USD, I am starting to see them look outward. Another change, management is getting more capable, even small business are employing CRM, migrating to the cloud, and digitalizing their operations. What I don't see yet is IOT on the factory floor. That will come but not today. There is also a subtle shift to professional management from an almost exclusively family run model. Most of the second generation have foreign business and engineering degrees, some from top global universities. Furthermore, the Indian Institute of Technology (IIT) universities in India are absolutely first rate. If we see the changes in our portfolio, and we do, then I can tell you it is happening across India.

Long Term Hold

"Compound interest is the eighth wonder of the world. He who understands it, earns it…he who doesn't… pays it." Albert Einstein

I make a lot of mistakes. I hope to make less mistakes as I age gracefully (that's a joke), but nonetheless, mistakes are a big part of this business. One mistake I have made a few times now, is selling a good company, with good management, in a good industry, operating in a growing segment of the economy. I have sold because the price has run up and the fund has had a nice, and sometimes a spectacular return. Most importantly the percentage of the portfolio has become large, so I trimmed and sometimes sold the entire position. But there's the problem in investing in smaller Indian companies at this stage of India's growth. The problem is if we find a wonderful company, somewhat small, that has innovative management, in India's growing market, then the runway and opportunity for an excellent company to become significantly larger is quite real. The problem is lack of my imagination of how big these companies can become. For example, in the early days we bought an excellent plastic pipe manufacturer at a time when cast iron was still being installed in new buildings. We invested in this company at about a 40M USD market cap. We exited after number of years and maybe a 10X return. So far so good. Well, not so fast. The company is now a 5.5B USD company. There are a couple of other notable examples of this early selling.

What to make of this? Here's what I think and here's what I am going to do. I think that some men and some women who are owners of some of our companies have wisdom, foresight, persistence, judgement, and execution that is well above average. We are all not created equal and some of us are seriously more endowed. I have concluded if I should, by the will of the universe, come across these outliers again, I will be much more reluctant to sell, even at an elevated portfolio percentage. IF I continue to believe the company's growth rate and margins will persist. We have two such companies in the portfolio now, Moldtek Packaging Ltd and Saksoft Ltd, an 11 and 9 year hold respectively. Passage has owned MTP for 11 years and has enjoyed a truly stratospheric return of 10,000%. As MTP rose I trimmed, and trimmed, and trimmed because of concentration risk, bla bla bla. Well, now I'm not going to be so fast on the trimming. Saksoft has had a relatively modest return of over 800%.

But here's the thing. I have to be right. I have to be exactly right and I have to have unwavering conviction. We see these companies in the US too. But the difference is in India today the companies are not necessarily *change the world* companies like in the US. In India they can be manufactures who are taking market share, becoming the big dog in the industry that is growing faster, or much faster, than the economy as a whole. Yes, of course there are disruptors and tech companies doing in India as well. But you also have 1.4 B people that may buy another pair of shoes. It is mundane, but that's 2.8 billion shoes and that is not boring at all. India is far away from having a mature economy and market and its growth is truly exciting. I recently returned and as usual I am taken back by India's growth and advancement. It's tangible and it's thrilling. I know, thrilling and portfolio management are not two words you want in the same sentence, but still, it's exciting.

In an even discussion, here's the down side to letting companies run. The fund will see more volatility as a result of the concentration of these winners. If it doesn't work out then in the words of Keynes, "When the facts change, I change my mind". If the company's facts do change, we'll take appropriate action. I don't think this change will have a great impact on the portfolio soon, but it may over time. One change that is occurring is our median market cap has increased due to our long-term successful holds. That said, we will still enter companies when they are small as a general rule, only now we'll let them lumber on over the long term.

Conviction

How we think

We think slow and that's OK. The problem with thinking fast, fast moving news, listening to Bloomberg on the way to work, or blogs, or talking heads, is scale, context, and timing. There is just not enough time in a broadcast to get more than an inch deep on anything. We skim across the lake in a speed boat bouncing from crest to crest without understanding the water beneath us. Yeah, I know, cheesy, but true. For my process I think really slow. I read slowly, take notes in the margins (yes that means reading, gasp, real paper books). I try hard to develop context, scale, and time (history) when I develop my world view, my economic view, and my company view. Is it right? Don't know, but it has worked.

No distractions. My only short-term vices are the WSJ, and India's Economic Times. I read a lot about how long-term successful people think, and history which I think is critically important. And, I do this without people coming into my office, going to meetings. Let's face it, with a small fund there is no one to have meetings with anyways. We generate our own ideas, meet our companies, and decide what we like, without anyone influencing our choices. We get it wrong, and sometimes we get it right. So far, we have been more right than wrong……but that's today.

I will leave you with two thoughts to ponder. First, from 1900 to 1945, in less than a lifetime, England's fortunes changed dramatically. WWI began a social and economic transformation. WWII completely this devastation of the old structure and ushered in a new era. A lot can, and does, happen in a lifetime. Second thought, in 1750 China and India each commanded 25% of all the world's GDP. Now that's interesting, isn't it?

And the elephant lumbers on.

Thank you for your interest in what I have to say. Kindest of regards, Ralph