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To:	All Limited Partners and Investors in Dhandho Holdings
From:	Mohnish Pabrai, Managing Partner
Date:	September 1, 2015
Re:	**Quarterly Update**

Dear Partners:

Hope all is well. This is a quarterly update on the ongoings at Dhandho. The second quarter of 2015 marks Dhandho's second quarter of real operating data (since we completed the acquisition of Stonetrust Insurance on 12/31/14). My letter will always try to present reality as simply as possible.

Amount raised in Q1 and Q2 2014:	$152.4 million
Acquisition & capitalization of Stonetrust:	($62.8 million)
Other Private Investments:	($2.1 million)
Acq. related & net corp. expenses thru Q2 2015:	($2.1 million)
Cash and public equity investments at DHC: ($3.7 million in gains)	$89.2 million
Stonetrust book value change in 1H 2015:	($4.6 million)
Dhandho units outstanding as of 6/30/15:	15.4 million
Book value as of 6/30/15 (unaudited):	$151.5 million
Book Value/Unit:	$9.82

The interested reader always has access to the GAAP numbers under the Financials tab of our website to delve into as they see fit.

Stonetrust Underwriting Results

In the first half of the year, Stonetrust reported an underwriting loss of $4.2 million. To say that I was surprised by this number would be an understatement. This headline number is likely far worse than underlying reality. There is a decent probability that this loss will reverse itself in the next couple of years. If you aren't interested in the rest of this rather dry discourse on the insurance business, feel free to skip over to the next section.

Insurance companies use independent outside actuaries to figure out how much they need to reserve on their books to pay future losses. Actuaries provide a range for these estimated future losses. There is a low-end and a high-end to the range. Stonetrust has historically always booked the mid-point of this range as its loss reserves. In March, 2014, Stonetrust brought on board an in-house actuary to strengthen this function. At the end of 2014, the in-house actuary recommended that Stonetrust book reserves that were $1.9 million *below* the external actuary's mid-point estimate. Insurance companies can book reserves anywhere within the range as long they have a sound basis for the same.

The in-house actuary had observed a number of changes Stonetrust had made in the manner it underwrote and managed claims. Both management and the in-house actuary believe these changes are quite positive for bottom line results. However, the external actuary did not weigh or consider these factors as prominently as the in-house actuary. Stonetrust management believed that the in-house actuary's estimate was closer to reality, so they went with his estimate.

By the time the Q2 2015 external actuary report was received, the in-house actuary had been terminated by Stonetrust (for reasons completely unrelated to the aforementioned). At this time Stonetrust is looking to fill that position. The external actuary analyzed all the data and further strengthened reserves for the 2012 and 2014 accident years. In addition, YTD 2015 reserves were booked at the about the same level as 2014. Stonetrust management booked the mid-point of the external actuary's estimate, since they did not have an in-house actuary who may have had a differing estimate.

So, for example, the ultimate loss ratio for Stonetrust from 2012 onwards (as of 6/30/15) per the external actuary is:

Year	Ult. Loss Ratio	Reserves (millions)
2012:	53.0%	$3.6 million
2013:	54.8%	$9.7 million
2014:	61.4%	$21.9 million
YTD 2015:	61.1%	$15.7 million

The Ultimate Loss Ratio is the ratio of losses incurred to earned premiums. For the last 16 years, Stonetrust has averaged a 57.5% ultimate loss ratio. And since 2011, there have been many changes made to its modus operandi to improve underwriting and claims management. If, for example, the ultimate loss ratio for 2014 and YTD 2015 ends up being 58%, there would be about $3 million in reserve take downs flowing through to future net income. Typically, about 90% of losses are paid out within the first 3½ years after a given accident calendar year. So, we will get a very good idea on actual reality on the 2014 and 2015 accident years in the next few years. As an example more than 83% of the ultimate losses have already been paid out for the 2012 accident year. And it would be unusual to see material adverse development for the 2012 (or earlier) accident years from here on out. Ideally, an insurance company should not have material adverse development. Rather it is always nice to be conservative and have regular reserve takedowns. Tim Dietrich, Stonetrust's CEO, is unhappy with the way these events have played out and is focused on making sure reserves are even more conservatively booked in the future to minimize these unpleasant surprises.

Stonetrust did have a significant increase in audit expenses as a result of the acquisition. It also had other deal related expenses. And it wrote off over $500,000 in architectural fees when we decided to minimize renovations to the building they own in Baton Rouge. Stonetrust will have at least $250,000 or more in recurring higher expenses as a result of the audits required by Dhandho before and after our proposed public offering. This will increase their combined ratio by 0.5% in 2016 and beyond.

One of my motivations for acquiring Stonetrust was to learn the insurance business. I know ten times more about insurance today than just a year ago. And I still know very little. For your sake and mine, I hope this education is not nearly as expensive as it has been so far. Insurance is a difficult business. However, I do believe we will end up with decent returns on this large investment. In addition, we have embarked on an insurance startup that would not be possible if we did not have the tremendous knowledge and capabilities of Stonetrust available to us.

I would also like to add that, since the acquisition, Stonetrust has the greatest discipline it has ever had in terms of the business it is willing to write and the pricing it considers acceptable. It has let go significant business and accounts that, in the past, it would have renewed. It has also significantly improved its claims management processes. These positives are somewhat offset by more competition and pressure on pricing.

Small Business Insurance Direct

Dhandho continues to make progress on exploring a NewCo insurance operation that would provide basic small business insurance (Business Owners' Policy, Umbrella Insurance and Workers' Comp) directly to small businesses online. Such a business would have a 15% cost advantage versus traditional insurers by eliminating the independent agent. The target audience is businesses that have less than $5000/year in premiums and are outside the core states in which Stonetrust operates. These offerings would have no overlap or conflict with Stonetrust's core offerings.

To this end we are very excited that Aditya Varanasi has recently joined us as CEO of this venture. Aditya was most recently a Marketing Director at PepsiCo, responsible for the relaunch of the Cracker Jack brand along with Lay's Stax. Prior to that, Aditya developed a disruptive, new shopper engagement model, which has since been scaled across PepsiCo. Aditya has also held a variety of brand management and advertising roles within Frito Lay. Prior to his experience in marketing, Aditya was an engineer in the R&D group at PepsiCo, and earned three US Patents during his time there. Born in India, Aditya was raised in New York and Indiana. He graduated with a BS in Chemical Engineering from Purdue University, and has a MBA from the Kellogg School of Management at Northwestern University, specializing in Marketing and Strategy.

In general, the Property & Casualty insurance industry has done a poor job of creating and investing in branding and marketing. As a result, most small business owners, when asked who they are insured by can either not answer the question or name their insurance agent as the insurance company. At Dhandho we see an opportunity created by this phenomenon and specifically wanted the leadership of this NewCo to come from the world of consumer branding versus the insurance industry.

It is very early days, but we are excited about this endeavor.

<u>Dhandho Exchange Traded Fund ("ETF")</u>

Since December of last year, we have been rigorously testing a novel approach to index investing, and Dhandho filed a patent for an innovation in this space in March and we intend to file at least one more patent around some additional innovations. This summer we have had a team of six exceptional quantitative analyst interns from the Masters of Financial Engineering program at the University of California at Los Angeles (UCLA) working in overdrive to automate and optimize our approach.

We believe that we have discovered a true new and improved "mouse-trap" and intend to launch the first of a family of ETFs based on our approach early next year. We are currently in the process of identifying and engaging the necessary service providers and partners for the launch. Needless to say, we could not be more excited about this venture, the potential impact it can have on the asset management industry, and the potential returns for Dhandho. Both these startups are classic Dhandho bets: Heads, I win; Tails, I don't lose much! We have limited downside and some very significant upside. Stay tuned!

<u>Public Offering and Listing</u>

Dhandho continues to make progress on preparations for its IPO. We are working with our underwriter, W. R. Hambrecht & Co., and counsel, Dentons, on the same. Assuming markets are receptive, we had originally planned to complete our offering in the next few quarters.

I do have a few significant concerns about the merits of an IPO in the near future and would like to hear from the investors on this:

1. With the 1H 2015 large Stonetrust loss, it is not the ideal time to get the market to value the business correctly. Markets have a habit of projecting present circumstances deep into the future. Our 1H loss will make it hard to get a proper valuation for the value of Stonetrust. And Stonetrust reflects more than 40% of the pie. As stated earlier, there is a decent chance, most of these losses will reverse themselves with reserve releases in the next 2-3 years.

2. We will likely not be able to capture much of the value that may get created in our two early stage startups. Both us and the markets will be better able to value these potential gems in a few years. We may be diluting ourselves at a valuation that is unlikely to give credit for the potential upside of these two ventures.

3. The original gameplan at Dhandho was not to do startups. It was to opportunistically acquire existing businesses. We did expend considerable effort looking at a variety of private (mostly

insurance businesses). I spoke to many insurance CEOs and visited a few of them. None of these meetings resulted in a consummated deal. In some cases there was an aggressive auction process and we backed off. In most other cases, there just wasn't anything compelling. With the huge wall money in private equity funds and strategic buyers on the prowl, it was an easy decision to pass on everything. We remain open to doing deals, but I am not optimistic about closing one in the near term. In the meanwhile, we have nearly $90 million of dry powder. We are not lacking for capital, so diluting ourselves at a low valuation to get even more capital hardly seems to make sense.

4. We accidentally stumbled upon these two startups that we are incubating. The economics with investing $1-2 million in each are a no-brainer. Before we have spent $2 million on either, we will either know we have a winner or our hands or cutoff the burn. And if we have a winner, the payoff will be several multiples of the capital we put at risk. The two startups do not need much capital to be put at risk to get going, but they are effort intensive. I'd rather have Dhandho invest its energies on these two startups than fixate on acquisitions. If something compelling shows up on the acquisition front, we can turn on a dime.

5. In order for our capital to be permanent, at some point we do need to be a public company. However, I'd prefer to avoid the distractions and cut off the additional costs at this time.

6. This is a bit technical, but it is unclear to me how we would comply with PFIC rules after we are a public company – especially after we raise $100-150 million in an IPO. We are in PFIC compliance today, but with the added capital, PFIC compliance may not be possible without one or more additional acquisitions. I'd like to avoid a detailed discussion on PFIC rules and compliance here, but you can Google it to understand the concern.

We do have an exceptional underwriter and legal counsel engaged and have already gone through GAAP audits. Thus far our IPO-prep spending is over $600,000 with an approximate ongoing $70,000 monthly burn on retainers and legal fees. Much of these costs will not be duplicated with a delayed IPO as we would have had to do the audits anyway. And much of the work that has gone into our S-1 will eventually be used, even in a delayed IPO.

As a nearly 6% owner of Dhandho my vote is to cut off as much of the burn ASAP and delay the IPO for 2-3 years. I would like to, however, hear from the other 94%. The advantage of an IPO is that soon thereafter your stake would be tradeable and you are no longer locked into being a Dhandho investor. Please send an email with your preference and perspective to shareholder@dhandho-holdings.com.

If a majority of the units prefer an IPO in 2016, I will endeavor to make that happen.

2015 Annual Meetings

As is our usual modus operandi, there will be two annual meetings sequentially at Orange County, California & Chicago, Illinois.

The **California** meeting is scheduled to be on **Saturday, September 12, 2015** at 4:00 PM at:

Soka University
Performing Arts Center
1 University Drive, Aliso Viejo, California 92656 Tel. +1949.480.4000

Soka University has a spectacular campus nestled in the scenic hills of Aliso Viejo. It is a 20 minute drive from Orange County Airport (SNA), and about an hour drive from LAX.

There is a fantastic Marriott Club Sport hotel about 3 miles from Soka University:

Marriott Renaissance ClubSport
50 Enterprise
Aliso Viejo, CA 92656
Reservations: 800-468-3571
Phone: 949-643-6700

There are many hotels in the area. Here is a link to other hotels near Soka University:

http://tinyurl.com/8dmevvu

The **Chicago** meeting is thus scheduled to be on **Saturday, September 19, 2015** at 4:00 PM at**:**

Carlucci's Restaurant
(The Auditorium)
6111 North River Road, Rosemont, Illinois 60018 Tel. +1847.518.0990

Carlucci's is a five minute taxi ride away from O'Hare airport. The Marriott Suites O'Hare and The Westin O'Hare are both next to the restaurant. In addition, there are a plethora of hotels in the vicinity. Good deals on O'Hare hotels are usually available on the major travel-related websites.

Agenda:

4:00 – 4:30 PM:	Meet and Greet
4:30 – 6:30 PM:	Presentation and Q&A
6:30 – 7:15 PM:	Cocktail Hour
7:15 PM:	Dinner

The invites have already gone out. Your significant other and kids of all ages are welcome to attend. I look forward to seeing you next month. In 2016 and beyond, we intend to hold Dhandho's annual meeting near its headquarters in San Juan, Puerto Rico.

Thanks for your continued interest, and support for Dhandho. Feel free to call me at +1949.453.0609 or email me at mp@dhandho-holdings.com with any queries or comments.

Warmly,

Mohnish Pabrai