

# DHANDHO

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To: All Limited Partners & Investors of Dhandho Zero Fee Funds and Dhandho Holdings  
From: Mohnish Pabrai, Managing Partner  
Date: January 13, 2020  
Re: **2019 Results etc.**

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Dear Partners:

Happy New Year! For the quarter ended December 31, 2019, a total of \$5.3 million was added to the various funds by new and existing partners. The additions on a per fund basis are:

Dhandho India Zero Fee US Fund:	\$2.6 million
Dhandho India Zero Fee Offshore Fund:	\$1.8 million
Dhandho Junoon Zero Fee US Fund:	\$0.9 million

**Total: \$5.3 million**

In addition, December 31<sup>st</sup> was the annual redemption date. A total of \$5.5 million was redeemed from the various funds. The redemptions on a per fund basis are:

Dhandho India Zero Fee US Fund:	\$3.3 million
Dhandho Junoon Zero Fee US Fund:	\$1.1 million
Dhandho Junoon Zero Fee Offshore Fund:	\$1.1 million

**Total: \$5.5 million**

The Dhandho Zero Fee Funds are open quarterly to new capital. The next opening is April 1, 2020. Funds and subscription docs must be in by March 31, 2020 to make the April 1<sup>st</sup> opening date. The minimum initial investment is \$1.5 million for the India Zero Fee Funds and \$500,000 for the Junoon Zero Fee Funds. Existing partners can add as little as \$25,000. If you are interested or would like more

information, please nudge either Fahad Missmar at [fm@dhandhofunds.com](mailto:fm@dhandhofunds.com) or me at [mp@dhandhofunds.com](mailto:mp@dhandhofunds.com).

The Dhandho Zero Fee Funds are open to US Accredited Qualified Purchasers (net worth over \$1 million with gross investments over \$5 million) and non-US investors who are Professional Investors (net worth over \$1 million).

The updated performance numbers of the India Zero Fee Funds are:

**Dhandho India Zero Fee Fund LP (US Qualified Purchasers) Performance Summary:**

	<b>S&amp;P 500</b>	<b>India US (net to investors)</b>
10/1/17 - 12/31/17	<b>6.6%</b>	<b>1.1%</b>
1/1/18 - 12/31/18	<b>-4.5%</b>	<b>-21.2%</b>
1/1/19 - 12/31/19	<b>31.5%</b>	<b>-4.3%</b>
<b>Annualized</b>	<b>13.8%</b>	<b>-11.4%</b>
<b>Cumulative</b>	<b>33.9%</b>	<b>-23.7%</b>

**Dhandho India Zero Fee Fund Offshore Ltd. (Offshore/IRA Investors) Performance Summary:**

	<b>S&amp;P 500</b>	<b>India Offshore (net to investors)</b>
10/1/17 - 12/31/17	<b>6.6%</b>	<b>0.5%</b>
1/1/18 - 12/31/18	<b>-4.5%</b>	<b>-20.2%</b>
1/1/19 - 12/31/19	<b>31.5%</b>	<b>-4.5%</b>
<b>Annualized</b>	<b>13.8%</b>	<b>-11.2%</b>
<b>Cumulative</b>	<b>33.9%</b>	<b>-23.4%</b>

The updated performance numbers of the Junoon Zero Fee Funds are:

**Dhandho Junoon LP (US Qualified Purchasers) Performance Summary:**

	<b>S&amp;P 500</b>	<b>Junoon US (net to investors)</b>
7/1/16 - 12/31/16	<b>7.8%</b>	<b>12.9%</b>
1/1/17 - 12/31/17	<b>21.8%</b>	<b>15.6%</b>
1/1/18 - 12/31/18	<b>-4.5%</b>	<b>-16.2%</b>
1/1/19 – 12/31/19	<b>31.5%</b>	<b>14.6%</b>
<b>Annualized</b>	<b>15.4%</b>	<b>6.7%</b>
<b>Cumulative</b>	<b>64.9%</b>	<b>25.3%</b>

**Dhandho Junoon Offshore Limited (Offshore/IRA Investors) Performance Summary:**

	<b>S&amp;P 500</b>	<b>Junoon Offshore (net to investors)</b>
7/1/16 - 12/31/16	<b>7.8%</b>	<b>12.6%</b>
1/1/17 - 12/31/17	<b>21.8%</b>	<b>17.8%</b>
1/1/18 - 12/31/18	<b>-4.5%</b>	<b>-16.2%</b>
1/1/19 – 12/31/19	<b>31.5%</b>	<b>13.9%</b>
<b>Annualized</b>	<b>15.4%</b>	<b>6.9%</b>
<b>Cumulative</b>	<b>64.9%</b>	<b>26.5%</b>

## **Dhandho Holdings**

Dhandho Holdings' estimated NAV at 12/31/19 was \$3.75 per unit, up 11% from the final NAV of \$3.37 at 9/30/19. The change in the NAV is attributed mainly to the value of our concentrated stock portfolio, which fluctuates daily. If you include the \$1/unit distributed to all investors in the second quarter, the 12/31 NAV is up 15% for the year.

Stonetrust's buyer is current on all payments to us. Towards the end of 2019, our wonderful buyer Francis Chou made an early payment, in full, of the \$2 million that is due to us on 1/1/2020. Assuming no adverse development at Stonetrust, the remaining \$11.4 million, or \$0.75/unit, of the original \$70.4 million purchase price should be paid to us between now and January 1, 2022. We are applying haircuts and discounts to account for uncertainty, and holding the \$11.4 million receivable on our books at approx. \$5 million, or \$0.35/unit. These haircuts and discounts are subject to change following our year-end audit.

### *Next Distribution*

To recap, Dhandho Holdings' starting NAV at inception in 2014 was \$10/unit. We have already returned a total of \$6/unit to investors in two previous distributions. The remaining \$4/unit of the original capital we raised is currently valued at \$3.75. In other words, if this \$3.75 were fully liquid today and we distributed it to investors, the overall loss for investors would be under 3%. And that loss assumes no value for the Dhandho Funds business, which I think eventually can be quite valuable.

We are gearing up to push out the next distribution of \$1.50/unit in Q1 2020. This will bring the total cash distributed to \$7.50/unit, leaving approx. \$2.50/unit left from the initial \$10/unit of capital that most partners invested. The plan is to keep making distributions until we have returned all of the initial capital and then some.

For this \$1.50/unit distribution, we will unload enough positions and shares from our investment portfolio and distribute that cash. We need your cooperation to distribute the funds in a timely manner. Please respond promptly when we nudge you for account verification information prior to releasing the funds. You can reinvest your Dhandho Holdings distribution into the PIFs, the India Zero Fee Funds, or Junoon on April 1, 2020. The minimum amount to invest in each fund is \$25,000 or the amount of your distribution (whichever is lower), though you can invest more than that if you wish. PIF2 will remain closed to new investors as it hardly has any slots available. You will receive additional information on these reinvestment options later this quarter, so look out for that email. In all cases, we need to be in receipt of all funds and subscription docs by March 31<sup>st</sup>.

Like in the past, we will also have a mechanism to allow existing investors to fully exit for those that prefer that option. We'll prorate the sale among interested buyers after insiders (excluding me) have made their purchases. With that said, *I have no plans to sell any of my Dhandho units*. Other Dhandho insiders like Fahad and Jaya are eager buyers of any units that come up for sale. Please email Fahad Missmar ([fm@dhandhofunds.com](mailto:fm@dhandhofunds.com)) if you are interested in a full exit.

My best guess is that when the dust settles we would have returned \$10/unit or more to investors. Zero loss of principal is an exceptional result on a mistake and no one is happier than me when we finally exceed \$10/unit in distributions. Dhandho Holdings unit holders own 100% of the General Partner of the Zero Fee Funds. This is likely to be a wonderful business to own in the long run. With about \$100 million in assets, Dhandho Funds has already gotten the scale to be a profitable entity. The funds do need to get past high watermarks for us to see the benefits of that scale.

## **The Zero Fee Funds**

### *India Zero Fee Funds*

The India Zero Fee Funds were up 4.7% in Q4 2019, and down about 4.5% for the year, vs. the S&P 500 which was up 9% in the quarter and 31.5% for the year. Since inception, the India funds have faced strong headwinds in terms of significant declines in India's small and midcap indices. While we benchmark against the S&P 500, in the near term the broad Indian market declines do directly weigh on the portfolio.

Indian small and mid-cap indices fell 5-8% (in USD terms) in 2019. Over the past 24 months, these indices have fallen 25-36%, and our funds fell about 25%. However, not all of our decline can be attributed to market declines. Some of the blame lies in dumb stock picking by yours truly. Out of approximately \$100 million that has been invested by both the India funds since inception, about \$12 million in unrealized losses are clearly mistakes I made in allocations. We have not exited any of these positions as it is highly likely a good amount of these unrealized loss will reverse themselves in due course. We likely won't have much in gains on these positions (as I intend to exit at break-even or better), but the eventual realized losses are likely to be far lower than the present \$12 million.

The good news is that the bulk of the portfolio is indeed allocated very well. We also own fractions of several wonderful businesses with solid moats that are managed by exceptional leaders and capital allocators. If I made no changes to the entire portfolio for five years, I'm confident we'll all be very pleased with the results. The Indian indices are likely past their bottom. They were up 3-5% in Q4 2020 and in the first ten days of the year the funds are up 3.6 – 4%.

All of the team incentives at the India Zero Fee Funds are aligned with you. We do not get paid until you make at least 6% a year annualized. We only get paid after you get paid. While the high water mark looks distant, I'm confident we'll get past it in the not too distant future. This is an especially good time to add funds to the India Zero Fee Funds as everyone (including all new funds) gets a free ride till we get past the universal high water mark.

### *Junoon Zero Fee Funds*

The Junoon Zero Fee US and offshore funds were up 13.9 and 14.6% respectively in 2019. In most years those would be perfectly acceptable results. However, in 2019, the tech heavy S&P 500 was up 31.5%, leaving Junoon in the dust. It is a rare feat. In the last two decades the S&P 500 has exceeded 30% gains in a calendar year just twice. And most of the gains in the valuations of the largest portions of the S&P 500 (Alphabet, Amazon, Apple, Microsoft etc.) were multiple expansion, not earnings growth.

We know from our backtests that Junoon is unlikely to keep up with the S&P 500 when it has especially strong years. The S&P 500 owns many fantastic businesses, but business valuations do appear to be full. I'd rather own Junoon than the S&P 500.

I do believe Junoon's multi-strategy approach of fixating on cannibals, spinoffs and cloned ideas is indeed correct and powerful. However, there are a myriad of rules, choices and filters that could be applied within each bucket. After Junoon launched in 2016, we made the first set of tweaks to these rules in 2017 and have been running what I label as Junoon 2.0. We have recently moved to Junoon 3.0.

This quarter, we implemented a few tweaks to the Cannibals and Spin-Offs strategies. Within Cannibals, we tweaked the selection process to give more preference to businesses that have shown a consistent commitment to buybacks over time. These businesses engage in buybacks as part of their core "flywheel," and have demonstrated this over time. In addition, we added a return on invested capital (ROIC) condition to prioritize those cannibals with the highest business quality. We also removed the industry block on insurance for a subset of the Cannibal picks.

Within Spin-Offs, we tightened the credit rating rules to ensure that the businesses entering and staying in the portfolio are financially sound. This helps us avoid spin-offs that may have been saddled with debt by their parent companies. We also now have stringent credit downgrade rules to remove companies with deteriorating balance sheets. And we added an ROIC condition to let in spin-offs with the highest business quality. These are the first tweaks we've made to Junoon's strategy since July 2017. The Junoon 3.0 tweaks we made this quarter were the product of hundreds of man-hours of back-testing.

[The Man Who Solved the Market](#) by Greg Zuckerman is a wonderful biography on Jim Simons and his stellar quant shop, Renaissance Technologies. I very much enjoyed reading it. Greg is a talented story teller. He works for the Wall Street Journal and I have enjoyed his previous books, including *The Frackers* and *The Greatest Trade Ever*. Where there are virtually no similarities between Junoon and Renaissance's approach, the one common theme is continuous improvement. Renaissance would be a shadow of its present self if it weren't a continuous learning machine and the same applies to Junoon. Junoon's three buckets are right on. However, we know that we are not in utopia. Our filters are very good, but we are not yet in the promised land. I am confident we'll get closer to the promised land in the years ahead.

Junoon's portfolio can always be found on our website here:

<http://dhandhofunds.com/hedge/pdf/web/viewer.html?file=Holdings.pdf>

(to access, the id: **dhandho** and pw: **zerofee**).

Like the India Funds, new dollars invested in Junoon in April 2020 get a free ride (with no fees) until we get past its high water mark. This is not a minor advantage to investors.

### *Alignment of Interests*

My investment in Dhandho Holdings is worth approx. \$12 million at the 12/31/19 estimated NAV and The Dakshana Foundation's interest is worth \$0.7 million. Fahad Missmar, Jaya Velicherla, The

Dakshana Foundation and I own about 24% of Dhandho Holdings. It is important to note that Dhandho has never issued stock options or simply granted units to management. Every unit we own has been bought at the then-published NAV.

### **The Zero Fee Structure**

The fee structure of the Dhandho Zero Fee Funds is a reflection both of our commitment to generating value for investors and our belief in our product. We only get paid if the funds deliver better than 6% annualized. There are no management fees. Just performance fees, which are zero until a 6% annualized return is delivered; above 6% investors keep  $\frac{3}{4}$  of the gains and Dhandho Funds keeps  $\frac{1}{4}$ . For example, if a fund is up 10% in a year, Dhandho Funds gets 1% of AUM as a performance fee. If it is up 5%, we get nothing. It is a win-win proposition that puts us in full alignment with you.

Dhandho Funds did not earn a performance fee for this quarter for its management of the India Zero Fee Funds or Junoon Zero Fee Funds.

### **Updated Investor Presentations**

You can view the India Zero Fee Funds' updated slide deck here:

<http://dhandhofunds.com/india/pdf/web/viewer.html?file=Deck.pdf>.

You can view the Junoon Zero Fee Funds' updated slide deck here:

<http://dhandhofunds.com/hedge/pdf/web/viewer.html?file=Deck.pdf>.

To access either presentation, the id is **dhandho** and password is **zerofee**.

### **Online Portal for Investment Statements**

We are working with our administrator, Liccar, to set up an online portal for each investor. Instead of emailing your investment statements quarterly, Liccar will upload them to the portal and notify you via email. Liccar will also upload the K-1's to the portal.

We will begin using the portal for the 3/31/2020 investment statements. All investors will receive an email from Liccar prior to that date which will give you instructions for setting up your account in the portal.

### **Final K-1's (for US Investors)**

For Dhandho Junoon LP, Dhandho India Zero Fee Fund LP, Dhandho Holdings LP and Dhandho Holdings Qualified Purchaser LP investors, we expect your final K-1s to be emailed to you (password protected) and uploaded to the Liccar portal in March 2020.

## **Annual Report – Will be out in Q2 2020**

Our modus operandi now is to provide expansive commentary in the annual reports and the annual meetings. The quarterly letter will continue to provide updated performance numbers and announcements, but minimal commentary. The annual report is slated to be published in Q2 2020.

## **Chai With Pabrai Blog**

Please check out my blog [www.ChaiWithPabrai.com](http://www.ChaiWithPabrai.com) which I try to keep updated. Here are some recent additions to the blog:

### **2020 Free Lunch Portfolio**

In December 2017, I co-authored an article in Forbes about [The "Free Lunch" Portfolio](#), which combines the power of Uber Cannibals, Shameless Cloning and Spinoffs. An updated portfolio was published on the [blog](#) in December 2018. We have now rebalanced the Free Lunch Portfolio for 2020.

<http://www.chaiwithpabrai.com/blog/2020-free-lunch-portfolio>

### **My Annual Talk at Boston College**

I very much enjoyed my discussion with Prof. Arvind Navaratnam's class on Fundamental Analysis & Value Investing at the Carroll School of Management (Boston College) in November 2019. We discussed a few investing frameworks, the importance of investment mistakes, and how to look for businesses that transcend geography and currency.

<http://www.chaiwithpabrai.com/blog/my-9th-annual-talk-at-boston-college>

It is also available as a podcast on Apple Podcasts:

<https://tinyurl.com/applepabrai>

### **Interview for Graham & Doddsville Newsletter, Columbia Business School**

I enjoyed being interviewed for the Graham & Doddsville newsletter from the students of Columbia Business School. I discussed my journey that led to my starting Pabrai Funds, mistakes and learnings from the 2008 financial crisis and the importance of staying within one's circle of competence.

<http://www.chaiwithpabrai.com/blog/interview-for-graham-doddsville-newsletter-columbia-business-school>

### **2020 Annual Meetings – Save the Date**

There will be two annual meetings held sequentially in Orange County, California & Chicago. These meetings will cover Pabrai Funds, Dhandho Holdings and Dhandho Funds.



Prior to the California meeting on September 12th, 2020, we will have the 7th Annual Gran Fondo Dhandho Bike Ride. It's a scenic ride around the Newport Estuary with views of the Pacific Ocean in Newport Beach, California. Biking can be a dangerous activity; we only want folks who are decent bikers on the ride. The ride begins at Starbucks in Newport Beach at 8:15 AM, and ends there around 10:30 AM. For folks that just wanna chill, you can come to the Starbucks at 10:30 AM and hang out with us bikers.

Here is a link to the Starbucks location:

<http://www.starbucks.com/store/18175/us/jamboree-bristol/3601-jamboree-road-newport-beach-ca-926602961>

Bikers are best off staying at the Newport Beach Marriott Bayview, as it is less than 0.5 miles from our Starbucks rendezvous point. Here is a link to the hotel's website: <http://www.marriott.com/hotels/travel/npbst-newport-beach-marriott-bayview/>. We will provide bike rental information for out-of-towners in our next Letter to Partners in April.

I hope you'll join me on Saturday morning to experience some of the magic of Southern California.

The **California** meeting is scheduled to be on **Saturday, September 12th, 2020** 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:

<https://tinyurl.com/hotelsOC>

The **Chicago** meeting is scheduled to be on **Saturday, September 26th, 2020** 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 (Chicago only)

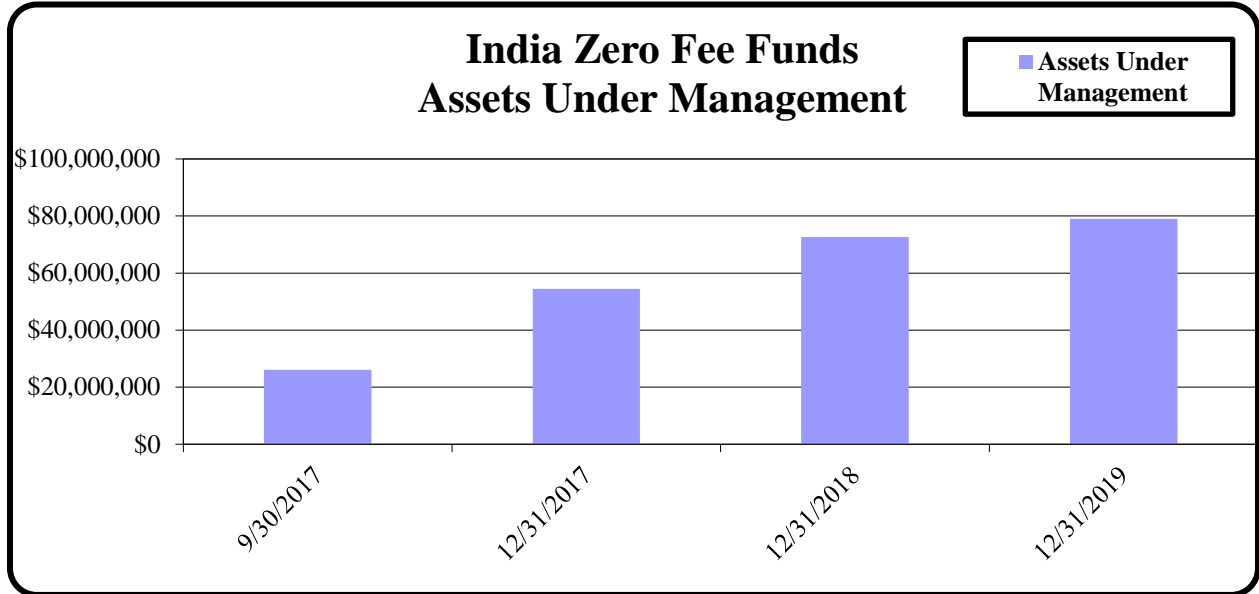
In lieu of dinner in California, we'll have an extended cocktail hour with expanded appetizers (multiple food stations), and lots of tables to sit and chat.

The invites will go out electronically via email in July 2020. Look for it in your inbox! If you don't receive it, please contact [invite@pabraifunds.com](mailto:invite@pabraifunds.com). Your significant other and young kids are welcome to attend. As we are now a Registered Investment Advisor, the SEC requires that all guests must be "accredited investors," which includes your adult kids (22 years or older). The invitation is non-transferable.

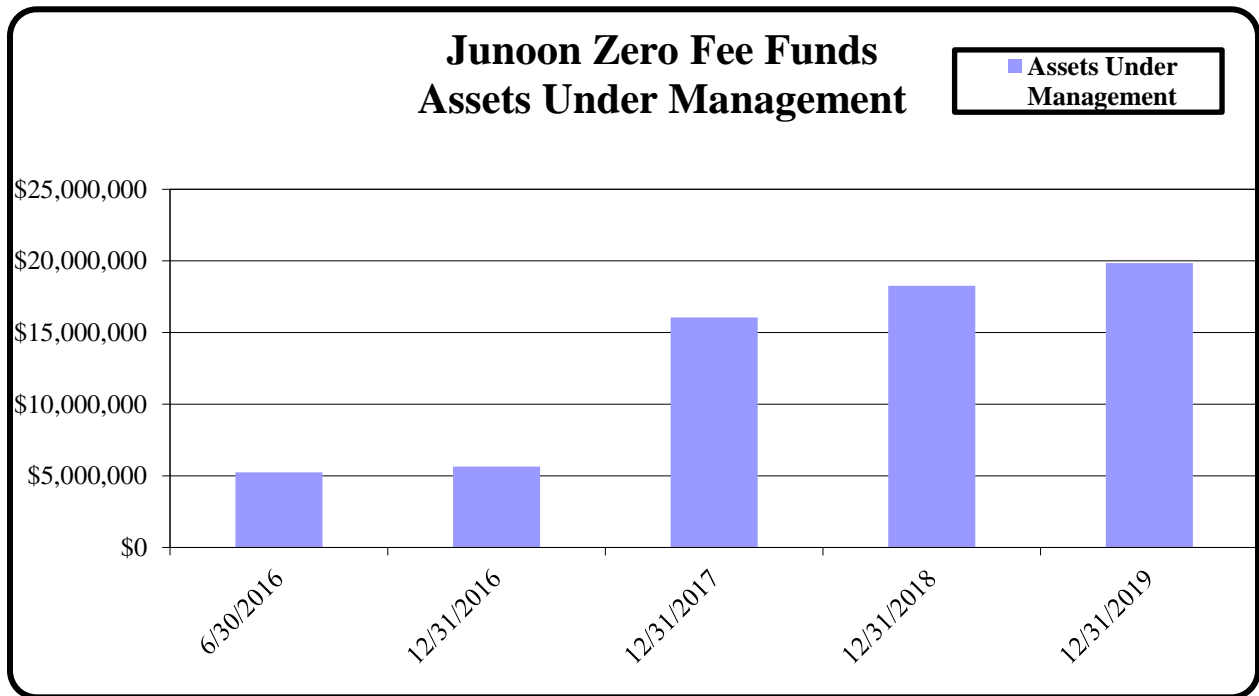
I look forward to seeing you in September.

**Assets Under Management**

There is \$79.0 million in assets under management in the India Zero Fee Funds as of January 1, 2020.



There is \$19.9 million in assets under management in the Junoon Zero Fee Funds as of January 1, 2020.



Thanks for your continued interest, referrals and support. Feel free to call me at +1949.878.3557 or email me at [mp@dhandhofunds.com](mailto:mp@dhandhofunds.com) with any queries or comments.

Warm regards,

A handwritten signature in black ink, appearing to read 'Mohnish Pabrai', with a long horizontal stroke extending to the right.

Mohnish Pabrai

*Note: Various indices are included throughout this letter for reference. Reference to an index or benchmark does not imply that the strategy will achieve returns, experience volatility, or have other results similar to the index. As an example, the Dhandho Zero Fee Funds may invest in foreign securities, however the indices presented only include U.S. securities.*

*Dhandho Funds uses the Vanguard 500 Index Admiral Fund (VFIAX) with reinvested dividends to depict the S&P 500 returns. VFIAX is an investable mutual fund product by Vanguard mimicking the S&P 500 Total Return Index with reinvested dividends.*

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## Appendix A

### Dhandho India Zero Fee Fund LP's Performance History (Net to Investors)

No. of Units	Date	NAV
1,830,217	10/1/2017	\$10.00
3,183,760	12/31/2017	\$10.11
5,334,464	12/31/2018	\$7.97
5,601,158	03/31/2019	\$8.64
5,848,319	06/30/2019	\$8.01
5,852,592	09/30/2019	\$7.28
5,758,774	12/31/2019	\$7.63

### Dhandho India Zero Fee Fund Offshore Ltd. Performance History (Net to Investors)

No. of Units	Date	NAV
780,489	10/1/2017	\$10.00
2,218,439	12/31/2017	\$10.05
3,747,823	12/31/2018	\$8.02
4,184,409	03/31/2019	\$8.64
4,347,454	06/30/2019	\$8.03
4,347,454	09/30/2019	\$7.32
4,586,341	12/31/2019	\$7.66

## Appendix B

### Dhandho Junoon LP's Performance History (Net to Investors)

<b>No. of Units</b>	<b>Date</b>	<b>NAV</b>
425,000	07/1/2016	\$10.00
400,000	12/31/2016	\$11.29
582,360	12/31/2017	\$13.05
849,508	12/31/2018	\$10.94
857,455	03/31/2019	\$12.58
920,966	06/30/2019	\$12.60
867,624	09/30/2019	\$12.00
853,033	12/31/2019	\$12.53

### Dhandho Junoon Offshore Ltd. Performance History (Net to Investors)

<b>No. of Units</b>	<b>Date</b>	<b>NAV</b>
99,998	07/1/2016	\$10.00
99,998	12/31/2016	\$11.26
638,352	12/31/2017	\$13.26
808,442	12/31/2018	\$11.11
816,339	03/31/2019	\$12.66
820,101	06/30/2019	\$12.66
811,813	09/30/2019	\$12.07
724,336	12/31/2019	\$12.65

## Appendix C

### Dhandho Holdings Performance History (Net to Investors)

No. of Units	Date	NAV <sup>1</sup>
14,837,687	03/31/2014	\$10.00
15,218,640	12/31/2014	\$9.93
15,288,640	12/31/2015	\$8.36
15,218,640	12/31/2016	\$8.73
15,217,801	12/31/2017	\$4.92 <sup>2</sup>
15,215,635	12/31/2018	\$4.12
15,215,635	03/31/2019	\$4.39
15,214,731	06/30/2019	\$3.58 <sup>3</sup>
15,214,731	09/30/2019	\$3.37
15,214,731	12/31/2019	\$3.75* <i>estimate</i>

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<sup>1</sup> The NAV listed in this chart represents the NAV of Dhandho Holdings LP (“DHLP”), in which the majority of investor’s interests are held. The NAV of Dhandho Holdings Qualified Purchaser LP (“DHQP”) may differ slightly.

<sup>2</sup> A distribution of \$5.00/unit was made to all investors effective December 31, 2017.

<sup>3</sup> A distribution of \$1.00/unit was made to all investors in Q2 2019.