

DHANDHO

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To: All Limited Partners and Investors in Dhandho Holdings
From: Mohnish Pabrai, Managing Partner
Date: June 10, 2015
Re: **Quarterly Update**

Dear Partners:

Greetings! And a bit of history:

While Dhandho has been in existence for over 18 months, from a practical point of view, there is just one quarter of real operating data (since we completed the acquisition of Stonetrust Insurance on 12/31/14). To recap, we bought Stonetrust for \$35 million and added \$30 million to its surplus at the same time. Tim Dietrich, CEO of Stonetrust, elected to receive \$2.2 million of his portion of the purchase price in Dhandho shares. Hence, 220,000 units of Dhandho and \$62.8 million of cash were contributed towards the purchase and capitalization of Stonetrust.

Amount Raised in Q1 and Q2 2014:	\$152.4 million (with 15.22 million units issued)
Acquisition & Capitalization of Stonetrust:	(\$62.8 million)
2014 Acq. related and corp. expenses:	(\$1.3 million)
Cash at Holding Co. as of 1/1/15:	\$88.3 million
Units Issued to the Dietrichs:	220,000
Dhandho units outstanding as of 3/31/15:	15.44 million

Until we completed the Stonetrust acquisition, we were quite constrained in our ability to do much else. Dhandho could start making additional investments only after January 1, 2015. We are fully unshackled at this point, which is wonderful.

If Our Situations Were Reversed

In my communication with you, I will endeavor to provide you information and insights that I would like if our situations were reversed. The guiding beacon for me is to provide salient information in as simple a manner as possible so you can judge our past performance and future prospects. Sometimes accounting makes reality hard to understand. My letter will always try to present reality as simply as possible. The interested reader always has access to the GAAP numbers under the [Financials](#) tab of our website to delve into as they see fit.

Stonetrust Insurance

Given that over 40% of our capital was allocated to Stonetrust, as long as it remains a significant portion of the pie, I will highlight salient aspects of its performance. We have now completed one quarter with Stonetrust being a 100% subsidiary of Dhandho. Thus our financials fully consolidate the Stonetrust numbers.

All U.S. Insurance companies are required to make quarterly and annual “Yellow Book” filings. These filings are public and available on the website of the insurance regulator of the state in which the insurer is domiciled. These filings follow statutory accounting principles, which are somewhat different from GAAP accounting. As a public company, Dhandho will be required to follow GAAP accounting. In my opinion, neither statutory accounting nor GAAP accounting accurately describe reality. However, GAAP is far closer to reality than statutory. So, to keep the discussion simple, I will treat GAAP numbers as being reflective of reality.

In Q1 2015, Stonetrust earned net premiums of \$ 14.75 million. This compares to \$14.66 million a year ago and \$11.57 million two years ago. Stonetrust had virtually no year over year topline growth in the past 12 months. While Stonetrust has always endeavored to do prudent underwriting, I requested Tim and his team to not shy away from getting rid of marginal clients and pay no heed to growing the topline. I requested them to focus on making sure that every policy is written or renewed on terms that Stonetrust finds very acceptable. In discussions with Tim and his direct reports, I am happy to report that the Stonetrust management team has taken this input very much to heart. If anything, underwriting discipline at Stonetrust is slightly better in 2015 than it was in 2014 and earlier.

If you would persuade, appeal to interest and not to reason.

- Ben Franklin

All management incentives at Stonetrust revolve around underwriting profit. There are no rewards tied to topline. There are also no rewards tied to how well Stonetrust's investment portfolio performs, since those are now entirely managed by Dhandho.

Underwriting Results in Q1 2015

Stonetrust had an underwriting loss of about \$230,000 in Q1 2015. Even though this is just one quarter of data, any underwriting loss is going to get my attention - and it should get yours. In Q1, Stonetrust boosted reserves by about \$400,000 for adverse development stemming from a few open claims from 2008 and 2010. In addition, it had atypical severance costs and higher than normal accounting and audit fees in Q1 that added another \$300,000 in expenses. I am loath to call these items unusual or onetime expenses. Out of this \$700,000, at least \$125,000 would be recurring in the future.

Historically, Stonetrust only did statutory audits of its books. This typically cost under \$50,000/year. In the future, it will need to do statutory and GAAP audits. Much of the GAAP audit costs for 2013 and 2014 (required for us to go public) was incurred in Q1 2015. This will be about \$300,000 for the past years and hopefully under \$125,000 for future years. Some of the 2013/14 GAAP audit fees will come through in Q2 2015.

I think it is best to think of the Q1 2015 combined ratio as being 101.5%. Our goal is to be closer to 97%.

Stonetrust Investment Results in Q1 2015

It is a foolish exercise to look at investment results over the course of a quarter. In the future, I hope to limit my commentary on most facets of Dhandho to once a year. However, as we get out of the gate we have so many moving pieces that I'd like to make a onetime exception and provide some granularity. In Q1 2015, Stonetrust had \$1 million in realized/unrealized gains (inclusive of all interest and dividends received), net of deferred taxes, from its investment portfolio.

Holding Company Investment Results

With the closing of Stonetrust on December 31, 2014, Dhandho began to invest opportunistically in marketable securities. As of March 31, 2015, Dhandho had invested \$30.1 million in public securities (at cost) that generated an unrealized gain of \$8.46 million. In addition, Dhandho earned \$13,000 in interest/dividends in Q1.

Dhandho Files Its First Patent Application

In March of this year, Dhandho filed a utility patent application 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. We are still in the “R&D” phase of our products’ development and have hired a team of mostly engineering interns who are working in overdrive to test and optimize our potential offering. The results of our product tests have been very promising so far, and I am optimistic on the future of the venture. It is another classic Dhandho bet. Well before we’ve spent our first million or two on this innovation, we will have either buried it or know we have a mega-winner on our hands. We will keep you posted as we progress!

Feel free to visit the [People](#) tab on our [website](#) to learn more about the team that is focused on what could be a 100% owned Dhandho start-up. In addition to the folks on our website, we have six interns from the Masters of Financial Engineering program at the University of California at Los Angeles (UCLA) who are joining us this summer to perform heavy quant analysis and testing of our offering. In my opinion, this patent filing and our efforts towards this new business venture have the potential to dwarf much of the rest of the ongoings at Dhandho. Stay tuned!

Exploring Small Business Insurance Direct

Dhandho is in the very early stages of exploring a NewCo insurance operation (likely to be called Dhandho Insurance) that would provide basic small business insurance (Business Owners’ Policy, Umbrella Insurance and Workers’ Comp.) directly to small businesses online. The target audience is businesses that have less than \$5000/year in premiums and are outside the core states where Stonetrust operates. These offerings would have no overlap or conflict with Stonetrust’s core offerings. Like our venture on enhanced indexing, we have very limited downside and spending till we understand the realities and probabilities of having a successful scalable venture.

Dhandho India

Dhandho has set up a wholly-owned subsidiary in Pune, India to provide administrative and substantive support to Dhandho’s operations in San Juan. Dhandho India will be a strong source of human talent for Dhandho’s future ventures; our team in India is already supporting our R&D efforts on our potential financial product offering. Currently, the team in Pune, which is 2 hours from Mumbai by car, consists of two individuals: [Reema Mukherjee](#) and [Jyoti Diwan](#). Feel free to visit our website periodically to learn more about our growing team in India.

Public Offering and Listing

Dhandho has engaged W. R. Hambrecht & Co. as our underwriter for our proposed public offering for Dhandho shares. I am especially pleased for us to be working with the folks at Hambrecht. They are quite an unusual underwriter, promoting transparent dutch auctions. A large investor has no advantage over an individual that wishes to invest \$100 in Dhandho. Assuming markets are receptive, we hope to complete our offering in the next few quarters. I do have a concern on how much of the embedded value in our patent and NewCo businesses will be captured in the offering. We will try to adjust the offering size and date to maximize the amount of this value that is captured.

The Big Picture

So Dhandho spent about \$1.3 million in 2014. We spent an additional \$220,000 in Q1 2015. Stonetrust increased its tangible book value by about \$775,000 in Q1 2015. And Dhandho had about \$8.5 million in unrealized gains/interest/dividends in Q1. Excluding the Dietrichs' \$2.2 million investment, overall tangible book value increased by approximately \$7.8 million in Q1 2015. It is even more impressive when you consider that we had over \$55 million of dry powder (uninvested cash) earning nothing at the end of Q1. The \$7.8 million was earned on under \$100 million of deployed capital in a single quarter. Further, the \$7.8 million excludes about \$850,000 in deferred taxes. Much of this relates to unrealized gains – and we are unlikely to be required to forward this to the tax man anytime soon.

Book Value on 3/31/15:	\$ 162,256,392
Total Units Outstanding:	15,438,639.572
Book Value/Unit:	\$ 10.5097

These are very acceptable results! I can assure you that it will be very unusual in the near future that we'll generate anything like a 7+% return on deployed capital in a single quarter.

I am very pleased that we got the Stonetrust acquisition closed, made the Tandem and another two tiny venture capital type investments, filed a patent, got our San Juan operations off the ground, received our Puerto Rico Act 20 decree, got Dhandho India off the ground, engaged Hambrecht as our proposed offering lead underwriter, are giving shape to the insurance and enhanced indexing NewCos, spent \$1.5 million on corporate overhead and acquisition costs and *still* ended up with over \$7.8 million more than we started with. Dhandho is far more than the sum of its parts. Our intrinsic value is well above \$162 million.

Additional Acquisitions

Between the Enhanced Indexing venture and the NewCo insurance operation, we have our hands quite full and prefer to focus our energies on these two initiatives. We are open to acquisitions, but the opportunity has to be truly spectacular.

Audited 2014 Financials

BDO, our auditors, are currently finalizing our audited 2014 financials and they will be available under the [Financials](#) tab of our website by the end of this month. Please check back then.

TiE SoCal Fireside Chat at UCLA

I participated in a TiE SoCal Fireside Chat with Mihir Worah (CIO, PIMCO), Srinu Pulavarti (CEO, UCLA Investment Co. on February 11, 2015.

Here is the link to this event:

<https://www.youtube.com/watch?v=9ovO7PakCUo>

Google Talks

My good friend, Guy Spier and I were invited to a Google Talks conversation hosted by Saurabh Madaan on March 16, 2015 at the amazing Google campus near San Francisco, CA.

Here is a link to this discussion:

<https://www.youtube.com/watch?v=EBWWseoqBsc>

Bloomberg TV India

On April 7, 2015, I had a second live interview on "Demystifying Stock Market Investing" (the first interview was in January) with Bloomberg TV India via Skype. Here is the link to this broadcast:

<http://www.btvn.com/videos/watch/11845/demystifying-stock-market-investing>

Value Investing Podcast

On May 27, 2015, I participated in a podcast with Tim Weik and John Mihaljevic to discuss the parallels between investing and the game of bridge.

Here is the link to this event:

<https://soundcloud.com/valueinvestingpodcast/bridge-and-investing-with-tom-weik-and-mohnish-pabrai/s-KFnCs>

2015 Annual Meetings – Save the Date

As is our usual modus operandi, there will be two annual meetings sequentially at Orange County, California & Chicago, Illinois.

The **California** meeting is scheduled to be on **Saturday, September 12, 2015** 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 19, 2015** 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

The invites will go out in July 2015. Your significant other and kids of all ages are welcome to attend. I look forward to seeing you in September. In 2016 and beyond, we intend to hold Dhandho's annual meeting near its headquarters in San Juan, Puerto Rico.

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,



Mohnish Pabrai

Past performance is not indicative of future results. Returns are presented net of all fees and expenses, include the reinvestment of income and are calculated using a simple rate of return. The securities discussed do not represent all securities recommended for the Funds. It is also not a recommendation to buy or sell and one should not presume they will be profitable.

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