Pabrai Investment Funds/Dhandho
2021 Annual Meeting Transcript

Note: This is the transcript of the meeting held on September 18, 2021, 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"). The slides can be viewed at:

https://vimeo.com/608504474

Welcome and Introduction (Slides 1-4):

Hi, this is Mohnish. Thank you very much for joining us. Many of you like it so much that this will become permanent for us; like many changes with COVID, this will be a permanent change. So, in the future, we'll always have at least one meeting online and we'll also try to do another meeting in person. Hopefully, by next year, at this time, we've reached some level of normalcy.

It's great to see everyone and thank you for taking time on Saturday afternoon when you could be doing many other things. And of course, some of the people joining us are in different parts of the world, past midnight in India, and even in places like New Zealand, and Australia.

I don't want to spend too much time on the prepared remarks. I'm more excited about the Q&A and talking about what you would like to talk about. We'll get started by going over Pabrai Funds, then update on Dhandho Holdings, then Dhandho Funds and then finally we'll have our Q&A session.

This is our lawyer saying hello to all of you.

Slides 5-7:

PIF2 is our oldest fund. There was a PIF1 which was in effect merged into PIF2. Pabrai Funds has been in business for about 22 years. We've had two periods with negative returns: 2007 to 2009, when we underperformed the market and then, from the second quarter of 2018 to just before COVID hit. In aggregate, the funds have done well, but they did exceptionally well through Q1 2018.

We had a particular nuance take place in 2018. Rain Industries and Fiat Chrysler had significantly appreciated positions that affected the performance quite a bit. Both of those dropped significantly after Q1 2018. If we looked at the fund performance for the first approximately 19 years, the funds significantly outperformed the indices over various periods and they also outperformed regardless of whether we were managing $1 million or $500 million, so the asset growth didn't matter that much.

Like I mentioned, we had declines in two winners and that caused the hiccup for us in some of the funds. In hindsight, it would have been wise to sell them both. Rain was up about 10 times, from when we bought it in 2015. Sergio Marchionne passed away, and Fiat took a big dive, especially after COVID. These events affected the numbers in the last few years.

Slides 8-10:

The offshore fund started about 20 years ago and again, it's a very similar story to PIF2 where we've had two periods of negative performance and underperformance. I had written to you in our recent letter to investors that PIF3 had a regulatory hiccup in India with SEBI, which is the SEC of India. They forced us to sell our positions in India, the very harsh kind of edict from SEBI for what was a very, very minor footfall. That caused quite a bit of impact on performance.

Before I get to the SEBI hiccup, basically the same story as PIF2, where we have significantly outperformed the indices regardless of the duration of time if you measured it through the end of first quarter of 2018. And PIF3 was a more extreme case of concentration because the Fiat Chrysler and Rain Industries made up more than two-thirds of the fund and both took a significant drawdown and that affected the performance.

We had a regulatory glitch in the first half of 2021, and I explained it more in the letter, but it was a relatively very minor slip up on our part. I compare it to giving someone a 10-year prison sentence if they didn't come to a complete stop at a stop sign. It was a very minor glitch. We fixed the glitch within a day of knowing about it, but because of the second COVID wave, the regulators were all working from home. It was very hard to communicate with them and they took a very harsh stance. We were in a very tight corner there and we were forced to sell three stocks that we would not have sold - I would not have sold Edelweiss, Rain and Sunteck. We received around $60 million for these. As of August 31st, they were worth about $77 million. So, we took a hit there.

The second issue, which also happened is that the stocks we bought, and this has nothing to do with SEBI, but the stocks we bought for that $58 million, at least in the near term, have gone down. From a marked-to-market perspective, it affects the numbers, but basically, PIF3 also has done well, from the onset of COVID, from April 2020 onwards. It is just that this glitch caused an issue. We got past the glitch on July 5th, and we were able to start buying back some of these positions.

Slides 11-12:

PIF4 is our newest fund. It's got about an 18-year history. Again, like the other funds, we had two periods which were negative. PIF4 is a little bit behind since March/April 2020, but it'll fix itself because we've got some very good irons in the fire. Also, same story with PIF4, it has done better than the S&P over all these periods through first quarter 2018 and again, had similar issues with the large Fiat position, etc.

Slides 13-14:

The funds have very low expense ratios. They're all single-digit basis points, 4 to 9 basis points in the different funds, and it's very similar from a year ago. These are low expense ratios because the only things that investors pay for are direct third-party expenses like the audit, accounting, tax, and administration that is outside of our internal cost; so, for example, our rent or staff or any of that is not paid by the investor. So, the expense ratio is low, which keeps the frictional costs down.

This is probably one of the only slides which is close to being an advertisement. We don't have any management fee. So, with the $600 million that funds the Pabrai Funds have, we could be collecting 12 million a year just for breathing, but we don't. The interest that we have is fully aligned. My family is the second largest investor and so not only from an earnings perspective, but from a wealth perspective, it's where the bulk of the assets are and so strong alignment of interest. Also, there are high watermarks, so there are no performance fees paid until we had high watermarks and higher than 6% annualized from the previous high watermark.

We have no leverage, we have no margin, we have no short positions, we have no derivative positions. And it's a very stable group of mostly high net worth individual investors, families, a lot of entrepreneurs. Pabrai Funds looks very strange to institutions because of our strange rules and so generally speaking, we don't tend to attract too many institutions. But I like the fact that I'm dealing directly with principals rather than agents, so that's an advantage.

Slides 15-19:

We made an investment in a company in Turkey in 2019, Reysas Logistics. It was a stunning situation because the market cap of the company at that time was $20 million and the liquidation value was more than $500 million. We kicked the tires quite a bit because that sounds very strange, that you're buying something for 4% or four cents of the dollar, basically. But it was there because Turkey was going through a lot of macro issues, and everyone was heading to the exits. So, all three funds invested a total of $7 million into Reysas in 2019. We ended up, which I was really surprised, with one-third ownership in Reysas. I was surprised that we were able to get that much stock.

The market cap of the company was about $20 million when we got the $7 million position. I estimated that if we were correct on the liquidation value -- at that time, the liquidation value was about $500 million. It has moved up because not only does the company have some incredible assets, but it also has two good capital allocators at the top, a father-son team. I like them both a lot. The son is exceptional, as well as the father. The son is just 37 years old, so we've got a long runway with the family, and he's been in the business for about 15 years.

Reysas bumped the $500 million liquidation value by about more than 20%. Our stake is worth about $200 million, and it's gone up about six or seven times in dollars since we bought it. Currently, the market cap of the company is about $140 million. Our stake is now valued at about $40 to $42 million. The company is very well run - it has good assets, the value is going to grow over time, and it is going to grow quite significantly. Most of this position is in PIF2 and PIF3. PIF3 has the largest portion of this.

We also have three other undisclosed compounders in Turkey that we are still buying, and for that reason, I will not talk about them. But it's important that you know that those are in the fund. We could only put $7 million in Reysas. With these other three undisclosed companies, we have over $50 million at cost invested and they're exceptional businesses. Turkey is an incredible market because there has been such a mass exodus and the local investors treat it like a casino; so, they are not really interested in looking at the fundamentals of business. As a result, there is a wide disparity between price and value. It's a value investors dream. These businesses, because they've got such strong tailwind and strong oligopoly type positions, they're almost monopolies. They can compound at 15% to 20% a year for a very long time - many, many decades - so they may be worth a billion, $2 billion.

If we look at both our turkey bets, which is about approximately $90 million today, it's about 15% of the AUM. It could be worth over a billion by 2030 and worth maybe $3 billion by 2040. There's very strong downside protection on these businesses. I don't have any plans to sell any of these for a very long time. Turkey does have a lot of macro challenges. Because of that, I gave you all our numbers in dollars.

From the time we invested in Reysas in 2019, the Turkish Lira has lost massive amounts of value. When we invested, it was around five Lira per Dollar and now it's about 8.5 Lira per Dollar. In Lira terms, we are up more than 10 times on the Reysas investment, but we measure in dollars. I knew when we were walking into Turkey that the Lira would continue to weaken; I still believe that Lira will continue to weaken. But it doesn't really matter because the assets that we have will outpace the Lira depreciation. They will out-run inflation because of the replacement cost, and these are such prime assets.

Before I go to Micron, I want to give a little bit of more color on Reysas. I don't have a slide here, but I can just talk you through it. There are two businesses owned by this group - Reysas REIT and Reysas Logistics. We own a third of Reysas Logistics, it's more like the holding company. And Reysas Logistics owns 62% of Reysas REIT. So, the REIT owns 12 million square feet of ultra-prime warehouse space - refrigerated and non-refrigerated. They're the largest landlord of warehouses in Turkey. The tenants are very blue chip, such as IKEA, Amazon, Carrefour. REIT has top-notch tenants, 10-year leases, 99% leased, inflation indexed. Those are incredible assets.

It was simple to value the business because, though Reysas is in a bunch of other businesses, if you just look at the real estate businesses, the math was simple. If there is 12 million square feet, the replacement cost of those warehouses is somewhere between $75 and $100 a square foot. So, if it's $100 a square foot, it's worth 1.2 billion. The debt is $200 million. If it's $80, or $75 per square foot, it's close to $900 million. Again, you take the $200 million of debt and have about $700 million of value at the REIT. Then you take 62% of that which flows through to the holding company.

I spent a day visiting the warehouses and they're exceptional. They have a bunch of other businesses that are all very strong recurring revenue businesses. They are the largest freight train operator in Turkey, so they've got these rail cars, and their own freight railway stations. The trains are going from Turkey to Europe and back. They have the largest truck fleet in Turkey.

Reysas also has the largest rooftop solar business in Turkey, which is an incredible business. I didn't even know about that business when we bought the stock in 2019, it was very small. But Turkey has net metering laws like we have in California. It's counterintuitive but industrial scale rooftop solar systems are less costly than industrial scale ground mount systems, especially now when they build new warehouses and they know that solar systems are going to go on them.

With their current footprint, they will end up with producing 50 megawatts and those 50 megawatts is inflation indexed because they get paid what the electric rates are. Turkey has almost no fossil fuels in the country, so they are a large importer of gasoline and natural gas, making the country very eager to cut their energy bill. Therefore, they have strong incentives on solar and that's a huge part of the value in Reysas. They also have concessions on weighing the highway trucks for the government. These are 20-year leases with 20-year concessions.

Reysas has a very creative team. and have repeatedly gone into new businesses in a low-risk manner. They tend to throw a lot of ideas against the wall, small bets, and then if it works, they scale it. We want to own that for a long time, and it should have a great future.

Micron has been our position for about three years, and it has about doubled in that time; so, about 23% - 24% annual return. I still think it's undervalued; it could be worth three times that. Micron is a business with a lot of CapEx, but it's also a business with very strong barriers to entry. There are only three players, and all three players are quite rational. They have an exceptional leader, both in terms of running the business and allocating capital. They're aggressively buying back stock. It's amongst our largest positions in most of the funds.

Edelweiss is a business in India. I like Edelweiss a lot. They have a wide range of financial services businesses like brokerage, asset management, wealth management, life insurance, property casualty insurance, distressed debt lending and such. Much of that now is off balance sheet. It is growing very rapidly with a good team and strong leadership. In the next 5-10 years, it could be worth many, many times what we paid for it.

The four assets I talked about, Reysas, the three Turkey compounders, Micron and Edelweiss collectively make up around half, so between these, we have got about $300 million invested. The other half is very good. The whole portfolio looks good. I have gotten a good education in the last couple of years on buy and hold great businesses. Don't sweat the intrinsic value too much. Even with several duds, I'm sure some of the businesses we have in the portfolio are duds, I just wish I knew which ones. But I'm sure some of them will not work but even with the duds, we will compound at over 15% a year for a while.

The main reason for giving you this information is to inform you that I don't want to bring more assets into Pabrai Funds. I don't want to dilute, for example, our Reysas Holdings. I want us to sit tight; the only reason the funds are open is to offset possible redemptions. I really don't know, at this point, whether this year's redemption will be benign or not. We are fine with whatever it is, but we don't want to be selling any of these positions. It's a preemptive strike to keep the funds open so that subscriptions are a little bit ahead of redemptions. So, that's the Pabrai Funds story.

Slides 20-24:

Next, I will go through Dhandho Holdings. In 2014, we raised $152 million. Dhandho Holdings, like I mentioned several times, was a mistake. We sold our big asset, the insurance company, a few years ago. We collected the proceeds from the sale and pushed it out to investors. The idea is to return all the capital and then some to all of you. We've returned about 75% of the capital already, probably another at least $10 million or $20 million next year, possibly more. From the NAV that we have today, it doesn't look like we will have any loss of capital. With Dhandho Funds, there is an upside; we haven't put any value on it, so it's carried on the books as a zero-value business.

Of the money left at Dhandho Holdings, which is approximately $40 million, about 70% is in our stock portfolio, The stock portfolio contains five holdings and two of those, which I mentioned here, are Micron and Edelweiss, Dhandho also has a stake in one of the Turkey compounders. Some of these interests will be kept for a while and others, once they hit targets, we might want to push them out.

We also have an approximately $15 million position in Tandem Fund based in Toronto. Tandem Fund has a stake in a company called Outdoorsy, which is basically like the Airbnb of RVs - RV Rentals, and such. Outdoorsy is doing very well and growing fast. The pandemic came with a lot of tailwinds; and just like a lot of behavior change in humans, RV usage is going to stay up for a while. Outdoorsy helps RV owners optimize; someone else is using the RV when the owner is not etc. Outdoorsy will probably go public next year. It appears that they have S1 in the works; but they are in a quiet period, so we don't have a lot of data coming out from them right now.

And their idea was to that their value was close to about $1.7 billion. If Outdoorsy trades at $2 billion or more, we get the entire Tandem Investment back. We have several other investments in Tandem. Bellwether Coffee is a very innovative company, which has an advanced coffee roaster for use in the coffee shops. The roasters can be retrofitted without much plumbing change, or ventilation needs. Elon Musk's cousins have taken a big position in Bellwether Coffee. They've come on the board, led the last round and were the ones who were at Solar City. That business seems to have some legs. There are other Tandem investments, which as they get monetized, they will be pushing those to us, and we'll take it from there.

We have about $100 million in Dhandho Funds, and we haven't ascribed any value to it. There are very few businesses on the planet that are better than owning the GP interest of a well performing fund, like I have experienced with Pabrai Funds for almost a quarter century. It can be a good business. If we can, for example, get the AUM to a billion, I'm not saying it's going to get there but if it got to a billion, if we had a 15% or 20% year, at 20%, we would collect a $35 million fee on that billion and at 15%, we would collect approximately a $20 million fee, so it starts getting interesting.

Dhandho Funds has already started producing some earnings. They will probably get past the high watermarks likely in the next year, and future years, we become self-sustaining and have another engine, which can push dividends out to investors. This business does not need capital and it's a great business.

Periodically people have come to us requesting to end their investment with Dhandho. They want to get their money as they may have other needs for it. We've accommodated those individuals by looking at the NAV. Sometimes, third parties have bought those, facilitated through us and sometimes insiders have bought those. I want the insiders, excluding me, to have a larger position in the GP. My team does a lot of work and I want their incentives aligned with their ownership increased. So, if people are interested in selling units, which I don't recommend, we have a mechanism to buy them at a fair price. We also have a mechanism to try to get insiders, excluding me, to have a larger stake, which is good for everyone. So, if you need liquidity, let us know, but I would recommend you just keep the shares and the units.

Slides 25-27:

As I mentioned, the Dhandho India Funds have a little over 100 million under management. We had horrible timing because the small cap indexes went down 50% in the first 2 1/2 years and then COVID did not help things. Since April 2020, we've done well. Since April 2020 – August 2021, the funds are up over 100%. They are up a lot more in September 2021. I do not have the exact numbers; it might be close to 115% or 120%. The India Funds are well-positioned for the years ahead.

The India funds are allowed to have up to one-third of their assets outside India. They also have a stake in Micron and Edelweiss, which we've talked about, and the largest position they have is Indian Energy Exchange.

Indian Energy Exchange is an incredible business. I have met with maybe 200 listed companies in India in the last few years, I would rate IEX as the best company that I have visited. It's an incredible business with good culture and a good leader. Approximately 70% of their revenue is pre-tax profit and they are growing spectacularly. About 1.5% to 2% of the total end-electricity, that is traded through their servers, comes to them as a fee. When we invested, under 3% of India's electricity was flowing through their servers in terms of the transactions, and now it is about 6%.

There are three things which are all tailwinds. First, the percentage of the overall energy usage in India that is going to go through IEX's server is going to keep going up. It was less than 3% and is now around 6%. It would not surprise me that in a few years, it may be 15% or more, a very significant increase. The greater number of participants in the exchange drives greater interest in both buyers and sellers coming in. It's a business with network effects. Also, even though they're not a monopoly, they will have more than 90%, close to 95% market share. It's almost a monopoly, so the 6% is going to go to 15%.

Second, the amount of energy consumed in India per capita is extremely low today. If Indian GDP grows at 7-8% per year, the electricity usage will probably go up higher than that. So, you've got the 7-8% GDP growth taking place, the per capita increases beyond GDP growth, the increases in market share coming in without costs associated with this revenue. They are now entering new businesses such as the start of Indian Gas Exchange, for natural gas trading, which is yet to kick in.

Third, the Indian Energy Exchange has recently started cross border. India's grid is connected to Nepal, Bhutan, and Bangladesh. Indian power is much cheaper than the power produced in Bangladesh. Bangladesh per capita GDP is now higher than India, and it's a large population, north of 150 million and growing. IEX has just started doing energy trading with Nepal, which buys energy from India. Bhutan is a big hydroelectric producer, so it's sells electricity to India. IEX will basically become the facilitator, for example: energy from Bhutan going to Bangladesh and the grids are being strengthened between all these countries. They've got a lot of tailwinds in terms of the cross border, gas exchange, market share increases, and so, the position that we bought about two years ago is up more than four times. We are not planning to touch this for a very long time. You should know that for India Zero Fee Funds, IEX is becoming a quarter to a third of the total assets, but I like that. It's an incredible business and so the India Funds have a bright future.

One thing I should mention about IEX, the Indian government imposes that no foreign investor can own more than 4.99% of IEX. In 2019, I bought the max allowed, 4.99%, and it was across several of the funds. When COVID hit in March 2020, there was a lot of dislocation in a lot of businesses, and we were underwater on many companies because prices had dropped so much in March/April 2020. But we were showing a gain in Indian Energy Exchange, I regrettably sold the Pabrai Funds position in Indian Energy Exchange. Whatever we bought has more than doubled, but in hindsight, we were far better off doing nothing. Thankfully, everything was not sold. We still own 1.5% of the company through India funds.

Slides 28-29:

Junoon is a fund that is an alternative to index investing. Over the last several years, we did develop a set of algorithms. We had a lot of trouble with these algorithms because basically they were trigger happy. The turnover was too high, and we tried several automated methods to bring the turnover down and finally realized that there is a need for human assist, which we added in October. Even though the algorithms tell us what to buy and sell, we make the ultimate decision, so the pace has slowed down and the holding periods are going up. It's doing better than the S&P, even without any compounders like highflyer Tesla, Salesforce, or anything like that in the mix. So, Junoon is doing well, and it is a good alternative to consider.

In this slide, you can see Micron and Edelweiss; I must really love these because it's in everything. Also, CCI is the coke bottler in Turkey, we like that a lot. Like I said, everything in Turkey is cheap. The coke bottler was sitting at single digit PE, and it has doubled in price since we bought it. It's a different set of holdings than what we would own when we are doing the research on these businesses, but the algorithms do deliver some very good options and it's been doing well.

Slides 30-33:

We have moved our operations from Irvine to Austin, Texas. In fact, right now, Fahad is in our Texas office in West Lake Hills. Fahad and Jaya have moved to Texas, and they seem to be a lot happier in Austin than Irvine, though, I don't think they were unhappy in Irvine. We had four part time staff helping us in Irvine; it was a good team. None of them were interested in relocating and nearly all of them have already got other jobs I will really miss Betsy and Valerie. It's a loss that we couldn't keep them, but they're still available to us.

Fahad and Jaya have already relocated to Austin. I am working from home until the end of November, then I'm moving. We have two ladies who have joined the team in Austin, Kimberly Engelman and Kelli Agnell and they're coming along quite well. We moved two of the positions to India. I'm happy with Miloni and Yogini, they're doing an exceptional job. Miloni used to work for one of the largest fund administrators in the world. She's an Indian equivalent of a CPA, chartered accountant. This is the first time we've had one of those on board, which is great.

This is a picture of us. Valerie, in the picture, has been just transitioning responsibilities over the rest of the team. I'm happy to work with all of them.

We have several service providers - Price Waterhouse performs our audits, our assets are custodied at UBS and Kotak, Wintrust manages our banking operations. We have several different law firms for different needs: Dentons and Finsec in India and Conyers in the BVI. In India, we work with Khaitan and The Chugh Firm for both bookkeeping and accounting, as well as some legal services. Liccar performs our fund administration. We've had most of these relationships almost since the beginning, so they have been great.

So, that's the song and dance. We will open it up to your questions now. Fahad will be able to see all the questions coming in. He will select questions and start sending some of them to me.

Q&A

We have come to the end of the formal remarks, and we'll open 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: I believe you invest in stocks in your personal portfolio. How do you address the conflict of interest?

A: We are regulated by the SEC. They had done onsite audits twice. The companies that we have in these different funds go on a restricted list. Only I, no one else in the funds, none of other employees or folks in our team, can trade in any of the names that are on a restricted list. Personally, I can only buy them or sell them with clearance. In most cases, I'll have Fahad make those trades because he's our compliance officer. For example, in my personal account, I own Micron and the funds own Micron, but I cannot buy Micron when the funds are buying, nor can I sell Micron when the funds are selling. So, if the funds are acquiring a position and have closed the process, I could buy if I wanted to. Also, with selling, I cannot front-run the selling. These activities are well documented and within regulatory standards.

Q: When we interact with management teams, how do we know that they are not providing us with unpublished, non-public material information?

A: I don't think we've had an issue with that. Most of the management teams have strong compliance and have been well instructed by their compliance teams. Usually, we're interacting with IR and they are pretty well-versed in what they can or cannot do. In fact, most of the time, they don't even want to interact with us until earnings are released.

For example, they'll go into a shut off window towards the end of the quarter until the earnings come out. When we have our conversations, it's right after they have released the quarter's numbers or annual numbers and such. We have no edge because we are talking to management. We get information about the nature of management, the ethics of management, how they think about capital allocation and, quite frankly, because we're not a trading operation, it would be irrelevant to me what is happening next quarter or next year because we are looking long term. We're confident that we don't have anything to be concerned about on that front. Most of the management teams don't know what's happening in a few years, so they really can't help us even if they want to.

Q: How does the checklist help account for the risk of investing, for example, in China, with the China's Chinese Communist Party?

A: We do have one investment in China, Alibaba, which was reported in our 13F in the last quarter. Alibaba does seem to have almost daily stuff that shows up in the news about different things that they're going through with the government. Clearly, the rules in China are different from the rules in many Western democracies, and some of the actions that the government in China has taken have negatively impacted Alibaba. But, with everything that we've seen so far, we believe the government was correct, and right to act in that manner.

For example, Alibaba had a set of practices in China, which would be illegal in the United States and in Europe. They restricted their merchants from listing their wares on other websites and restricted them to just, in effect, being inside that closed garden. So, I agree with the government in China. It negatively affects GDP growth in China because you're basically circumventing competition.

They also had a strong lock on the finance end with the Ant Financial. Many of those changes are also good for the system, and they're good for Chinese state-owned banks by preventing them from doing poor lending. For example, the situation at Ant was that they used to source the loans: who is getting the loan, figuring out the credit ratings and the credit scoring, but all the risk was borne by these public sector banks in China. The Chinese government has said that you need skin in the game, so you need your own balance sheet to be involved. They have also asked them to open the credit scoring models to the government and to other players.

So, it hurts Alibaba, but I don't think anything's been done in China, so far, with any of these companies that I would consider untoward. Alibaba is a very undervalued business, an incredible business, and even with these changes, it will continue to do well. There is a degree of comfort, and our China exposure is not that large.

Q: How to deal with the country risk with India, China and Turkey?

A: Different countries have different profiles. I tend to be a bottom-up investor, so I tend to focus a lot more on the business, and a lot less on the macro.

When we made our investment in Turkey, I was aware that their inflation rate was high, which will lead to the currency weakening on a secular basis, like India. There was a lot of discomfort amongst foreign institutional investors, and they were all heading to the door as quickly as they could, but the door wasn't big enough. That risk reward we saw in Turkey, and the risk reward I've seen so far, is extremely attractive.

One of the first places I want to visit, when things start normalizing, is Turkey. I would like to spend a lot more time getting to know about 100 of the 500, or so, listed companies in Turkey. This is a market where the investors don't pay attention to underlying value, so that's useful to us. We have broad diversification within the different funds, so I'm comfortable. A lot of my own money is in Pabrai Funds.

Q: What kind of business do you look for? What are the characteristics of a great business? How do you put a value on those businesses?

A: It's relatively easy to identify great businesses A great business will generate high returns on invested capital, it would be growing significantly without a need for much capital, it will be run by highly competent and highly ethical people, and it would have many natural tailwinds.

It was easy to look at a business like IEX and know it was a great business. Some businesses, like Reysas in Turkey, have mostly recurring revenue businesses, which is strong factor in a business. In general, fine dining restaurants are not good businesses. They must really do exceptionally well day in and day out because I have no obligation to dine there again.

I don't think it's difficult to identify great business. What becomes difficult is that, usually, markets recognize great businesses very well and most of them will not, at least optically, appear cheap. I've learned, in the last couple of decades, that I am more willing to pay more for something that's exceptional. Great businesses come in all different shapes and sizes.

If you were to compare businesses in our portfolio, such as Reysas, Micron, and Edelweiss, you will notice that they are in India, the United States and Turkey. They have very different industries, economics, and nuances to their business, but all have characteristics that I like.

For example, Micron, is a very high CapEx business and to some extent, what they produce is a commodity. The other side of this is that DRAMs, about 70%-80% of their revenue, are at the epicenter of our digital economy. There are only three players in the world that produce most of DRAMs: Samsung, Hynix and Micron, which go into a number of different industries. In some sectors of the DRAM market, such as the automotive and military sector, Micron has very strong advantage over the other two players. In other areas, they are at least at the same level, maybe a little bit ahead. All three players are very rational players. The barriers to entry are high. Even when you account for the high CapEx, you've got very strong tail winds.

I mean, when Microsoft or Amazon put up a data center, something like 20%, 30% of the total expenditure of the data center will go to the memory guys. So, it's almost like a tax on data centers and data centers are going to go up a lot. The iPhone 13 is out, and people want to max the memory on those and all of that. So, it's got incredible tailwind for a long time.

Q: Is the Coke bottler, in Turkey, only owned by Junoon or also by PIF2?

A: The Turkey Coke bottler (CCI) is only owned by Junoon. We don't have a position in any other fund. We found the bottler using the Junoon algorithms.

One of the top blue-chip families in Turkey is the owner of CCI and a large shareholder of the parent is 3G Capital, which has position in Kraft Heinz. 3G has brought in a lot of their efficiency and approach to streamlining business, zero-based budgeting, and so on.

CCI is not just a bottler in Turkey, they are the largest Coke bottler in Pakistan and former Soviet Republic markets. The Coca-Cola company owns 20% of CCI and has a good relationship. CCI informed Coca-Cola Company that they want more countries. In one country, the Coke bottler is owned by the government, who wants to divest. CCI has expressed deep interest in being in that business. I don't know whether they'll get it or not, we'll see.

Coke bottler anywhere in the world is very nice. A lot of businesses that are really good around the world will tend to have not so good management, because the business does well even if the management is not so good. This Coke bottler is very well managed and they have some good geographies outside Turkey as well. But we don't own it in Pabrai Funds, and maybe that's a mistake, but we've got -- I don't know what I would sell to buy it, so such as life.

Q: With valuations being at healthy levels, what sectors and geographies are you seeing potential investment ideas come from?

A: We have had hardly any new investment ideas. In 2021, we had Alibaba and we were probably a little early on that. We will still do well with that, but it's been a trickle. Part of the reason is that the travel curtailment makes it hard to invest in many geographies, and in the United States, we've had a very hard time finding new investment ideas this year. I don't think we've come up with anything that looks interesting. But at the same time, Pabrai Funds look so different from the S&P 500. We don't really have highfliers. We have several businesses that have good tailwinds, so we should do quite well.

Q: PIF4 wasn't listed for the Reysas position? Will there be any mechanism for PIF4 to benefit from Reysas?

A: PIF4 does have some Reysas in it, a little over 2% of the assets. It's just that the way we do things when we find something. For example, the smallest fund will go first and then sometimes the other funds don't have money or we have different cash levels in different funds. So, we end up with differing positions in different companies. PIF4 has some exceptional positions that don't exist or have very small position in the other funds, so it's kind of a give and take.

The Funds have more ideas than capital right now. We could use probably $20-$30 million more to add to positions we have an interest in. In terms of being in cash, to protect against weird things, I don't tend to do that. If we find a business that looks great, we're going to proceed. We are not going to be particularly concerned about predicting macro events. It does not make much sense to not invest in the Turkey Coke bottler and instead keep $20 million in cash in one of the Pabrai Funds.

Q: If you weren't invested with your fund, would you still buy or recommend buying a position in Micron, Edelweiss, Reysas and IEX at today's value?

A: Well, I'm going to duck that question. We are not in the business of giving stock tips. I am only sharing those names because you are owners, and you should know what at least some of the salient holdings are. When our annual audit report is released, there is a detailed view of these stocks, including everything we own over 5%.

Q: IEX is trading at a PE of around 80. By many measures, that is not considered a value stock, yet you plan to hold it for a long time. Could you give some insights into the thinking there? Will it really have the growth to justify that?

A: That's a good question. The Mohnish of 2019 might have already sold IEX. In fact, the Mohnish of 2020 did sell IEX at one-fourth of the current price. So, you can see how smart I am.

I have come to the conclusion that for businesses like IEX, which are so well managed and have so many tailwinds, that PE could be cut to 30 or 40 in three years or less. It could be a business that's five times the current size. The view I'm taking on IEX, and a bunch of other players, would be like the view that Chuck Akre, at Akre Capital, or Nick Sleep would take. At Akre Capital, they do not look at valuation as a measure of whether they should sell a position. Instead, they look at whether the business fundamentals are going through some deterioration and whether the deterioration is secular.

The way to think about a business like IEX, and this is a mistake I've made many times in the last 25 years or so, is that let's say, IEX was a family business and my family owned 50%-60%. Somebody came along and said it's trading at a PE of 80 and they offered a PE of 100, which would be 20%-30% premium to the current price. Would I sell IEX with everything I know about it? My answer is no, I wouldn't sell it. I would be asking myself what are we going to do with the cash? What other business do I buy? With a sale, I would also have a taxable event. I've learned to not sweat the overvaluation, or perceived overvaluation, too much. The mistake I made a lot in the past is not allowing winners to run as much as they could. We made a big mistake in Ferrari, for example, where we really should have held on to it and probably should have never sold that business. There have been many sins in the past that we don't want to keep adding to those sins. So, at this point, the answer is long and strong IEX; we're not going to do anything with it for a while.

Q: Could you explain the glitch that caused PIF3 to sell the stock.

A: The answer to this question is a little technical. We did a very good job of explaining this in the last letter to partners, which is on the website. That might be faster than me trying to go through the whole thing. There is nothing nefarious about the situation. It was a minor issue; we were out of compliance for a very short period. We disclosed the non-compliance to the regulator. We tried to explain to them that it was inadvertent and very minor. I was dealing with people who were sitting at home, it was difficult to get them to understand our point of view.

Q: What were the driving forces behind the decision to move the office to Austin?

A: Currently, there is a mass exodus from California, so I'm not the only one. I discussed it with Charlie and he endorsed the move. The tax changes in the last few years took away the state income tax deduction at the federal level. In California, the highest tax rate is 13.3%. We used to get a federal deduction on that. It doesn't matter there whether long-term gain, short-term gain, ordinary income, etc., it is all taxed at 13.3%. Because the federal long-term gains is less than two times that, when I look at my tax bill, since most of my gains are coming long term, a third was the state income tax. Also, last year we had bad fires in Southern California. The air quality was poor. I had to evacuate. In fact, most of my team had to evacuate from their homes.

Location is less relevant; our lives are so digital. We looked at the whole country and zoomed in on the states that were zero tax, such as Washington, Florida, and Texas. Austin was rated very high; so, we decided to go to Austin. I did look into Nevada – it is closer to California, I enjoy the red rock; but I did not want to live that close to the Las Vegas strip, Overall, the team feels like this was an upgrade. I don't think we gave up anything by moving to Austin; I believe the quality of life will be as good or better and I'm excited about that.

Q: Will you paint the new office orange?

A: Let's leave it to be a little surprise when I do my first call from my office; then, we'll see how you like it. It seems like you like my current orange color, so that's great.

Q: Why did you sell out of Kolte-Patil and Piramal Enterprises.

A: We've owned Piramal a couple of times, and we bought it in 2020. Ajay Piramal is a tremendous capital allocator. We did not look at it like a long-term hold. We were, basically, getting their pharma business at a discount to what we were paying, which they will probably list within the next year or two. We were getting a bunch of other stuff for free and also, we were getting a great capital allocator. I didn't see a way we would have a downside on that. We probably sold Piramal too early because it's tripled since we bought it, though, we probably only collected between 1.7 to 2 times since purchase.

Kolte-Patil had been a holding for us for a while. We had some concerns about how they thought about capital allocation. One of the big issues that comes up with real estate companies is that, historically in India, if I go back 10 or 20 years, real estate would just go up like clockwork. As a result, many would put money in real estate because home prices will keep increasing. Builders got in a comfort zone; so, when they have cash, they would increase the land bank. In the conversation with Kolte, we did not get comfort that they would be looking at asset light deals. They've done some asset-light JD deals with landowners, but I got the sense that that eventually cash in the business would just go into land. When we had a gain, we decided to exit. Subsequently, once we decided to exit and we were reducing our stake, out of the blue, the news came out that the CEO had quit. As a replacement, they had appointed the son of one of the promoters of the business, who was a very young guy and not as good as the previous CEO. This is not the reason we sold, but we were happy that we'd already begun selling when that news came out.

Q: Reysas looks like Rain Industries and there's a lot of excitement of the potential for upswing. Is there an opportunity from lessons learned from Rain? How do you prevent holding Reysas too long?

A: There is a big difference between Reysas and Rain Industries. Reysas is an extremely high-quality business. If I have 12 million square feet, fully leased long-term inflation indexed to Amazon, IKEA, Carrefour, etc., financed at reasonable rates, I am going to be clipping coupons for a long time. I don't need to do much. I've triple net leased it with counterparties who are pristine credits.

In Turkey, because of the way interest rates went up and other events, new warehouse construction came to a grinding halt. So, anytime a tenant leaves, they get a very significant bump. The other thing is the company has demonstrated history of very good capital allocation. They are entering new sectors and new businesses in a very smart way. Reysas is the company I would like to own for a long time. Rain was always a company I thought of as a trade, where it was very cheap, it is an okay business with a good capital allocator. But I would say Reysas is vastly superior to Rain. We bought a business that was a lot superior to Rain and we bought it a lot cheaper than we bought Rain.

Reysas was bought at 4% of liquidation value, while Rain was bought at maybe 20% or 25% liquidation value. The mistake we made with Rain was that in 2018 we had a 10X gain. By then I had seen this founder and CEO do so many great things that I wanted to let it run because, historically I haven't let the winners run. Then they ran into a bunch of headwinds which came out of the blue. The Supreme Court of India came in with a very weird set of rules where they put curbs on what could be imported, such as raw materials.

At the end of the day, in 2015, we put $20 million into Rain. We could have pulled out $200 million in 2018, but we didn't. The $20 million, that we put in Rain, would probably be worth more than $100 million if we had kept it. We were forced to sell Rain in the offshore fund because of the SEBI action, so we got out about five times gain on that. Rain has a lot of tailwinds, but I don't think of it as a buy and hold. It will get sold, likely not this year. It may be a candidate next year, we will see. So, I think of the two differently. The size of the position with Reysas was different because we couldn't put as much money in, but it's gone up a lot more.

PIF3 owns 20% of Reysas market cap and Reysas makes up 18% of PIF3 assets. In the India fund for US investors IEX is 30% of the total fund and IEX is 32% in the India offshore funds.

Q: Would you like to go back to Moutai?

A: Fahad is so sad that we don't own Moutai. It was sold in a time when I was unenlightened about the super high quality of that business. Moutai is kind of like IEX, maybe even better than IEX, an exceptional business. We made good money on it, and I wish I still owned it; but I don't think we are prepared to buy it at present prices.

Q: What is your latest book recommendation?

A: The book I just finished, is *The Antisocial Network* by Ben Mezrich. It's about the GameStop phenomena. The author also wrote *Bringing Down the House*, which was about the MIT blackjack team, later becoming a movie. He wrote the book so it would become a movie, so there's more spice than needs to be there. The book could be a fifth of the length, but you can speed read some portion. There's some very good data there.

My thoughts on GameStop, AMC, and possibly other asset classes like Bitcoin or maybe Tesla, is that in these businesses, especially AMC and GameStop, it seems like the reverse of what was going on with Reysas. There is no way to justify the valuations from any kind of fundamental perspective. You could take the most optimistic viewpoint. GameStop is such a useless business; I cannot think of any businesses that are more useless than GameStop. Video games have gone online. Very few people buy packaged games. Now, Sony and Microsoft have come up with new console, so that drives some activity, but they don't have real estate, they have liability. They have got 3000 places with leases and that's a straight liability.

The only good thing both these businesses can do, which will help their shareholders, is to issue a lot of stock at current prices. And if they can do that, then hopefully that will temper the fall. There is some weirdness in a narrow segment of the market, but in that narrow segment, it's extremely overvalued.

There is a question about Bitcoin, and usually when people asking question on Bitcoin they are like 95% pro-Bitcoin. I'm in the other camp, so I won't go too much into that. We do not have long or short position on cryptos.

Q: Instead of distributing more cash to Dhandho Holdings unit holders in 2022/2023, would you consider investing the capital in your best ideas? Are you buying back Dhandho Holding units?

A: Well, the buyback of Dhandho Holding units is not something I can control. It's not a listed entity, we would need sellers and I'm trying to tell the sellers not to sell. So, I don't think we will have the luxury of buying back units. If we could, then, yes, that'd be a good use. What I was going to do is, put it to a vote, at least an informal vote, with the unit holders. I have a bet on one of the Turkey compounders in Dhandho Holdings, I do not want to touch that. I do not want to touch Edelweiss; I want to keep that for a while.

The businesses that we feel are great long runways, we want to hold on. My priority is to try to get you back the full $10 per unit. And beyond that, we want to open the kimono and say, look, this is what we own, this is what I would like to do. I would prefer we don't sell these and just take a temperature of what the owners feel. Then, I can make some intelligent decisions.

Q: Are all the funds equally concentrated, with respect to number of positions? What would be an ideal allocation - one fund or spread across all three?

A: I see, so I guess the question is, if you are going to invest, should you invest in the India zero fee funds, Junoon or Pabrai? I would say that the number one place to invest would be the PIF3, the offshore fund. I would pick that because that has a large exposure to Reysas. And if that bet works, it will do very well.

One thing I should also mention is that there are a lot of discussions currently going on in Congress about changes to tax laws. One of the changes that's being talked about is to prohibit investments by IRAs in vehicles that only allow accredited investors to invest. This is backlash coming from the $5 billion Peter Thiel Roth IRA. I don't know what the odds are that it will pass or not. I do think that they would grandfather what's already in place because that will be quite disruptive to ask people to exit, etc. We have about 60, or so, IRAs in the offshore fund; we could have up to 100. If you have a IRA, it will be a good time now to put it in the offshore fund because we don't know whether that IRA change will come or not. If you cannot invest in the offshore funds, I would say that the other Pabrai Funds are also pretty good. The India funds have some good bets, as well.

I was very influenced last year by Nick Sleep and reading about the way he operated; it taught me several things. One of the things, which Nick Sleep believes very strongly, and I agree with him, is that you do not want to cut the flowers and you do not want to water the weeds. If I look at the India zero fee funds, for example, which is sitting at 30% in Indian Energy Exchange, and let's say, that position became 50% -60%. Even at that point, we will not be looking to unload, unless there were issues with the business; just because it might look overvalued. The best way to run the funds, once you're getting to like 60% to 80% concentration, is to close the funds to new investors and maybe close them to existing investor's adding money. Let's say that 20 of us who own that fund have stock in IEX. If we close the fund, we would all have significant gains, no one is coming in with IEX being 70% of the fund. Then, it becomes like a family business; we own IEX like the way we own a family business. If you don't like it, you can exit, and the others will just keep holding what they have. I would structure it so that when we got to very high concentrations, we just seal off and become like a private partnership that owns the businesses completely. That's what I would recommend.

My number one pick would be to go into Pabrai Funds. My number two pick would be to go into the India funds. My number three pick would be to go into Junoon. Junoon, as you know, is the auto vehicle, it's more diversified. It's good option to the S&P, but Pabrai Funds and the India Funds are likely to do better, but we will see over time what happens.

Q: If a new investment idea comes, how do you decide, in absence of funds being open, where to harvest cash from? it seems all equity stakes are thought of as long-term semi-permanent holdings, how do you decide to part away with an equity stake to fund an investment idea? Is there a risk that valuation in such scenario forced you to lose ownership of a long-term holding and make a sub-optimal capital allocation like you selling IEX or Piramal?

A: First, let me clarify, we do not have all long-term holdings. We have plenty of holdings that we will exit. We don't think of Rain as a great business; it will be gone. Micron is not the same as Reysas. Micron is a technology business that is subject to disruption even though that is low right now. So, at a given valuation, we would let go of Micron. We also have a position in Seritage. I like many things about Seritage. It has a lot of tailwinds long term; but it's not IEX and does not have the same kind of return on equity or return on capital.

What will happen in the future, because these are businesses we had before 2020 when my thinking went through some change, we may eventually part ways with Rain and Micron. I am unsure about the future of Seritage because it could turn into a recurring revenue strong, great rents business in a variety of very prime location, so it becomes a different business then. Rain and Micron are strong candidates for sale eventually. If you look at those two positions, we have about $170 million between the two, it is almost 30% of the funds in Pabrai Funds and some of it is in the India funds, as well. That would be the place I would look for liquidity.

One thing I have learned is it's a really good idea to be inactive. So, I'm a lot more reluctant. It is possible that we could let a great idea go because we're not ready to sell. That is possible and it could be a mistake, so we'll have to see. In 2022 there is a good possibility that Rain will give us some liquidity, which could be $60 million to $80 million, in the Pabrai Funds. The India funds also have Rain, so that will give us some liquidity, too.

Q: If you have such great conviction with IEX why not add more to the holdings?

A: This is what I love about this conversation, we have many opinions about what to do with IEX. Some are saying the PE is 80, can we please exit, another is saying, can we please never touch it and then, we have another saying why don't we go more heavily into it. I don't know which of the three is the right one, time will tell.

It is easy to identify great businesses, the issue is to buy them at somewhat reasonable prices so it is at least obvious to someone like me, that we're going to have a good result. IEX is not a business that will be attractive to me to buy at its current prices. I feel very sad that we sold the 3.5% that we did last year, but March/April 2020 was a very unusual time because we were seeing egregious mispricing. I was buying Seritage at $6 a share; I just couldn't see a downside there. We are going to keep IEX where it is.

Another thing I want to point out involves the 18% ownership of Reysas. PIF3 has about 160 million in assets; approximately 30 million is Reysas. As I previously mentioned, if Reysas sold all the assets and distributed the cash, we would get about $120 million. It is very likely, given the quality of the way they allocate capital, that they may double, triple, quadruple the value of the business over the long haul.

If the value of Reysas is tripled, then worth $360 million, and everything else doesn't grow at that rate, it could be possible that PIF3 could grow to $500 million or $600. That would be 60-70% of the pie. Like I said, I don't think we'd be looking to sell Reysas because it became a large portion of the fund. We would make you very aware that it's a large portion, and we will probably close the funds so new people don't come in at those concentrations.

Q: I read Terry Smith's book, *Fundsmith*, based off your recommendation. He shows a nice table showing return on capital, return on equity, gross margin, operating margin, interest cover; you clearly see he is holding exceptional businesses. Do you expect Pabrai Fund holdings to look more like this over time? Are you a big fan of his investing style?

A: There are many good things about Terry Smith. I like how he does things. I also have disagreements with some things he's doing, and some other money managers do as well.

One example I can use, which might be a little bit easier to talk about since many of you are familiar with him, is Tom Russo. He invests very heavily in dominant liquor companies, dominant consumer brands, and he's done well. He made a bet in MasterCard several years ago, which was a tremendous bet. MasterCard would not have been more than 4% or 5% of the portfolio when Tom invested. He usually does not make a bet more than 3% to 5% of the assets. However, after more than 10 years, whenever MasterCard would get to 8% or 9% of the assets, he would start selling. It is a constant clipping of MasterCard, which has been going on at Tom Russo fund for decade plus. At one point, he used to own 10 million shares of MasterCard, now it is 3 million or 4 million shares.

The Nick Sleep approach with Amazon is a little different. He had no interest in selling any of it and he did not particularly care how concentrated it got. Eventually, he was getting so much pressure from regulators that he finally said, fine, I will manage my own money and return everyone's money. He has kept a large portion of his money and has maybe four stocks, and that is it.

Terry Smith is like Tom Russo in that he's had Visa in his portfolio from the beginning. Visa was also trimmed as it has up in price. So, that is a disagreement that I have. I feel that the problem these fund managers have, like Tom Russo and Fundsmith, etc., is that it becomes hard to be an asset gathering machine. If your fund is 70% one stock and you should, in that case, close the fund, because it's unfair to new investors coming in. They have chosen not to get to those concentrations.

In Tom Russo's case, other than Berkshire, I don't think anything that is in the portfolio is more than 15% of the pie. In the case of both Terry Smith and Tom Russo, that would be my disagreement. I agree with them on a lot of things about the businesses that they're interested in. They're willing to pay more than I'm willing to pay and they don't have the interest to concentrate as much as I'm willing to concentrate. So, that would be the difference there.

Q: Many investors are taking comfort in the fact that you are the number one investor in Pabrai Funds, and they were your only form of investment. Should we be concerned that as GPU becomes the number two investor?

A: The vast majority of my assets are in Pabrai Funds. The number one investor in Pabrai Funds is my ex-wife, Harina Kapoor. When we got divorced in 2019, our assets got split. She elected to keep her stake of Pabrai Funds. So, she has more money in Pabrai Funds than I do. I have a large portion of my net worth in Pabrai Funds, which is, what you should be concerned about. I have no idea what Harina plans to do long term with her stake. So far, it's been in there and I hope it continues to be there, but I don't control that.

Q: When investing in PIF4 in the early days, the pitch was it was probable to outperform the best of the three main US indices by a few percentage points. Is it practical that PIF4 could catch any of the indices in a normal person's lifetime?

A: PIF4, from 2003 to 2018, outperformed all the indices, except maybe the NASDAQ in one or two small periods. For the most part, it went over all the indices. It has not done well from 2018 until now, but it has also been catching up, and has some really good irons in the fire. PIF4 has a value of around $225 million.

It would not surprise me if I did nothing, and in 5 or 10 years, it's worth increases to $500 million to a billion, or more. If it hits those numbers, we will get back to being ahead of all the indices again. So, I don't think it's going to take a person's lifetime. My best guess is that once it starts outperforming, the catch up can come relatively quickly, especially if we end up with some mega winners in there; and there are positions that have the possibility of doing that. I have plenty of money in fund four and I don't want to put it anywhere else.

Q: Why don't you own daily journal of Berkshire Hathaway, given your friendship with Mr. Munger? Is Daily Journal too small a cap for the funds?

A: I'd be a little uncomfortable with Daily Journal. Charlie would never give me any helpful data. We've never actually discussed Daily Journal, at least not any meaningful discussion. It might have been a long time ago when I told him that his adventures in software were swimming upstream, that they were very hard.

We've owned Berkshire on and off for many years, and we may own Berkshire in the future. My best guess is that, with Daily Journal, I just would not want to go there. We would look at other things instead of Daily Journal, but many people believe it's a great bet and so it may well be. I wouldn't bet against Charlie.

Closing and thank you:

We've gone a little bit over time. Thank you, thank you very much for your time. Next year, hopefully, we will have our live meeting in Austin. We'll try to find some good food; the barbecue is really good. We'll also have the meeting online. We've been shifting the time zone a little bit to make it better for people in Australia, New Zealand, etc. Thank you very much for attending. Thank you very much for all your questions. I'm sorry I couldn't get to all your questions, but hopefully, you got a good flavor. We'll be in touch end of September, or early October, with the next letter. All the best, enjoy the weekend. Thank you.