

# DHANDHO

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To: All Limited Partners & Investors of Dhandho Zero Fee Funds and Dhandho Holdings  
From: Mohnish Pabrai, Managing Partner  
Date: July 19, 2018  
Re: **Q2 2018 Results et. al.**

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Dear Partners:

For the quarter ended June 30, 2018, a total of \$7.7 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:	\$2.5 million
Dhandho India Zero Fee Offshore Fund:	\$3.3 million
Dhandho Junoon US Fund:	\$1.0 million
Dhandho Junoon Offshore Fund:	\$0.9 million
<b>Total:</b>	<b>\$7.7 million</b>

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 Qualified Clients (net worth over \$2.1 million). 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.

The Dhandho Zero Fee Funds are open quarterly to new capital. The next opening is October 1, 2018. Funds and subscription docs must be in by September 30, 2018 to make the July 1<sup>st</sup> opening date. If you are interested to subscribe 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 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 - 6/30/18	<b>2.6%</b>	<b>-13.0%</b>
4/1/18 – 6/30/18	<b>3.4%</b>	<b>-4.7%</b>
<b>Cumulative</b>	<b>9.4%</b>	<b>-12.0%</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 - 6/30/18	<b>2.6%</b>	<b>-11.8%</b>
4/1/18 – 6/30/18	<b>3.4%</b>	<b>-4.1%</b>
<b>Cumulative</b>	<b>9.4%</b>	<b>-11.4%</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 – 6/30/18	<b>2.6%</b>	<b>4.4%</b>
4/1/18 – 6/30/18	<b>3.4%</b>	<b>2.1%</b>
<b>Annualized</b>	<b>16.1%</b>	<b>16.7%</b>
<b>Cumulative</b>	<b>34.7%</b>	<b>36.2%</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 – 6/30/18	<b>2.6%</b>	<b>4.5%</b>
4/1/18 – 6/30/18	<b>3.4%</b>	<b>1.9%</b>
<b>Annualized</b>	<b>16.1%</b>	<b>17.7%</b>
<b>Cumulative</b>	<b>34.7%</b>	<b>38.6%</b>

## **The Zero Fee Funds**

### *India Zero Fee Funds*

The India Zero Fee US and offshore funds are down 4.7% and 4.1%, respectively for the quarter, after all fees and expenses, while the S&P 500 is up 3.4%. In the first half of 2018, the US and offshore funds are down 13% and 11.8%, respectively, while the S&P 500 is up 2.6% during the same period.

There has been a lot of turmoil in Indian small-cap and mid-cap stocks in the last six months. The S&P Small-Cap BSE Index in India is down 22% in the 1st half of 2018, while the S&P Mid-Cap BSE Index is down 19%. The Indian rupee has also weakened against the dollar by about 7% since the start of the year. While our portfolio did a little better during this period, one should not read too much into it.

*Only those who will be sellers of equities in the near future should be happy at seeing stocks rise.  
Prospective purchasers should much prefer sinking prices.*

- Warren Buffett

While the rattled markets impacted the market values of some of our holdings, like Warren I prefer sinking prices. The US and offshore funds had plenty of dry powder this quarter, and we picked up ownership stakes in a few amazing businesses. We now own fractions of a couple of monopoly and oligopoly type businesses that make insane margins and have powerful tailwinds. I hope we are smart enough to remain owners of these fantastic businesses for decades.

So far this year, I have spent 42 days in five trips to India. I have trips planned to spend another 40-50 days in India before the year is out. The trips continue to be exhilarating and extremely educational. I have met with and/or visited over 150 publicly traded businesses in India over the last 18 months.

It is in the nature of investing that one is going to have a relatively high error rate. John Templeton used to say that even the best investment analyst is going to be wrong a third of the time. I know that we own stocks that will eventually turn out to be duds - I wish I knew which ones! However, even with a few duds, the Dhandho India Zero Fee Funds should do quite well in the years ahead. I love what we own. Virtually all of them have high returns on equity coupled with robust growth runways as far as the eye can see. I am very bullish on the India funds.

### *Junoon Zero Fee Funds*

The Junoon Zero Fee US and offshore funds are up 2.1% and 1.9%, respectively for the quarter, after all fees and expenses, while the S&P 500 is up 3.4%. Since inception on July 1, 2016, the funds are up 16.7 – 17.7% annualized, versus 16.1% for the S&P 500.

Junoon's multi-strategy construction continues to be an excellent long-term alternative to the S&P 500. In this quarter, although the Cloned Ideas bucket (which picks the highest conviction stock of a handful of value managers, including Pabrai Funds) was down 1%, the Cannibals bucket was up 2.2% and Spin-Offs up 1.3% (these bucket returns are before fees). Over the long-run, the balance among

the three buckets tempers volatility and still delivers very acceptable results. [It tastes great and is less filling!](#)

In Q2 2018, Dhandho Funds earned \$33,805 in performance fees from its management of the Junoon Zero Fee Funds.

### **Dhandho Holdings**

Most investors bought into Dhandho Holdings at \$10/unit and have received \$5/unit back in cash earlier this year. Thus your net investment (at cost) is \$5/unit at this point.

Dhandho Holdings' estimated NAV at 6/30/18 was \$4.74 per unit. This NAV discounts the final \$15.4 million due to us over the next 4 years from Stonetrust's sale price at 10%, and applies a 50% haircut. So the \$15.4 million receivable is carried at \$5.7 million. If no discount or haircut is applied then Dhandho's estimated NAV was \$5.38/unit as of 6/30/18.

We sold Stonetrust for \$70.4 million. As part of the sale agreement, Dhandho received \$40 million at closing. A second tranche of \$15 million came due on May 15, 2018. The final \$15.4 million is paid to us on the first 4 anniversary dates of the transaction, subject to "holdbacks" in the event Stonetrust reports a deficiency of reserves on its pre-2018 claims. As of today, Dhandho has received \$10.1 million of the \$15 million tranche that was due on 5/15/18. The \$4.9 million that is outstanding is accruing interest at LIBOR +5%. We expect to receive the outstanding amount by year-end.

A simple way to think about Dhandho is that the Stonetrust receivables and our stake in the Tandem III fund currently make up 1/3 of the Dhandho Holdings assets. Most of this \$26.4 million won't grow much in value. In fact it could shrink as it is subject to haircuts etc. The remaining 2/3 of our assets (about \$55 million) is invested in publicly traded equities. The intrinsic value of this publicly traded portfolio is a lot higher than \$55 million (in my opinion).

Our largest position is Fiat Chrysler Automobiles (FCA) and it makes up 55% of this portfolio. FCA is spinning off Magneti Marelli to shareholders later this year and is trading at just two times the company's estimate of 2022 earnings. And I think those 2022 earnings estimates are heavily sandbagged and understated. The rest of the Dhandho Holdings portfolio is invested in listed Indian equities and I am quite bullish on those as well.

It is important to note that at this time no value is being ascribed to Dhandho Funds. Dhandho Funds is the General Partner of the Dhandho Zero Fee Funds and a subsidiary of Dhandho Holdings. Dhandho Funds is now two years old. It started in July, 2016 with \$5 million in assets under management (AUM). By July, 2017 the AUM had grown to about \$9 million. And now, as of July, 2018, the Dhandho Funds AUM is \$89 million – nearly a 10x growth in the last year!

So, what might Dhandho Funds be worth in the future? I do not know the answer, but its value will be a function of the AUM, performance, fees it generates and the portion of its fees left after expenses and team compensation. Let's say ten years from now there is \$1 billion in assets at Dhandho Funds and it is projected to average a 12% annualized return with no further increases in AUM. This would imply gross fees of approximately \$15 million/year. If 40-50% of this number ended up with

Dhandho Holdings' owners (\$6-7.5 million), one could ascribe a value to the business of 5-7% of AUM or \$50-70 million. The real numbers could be a lot lower or a lot higher depending on reality. However, it is important to remember that any value being created here is with virtually no capital being invested. It is pure upside with virtually no downside. Heads, we win; Tails, we don't lose much!

We plan to make the next distribution of \$1 - \$2 per unit in Q1 2019. We will also have a mechanism to allow full exits in Q1 2019 for those that prefer that option. This time we'll prorate the sale among all interested buyers. With that said, *if I were you, I would not sell any of my Dhandho units*. I will be trying to buy as many units as I can.

### *Alignment of Interests*

My family's investment in Dhandho Holdings is worth approx. \$15 million at the estimated 6/30/18 NAV and The Dakshana Foundation's interest is worth \$889,000. My family, other insiders and The Dakshana Foundation own about 23% of Dhandho Holdings. It is important to note that Dhandho has never issued stock options or given units to management below fair value, etc. Every unit we own has been bought on the same terms as you.

### **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 0% 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 the India Zero Fee Funds this quarter.

Dhandho Funds received a performance fee of \$20,258 for Junoon US and \$13,547 for Junoon Offshore for Q2 2018. Dhandho Funds will reinvest its fee back into Junoon US and will take its fee for Junoon Offshore in cash as BVI rules do not allow us to reinvest our performance fees in the offshore fund. Through June 30, 2018, Dhandho Funds has reinvested total performance fees of \$177,525 into Junoon US; these shares have a current value of \$187,692.

### **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**.

### **2017 Annual Report**

The [2017 Annual Report](#) of the Dhandho Zero Fee Funds and Dhandho Holdings is on the website for your perusal. To access, the id is *dhandho* and password is *wealth*.

### **Interview with SumZero**

On June 25, 2018, Forbes.com published my recent interview with SumZero.

<http://www.chaiwithpabrai.com/blog/interview-with-sumzero-in-forbes-advice-for-value-investors>

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:

### **ET Now “Chai With Pabrai” Segment**

On May 31, 2018, I was interviewed by ET Now for a “Chai With Pabrai” segment.

<http://www.chaiwithpabrai.com/blog/chai-with-pabrai-et-now-interview>

### **Lecture at Columbia Business School**

I recently gave a lecture to Professor Bruce Greenwald’s “Legends of Value Investing” class at Columbia Business School. The talk was entitled “Where have we been and where are we headed?”

<http://www.chaiwithpabrai.com/blog/lecture-at-columbia-business-school-where-have-we-been-and-where-are-we-headed>

### **Q&A Session with Dakshana Scholars at JNV Silvassa**

I very much enjoyed my Q&A session with the Class of 2019 Dakshana Scholars at JNV Silvassa (Union territory of Dadra & Nagar Haveli, India) on February 25, 2018. This all-female batch of Dakshana scholars will take their medical entrance exams in 2019. The majority are likely to be accepted by the best medical schools.

<http://www.chaiwithpabrai.com/blog/talk-with-the-class-of-2019-dakshana-scholars-feb-25-2018>

### **2018 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 8, 2018, we will have the 5th 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>

Several out-of-towners rented bikes from The Path Bike Shop last year. Here is a link to their website: <http://www.thepathbikeshop.com/>. They have a great selection of bikes and will deliver and pick up the bikes from your hotel. 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/>.

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 8th, 2018** 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 15th, 2018** 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 PM: Cocktails  
7:15 PM: Dinner (Chicago only)

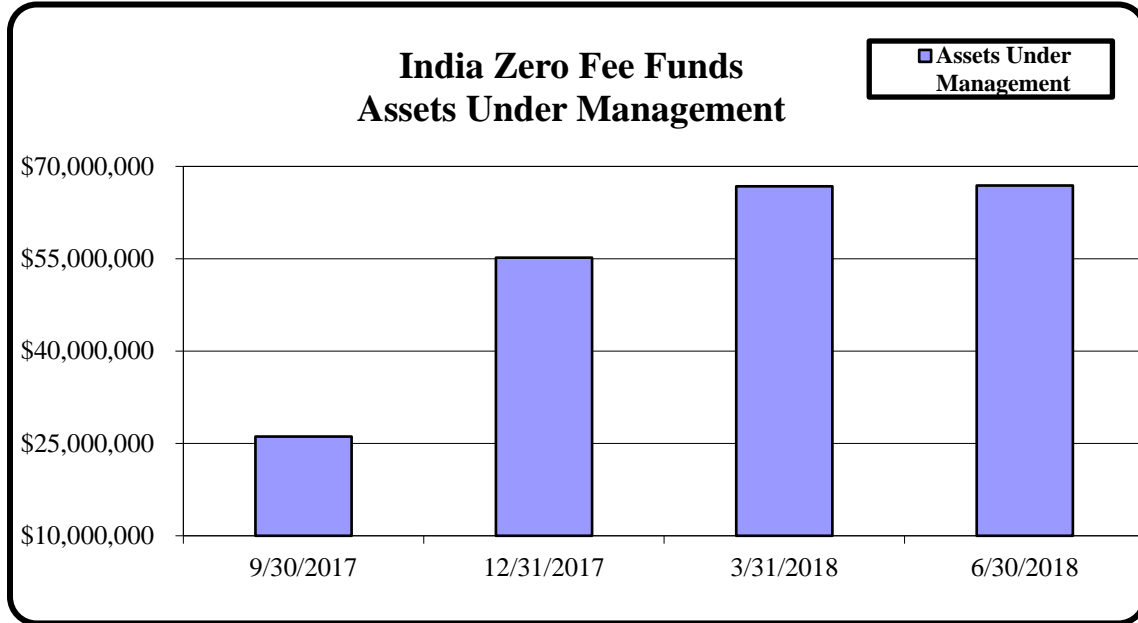
In lieu of dinner in California, we'll have an extended cocktail hour with expanded appetizers (multiple food stations), and lots of tables to sit and chat.

The invites will go out electronically via email in July 2018. If you didn't receive it, please contact [kj@pabraifunds.com](mailto:kj@pabraifunds.com). Your significant other and kids of all ages are welcome to attend. As we are now a Registered Investment Advisor, the SEC requires that all guests (excluding family members) must be "accredited investors." The invitation is non-transferable.

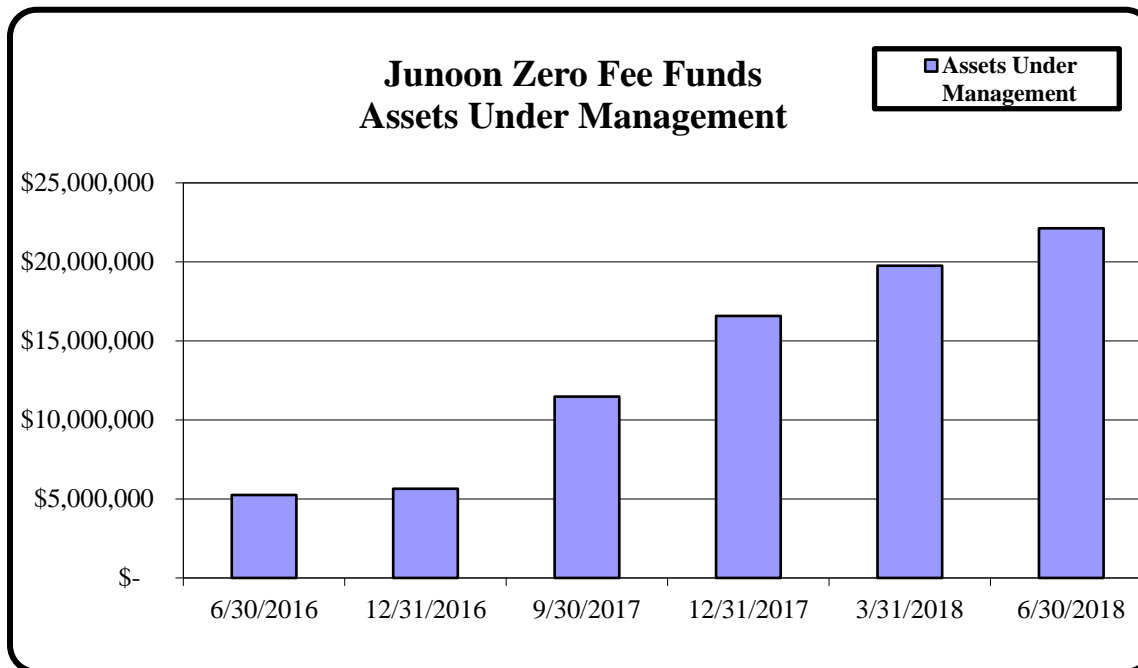
I look forward to seeing you in September.

**Assets Under Management**

There is \$67.0 million in assets under management in the India Zero Fee Funds as of July 1, 2018.



There is \$22.1 million in assets under management in the Junoon Zero Fee Funds as of July 1, 2018.



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

Warm regards,

A handwritten signature in black ink, appearing to read 'Mohnish Pabrai', with a long horizontal flourish 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.*

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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
3,990,876	03/31/2018	\$9.23
4,271,456	06/30/2018	\$8.80

### 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
2,941,434	03/31/2018	\$9.24
3,314,358	06/30/2018	\$8.86

## Appendix B

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

No. of Units	Date	NAV
425,000	07/1/2016	\$10.00
400,000	12/31/2016	\$11.29
402,216	03/31/2017	\$11.54
428,128	06/30/2017	\$11.45
446,888	09/30/2017	\$12.61
582,360	12/31/2017	\$13.05
769,745	03/31/2018	\$13.34
844,651	06/30/2018	\$13.62

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

No. of Units	Date	NAV
99,998	07/1/2016	\$10.00
99,998	12/31/2016	\$11.26
363,991	03/31/2017	\$11.43
363,991	06/30/2017	\$11.42
457,397	09/30/2017	\$12.85
638,352	12/31/2017	\$13.26
693,511	03/31/2018	\$13.60
763,442	06/30/2018	\$13.86

## 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
15,218,640	03/31/2017	\$9.31
15,218,196	06/30/2017	\$9.53
15,218,196	09/30/2017	\$10.76
15,217,801	12/31/2017	\$4.92
15,217,801	03/31/2018	\$5.01
15,217,801	06/30/2018	\$4.74* <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.