

DHANDHO

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To: All Limited Partners and Investors in Dhandho Holdings
From: Mohnish Pabrai, Managing Partner
Date: April 6, 2015
Re: **2014 Financials**

Dear Partners:

The interested reader will note that my [last letter](#) covered financial results through December 30, 2014. I chose that date as it was a day away from closing our first acquisition and our financials were simple to understand then. To recap, in the first half of 2014, we raised \$152.4 million for Dhandho. On December 30, 2014, our primary asset was \$151.1 million of cash. We had incurred \$1.3 million in Stonetrust transaction and corporate expenses for the first year of our existence.

This letter covers one more day of results – through December 31, 2014.

On December 31, 2014, Dhandho completed its acquisition of Stonetrust Insurance. We paid \$35 million for the business and agreed to add \$30 million of new capital to Stonetrust to give it a solid foundation for the future. Tim Dietrich, its CEO, preferred to take \$2.2 million (out of \$11 million that went to him from the \$35 million) in Dhandho units. He got those units at \$10/unit, resulting in 220,000 units being issued to him.

Until we closed on the Stonetrust deal, we were restricted from making any other investments. As of January 1, 2015, these restrictions were removed and Dhandho has since made a couple of meaningful investments in marketable securities and committed \$10 million to a Silicon Valley venture fund. We have plenty of dry powder on hand and are in no hurry to put our cash to work. The most important skill that a capital allocator must possess is patience. While I am ultra-patient, we are setup to move at lightning speed for the right opportunity.

Dhandho Holdings Book Value versus Intrinsic Value

Our year-end book value before the Stonetrust acquisition was \$151.1 million or \$9.93/unit.

What matters in the long run is our intrinsic value. I would venture to guess that Dhandho's intrinsic value at year-end could be at some modest premium to book value. What really matters is what we do with the hand we've been dealt over the next 5-10 years and beyond.

Our Year-end Financials

Given that Dhandho acquired 100% of Stonetrust, Dhandho's consolidated balance sheet includes Stonetrust's balance sheet. However, Dhandho's statement of operations (income statement) does not include Stonetrust's results because the acquisition was completed after close-of-business on December 31, 2014. To save a tree or two, I am providing a link to the financials on Dhandho's website. Please click [here](#).

If you subtract our \$88.3 million of holding company cash, almost all of the rest of the assets and liabilities relate to Stonetrust. With the Stonetrust acquisition, Dhandho now has insurance "float" that it can invest on behalf of Stonetrust, primarily in high-quality bonds.

The source of our insurance funds is 'float,' which is money that doesn't belong to us but that we temporarily hold. Most of our float arises because (1) premiums are paid upfront though the service we provide – insurance protection – is delivered over a period that usually covers a year and; (2) loss events that occur today do not always result in our immediately paying claims, because it sometimes takes many years for losses to be reported (asbestos losses would be an example), negotiated and settled.

- Warren E. Buffett, 2004 Berkshire Hathaway Letter to Shareholders

At December 31, 2014, Stonetrust had \$115.6 million in invested assets, and \$58.7 million of surplus. Its float at the end of 2014 was \$56.9 million.

While the detailed operating results of Stonetrust are not presented in this letter, it is worth mentioning that Stonetrust had a good year in 2014, earning \$3,124,607 in pre-tax operating income, and a combined ratio of 96.1%. Also note that in 2014, Stonetrust had just \$3 million invested in equities and very low earnings from its high-grade bond portfolio. In connection with its demutualization and acquisition by Dhandho, Stonetrust incurred \$1,261,854 in reorganization expenses in 2014, largely attributed to investment banking and legal fees.

Audited consolidated statements for Dhandho Holdings Corp, Dhandho Holdings, L.P. and Dhandho Holdings Qualified Purchaser, L.P. are being prepared and will be sent to you when they are ready on or before June 29, 2015.

Looking Ahead

On the acquisition front, we continue to be actively opportunistic in the insurance space. Dhandho has recently filed a utility patent for a new set of innovative financial products. These products could form the core offering of a potentially new asset management business that we may launch in 2015/16. Finally, we have begun working on the process to become a publicly listed entity within the next twelve months.

It is all about the people. In the last year we have been very fortunate to have assembled an exceptional team. I could not do my job without the tremendous support from our CFO, the bright and energetic Fahad Missmar. His value to Dhandho is hard to overstate.

I am very happy with where Dhandho is at this point. It has exceeded my expectations so far. The journey is just getting underway, but there is a lot to be excited about. 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,

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

Mohnish Pabrai

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