**Pabrai Investment Funds/Dhandho**
**2020 Annual Meeting Transcript**



Note: This is the transcript of the meeting held on September 12, 2020 via video conference. The transcript has been edited for readability. The transcript should be read in conjunction with the Annual Meeting presentation slides (the password to the video is "Munger"). They can be viewed at:

https://vimeo.com/457923174

**Welcome and Introduction (Slides 1-4):**

Hi, this is Mohnish, great to be with all of you. We live in interesting times where we have to do this remotely, but I think all of you are experts at this now. Welcome to the Pabrai Funds Annual Meeting. We have limited this meeting just to our investors; we didn't want to overwhelm what the Microsoft Team's broadcast is capable of doing.

I'm going to run through a set of around 40 slides. We'll post these slides in the next day or two on our website and then in a few weeks we'll post the transcript as well. So, you will have a record of everything.

You have the ability to send in your questions while I'm speaking and even after we start the Q&A. Fahad Missmar will curate the questions and pick the ones that we will focus on. He'll try to select questions that cover a wide array of topics.

I'll run through the formal remarks relatively quickly because the most fun part of the presentation for me is the Q&A. First I'll go through Pabrai Funds, then we'll go through the wind down on Dhandho Holdings, then Dhandho Zero Fee Funds and finally the Q&A.

This is our lawyer saying hello to all of you.

**Slides 5-7:**

We'll look at the 21-year history of the first fund, PIF2, in five periods. If you look at the history of the funds, in the first eight years we could do nothing wrong and we had no down years. We averaged more than 29% a year and the S&P 500 was pretty much flat -- the funds widely outperformed.

The next couple of years, which was the financial crisis, we significantly underperformed the S&P 500 and we were down over that period close to 65%. The S&P 500 was down approximately 36-37%.

Then the next 9 years we did very well. We averaged 24% a year, which was almost 7 to 8% better than the S&P 500. The last two years have been challenging where we have been down 32% annualized, almost 50%, while the S&P 500 is flat.

And more recently, if I look at it from April onwards, our comeback has started and we are up quite significantly. These numbers are through the early part of September where we are up about 42% vs. about 35% for the S&P 500. The S&P 500's gains are being heavily driven by a few tech names and in our case it is a very different set of businesses. We have no FAANGs or exposure to the traditional highflyers, but we're still able to keep up.

If you look at the performance of the funds through March 2018, basically it did not matter when you joined Pabrai Funds. Through the end of 2018 every investor joining in any period did well and we beat the market quite significantly. In most periods we were beating it by double digit returns -- more than 10% a year above the S&P 500. If you look at it from inception, 1999 to March 2018, we did about 16% a year and got 5% better than the S&P 500.

The poor performance in the last two years is not because we had a lot of losers. It was because we had two massive winners -- Rain Industries and Fiat Chrysler -- which declined significantly in the next couple of years. They are still up very significantly from where we bought them. It would have been very smart to have sold both these positions in 2018.

**Slides 8-9:**

The story is very similar with PIF3. We did very well until 2007 and then we had the two down years and then for 9 years did almost 27% a year.

If you look at it through the end of March 2018, we beat the S&P 500 no matter what period you start with. We beat the S&P 500 when we had very little under management and we also beat the S&P 500 when we had a lot under management. So it wasn't based on us having smaller assets vs. larger assets to manage.

Over the life of funds through 2018, PIF3 beat the S&P 500 by more than 6% a year.

**Slides 10-11:**

The story in PIF4 is also very similar. We have the five periods where we did very well from 2003 to 2007, then the draw down from 2007 to 2009, then strong performance from 2009 to 2018 at 23% a year, then the draw down from 2018 to March 2020, and then the more recent comeback where we are up about 36% in the last 5 months.

Similar to the other funds, PIF4 outperformed the S&P 500 no matter when you joined if you look at March 2018 as the end date. We did well when the funds had very little assets and we did well when the funds had a lot of assets.

**Slides 12-13:**

When we look at the funds' 21-year history, we have had 4 years which have been challenging -- the period from 2007 to 2009 and the period from 2018 to 2020. The remaining 17 years have been quite strong. In fact, when we have come out of these downturn periods our subsequent performance has been very strong. From 2009-2018, for example, right after the financial crisis we did almost 24-28% a year after fees and, more recently, from April onwards we have been doing 37 to 42%.

As I look at the funds today, we have some great compounders. We have deeply undervalued businesses. The common theme across all of them is that they are managed by exceptional capital allocators and leaders. This mix of stocks is not what shows up every day in the media but we like this mix of companies and this dog will hunt. We'll likely do very well with them.

Our positions are based in the United States, Korea, India and Turkey, so we have got some good geographic diversification. And if I am smart enough to do nothing for the next few years, we will likely do very well.

**Slide 14:**

We have no management fees, we only have performance fees. The only expenses the investors pay every year are the audit, accounting, tax preparation and administration expenses for the funds, all third-party expenses.

The expenses average four to nine basis points and a year ago they were four to seven basis points. We always try to focus on keeping the frictional costs low. They are among the lowest across the entire mutual fund and hedge fund industries.

**Slide 15:**

We have about $500 million in AUM in Pabrai Funds.

**Slide 16:**

This is the only slide that one could construe as a sales pitch. Pabrai Funds has no management fees, just performance fees. If we had a 2/20 structure, we'd be making around $10 million a year just for breathing. I'm the second largest investor in the funds.

We don't get paid until we hit high-water marks better than six percent annualized. PIF2 hit a high-water mark in 2007 and the next time it hit the high-water mark was in 2017. It went for 10 years with no fees which is absolutely fair.

The funds have no leverage, they have no margin loans, they have no short positions.

We have got a great set of investors with 320 families worldwide. Most of these investors like you are individuals who made their own decisions on where to invest; we don't have intermediaries for the most part. I love the cast of characters who make up our investor base.

**Slides 17-19:**

These next two slides are painful, but they also have some great lessons and learning for me.

We bought Moutai, which is a Chinese liquor company, in March 2015. We invested about $23 million at the time. We sold out completely about a year ago. We had proceeds of $101 million, so we made about $78 million on the investment. It was a very successful investment.

But if I had done nothing and just kept that stake, we would have made another $113 million and counting. Moutai, in my opinion, has one of the deepest and strongest moats of any business in the planet. The company traces its history back hundreds and hundreds of years. It's an incredible business.

Our Ferrari bet was made in 2012 when Ferrari was embedded inside Fiat Chrysler. We were given the Ferrari shares when it was spun out from Fiat Chrysler in 2016. So, $23 million of our $69 million Fiat bet was ascribed to Ferrari. We received about $100 million when we sold out completely. My decision to sell Ferrari was very heavily driven in 2018 when Sergio died because he was going to continue to run Ferrari even after he left Fiat. It turned out that wasn't the smart move. We left $164 million on the table and counting when we sold Ferrari.

Just these two positions alone are over $275 million that we left on the table by selling.

And then to compound that further, we kept things that we should have sold. We invested in Rain Industries in 2015. By 2018 that position had gone up nearly 10 times and we kept the position. It's still up significantly. It's tripled, but we left $166 million on the table. In this case, we still own the business, so that $166 million will likely go down over time.

Finally, we kept Fiat Chrysler mainly because Sergio had named a successor, Mike Manley, who was running the business after Sergio passed away and Fiat looked optically cheap. The decision between Fiat and Ferrari was the exact opposite of what would have worked better which is to keep Ferrari and sell Fiat. I never got there.

When we look at these four brain-dead decisions together, we left $518 million on the table. That number actually is probably lower because we bought things that have appreciated. Still, it's a significant number especially with taxes paid.

The big learning that has come to me in 2020 from some of these actions has been to *not* sell the compounders. Don't sell the compounders even if they are optically overvalued. I should look at selling them if they are egregiously overvalued. Both Moutai and Ferrari looked optically overvalued, but I would not put them into the category of egregiously overvalued.

Historically, I have always tried to buy things at 50 cents or less and sell them at 90 cents or more. I now believe that that is misguided especially when we are fortunate enough to own incredible franchises and incredible compounders run by great managers. Going forward I will be giving the compounders more leash and letting them run and not being so quick to sell.

We still own Rain Industries. I still like that business. It's maybe a 3X from where we bought it instead of a 10X about 2 years ago.

These are very valuable lessons and I am very grateful for them. 2020 personally for me has been a year of tremendous learning and growth and these lessons will be invaluable in the decades ahead.

**Slides 20-26:**

We always like to look back and do some postmortems on companies we've exited in the past.

I have been making some trips to Turkey for the last couple of years and Fahad has joined me on those trips. Last year we visited a company in Turkey which is a REIT called Reysas and they primarily invest in large industrial warehouses. These are all dollar numbers when we bought Reysas. Reysas was incredibly, incredibly undervalued, just a very small fraction of its liquidation value. In July of last year we bought it for 15 cents a share and we sold it this year during the time of COVID. We made almost four times our money. It was a nano cap. We were only able to invest less than $5 million into Reysas and we collected about $22 million.

Our real interest was to invest in Reysas Logistics. There are two public companies owned by this group of managers. One is called Reysas REIT and the other one is Reysas Logistics. Reysas Logistics owns 62% of the REIT. So when you buy Reysas Logistics you get full exposure to the REIT as well.

They were both very undervalued but Reysas Logistics was super cheap. When we first looked at them the Reysas Logistics' market cap was $15 million. And remember that $15 million includes 62% of Reysas REIT, which was $33 million. Just the Reysas REIT portion of what Reysas Logistics owned exceeded the market cap of Reysas Logistics, and Reysas Logistics had a bunch of other businesses too. I wanted to buy just Reysas Logistics. Because they were so thinly traded, we ended up buying both to try to get more exposure.

Reysas REIT is a top-end lessor of commercial warehouses. They've got 12 million square feet of warehouses in Turkey. The liquidation value of these warehouses is somewhere between, on a bad day, $300 million and, maybe on a good day, a billion. There was a couple of hundred million of debt on it at the time we looked at it and so, any way we looked at it it was a bargain. The business I always liked better between the two was Reysas Logistics because it had a lot more businesses under its umbrella, while the REIT was very focused and by law limited to just pure real estate ownership and not much else.

In March and April of this year we had significant gains in the REIT. The upside was looking more muted and we decided to sell the REIT and move on. We also own Logistics. We have never sold a share of Logistics and I hope to own that business for a long time.

With Reysas Logistics we keep getting good news. In the last one year they have entered a new business which is putting solar panels on the rooftops because of new net metering laws in Turkey that made it pretty attractive and they are earning very high returns on capital on those. The freight rail in Turkey is going through a resurgence and Reysas is one of the larger private operators. And then interest rates, when we first invested, were north of 30% in Turkey and now they are under 10%. The refinancings that they have been able to do has also been very good for them. So, many, many tail winds.

I like Reysas Logistics. It's a business we own so we don't have a whole lot to say about that. It's a deeply discounted pie, but it's a deeply discounted pie that is growing a lot. This is a rare example of an undervalued compounder, and we will likely do very well with it.

**Slides 27-29:**

We also made an investment couple of years ago in a company in India called Indian Energy Exchange, which is a business I like quite a bit. We invested about $31 million in this business through Pabrai Funds and in April and May we exited that position with a small loss. We did that because the company was looking at a lot of uncertainties related to COVID-19 at the time. There were a lot of far more interesting opportunities. IEX is a great long-term compounder. But we had paid up to buy it and we thought we could do better. I think we have done better with what we have done with the proceeds.

It's a very wonderful business -- 80% of revenue is operating income, 4% of India's energy goes through their servers in terms of the transactions to buy and sell energy. India's per capita energy consumption is low, so IEX will not only grow with the percentage of India's energy usage that is done through its servers but the pie of energy consumption in India will also grow a lot.

They are also entering new businesses; they just set up the Indian Gas Exchange. They are getting new products to market like the Real Time Market. And COVID-19 seems to have been a net positive because more and more of the DISCOMs have been wanting to buy the energy on the exchange versus buying it through long term PPAs.

The Dhandho Zero Fee Funds also own IEX. Dhandho Funds had more liquidity and, therefore, did not touch the IEX position. It's a good example of how sometimes the India Funds and Pabrai Funds have different actions even on the same position.

**Slides 30-33:**

I'll switch to Dhandho Holdings. Basically, we raised $152 million in 2014. I realized that starting Dhandho and buying Stonetrust Insurance was a mistake. I thought the best thing to do was to try to reverse it and return the capital base. Basically putting the toothpaste back in the tube. And that endeavor has been going quite well.

We were able to sell Stonetrust Insurance. We were able to sell it at a small profit which I was thrilled about. We have been returning the capital to all of you and, so far, we have returned about 3/4 of the capital. We have also set up a new business inside Dhandho Holdings which is Dhandho Funds. Dhandho Funds doesn't need much capital but hopefully at some point Dhandho Funds creates some value. So, the idea was taking the money we got and getting it back to the investors and then we are left with Dhandho Funds, which hopefully becomes valuable over time.

If I look at Dhandho Holdings now it's quite a simple set of assets. We own four stocks which represents about 70% of the pie and we have about 30% invested in an early stage venture fund in Silicon Valley. A couple of their positions have been getting a lot of traction. One of them is a company called Outdoorsy which is focused on the RV rental market and they have been seeing a lot of gains with COVID-19 and such.

We have been returning capital to you for the last few years. We have also had a mechanism to allow full exits for people who want to move on and several people have. If you have an interest in exiting, we have many people who want to buy interests in Dhandho. We have also got insiders excluding me that I would like to see increased ownership and they would also like to buy. If you have an interest in selling your Dhandho units let us know and we'll try to see if we can make that happen. I won't be buying units so there won't be any preference for me -- that keeps it at a bit of an arm's length. And also, if I were you I would not sell any of my Dhandho units. There is a good probability that the quarter of the capital that hasn't been returned will come back in the next few years and then you will have the stub which is the ownership of the GP interest of the Dhandho Funds.

Dhandho Funds has no value today, but it has raised $125 million of capital since 2016. If it does well and, let's say for arguments sake, it gets to a billion in assets it's possible it could be worth $50 million or something along those lines. But today we ascribe no value to it and the funds are well below the high water marks and fee earning numbers.

**Slides 34-37:**

Moving on to the Zero Fee Funds. The India Zero Fee Funds started in October 2017, which ended up being just terrible timing. The small cap index has gone straight down from there. Most of our decline is likely temporary because of the decline in a few holdings, so we will come back. We're already coming back in the last few months. The intrinsic value of Zero Fee Funds is a lot higher. The funds are up about 42% since April and so things are looking better than they did about six months ago.

The funds can hold about one third of non-India assets. We have a good mix of Micron and, for example, NICE and LG, which are in Korea. The rest are Indian names.

There is about $73 million in AUM in the India funds.

**Slides 38-41:**

Junoon is our quant fund which is based on a multi strategy of Cannibals, Cloned Ideas and Spin-offs, primarily invested in the US. The S&P 500 has been on fire for the last few years and Junoon has not kept up, and it hasn't done well. But that may be starting to turn now. We made some updates to the algorithms for Junoon in the first quarter. These are some of the larger holdings we have in Junoon.

Junoon is basically algorithm driven. The algorithms figure out the investments and usually they get rebalanced once a year. Junoon is barely up one percent since it started, whereas the S&P 500 has done quite well. Junoon is now keeping up with the S&P 500 where it's up about 34% since

April which is in line with what the S&P 500 has done. It's a small fund -- it's about $16 million under management -- and we it will likely continue to do well.

**Slides 42-44:**

This is our COVID-19 picture of the team. There is Fahad and Jaya behind me and then Kelly and Betsy in the first row and then Valerie and Julie at the back. It's a great team and I very much enjoy working with them. We work on four different things. We work on Pabrai Funds, we work on the wind down of Dhandho, we work on the Dhandho Funds and then we work on the Dakshana Foundation. The team kind of does the mix of all of those.

These are our wonderful service providers. PricewaterhouseCoopers does our audits. We have a few different law firms like Dentons, Chugh, Conyers and Finsec in different geographies that help us with our legal work. Chugh also helps with some of our bookkeeping. Liccar does the fund accounting and the administration and our assets are custodied at UBS and Kotak. It's a good set of partners we work with.

## Q&A

We have come to the end of the formal remarks and we'll open up for questions. Fahad is sending the curated questions through. You can keep sending your questions and I'll read these and try to answer them as we go along.

*Q: Hi. Aren't you afraid of the geopolitical situation in Turkey? Thanks.*

A: Turkey is challenging politically and different things are going on there. Our perspective when we first went to Turkey was to specifically focus on the most Class A REITs which owned the most iconic city center properties in the country. My perspective has always been that if you own the most valuable real estate in some of these large cities around the world, generally speaking if you bought them at sensible prices then good things will happen to you.

What we noticed in Turkey a couple of years ago was that these very prominent city center properties and trophy properties were available at a fraction of liquidation value and a fraction of what it would cost to replicate them and a fraction of what it was easy to sell them even in the challenged political environment. I have always believed that micro trumps macro and so we started initially to look at Turkey from the perspective of these very prime assets.

We ran into Reysas, which included these warehouses and such, and also included a bunch of ancillary businesses that were excellent. They had strong recurring revenue and honest management and so on. When we looked at the whole situation, especially when we looked at the amounts we were investing, our Turkey bet was a relatively small investment. At this point, having looked at this for a couple of years now, we were very comfortable in our Turkey position and we were very comfortable in the management. I don't see any meaningful risk of the political situation having detrimental impacts on our portfolio.

Our Turkey bet is up very significantly since we made the bet. We were up about four or five times since we made the bet and we hope to own it for a while.

*Q: Does Dhandho funds employ cash flow strategies like options trading outside of value stocks, strong compounders and mispriced bets?*

A: The question asks whether we use options trading outside of value stocks and no, actually the fund documents don't allow that. We are not going to trade options or anything like that.

*Q: You obviously track what Buffett buys. Did you look at Apple when Berkshire started buying in 2016? It had a P/E of 10-12 and was in the Magic Formula. Basically, it appeared to be a discounted compounder. Did you look at it when Berkshire began buying? If you did, why did you decide to pass on it? Thanks.*

A: The answer is yes. I have looked at Apple for quite a while and in my infinite wisdom I never found it cheap enough. Clearly in hindsight that was wrong and in fact they have gone from strength to strength. We missed Apple. We didn't fully understand Apple. But that's actually pretty common. Probably 95-98% of things that I look at would not be things that I would be able to understand well or I might, in error, think that they were overvalued.

In hindsight Apple was not overvalued and I did notice that it was among the top picks in the Magic Formula. So, we missed the Apples, but we are also sometimes make investments in the Moutais and the Rain Industries and the Reysases and so on. So, all is not lost!

*Q: Can you comment on the EAF position? Thanks.*

A: We made an investment in GrafTech. I wrote about GrafTech at length in our annual report which all of you have. If you're interested in more commentary you can go online and look at it on our website or you can look at the hard copy we sent you.

Basically, GrafTech was a bet where they had contracted revenues and almost locked in cash flows for the next several years which actually exceeded the market cap. It was very low risk and very similar to a bet we made in 2004-2005 on a company called Ipsco, which is a steel company in Canada. When COVID-19 hit I assumed a lot of manufacturing was going to get shut down for a while. And these companies that had these contracts with GrafTech, for example Nucor and other companies, could raise *force majeure* as a reason to get out of their contracts.

I thought the *force majeure* argument saying that these are extreme God-driven events which voids the contract was a very real argument. If you looked at GrafTech with no contracts in place, it was a very different investment and one that we would not have had an interest in. Mr. Market gave us an opportunity in the time of COVID-19 to completely exit GrafTech at a small profit. The Pabrai Funds was able to completely eliminate the GrafTech position without a loss and we took that in a heartbeat and we moved on.

*Q: Hi Mohnish, I hope you are doing well! Are you encouraged about the Indian government using the Covid-19 as an opportunity for major structural reform? i.e. agricultural reform, power reform, land and labor, and divestment of public sector companies.*

A: I would say that I am quite disappointed in the things that the Government of India has done in terms of the reforms needed to get the economy where it needs to be. India is in dire need of labor reform. It has a dire need of changing its tariffs and protection of domestic industries and opening up trade with different parties.

There have been some good work done on the power sector but even there a lot remains to be done. I would say that there are many, many low hanging fruit that Indian bureaucrats and people in power could exercise which would lead to radically better outcomes but so far I'm not seeing much of that take place. I think we will do well in India not because of what the government does but in spite of what the government does.

*Q: Can you describe the impact of Covid on the India Fund companies and how dependent they are on overcoming Covid.*

A: COVID-19 has had an impact on a number of our businesses. For example, we own some real estate companies in India like Sunteck and Kolte-Patil. They have almost no debt and they have basically very strong balance sheets. They have seen a significant decline in the transaction volumes of selling properties. That will likely go away in 2021. Those companies are facing some head winds, but in the end they'll come out stronger because a lot of their competitors have gone by the wayside.

In some cases, I think the companies are facing real damage to the intrinsic values. We have a position in Edelweiss and they have a large lending book. They have already taken a lot of reserves against that. Those are real issues, but that same business has tail winds with asset management and wealth management and insurance. So, overall COVID-19 is a significant impact on the Indian portfolio. Best I can tell, because we made some deliberate actions on our portfolio, the businesses we own will come out fine on the other side.

*Q: If a current COVID situation persists until the end of 2021 (as Fauci mentioned as a real possibility), can you predict some market trends for the next 15 months or so?*

A: I would be a very poor person to tell you about market trends. It is possible that COVID-19 stays with us not just till the end of 2021 but till the end of our lives. It becomes like the flu. We need a COVID shot or a couple of COVID shots every year just like we do with the flu. COVID will become part of our fabric for a long time. I'm hoping the vaccines get better and more effective and then the percentage of people getting vaccinated increases over time.

I don't see a gloom and doom scenario for humans in 2021 because of COVID.

*Q: Your friend, Prem Watsa, known as the Warren Buffett of Canada, runs Fairfax Financial. His stock is down quite a bit over the last few years and even this year. Have you had a look at investing in this business?*

A: Prem is a very good friend of mine and he is the largest donor to the Dakshana Foundation. I made a very deliberate decision several years ago that I would not invest in Fairfax Financial nor would I invest in any of the related entities like Fairfax India. Just from even the optics of there being anything untoward about that. Basically, my perspective is that I think of Fairfax as being off limits. I can offer you no particular insights or commentary on Fairfax other than to tell you that it's unlikely to show up in our portfolio in the future.

*Q: It appears that you are taking a large position in Seritage. I recognize you don't usually talk about current positions, but since you've owned it in the past, can you share your thesis on Seritage, or on Real Estate in general?*

A: Between all the different entities we own about 13% of Seritage -- about 1/8th of the business -- and we are very excited to own that position. Seritage went down by something like 70-80% of where it was trading just a few months ago and the risk reward on that looked very, very favorable. We are up about 70-80% on our position so far and we hope to own it for a while. Beyond that I can talk to you more about it after we are no longer owners of Seritage, it might be a few years from now. But we like the position.

*Q: Looking back 20 years, the Pabrai Funds have gone from 100% US equity to 100% non-US. Could you review this evolution and comment on its success? Thanks.*

A: We were non-US a few years back. We are currently not non-US; Pabrai Funds has two US positions. We have a large position in Micron and we have a large position in Seritage. The funds have a decent amount of exposure to the US. We also have exposure to South Korea, India and Turkey.

The mix looks different than it did in the past. None of these decisions are driven top down. I always look at businesses one at time. When I look at a business like Reysas in Turkey, a business with those characteristics would be of interest to me anywhere in the world. It would be actually quite remarkable if we had a business like that with those types of economics in terms of ownership in the United States. I think it would be spectacular but very unlikely.

I don't look at it in terms of where the business is domiciled. We obviously want to make sure that the integrity level of management is high and that we are unlikely to see anything happen on a macro level that negatively impacts the position. We are very comfortable in all the holdings we've had around the world from that perspective.

*Q: Thank you, Mohnish. Can you explain the economics of Dhandho Funds performance fees? Funds are below the high watermark. Is it correct that new capital now receives a free ride to the high-water market plus a compounding hurdle? What amount will units need to appreciate to reach those levels?*

A: All investors in Pabrai Funds and Dhandho Funds are subject to the same high-water marks. For example, if the fund started at $10 per unit and then they got to $12 unit and it had a high-water mark and paid fees. And subsequently, let's say they went down to $7 a unit. We would have to get back to $12 a unit plus 6% annualized before fee is owed.

For the Dhandho India Funds the high-water mark is $11.65 per unit and we're at around $6.70 per unit. We would need to approximately double before fees appear because it'll keep increasing by about 6% a year. That looks like a high hurdle but just in the last few months we're up, for example, 40% or so. We think we will get to the high-water marks and move on from there.

*Q: How much has the India fund been up since 6/30?*

A: The India funds are up about 5% since June 30th,

*Q: When calculating fees, I presume you will look at when each individual investor has joined PIF for calculating how their investment is doing against indices and high-water marks. Can you please clarify this? Thanks.*

A: Actually, that is not true. We have the same high-water marks for everyone. This is actually a very pro-investor policy. Like I just explained if the funds were at $12 per unit and they were at the high-water mark and then they declined to $7 a unit and someone invested at the $7 a unit, until we got to $12 and then we got to 6% annualized from that $12 the new investor would pay no fees. All the investors would pay fees at the same time.

Most funds don't do it this way. Historically we have done it this way and it keeps the calculation simple. It is a pro-investor policy and it's actually a big advantage to investors who come in significantly below the high-water marks.

The history of Pabrai Funds, however, has been that investors love to invest when we are riding high and hardly any money comes in when we aren't doing well. For example, April 2009 was a tremendous time for investors to join Pabrai Funds and hardly any money came in then. If they came in in April 2009, they did 26+% a year for 9 or 10 years with no fees payable to the management.

That's a tremendous ride but very few people took us up on that. Even now for example, the funds are down from the high-water marks and my prediction would be that we will not see much in assets come in. Assets tend to come in when we are riding high, so they always come in at the opposite end of where they should. We throttle some of that by opening and closing the fund to help investors make better decisions. Right now all the funds are open because it's likely a good time to invest but we probably won't see much in inflows.

*Q: Is the performance the net for investors?*

A: All the performance numbers are net to investors. They are after taking out my ridiculous fees.

*Q: What is the geographical allocation of PIF3 and the Dhandho Zero Fee Funds?*

A: You can get a good view of that in the annual report. If you look up our annual report, every year they give you a very clear schedule of investments by country. Today, when I look at PIF3 we've got a decent amount allocated to the US. We've got some allocated to Turkey. We've got some allocated to India and we've got some allocated to Korea. Those are the geographies we are in.

*Q: I think about the most successful investments as those that combine four factors: strong business, management, and balance sheet, combined with attractive valuation. Historically, you have focused a lot on valuation.*

*A few years back you also started emphasizing quality management and avoiding too much leverage. With your discussion of Moutai and Ferrari, you seem to now be more focused on the quality of the business. Which of these four factors do you think is most important in the long term? Do you think all four factors should be present to pull the trigger on a new investment?*

A: There are more than these four factors that I look at. But clearly what is most interesting to me is, first of all, to find a business with a very strong moat. We want to focus on wide moat businesses. We do not want to cut corners on the quality of management. We want to have unreasonable expectations on management quality.

You are right that historically I've been a cheapskate. I also want these incredible moats, with great managers, very cheap. For example, Apple being one where it had an incredible moat, it had a great manager and it didn't pass my cheapness screen. That was in hindsight probably a mistake but also maybe a circle of competence issue.

Circle of competence is front and center -- that's the most important thing. We have to make sure we understand the business well. Once we understand the business, we want to make sure that there's a robust moat and there is a very strong manager. And then the valuations are very important. One of the things I have concluded for Mohnish is, Mohnish is unlikely to be ever able to pay up for great businesses. It's just the way Mohnish is wired.

I don't want to make this a stock tip, but if we look at a business like Reysas Logistics in Turkey, which is a business we currently own and we hope we'll own for a long long time, Reysas Logistics has everything that we want in a business. It was deeply undervalued; it has a very smart capital allocator at the helm. I have not seen Reysas make any dumb capital moves, going back to the beginning of their business several decades ago. They've been very good capital allocators. They are very opportunistic in what and where they put their capital. When you look at the things they're doing, on an ad hoc basis it won't make sense but when you step back and look at it, you'll see that the picture makes sense.

I don't even know if the management realizes this, but they have always tended to focus on buying or investing in recurring revenue businesses. And recurring revenue business have tremendous staying power.

Wayne Huizenga was the founder of Blockbuster, Waste Management, Republic Services, Extended Stay America and so on and he bought the Miami Dolphins. Wayne passed away a few years ago, but if you look at all of Wayne's businesses, the common theme that ran across the businesses was they were rental businesses and/or recurring revenue businesses.

Blockbuster was a rental business -- you kept coming back and renting DVDs and they did very well from that for a long time. Waste Management is the ultimate strong moat recurring revenue business, I mean what are you going to do with your garbage? Even when he bought the Dolphins he talked about that he's renting seats. Republic Service, which was another Waste Management-type company, and even Extended Stay America which he founded had this recurrence.

When I look at Reysas, the common theme of the different businesses across the board is they are all clipping coupons. Those coupons just keep getting clipped, and the money keeps coming in. The difficulty in allocating capital and being an investor is that it's not just about buying great assets run by great managers. We need that, but we have to overlay that with a price that makes sense, and that's usually where the difficulty comes. It's very easy to highlight businesses or managers that are excellent but usually those are well recognized by the markets, and they trade at high multiples.

*Q: What impact on your investments you see if there is a change of President in the US?*

A: I have never considered in a quarter century as an investor who is the President or who is going to become the President. If Trump remains in power, we will do fine, and if Biden comes into power we will also do fine. I can't predict what would happen to our portfolio with any change there, I don't think that's where the action is.

*Q: Is portfolio buffered from large currency fluctuations?*

A: Our Turkey bet is implicitly hedged because if we own, for example, a Class A office building in the middle of Istanbul, a prime asset, whatever the currency does that building has a global value, and over the long term that global value will persist. We think a lot of the assets Reysas has have those kinds of attributes.

In India, we have more currency exposure, but we also have more tailwinds, so I don't think currency is going to be the driver. What will be the driver is whether we're right on the bets or not. If we are right on the bets, the currencies will be an afterthought.

*Q: US dollar has steadily appreciated against the Indian currency over the past 3-4 decades. If that continues to happen do you have any hedges to account for that when investing in India?*

A: In fact, I would expect that the Indian currency will continue to weaken over time. I made that assumption even before we invested in India, and it has weakened since we invested. I've had this experience -- when I first came to the United States as a student it was around ten rupees to the dollar about 37 years ago and now it's about 74 rupees to the dollar. There's been pretty significant movement in the last three or four decades. In general, my bet would be that it would continue to weaken, but our bets will do well even with the headwind of the currency if we are right on the businesses.

For example, one of the first investments I made in India is a company called Satyam Computers. I had only invested about ten or twelve thousand dollars in Satyam in 1995. It went up a 140x in the next five years and the currency moved more than a third against me. And it didn't matter; the currency movement was irrelevant. If we are right on the bets, the currency will not matter. And we do get growth in our stocks because of the inflation. I don't think that's an important consideration from my vantage point.

*Q: Is value investing dead vs growth investing or on a long pause?*

A: There is no difference in the two, all intelligent investing is value investing. When Warren Buffett bought Apple, in his mind he was making a value investment. He could see the value, someone like me couldn't see the value. The best investments we can make are investments where there are deep moats and there is a lot of growth. When we look at the discounted cash flows in the future, what we're buying at today has a deep discount from that. A company could be trading at thirty times earnings or fifty times earnings and be cheap. And a deep value in a company trading at eight times earnings could be expensive. If you're doing value investing correctly, growth is incorporated into that.

*Q: Is there some information you will share on Micron and why it is a special company/opportunity?*

A: We don't want to get in the stock tip business, but Micron is an oligopoly. There are three players in that business. It has not historically been a business with three players. The forty+ year history of memory has been brutal for the participants and very poor for the people who provided the capital.

I believe that has changed, and I believe that the three memory players are core pieces of infrastructure you need to make the cloud happen, make the web happen, make mobile happen, make AI happen, make self-driving happen. And all three players are very prudent and smart and programmatic, so, we'll likely do fine on Micron.

*Q: Are you looking at any inexpensive companies that will ride the Electric Vehicle TaaS (Transportation-as-a-Service) trends?*

A: We look at a lot of things, I don't start with saying I want to be in the electric vehicle ecosystem. I don't start with that notion. I just look at businesses and see which ones rise up to the surface as interesting or appealing. It just depends on what pops up.

*Q: Mohnish - good to see you (virtually). Curious how you're holding up on a personal level with COVID and so many changes in your life.*

A: Well, that's a good question. I would say that 2020 has been a great year for me so far. It's been a year of tremendous learning, in fact the learning I've gone through in 2020 would parallel the learning that I went through in 94' when I first heard about Buffett and Munger. 1994 was a big changing point in my life because I started to make investments using that approach and then five years later led to the formation of Pabrai funds, so that was a very important point.

In 2020 came the dawning of wisdom that I should buy and hold a company that is trading optically above its intrinsic value. That is not something I was willing to do in the past, and I'm willing to do that now. Charlie Munger says that, "We are old too soon and wise too late." I wish I had figured this out 25 years ago, life would be somewhat different and returns probably would have been better, taxes would have been lower. But the thing is there's probably a good – with some luck – 30+ year runway ahead for me, and with the chips I have and your chips that I have, that's a nice runway. I'm very grateful for these lessons.

I haven't yet learnt the lesson of paying up. I don't know if I'll ever learn that lesson, but the thing is that if Mohnish is just able to identify strong moats. Most strong moats would appear optically over-valued most of the time. But it's not that all strong moats are optically over-valued all the time, there are some strong moats that sometimes get mispriced. And when we find those moats, we don't need to find too many of them.

If in a year I'm able to find one or two good ideas -- since March of 2020, we have only found two new ideas to invest in, that's it. Since COVID-19 hit I've only found two things to buy. And two is enough, why do you need more than two? Every year if we can find one or two, every couple of years we can find two or three, that's more than enough. Given what we own currently, we just need to sit and do nothing for a while.

So, I am very happy, I lead a great fun life. Normally Saturday mornings I go biking which is fun. The bike ride got pushed on to maybe tomorrow, but we'll see what the air quality is. So yeah, life is great, no issues.

*Q: Have you spent much time with Charlie Munger this year - perhaps remotely? What lessons have been learned or stories can you share?*

A: A lot of my interactions with Charlie are off the record and I won't go into them, but the funny thing which I never expected is that, a few weeks ago, I got a message that Charlie wants to do a Zoom call with me. I've never done anything Zoom or even phone calls -- I've had one or two calls with Charlie -- so I was puzzled, I said, "Woah, what's going on, why does he want to do a Zoom call?"

We got on Zoom, which by the way Charlie has been doing a gazillion Zoom calls with all kinds of people, and he's very much enjoying it. It turned out he just wanted to shoot the breeze. We spent some time shooting the breeze, and the thing with Charlie is that you always learn so much. I am very grateful for this friendship, and he's doing great, He's going to be 97 in few months, and looking good, looking great.

*Q: How much are PIF funds up/down since 6/30?*

A: They're up seven to twelve percent.

*Q: How many of your investors have been in your fund since inception?*

A: At inception, we had a total of eight investors. My guess is that two or three of them are still there. Most of them stayed for most of this period. Some of them had to cash out due to life circumstances, divorce, business difficulties, and other reasons.

*Q: What percentage of India fund is in cash?*

A: We have a decent cash position, but I don't want to go into it play by play; We've got plenty of dry power in the India funds.

*Q: Hello Mohnish, Thanks for your time today. Giving that other markets usually follow U.S. in the past, if the U.S market declines significantly in the near future due to near bubble territory, wouldn't the India market also will follow or decline even worse? What is your view of the India Fund then? Are there any hedge strategies in place or will you just ride with it?*

A: I am very poor at knowing what markets are going to do. We focus on individual businesses. We do not hedge those positions, and we take our lumps. If you look at our 21-year history, we have never had a hedge, we've never had a short position, we've never cared what markets are going to do. In 17 of those 21 years we did very well, and in four of those 21 years we didn't do so well. It worked out extremely well until 2018, and it will likely work very well in the future.

I would say that looking at the numbers as of 2020, it's kind of like looking at the funds in 2009, it will look terrible. But if we fast forward to 2024, 2025 we likely will be in great shape. Some of the lessons I learned in 2020, especially the ones about holding above intrinsic value and focusing on enduring moats more than anything else, will pay some big dividends.

*Q: How much common investment is there between the Dhandho Zero Fee Fund and PIF3?*

A: There is some overlap in those funds. For example, the Zero Fee Funds have no exposure to Turkey and PIF3 has meaningful exposure, the Zero Fee Funds have no exposure to Seritage, and so on. It's not how I run the funds, I look at each one by itself. The India Funds are focused on India, two-thirds of the assets are focused on India, and that's where they are at.

*Q: We clearly pay taxes on dividends and realized gains when the fund sells, in its ongoing operations. And we are clearly not paying any taxes for any unrealized gains, when the fund holds. How do you allocate a realized gain, when a partner exits the fund, when the fund may still be holding onto the stocks?*

A: This is done by our tax prep guys at Liccar. In general they try to do it in the fairest way possible. A number of funds do what is known is stuffing, which is they stuff the gains through the exiting investors. We have never done that and we don't intend to ever do that.

*Q: Thank you for a great presentation as always, Mohnish and Fahad. Do you feel in any way that passive investing, both historically and going forward, rewards lazy and perhaps even ignorant investing?*

*As a thought experiment, assume 90% of the market is invested in passive vehicles like index funds - what would that mean for investing in public markets in general? Would there a place for active managers to continue looking at businesses when indexing makes the market incredibly correlated, thus making it difficult to have alpha on an individual investment? Taking this to an extreme, can RIA's really be objective when they have a self-interest to keep putting clients in passive vehicles, even if that may not be the best investment for them?*

A:  I may not be the best person to answer these questions. I would just say that these are questions that have been asked of Munger and Buffett, and what they have said is the amount of assets we have in index funds today, while it has grown, still leaves very significant amounts in non-indexed situations. Specifically, when I look at Pabrai Funds and I look at the holdings that we have, most of our holdings don't tend to be index holdings.

We don't have S&P 500 positions and all the NASDAQ 100 or those types of positions generally that dominate our portfolio. Our future will be heavily determined by how our businesses perform, and that will drive the results, not whether there's a growth in indexing or not.

*Q:  Did you ever consider Amazon?*

A:  This may surprise many of you, but in 2002 we had a 10% position in Amazon. At that time in 2002 we were running approximately $70-80 million. Let's say we had a $5 million position in Amazon in 2002. I do remember that we bought it about ten dollars a share. You do a 300x on that $5 million or $10 million position, it's north of $1.5 billion, 3x the value of everything else that we own. But I don't think I could have held it because I didn't have a deep enough understanding to buy and hold it forever.

In 2002 I was taking a class at Harvard, where we were doing a case on Joy Covey, who was at that time the CFO of Amazon. Joy was a HBS grad and she was close friends with Bill Sahlman who was the professor who had written the case and who was presenting the case. He had had a lot of interactions with Joy, and with Jeff and so on. He had very good insights into Amazon at that time.

I was so impressed with Joy Covey -- in fact I met her a few years ago. Joy has unfortunately since passed away in a freak biking accident, it's very sad.  Joy was a high school dropout and eventually was a HBS grad and then became the CFO of Amazon. I just looked at her life journey and looked at the kind of caliber and capability she had and what she brought to the table, and I looked at Amazon and what Jeff was doing.

At that time Amazon had stumbled, they had opened up a bunch of warehouses which were not working. So they had to write off a bunch of stuff. This was right after the dot com boom and bust, so the stock had collapsed. When I looked at the valuation, it looked very cheap. I bought it and then within less than two months it went up more than 50%. In my infinite wisdom I sold and moved on.

Amazon is a great business, very difficult for a person like me to invest in Amazon at present valuations. It's got an unbelievable moat. I have a good friend, Nick Sleep, who when he shut his funds Amazon might have been 70-80% of the portfolio. Even today I believe he has it in his personal portfolio and it's a very large portion. He's ridden off into the sunset and it's been great and there are plenty of lessons there for me.

*Q:  Future increases in Covid in India (may near 1M cases) and how that will affect India fund?*

A: I think that, for most of the world, in early 2021 the vaccines will start making the rounds. India has an advantage because it's the world's largest producer of vaccines, The Serum Institute of India is the largest manufacturer of vaccines on the planet. I think thus India will have a leg up on getting access to the CO =VID vaccines relatively early. India will likely get past COVID-19 in the next few months. COVID will stay with us forever, we will learn to live with it like we lived with the flu.

*Q: Have you considered investing in Japan. It seems to hide deep value. In addition, BRK has stated entering the market. Thanks.*

A: We actually used to own a basket of Japanese net nets a few years ago. That didn't work out so well for us. I'm not so interested in buying net nets, I'm actually more interested in buying businesses with great prospects and growth and moats going forward. Japan is a cheap market, I do poke around periodically at some of the businesses I deeply admire in Japan, We were never able to get them at the prices I'd like to get them at. But the hunt is on, we will see.

*Q: Could you please comment on Berkshire foray into gold and Snowflake?*

A: Snowflake may be a Todd Combs investment. It's definitely Ted or Todd. If I were to bet, I would say it's Todd. Gold is puzzling, but I don't have any insight into why Berkshire, why any of the three of them, invested in gold. So, no idea there.

*Q: Why might the market be mispricing Micron, particularly as there are so many analysts in this sector?*

A: There are many businesses we invest in which have many analysts that get mispriced, a great example is Fiat Chrysler which we invested in in 2012. The company was widely followed by a gazillion analysts and it was significantly mispriced. We can see mispricing with many analysts. In the case of Micron, there hasn't been a lot of history with the oligopoly participants in a market I think once we get to five or ten years of this market operating with these three players, the market will likely re-rate these companies.

*Q: Doubling clicking on your learnings from 2020 to "give compounders more room to run." How would that align with learning that PIF should have sold RAIN at 10x return?*

A: Rain is a very interesting case, it has elements of a great business, but what it really has is a great capital allocator. It's a great capital allocator who's operating in a not-so-great industry. He is improving the business as we speak and Rain is moving from more of a commodity producer to more of a specialty producer.

I will say Rain to me is a different bet than Reysas would be. I don't see Reysas in what I would call difficult businesses. Rain does have some difficult business that they have to execute well. Rain does not rise up to me to the level of a compounder to be held forever. With Rain what we will be wanting to do is, we may not want to exit completely but, as it rises in price, we should be wanting to lighten up.

*Q: I noticed there are not many US positions. Is it more a reflection of the full valuation of the market (and hence few opportunities)?*

A: We are bottoms up investors. In fact I would prefer to have investments in the US. Trading costs are low, it's easier to deal with and all that. Other things being equal I always prefer having US investments. The fact that we are going to these other places means that we can't find anything here and, hence, we are finding stuff in other places and we'll like those and we'll go for them.

*Q: Will you invest in a company in China again especially in the technology sector?*

A: If we can find a business that we can understand, has a strong moat, has a compelling valuation, honest management and great capital allocation, I don't care where the business is, I'd be interested.

*Q: You have an investment checklist. Have you added any questions to the checklist lately given recent market conditions and can you comment on what you have learned from these new questions?*

A: The checklist is a living breathing document. It does go through additions periodically. Usually every year there's one or two questions that gets added to it. It's got 170 or so questions on it. To me the big changes in 2020 have not been checklist-related, they have been philosophy-related.

*Q: Just curious....how many businesses do you evaluate/study on an annual basis? And what does evaluate/study mean to you - specifically, how do you know a moat exists, do you do DCF, do you evaluate the end customer/market of the business etc.. My question is motivated by the following - you would have to really analyze every aspect of the "business value chain" to grock it.*

A: It's a difficult question to answer. I look at Value Line every week and I at least eyeball many of the businesses there. There are 1,700 businesses on Value Line. In most cases I would not even look at the individual page, but I look at the businesses and I look at some of the one-pagers on those quite frequently. And then I get people sending me ideas all the time, I'm looking at sites like Value Investors Club and Sum Zero, and so on. What shows up on the radar is from a variety of different sources.

I don't know if I can tell you how many businesses I think about. I give at least some thought to in the hundreds. The first question I ask myself is, is it within my circle of competence? And that wipes out 90+% of what I look at. If it's within my circle of competence then I should be able to answer a bunch of other questions like the quality and durability and depth of the moat, the valuation and those sorts of things.

*Q: Do you see the ongoing border skirmishes between China and India, and which are likely to continue into the future, possibly even leading to a war, having long term impact on the Indian holdings?*

A: I listen to Marketplace on NPR every day. Now it's on a podcast, it's about a 20-25-minute podcast. Sometimes I'm travelling and different things, so these things pile up and sometimes I'm listening to a podcast of Marketplace several months after it's happened. Kind of like reading a three-month-old Wall Street Journal for example.

There were a bunch of Marketplace segments in February and March, mainly in February, that I actually got to relatively recently in the last couple of months. And at that time COVID-19 was rampant in China, but it had not made an appearance in the US. There was a lot of commentary about COVID-19 at that time. These people were saying, "Yeah, it's going to affect China's numbers, it's going to do this and that." No one was talking at that time about effects to the US economy or US numbers or US shutdowns or any of that. No one even talked about it coming to the US amongst the experts they were talking to in February.

They say that a butterfly flaps its wings near Africa, and New Orleans gets a hurricane. You look events like these, like the border skirmishes in India and China, that's like a butterfly flapping its wings near Africa. There's such a wide range of outcomes, including some outcomes being very extreme and bad, and most outcomes being benign. I don't have any particular insight. You could have these things spiraled out of control or you can have them be tempered. Both countries have a lot of vested interests in not letting it spiral out of control and I hope cooler heads will prevail.

*Q: Can you provide more clarity on the liquidity timeframe for Dhandho Holdings?*

A: We've already returned 75% of the capital. We have four positions. My guess is they should work out in the next couple of years where we would have captured a lot of the value. We have one position which is illiquid which is the venture fund. I would think that we would have returned all the capital we raised and maybe some more within the next two or three years, and we may still have more to return after that.

*Q: What funds will be open in the future?*

A: All the funds are open right now.

*Q: How do you feel about your level of focus and bandwidth for the funds and Dhandho these days?*

A: We have plenty of bandwidth. The one thing which does impact us is all the travel got shut down. Fahad and I had trips planned to Turkey, to Korea, to China, to India, to Brazil, and almost for sure, if we had been able to do all these trips in the last few months, there may have been a great idea or two that surfaced from all of that.

The biggest hurt that COVID-19 has done is it's taken away our ability to look at some things that would have showed up on the radar. Because in each of these trips we would have met about four businesses a day, which would have been very carefully selected. Maybe fifteen to twenty businesses a week. Possibly we missed out on meeting with a hundred businesses as a result of COVID-19.

Many of these are not possible to invest until we've kicked the tires a lot more than we have so far. I am anxious to get vaccinated and I'm anxious to have a global-vaccinated passport which allows me to come and go anywhere in the world. The first thing I would be doing is probably a two-month around-the-world trip to get caught up. That's hopefully happening in maybe first or second quarter next year.

*Q: With potentially a 30+ year time horizon, how will AI [artificial intelligence] impact the fund management or financial industry over the next few years and decades? What threats or advantages do you see for Pabrai Funds from AI?*

A: Passive investing has had a big impact and will continue to have a big impact. I am skeptical about whether AI can affect the things that we do. There's so many different kinds of variations and variables that come into play. But we'll see. I don't know how that'll change.

*Q: Are there some investors that recently (past 3-4 years) you have begun following more closely for Cloning ideas?*

A: The answer is yes, and I don't have much more to say on that subject. We don't need competition there.

*Q: Will you invest in Gold/silver or commodity giving the geopolitical issue and what the Fed is doing such as MMT and inflation matter?*

A: The answer is no.

*Q: At this time can you expand at all on the opportunity you see in Piramal Enterprises?*

A: We'd rather talk about Piramal when we don't own it. But clearly Ajay Piramal is a very gifted capital allocator. The stock got irrationally clobbered in our opinion where you could put a zero on the entire lending business, it was still undervalued, and we didn't think the lending business is a zero. We'll talk more about what Piramal when we are no longer shareholders.

*Q: Do you see further investment in the funds now as being as good an opportunity as investing in the Pabrai funds back in 2009, during the last downturn?*

A: I don't think anything is as good as 2009. I think 2009, at least in the 26-year history I've had as an investor, probably was the most compelling time to invest. At that time, you could throw darts and invest, you didn't even have to look at the business, we were buying baskets of commodities and all of them did well.

So, 2020 is not 2009. In fact, in 2020 most stocks are overvalued. It's a completely different situation from 2009. The situation in 2020 is probably closer to the situation in either 1969 or 1999. In 1969 we had the nifty-fifty where the idea was you could buy these long-term compounders at any price and you would still do well. You could buy Coke or McDonalds or American Express or whatever and you would do quite well. And these things got to ridiculous multiples and investors didn't do well.

We see that today also. The poster child of that is the valuation of Tesla and we see that in some of the cloud players. In 1969 the nifty-fifty were all phenomenal businesses. They had huge runways ahead. They had great moats. That's the same situation in 2020, because Google has a great runway, Facebook has a great runway, Apple has a great runway, Tesla looks like it has a great runway, Salesforce and so on. But the thing is that we also have data, for example, when in 2000 Microsoft became the most valuable company on the planet. It was trading at more than a $600 billion value. From 2000 until 2016 or so it was flat, zero. You got no returns by holding Microsoft even though the business grew a lot. And not only was it flat, you had a very violent ride where it collapsed in price over the next couple of years and then it collapsed again in 2008-2009.

Throughout the period, throughout the last twenty years, Microsoft has done very well. But for investors 16, 17 years of that ride was terrible. A lot of good news is baked into the pricing of companies like Salesforce -- it's a great business, we are customers of Salesforce, we swear by that, we love it. But even the best businesses have finite values. Markets vacillate between fear and greed and I think, in a small slip of the market today, there is a lot of greed.

*Q: Do you have sufficient cash positions to make new investments or will you need to sell assets to make new investments? Thanks for the meeting!*

A: Our India funds have a lot of cash. In our US funds PIF4 has a lot of cash, PIF2 and PIF3 are sitting nearly fully invested but they do have positions that we can unload. I don't see us being constrained if we find real investments.

*Q: Can you recommend any resources we can check out to try and learn your blackjack strategy?*

A: There was a video that got posted and I specifically did not talk about my strategy of blackjack. The reason I didn't talk about my strategy of blackjack is that I like the people at the casino that gave me a lifetime ban and I don't want to see them have their business get affected. I don't want to see them having disruption in their business. So, I will duck this question.

*Q: In terms of discounts rates, how are you approaching potentially distorting effects of sustained low interest rates?*

A: Low interest rates, if they sustain for a long period of time, they justify higher multiples. We don't know how long low rates will sustain; it looks like they might sustain for a while. But I'm still a cheapskate, I'm still not willing to assume the rates that we have in 2020 will be the rates we'll have in 2025, I wouldn't want to make that assumption.

*Q: Do you foresee a crash/worried about a possible crash in the stock market end of 2020/beginning 2021?*

A: I have no idea. I would not have any idea about such things. What I know is that when things get ridiculously overvalued like this sliver of FAANGS, etc., it can manifest itself in two ways. They could flatline for a long time, so we may not have a crash, they just don't do well for a long time. They could actually crater and then come back, or they may keep doing well and it may prove out that they deserve those multiples with the growth of their business. Any of those three are possible. From my point of view, it’s very simple, put it in a two hard pile and move on. We don’t need to worry about them because they are not natural candidates for investment.

*Q: What is the mechanism by which low rates and large deficits and money printing catches up with us? Does it ever? When?*

A: I would say that historically if you go crazy with a printing press, you're going to have a lot of inflation and debase the currency. It hasn’t happened so far for some reasons which different people debate.

There’s a book some of you might like called *The Other Half of Macroeconomics* by a guy named Richard Koo. He has some theories about why we have not seen inflation with the low rates. I don’t know how to predict this. I don’t know when and if we get inflation and when and if rates go up. I have no idea. I would say this, that if we got a lot of inflation, in general, Pabrai Funds would likely do well because we have a good amount of hard assets where the capex was done in yesterday’s dollars, and they’d be valued in tomorrow’s dollars. We would likely get tailwinds when you averaged it out.

*Q: Will there be large realized tax losses on the India Funds this year?*

A: We haven’t finished all our tax planning. I would guess that none of the funds are going to be reporting gains. India Funds may have some tax losses, but a lot of their losses are unrealized. From a tax perspective what you should assume is that your K1 is not going to lead to you paying taxes in 2020. That’s the most likely scenario.

*Q: Where do you see inflation in next 5-10 years?*

A: I have no idea.

*Q: Given there are so many SPAC at the moment, have you consider creating a SPAC?*

A: No, there are no such plans. We had an adventure with Dhandho which didn’t go so well. So, we like the kind of assets and things that I’m focused on right now. I want to focus on getting those to the promised land.

*Q: Any good books that you have read lately that you would recommend?*

A: Morgan Housel has a book coming out, *The Psychology of Money*. He sent me an advance copy. I think the book is released now. That’s a great book to read.

Another good book is the Reed Hastings book that just came out. I’ve been listening to some of his interviews and I’ve been very curious about it. It’s *No Rules, Rules: Netflix and the Culture of Reinvention* and it looks pretty good.

I’ve been reading the last book in Ian Toll’s Pacific War Trilogy Series, *Twilight of the Gods: War in the Western Pacific*, that covers the last one year of World War II. He’s a gifted writer and slices it well.

*Q: If you are a new investor, will you invest in the India Fund now or wait?*

A: Usually my style is not to time markets. It’s a good time to get in the India Funds.

*Q: From your vantage point do you find Facebook and Google more than optically overvalued? They don't appear to be as highly valued as the other FAANGS.*

A: I would agree, I would say that Google and Facebook in my opinion are less egregious in valuation than maybe something like Salesforce. I’ve looked at Google many times, we used to own it in the past. They have so many businesses where they haven’t even turned on their revenue engines. In many ways I feel like Google can make its revenue wherever it wants it to be. Their ability to monetize in the future is quite extreme. Facebook is similar. Facebook also has a very powerful moat. But it’s hard for me to understand how, for example, I would make 5x my money in the next five years on either of them. It’s possible to get there but it’s not obvious to me.

*Q: Do you ever allow investors to accompany you on your travels or foreign company visits?*

A: I collaborate with some investors who may not be invested in the Funds. Sometimes they come with me. In general, it starts getting crowded quickly because the conversation starts changing if you have five people in a group versus two people. So, it’s not of too much interest.

I would say that it’s amazing I get paid for the job I do, because there is nothing more orgasmic than the visits to Korea, or Istanbul, or China, or India, and meeting these businesses. Those have been incredible experiences in the past. We have found some incredible businesses that I’m so grateful that we own a fraction of. I know that if we keep doing those trips, the fun is going to continue. And while we’re having fun, we will be making a lot of money. So, what’s not to like about that?

But we may not be having too many of you join us on those. So, sorry about that. I’ll try to give you my experience vicariously, especially when we exit.

*Q: I invested in Pabrai Funds primarily for the great Indian food at the annual meetings.*

A: The food is good. I hope I can also give you great returns.

*Q: What do you think are Warren’s and Charlie’s success to living so well for so long?*

A: Warren says that he is a stress giver, but he has no stress. The people who work for Warren probably feel incredible pressure and stress to deliver the goods, but Warren and Charlie feel no stress. They’ve set up their lives in a beautiful way, where they’ve delegated to the point of abdication. Because of their strong principles, ethos and culture, they’ve attracted a very strong set of managers to work with them, and those managers have worked with them for decades. It’s a beautiful model, they live very low stress lives.

Especially in Charlie’s case, I’ve had a front row seat into how he lives his life with the various dinners and bridge games and lunches and so on. It’s a great life, They have to be commended for what they have set up. I try to learn from them and I try to live similarly.

That sounds like a good note to end this meeting on. I very much enjoyed this interaction. One of the things that was different about this meeting for me, and maybe you guys felt differently as well, is that in this meeting we had no non-investors. The only people we invited on the call were the investors. For the first time, many of you who have never had the ability to travel to Chicago or Southern California, were able to come here.

One thing I’m thinking about is whether in a post-COVID world we want to continue to do one virtual meeting and one live meeting. That might be something we consider where historically we’ve been doing two live meetings. We might consider whether it might make more sense because that’ll allow wider participation. The other thing I want to reflect on about next year is if we do it online and live, whether we can change the times every year to be more inclusive on the time zones. I got some irritated New Zealand and Australian investors highlighting to me the time it would be in their countries when we would be live. I timed the meeting so that it was convenient for US West Coast, Mid-West, and East Coast, and even convenient for people in Europe, which actually comprises most of our investors base. We don’t have that many investors in Asia, but we do have a few in Australia, New Zealand and Dubai, etc. I’ll try to see if we can tweak the timings a little bit. If we have a West Coast meeting which is live, we don’t need to have the timings fit for West Coast people. We can then change the online to something else.

This was great, I enjoyed it. Thank you very much. I look forward to sharing some great Indian food with you next year. And also, hopefully, we will have had some profitable adventures in different parts of the world and thank you very much for attending. All the best.