Dear Potential Investor in Dhandho Holdings:

While I strongly encourage you to read all the offering and legal documents carefully before you make a decision on investing, I wrote this document to help you better understand Dhandho. Reading this document is not a substitute for reading the legal docs.

This owner's manual was inspired by Berkshire Hathaway's Owner's Manual and Google's Owner's Manual (from the Google S-1 before Google went public). While the core principles listed here are timeless, this manual will go through updates as we progress from a start-up Limited Partnership (LP) to a funded LP to a public company.

The very first question that likely arises in your mind is why would I want to create this new entity or raise capital. Pabrai Funds has almost $700 million in assets under management. We are acquiring an insurance company valued at under $40 million. Why not do this inside Pabrai Funds? The primary reasons for the new entity, Dhandho Holdings, are:

1. Pabrai Funds has a mandate to invest only in publicly traded equities (stocks) and bonds. It cannot buy private businesses. Thus it cannot purchase the business I have an interest in acquiring. I could have pursued amendments/side pockets etc., but that is not the type of ride/entity many Pabrai Funds' investors signed up for. Better to keep the vehicles separate and distinct.

2. I have had an interest for well over a decade in owning/controlling a high quality "float engine." Property and Casualty Insurers represent the biggest category of float generators. Float is cash held by an insurance company to be paid out as claims are settled in the months, years and decades ahead.

   A well-run insurance operation will, on average, over the long term, generate underwriting profits. Thus, the float that it holds has a *less than zero cost*. This float can be invested in a variety of ways and gains on these investments represent an additional source of profitability. A well-run insurance operation *is paid to hold other peoples' money*. Even the very best run bank does not have such an advantage. Float is not an asset owned by any insurance company. However, the benefits (or costs) of holding that float accrue fully to the insurer.

3. While there are several regulations and guidelines by rating agencies on how float can be invested, most insurance companies – even good ones – are, at best, good at underwriting, but mediocre to sub-par on investing. Some examples of insurers that are great at investing and underwriting are Berkshire Hathaway, Markel and Fairfax Financial. For all of these three businesses, quite a significant portion of shareholder gains were purely generated from their float engines. I believe Dhandho is a great vehicle to own one or more high-quality insurers. My primary competency is investing and capital allocation and a potentially permanent vehicle like Dhandho is ideal to own high-quality insurance operations.

4. The insurer we hope to acquire will see its financial strength improve considerably once it is owned by Dhandho. And over time, as Dhandho acquires more insurance and non-insurance businesses, this financial strength is likely to continue to improve. Thus it is a win-win for its policy holders, its claimants, its present owners as well as shareholders of Dhandho. The entire ecosystem benefits from this acquisition.

Thus Pabrai Funds and Dhandho will co-exist and both will be managed by yours truly. These are distinctly different vehicles, but there is some overlap and potential conflict of interest. Both Dhandho and Pabrai Funds can (and will) invest in marketable securities. In the purchase or sale of marketable securities, Pabrai Funds will always go first. After its appetite is fully satisfied, then Dhandho would start its buying or selling. Going first is sometimes an advantage and sometimes a disadvantage. With this sequential, rule based approach, the conflict is mostly eliminated. I have followed similar sequencing between the three Pabrai Funds for the last 10+ years and it has worked out quite satisfactorily.

Dhandho is a word from the Indian language of Gujarati. A literal translation is simply "business." However, Dhandho implies a savvy approach to business so that a better translation is "Endeavors that create wealth." And we certainly have ambitions to beat the S&P 500 over the long haul and create meaningful wealth in the coming decades for Dhandho shareholders.

Dhandho Holdings, LP has started life as a Delaware-based Limited Partnership formed in December, 2013.

I hope to raise $35-150 million by April 30, 2014 from a set of high net worth individuals, most of whom have been long-term investors in Pabrai Investment Funds. The minimum investment for completed subscriptions and funds received by February 28th, 2014 is $1 million and the price per unit is $10. Our second closing is on April 30, 2014. The minimum investment for the second closing is $2 million and the price per unit rises by 5% to $10.50. It is advantageous to invest by February 28, 2014. Towards this end, my family and I will invest at least $9 million in this venture on or before February 28, 2014.

If we do not raise at least $35 million, we will not be able to complete the proposed insurance company acquisition. In that case, we will return funds to all investors (less expenses). I view this as a very low probability outcome.

After we have raised the minimum $35 million, we will focus on closing the acquisition at the earliest. The acquisition has a few wrinkles, including being a mutual insurance company. The transaction is subject to a variety of regulatory approvals including the Department of Insurance in the state it is domiciled. The company name is confidential until we have closed the transaction. In my opinion, the odds of not completing the transaction are also quite low. It is a friendly acquisition and all parties see a win-win with Dhandho's acquisition.

After the acquisition is completed, I intend to pursue getting Dhandho Holdings listed on the Nasdaq Capital Markets, OTC Bulletin Board or similar exchange. We intend to pursue an initial public offering at the time of our listing. Pabrai Investment Funds cannot invest in private businesses. Assuming pricing is reasonable, it intends to participate in the IPO with about $70 million or more. We hope to raise $70-100 million in the IPO. If no other investors participate, then the IPO would raise $70 million. And if there is sufficient interest, Dhandho will raise up to $100 million. We hope to get listed as a public company sometime in 2015. Going public usually is unpredictable because raising capital in public markets is subject to the whims of the market. However, in our case, we do not need to raise any capital (and the $70 million from Pabrai Funds is virtually guaranteed). Thus I see the odds of not going public also as very low.

In the very rare scenario where we raise the capital, but cannot complete the acquisition, we have 2 years to complete any acquisition whose economics make sense to me. If we cannot find a suitable acquisition in 2 years, the funds will be returned to the investors (less expenses).

And finally, in the even rarer scenario where we raise the capital, acquire the business, but are unable to go public on any exchange of interest, Dhandho will function as a private equity vehicle with a ten-year life. I view this scenario as very remote as we have a range of options on bulletin boards and potential exchanges to list on and do not need to raise any capital at the time of listing.

To sum up, Pabrai Funds and Dhandho, while having some overlap, are radically different investment vehicles. Both endeavor to beat the market by meaningful margins over the long term – however, they will pursue this common objective in different ways with substantially different assets. Pabrai Funds is likely to put 10% of its assets into Dhandho Holdings at the first available opportunity. So, investors in Pabrai Funds are likely to end up with some exposure to Dhandho, however, that exposure may be relatively small for most investors compared to a direct investment in Dhandho Holdings. At the outset, I had invested $100,000 in Pabrai Funds – and have made no subsequent investment other than retained performance fees and retirement plan contributions. My family is investing over 10% of its net worth into Dhandho. Indeed, I am putting every available dollar into Dhandho as I very much like its future prospects.

I would also like to encourage you to read the Dhandho Owner's Manual. Please feel free to call me at +1949.453.0609 or email me if I can be of any service.

Happy Dhandho Investing!

Sincerely,

Mohnish Pabrai
Managing Partner
Dhandho Holdings, LP
mp@dhandho-holdings.com