

DHANDHO

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To: All Limited Partners and Investors in Dhandho Holdings
From: Mohnish Pabrai, Managing Partner
Date: December 11, 2015
Re: **Quarterly Update**

Dear Partners:

Hope all is well. The third quarter of 2015 marks Dhandho's third quarter of real operating data (since we completed the acquisition of Stonetrust Insurance on 12/31/14).

Our NAV/unit was \$10/unit at the outset and as of 9/30/15 was \$8.58. With 15.44 million units outstanding, this represents a NAV decline of nearly \$22 million. While the interested investor always has access to the complete unaudited GAAP financials under the [Financials](#) tab of our website, I'd like to present some salient numbers here that I would like if our situations were reversed. The \$22 million decline likely bothers you (as it would bother me if I did not have more color). So here is some color:

| | |
|---|--------------------------|
| Unrealized Stock and Bond Portfolio gain/(loss) at 9/30/15: | (~\$13.2 million) |
| Realized Stock Portfolio gain/(loss) at DHC at 9/30/15: | (~\$1.6 million) |
| CoverageHQ and ETF Business Startup Expenses at 9/30/15: | (~\$0.6 million) |
| IPO Preparation expenses: | (~\$0.6 million) |
| DHC Corporate Overhead Expenses (21 months): | (~\$1.8 million) |
| Underwriting Loss at Stonetrust: | (~\$4 million) |
| TOTAL | (~\$21.8 million) |

Investment Portfolio

Our unrealized loss on our nearly \$100 million stock portfolio was \$5.9 million a month later (on 10/31/15). So, the \$22 million has already shrunk by over \$7 million by 10/31/15. We like what we

own and expect to realize considerable gains on our equity portfolio in the years ahead. I fully expect it to move from red to firmly in the black. We did make one small \$3 million investment where there was a higher than normal risk of loss, but it came with the potential of quick multi-bagger returns. We kept the bet small as a result and it did not go our way. It represents an approximately 1% loss on our \$152 million in starting equity.

CoverageHQ

We are pleased to announce that our start-up insurance operation will be launched under a brand called “CoverageHQ.” We have established a wholly-owned subsidiary in Puerto Rico, CoverageHQ Agency, which will serve as the digital insurance agent and will benefit from Dhandho’s 4% corporate tax rate. Additionally, we are in the process of setting up another Puerto Rico entity, CoverageHQ Insurance, which will gradually take on underwriting responsibilities.

Dhandho Exchange Traded Fund (“ETF”)

We continue to optimize the automated investment strategy that will form the basis of an equity index and ETF that we aim to launch in Q1 2016. We have selected most of our ETF partners and are actively working with them to complete the necessary steps to launch. Additionally, five of our quantitative analyst interns who worked with us this summer and through this fall will be joining us full-time this December to maintain this ETF when launched and develop future products. Stay tuned!

We also established an offshore IT and Quantitative Analysis operation in Pune, India. Dhandho India now has eight fantastic employees. It is already helping reduce Stonetrust’s spending on IT consulting and providing great support to CoverageHQ and the ETF venture.

While we have spent \$0.6 million so far on these ventures, we will either have winners on our hand or shut them down before \$4 million has been spent. On a GAAP basis the \$0.6 million is a loss, but I believe it is likely worth over that number today based on what we have accomplished from an intellectual property and team quality perspective. There are some real rock stars at Dhandho. It is the most talented team I have ever worked with.

IPO Expenses and Corporate Overhead

We did incur about \$0.6 million in IPO preparation expenses before we decided to abort. A good bit of this will be salvageable whenever we do go public. And we do have corporate overhead of under \$1 million a year at present. Corporate overheads are well under 1% of NAV. We do run a tight ship.

Stonetrust Underwriting Loss

As I covered in the [Q2 2015 letter to partners](#) the Stonetrust underwriting loss is not a realized loss. The reserves are very much on our books. We will know reality on that number in about 2-3 years.

So, as I look at the big picture, Stonetrust is taking a number of actions that are likely to increase its value considerably in the year ahead. For competitive reasons, I’d rather not go into details in this missive. We fully expect our investment portfolio to be a winner and also expect that we may actually

make one or both of the NewCos work. If they do become sustaining profitable entities, the odds are high we will have reaped multiples on the amount invested.

Quarterly Commentary

We will be communicating with you in several ways. Through the annual report, I try to give all shareholders as much value-defining information as can be conveyed in a document kept to reasonable length. We also try to convey a liberal quantity of condensed but important information in our quarterly reports, though I don't write those (one recital a year is enough). Still another important occasion for communication is our Annual Meeting, at which Charlie and I are delighted to spend five hours or more answering questions about Berkshire.

- Warren Buffett, Berkshire Hathaway Owner's Manual

Business change happens in years and decades. Going forward, we will continue to send you GAAP financials, but I prefer to offer my thoughts annually, rather than opine on operations and results every three months. As Warren Buffet puts it, "One recital a year is enough." So future quarterly letters are likely to be quite short. I hope to share more expansive commentary on Dhandho in the annual report and in the annual meeting.

2015 Annual Meeting Presentation

We had two very successful annual meetings in September at our Soka University venue in California and at Carlucci's in Chicago. We had record attendance in California of over 230 attendees, and over 160 in Chicago! It was a pleasure to meet old friends and partners and welcome new ones. I'm very grateful to Lynn, Betsy, Nickii, Karen and Julie for all their diligence in organizing the various facets of the meetings and dinners so flawlessly.

The link to the annual meeting presentation is here and on our website for your perusal (the password to the video is "Warren"):

<https://vimeo.com/139966800>

The transcript to the meeting will be posted on the website by the end of January.

2016 Annual Meetings – Save the Date

There will be our two annual meetings sequentially at Orange County, California & Chicago, Illinois. We are also adding a 3rd annual meeting at our Dhandho Holdings Corporation headquarters in Puerto Rico! The **Puerto Rico** meeting will be on **September 24, 2016**. We are still working out the details (venue, timing, etc.) and will provide more information in the coming Letter to Partners.

Prior to the California meeting on September 10, 2016 we will have the 3rd Annual Gran Fondo Dhandho Bike Ride which will start at 8:15am. 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, and ends there around 10:30am. For folks that just wanna chill, you can come to the Starbucks at 10:30am and hang out with the 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>

The **California** meeting is scheduled to be on **Saturday, Sept. 10, 2016** 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, Sept. 17, 2016** 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: Cocktails
7:15 PM: Dinner

The invites will go out electronically via email in July 2016. Look for it in your inbox! 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 other than family members must be "accredited investors." The invitation is non-transferable.

I look forward to seeing you in September.

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", with a long, sweeping horizontal stroke above the letters.

Mohnish Pabrai

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