Pabrai Investment Funds/Dhandho
2017 Annual Meeting Transcript

Note: This is the transcript of the September 9, 2017 meeting held in Aliso Viejo, California, and the September 16, 2017 meeting held in Rosemont, Illinois. Mohnish's presentation style is extemporaneous; hence, there were some differences in the two presentations. Transcripts of both meetings were merged to produce this single document. 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/234044488

Welcome and Introduction:

Our format is similar to previous years. We will go through the performance for all the funds, a couple of postmortems on past holdings, and a discussion on the intrinsic value of Pabrai Funds, Dhandho Holdings and Stonetrust. Lastly, we will have the Q&A.

Video Presentation: 2016 Gran Fondo Dhandho Bike Ride Pictures

Slides 4-6

All of the Pabrai Funds are closed both to new investors as well as additions for existing investors. We have three funds in Pabrai Funds and the oldest fund is PIF2. The reason I have these different funds is because the SEC rules require us to separate these different classes of investors into different buckets. The oldest fund PIF1 merged into PIF2. It is now 18 years old and it's done significantly better than the S&P and the other indices. If you look at the numbers, you can see that from a life of fund perspective it is 14.8% versus 6.3% for the Dow which is the best index. If you look at the five year numbers, we are ahead of two out of the three indices. We have had a lot of gains in the last nine weeks or so. If I extend the five year period to be more recent, it is ahead of at least two of the indices and the NASDAQ might be slightly ahead.

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If you were to look at Pabrai Funds in three periods and break down the 18 years and look at the first 8 years, we did a little over 29% a year on average after fees. The S&P was 2.5% over that period. The first 8 years were extraordinary because we were 27% a year on average and better than the S&P after fees. Then we had the financial crisis and if you look at the next 21 months, we were down about two-thirds and the S&P was down about 45%.

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When you look at the recovery period from April 1, 2009 through June 2017, we have matched the S&P approximately 17% a year since April 2009. If you extend that period through August 2017, we are significantly better than the S&P at 5% a year over that period.

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When you put it all together into the 18 years, we are about 10% a year better than the S&P over the entire period. It has been a little bit of a bumpy ride, but it's been a good ride overall.

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Pabrai Funds doesn't charge any management fees and we only get paid on performance. It's been over ten years since the last time we earned a performance fee back in 2007 for PIF2. If the quarter ended today there would be a significant fee coming on September 30th. This ten and a quarter year period of no fees will come to an end, which is great. I don't know of any other fund that has existed for more than a decade without the manager collecting fees. That would be quite an anomaly. One thing that is absolutely correct from an ethos point of view is if I didn't give you the 6% a year hurdle, then I shouldn't get paid and that's exactly what happened. There was no resetting the bar, closing the fund or restarting. We have carried almost half a million a year in expenses for more than ten years. The good news is that all three of the funds are currently into "fee earning territory". If you look at the journey it took for PIF2 to get to earning fees - on April 1, 2009 the NAV was $18.47, by the end of August it was $97 and now it's close to a $100. It had to get past about $90 per unit before the fees were paid. It was quite a climb. But in spite of the climb I stuck to core principles and eventually we got there, which is great. My hope is not to have another period like this where we go ten years without fees. I am hoping the fees keep coming and it's good to see we got past all of that.

Slide 11-12

PIF3 is our fund for offshore investors and was started in 2002. This fund is also for IRAs, foundations and endowments. If you had invested $1 million in 2002, it would be worth approximately $6.2 million today. It has done better than all the indices - a little over 3% better after fees over the entire period. If you look at the PIF3 life of fund, we have done a little over 3% better. If you look at the five year numbers going through August, because PIF3 reports every month, it is ahead of two out of the three indices and slightly behind the NASDAQ which has been a crazy index over the last couple of decades.

Slide 13-14

PIF4 is the newest fund which was started in 2003. This fund is for qualified investors in the US and is just about completing 14 years. $100,000 invested in PIF4 is worth about $300,000 at the end of June. If you extend it to the end of August, it will be close to $350,000. It is behind the

NASDAQ, but it is ahead of the S&P and the DOW. The NASDAQ is from that period about 4-to-1 and we are about 3.5-to-1.

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To give you a little bit of color on all the funds' performances through the end of June, the funds were up between 20% and 29% depending on the fund. The PIF3 offshore fund reports every month and in July we were up close to 8%, August we were up a little over 6.5% and year-to-date through the end of August was up 48%. The other funds were similar and significantly ahead of the indices.

Slide 16

I'll talk a little about some of our US holdings because our US holdings have shrunk a lot. We hardly have anything invested in US equity at this point. One of the companies that we have in the portfolio is Google and I think you might enjoy this ad from Google.

Ad: Google Photos For Life Commercial

After I saw this ad I backed up all my pictures on Google Photos. It's a nice app and it's free.

At this time we have just three companies in the portfolio that are domiciled in the US - GM, Google and Southwest. We have almost completely exited out of GM. Including GM, the US portfolio is less than 20% of the pie and after exiting GM it will be 12%. It will be the smallest number we have ever invested in US equities in the history of 18+ years. I really don't have any macro views of where to put money or where not to put money. I am a bottoms up stock picker. I haven't found anything meaningful to buy in the US in the last 18 months and the only sizeable investment we made in the US was Southwest Airlines. The opportunity in Southwest was there because it is in a hated and unloved industry. Even when you look at this list, two out of the three companies are in the hated and unloved industries. This portfolio shift is significant change and I thought you should be aware of it.

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The other change that's happened is that we are significantly bumping up our exposure in India. Three years ago India was 5% of the portfolio and a year ago it was 13%. At this point it is close to 30% and there are many reasons for it. One of the big reasons is that India has more than 5,000 publicly listed companies -- more than any other market in the world. More than 4,000 of them are under a billion market cap. A large number of them are less than $200-$300 million market caps and most of them have no analyst coverage. There are good demographics and it's a large country with 1.3 billion people. 55% are under the age of 30 and only 2% are over the age of 70. There is a reasonably strong expectation of GDP growth of about 7 to 8% a year in the next few years and on a decent base it's quite significant.

Through my entire career I am what you would call a "lazy armchair investor" where I never met management or visited companies. That playbook doesn't work in India and that has been tossed out the window. I travel to India every two months for about a week and I now have my trips scheduled through July of 2018. These trips are great because it's been a week of business school. I find that when I meet with these companies they typically do a poor job of explaining the business in what they have published. This could partially be because they are family controlled and nobody told them how to do it. In many cases they don't care because they already own 75% of the business and they can't buy anymore and they aren't going to sell. It's been great meeting a number of different management teams, and I was very impressed with some of them. The Indian market, also like the US market, is at an all-time high. I believe that when we peel the onion and drill down into some of these smaller and lesser known names, there will be value there. I am excited about this. It is going to be a long runway ahead with some pitfalls, governance issues and integrity issues. It's gone well so far and I am learning more as we go along.

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One thing that I am very proud of is that Pabrai Funds has always tried to keep our frictional cost down. We have no management fees and the third party administration, accounting, audit and tax expenses that are charged to you are extremely low. These are some of the lowest expenses that I am aware of amongst any mutual fund or hedge fund. PIF2 and PIF3 have about 6 basis points of annual expenses and PIF4 is about 4 basis points. Now that our assets under management have gone up, these AUM numbers have also increased. If I were to look at it as of Friday it would be north of $660 million. As the AUM goes up, the basis points of cost will come down even more, which is great.

Slide 20 -21

The value proposition for Pabrai Funds is there are no management fees. As I mentioned earlier, we didn't get paid the past ten years and that is fine. If we had a 2 in 20 model, it would be more than $12 million a year that I would take just for breathing. The good news is that for ten years I was able to breathe for free. The Pabrai family is the largest investor and I'm eating my own cooking. Most of our family assets are invested in Pabrai Funds. There is no leverage, no margin or short positions. We have an excellent group of 365 families around the world who are investors A lot of them are first generation entrepreneurs who build their businesses and their wealth. All of the funds are closed because I'm not finding much out there. The $660 million is plenty to work with for now and we'll keep it that way.

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I will talk about some postmortems and the companies that we have exited and no longer own because there are always some good lessons we can learn. One of the businesses that I invested in last year was Seritage Growth Properties which is a spinoff from Sears. Basically Sears

moved ownership of 40 million square feet into Seritage. They leased most of the space back to Sears at unusual lease terms. It was a two-way street and they gave options for Seritage to get more space and the lease has options for Sears to release space. I became interested in Seritage after seeing Warren Buffett take a stake in Seritage when he purchased it in his personal account. Warren has been an extremely good investor in real estate. In fact I am not aware of any of his real estate investments since they are all made in his personal portfolio, but I am not aware of any of them that went south. He previously owned REITs like First Industrial, and he bought some buildings in Manhattan near NYU and farmland in Nebraska. He has done a whole bunch of different things on real estate. Once I see him take a position, then I would look into it and if it made sense then I made the investment.

As I was watching Sears, I saw an erosion and decline which was a lot faster than I had originally envisioned. It was not clear to me that Sears would be a going concern three years from now. If Sears files for bankruptcy within the next three years that could be problematic for Seritage because they are such a big tenant and they would have to rearrange a bunch of stuff. I wasn't 100% sure that Sears would go bankrupt, but I had enough doubts. At the same time while I was having those doubts we were actually seeing great opportunities in India. I took the option of getting out at a small gain. We didn't lose any money which is great. Of course after I sold, Seritage did better. This is the story of my life where everything goes up after I sell. I think it's up around 12% since we sold, but I think what we have bought has done much better than that. Overall I think the trade so far has worked out well.

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Another company I want to talk about is Ferrari. We have not exited Ferrari and I hope we don't exit for a long time, but we sold more than we should have and it was a mistake to sell. I'll just play a quick video on Ferrari and then we will talk a little bit about Ferrari.

Ad: Ferrari 1947 – 2017 Driven By Emotion

We never bought Ferrari directly, but we invested about $70 million in Fiat Chrysler in 2012 and 2013. The good news was we sold no shares of Fiat Chrysler till at least 2016. For every ten shares of Fiat Chrysler we had, we were given one share of Ferrari. If I had done nothing, which sometimes is a good idea, the Ferrari shares today would be worth over $160 million - almost 2.5 times our original investment in Fiat. In addition to that, the Fiat shares today after the spinoff are worth about $225 million. They also gave us two additional small spinoffs of publishing companies which I had no understanding of, and as soon as I got the stock I sold them.

Basically the original $70 million we invested in 2012 and 2013 today is worth a combined total of approximately $380 odd million and it's done really well. With the 1.4 million shares of Ferrari we had, we sold about a million of those shares. A good amount of these shares had to be sold due to very high redemptions last year.

We had to sell Ferrari for some of that but we didn't need to sell the full million. We also sold some to buy Southwest Airlines and some Indian stocks. Those have done well but nothing like Ferrari and I think I would have been better off just keeping Ferrari. One of the reasons why I was selling is because when I originally invested in Fiat Chrysler I wasn't focused on Ferrari; I was focused on the cheapness of Fiat Chrysler. When the spinout happened I looked at Ferrari and it looked fully priced. It was trading at close to 20 times earnings, so I said, "Okay we have these shares and we will move on".

I didn't appreciate two things with Ferrari that were very unusual. One is it's an incredible business and probably one of the widest and deepest moat businesses out there. It may take a while to explain that but there are a number of reasons why there is no other car company in the same universe as Ferrari. They are in their own unique kind of ecosystem. Not only is it an incredible moat, but it's an incredible moat run by an incredible manager. One shouldn't sell incredible moats and one should definitely never sell them when there is a phenomenal manager running them. In my opinion, Sergio Marchionne, who is the CEO and Chairman of Ferrari, is probably in the top ten or top 20 business managers to come along in the last 100 years and is off the chart on so many levels. I recognize all of these traits in Sergio, which is why we have never lightened up in terms with Fiat. The good news is we had 14 million shares of Fiat, and although we had $100 million leave the funds, we still have 12 million shares. We will try to hang on to these shares for quite some time.

Slide 27

GM is kind of unusual and it's the only time that I exited a stock without a full understanding of why it didn't work. Ben Graham says that in the short term the stock market is a voting machine and in the long term it's a weighing machine. We held GM for more than five years and the weighing machine hasn't fully kicked in. We invested about $70 million and by the time we fully exited we had close to $50 million in gains. That's not bad for something that didn't work out per my expectation when we invested. Even today when I am selling the stock I'm scratching my head.

One thing about this voting machine versus the weighing machine is how long it takes for the weighing machine to kick in because the longer it takes, the worse your returns. If a stock is mispriced and then we get correct pricing in 6 months or a year or two, that's great, especially if you bought it at half off or less. If it takes ten years, that's not helpful, especially if the value is not increasing. GM has a number of good traits. One of the negatives compared to Fiat Chrysler is that it's not controlled by any group of entity or family. The incentives for management to unlock value are very different from the incentives at Fiat Chrysler. I think GM is well run and the managers are doing the right things. They have many businesses inside GM that are exceptional businesses that they get no credit for. They don't do a very good job of highlighting those businesses or finding a way to unlock that value. Given my pathetic record with selling,

maybe in the next year it will do what it's supposed to do. We'll see, but by then we may have exited and moved on.

We've had a number of different investments over the last 18 years in a variety of different industries. This slide shows you the range of things that we have invested in over the years. None of these are stock tips and they are all exited positions. In many cases these are the ones you don't want anything to do with, such as Horsehead Holdings or Delta Financial. Overall this gives you a sense of color as to what we have done.

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Here are some of the Pabrai Funds and Dhandho service partners. PricewaterhouseCoopers does our audits for Pabrai Funds. Grant Thornton and BDO helps us with our Dhandho accounting and audits. The Chugh Firm is does accounting for both Dhandho and Dalal Street. Michael J. Liccar does our accounting administration and tax. UBS is our broker in the US and Kotak Mahindra is our broker in India. Dentons is our law firm in the US and Conyers is our law firm in the British Virgin Islands. Wintrust is another one of our banking partners.

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This is our Pabrai team.

Slide 30

I will go through a little bit of background on Dhandho Holdings. Dhandho was conceived in 2013 and came to life in 2014. If I knew in 2013 what I know now in 2017, I would have never started Dhandho and it was a mistake to start. We started with about $150 million of capital and immediately right after the Stonetrust acquisition in 2015 we had a number of adverse developments and then the Horsehead bankruptcy. Very quickly the $150 million of capital was down to something like $120 million and we were upside down by about $30 million. The good news is that we straightened out the ship and we are back to where we started which is great. What I'm focused on doing now is putting the toothpaste back in the tube, returning all the capital and unwinding Dhandho Holdings. Eventually, we'll be left with Dhandho owning the General Partner of Dhandho Funds.

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We bought Stonetrust in 2015 and we invested about $64 million in the company. We have almost reached an agreement with a very high quality buyer. We will have the definitive agreements signed and there's a good chance the deal will close in 2017. Depending on the regulators, it must be approved by the State of Nebraska or the Department of Insurance and it could possibly go into early 2018. The good news is we will pretty much get back what we invested. We may get back 5% more than what we invested or we might be 5% down. We have some warranties that we are providing to the buyer. We are likely to receive about 87% of the

purchase price by Q2 2018 and the rest will flow through over the next four years based on how the business performs.

I'm very happy with this transaction. Stonetrust is the biggest portion of our assets in Dhandho which is illiquid and this will get us to a liquid position. We have a new CEO Mike Dileo who came into Stonetrust a few months back. He has been with the company for about seven years and is doing a great job. We are running the business everyday as if there is no sale and we haven't changed anything, including the decision to bring Mike on. The Stonetrust investment portfolio is doing extremely well.

One thing that I learned over the last three years in managing the investment operations of an insurance company is that it is extremely complicated and very difficult. A lot of these rules make sense because these companies have to be around to pay off claims that might be coming decades from now. There are a lot of restrictions on how float and surplus can get invested. Even with all these restrictions we have done really well. On a $50 million or so in book value, we've had about $23 million in gains which would probably put us in the top 1% of insurance companies in terms of investment performance. We paid a premium to book, we are selling at book and the reason we are not losing money is because we made the book go up. The investments helped us get back on track in a nice way. It is a very competitive business. Stonetrust is a mono-line writer of just workers comp and they compete with a lot of national carriers. They have found it very difficult to get the premiums that they need, so we have been very willing to shrink the business and say no to the business. The integrity of underwriting is very good and the business is in very good shape as we hand it off to the next owner.

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Following the Stonetrust sale our plan is to take about half the capital, approximately $75 million. Very soon after we receive the first two Dhandho payments we will push that out to all the investors. If you invested a million, then you would get half a million back at that point. We will keep making distributions as we unwind the rest of it. Most of the remaining is liquid and public. We have a couple of smaller pieces that are illiquid and those will play out over time. The idea is when we give back half the capital, about $75 million, we will give the investor a couple of choices.

One choice is they can take the cash and do whatever they want. Another choice would be to reinvest back in Pabrai Funds and we will open up the funds for one quarter. Other options are our two Zero Fee Funds in Dhandho - the Dhandho Junoon Fund, which I will talk about a little bit later, and the Dhandho India Fund that will be launching on October 1st, where we will invest at least two-thirds into India. If investors want to "stay long Pabrai", then there are two or three different ways they can do that. If they prefer not to stay they can take the cash. We will also figure out a mechanism for those who want to fully exit and we'll come up with some discount.

After we have made all the distributions, my goal is to get you back atleast 100% of the capital you invested. If you invested a million then you get a million or more back and you are left with GP ownership of the Junoon Fund and the India Fund. These will have an upside without a downside and one of the best businesses on the planet is to have the GP interest of a well performing fund. If you stay in and keep that, it would always stay a private company. I have no plans to do anything and we'll probably have annual dividends that come out of that. For those who want a full exit, we will figure out a way to value all the different pieces. For example, if our value is at $10 a unit, you might get something around $9 a unit because we have contingencies on some of the future payments. We will figure out a way around June or July of next year, and then the only investors left in Dhandho will be those who want to be there for the full liquidation as it goes through.

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I've already gone through the India Zero Fee Funds and some of the reasons why India is of interest. One of the reasons I am setting up the funds is to force myself to pay more attention to India. If I only had Pabrai Funds, I could lapse back into my armchair habit which is not good. I want to make sure that I visit India every two months for a week and do the 15 - 20 meetings. The Zero Fee Fund will launch on October 1st and it will have a minimum initial investment of $1 million. I will be managing the funds and these funds are not purely in India. If we find things that make sense in other places, then we would like to take advantage of that. There will be at least two-thirds assets in India when fully invested and one-third can go into other buckets if we find those. I am very excited about the India Fund launch and we think it might be north of $10 million or so in assets. It might be much higher than that, but we think we have at least $10 million or so that is coming in. We have an offshore and a US fund that will be launched on that.

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The Junoon Zero Fee Funds are basically quant funds. I don't pick the stocks; the algorithms pick the stocks. The fund has 22 stocks coming from three different strategies - cannibals, cloned ideas and spinoffs. It's about 14 months old and started in July of last year. The S&P has done really well over this period and we don't have any FAANGs in the Junoon Fund. We might have a small Apple position in there. It's currently lagging the index and it also lags in our back test about one-third of the time, but it still gave respectable numbers for the first 14 months or so. The good news with this fund is that it can scale because it has close to two dozen stocks. Another positive is that it has a very strong value bias to it. I think overall it will do well and it's probably a good fund to consider as an alternative to the S&P, especially given some of the froth in the S&P at this time.

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This is our Dhandho team. Last year at this time we had our meeting in San Juan. Dhandho has gone through a lot of changes in the last year. We had offices in San Juan and Pune that no

longer exist. We had a significantly sized Quant Team that has been shrunk quite a bit. We had to make a lot of painful decisions and the team we currently have is a good size for us to continue well after we have returned all the capital and we focus on the two funds.

Q&A

Q: I have a couple of quick questions. One, are you exiting GM in Dhandho also?

A: Yes, we have completely exited GM in both Dhandho and Pabrai.

Q: My second question: Last year you wrote a pretty extensive email that you sent out to everyone, where you went into great detail how confident you were in GM. What changed in the 12 months?

A: Investing is a business where the best investor is going to be wrong one out of three times and many of us would be wrong more than that. We held the GM position for more than five years and one question I always asked myself was if it was a mistake because in the fullness of time and in the end we should have gotten to my perception of intrinsic value. GM was an unusual situation where it was worth significantly more than where we sold. It had been five years and my take was that maybe it was something I didn't understand. The market seemed to be concerned about disruptions from Uber, ride sharing, autonomous driving and US car sales having hit a peak and headed down. Besides these there's always a number of concerns with auto companies like unions and high capex.

GM has some businesses, for example their finance business which generates $1.5 million going to north of $2 billion a year; that is not cyclical and it keeps making money. Their China business sales are at an all-time high and will get to making north of $2 billion a year. Their parts business is also non-cyclical and probably generates close to a billion a year. They have a number of businesses which are generating north of $5 billion pre-tax which should trade at double digit multiples. If you look at the large trucks, GMC is one of their brands and they have 80% market share. In the large SUV space, Ford hasn't updated the Lincoln Navigator in a dozen years. When you look at the large SUVs, GM has a lock on that market with the Escalade and others. Every one of those that they sell they get $10,000 - $15,000 in profit per vehicle. If you take the GMC business or the large SUV business and made it a separate business, it would be gushing cash which again is non-cyclical. GMC has higher margins than Diamler or BMW.

What I have always learned from Ben Graham and Buffett is to focus on the weighing machine and not focus on market sentiment. We focused on the weighing machine for five years and at some point I thought maybe it's something I don't understand. This is the only time that I made an exit where I didn't have a full understanding of whether the exit was correct or not. Maybe

the weighing machine may take six, seven, or nine years for GM. I don't know. At some point those cash flows should have translated into a much higher market cap, but in the meantime my sense was that we gave it enough time and we had other opportunities. In at least two of the funds we have almost no cash after exiting GM. The third fund has some GM and some cash.

Q: Do your investments in stocks in Dhandho [Holdings] mirror what you are doing in Pabrai and your investments in India?

A: No and this is one of the reasons why I think Dhandho was a mistake. The approach we had taken with Dhandho was to buy private businesses and in addition to that invest in stocks. The only stocks we had interest in for Dhandho were my highest conviction ideas. The only ones we invested in were those that had significant upside. Of course we were wrong with Horsehead. Dhandho had a $17 million position in Horsehead which went to zero and that gave us a leg down. We had an investment in GM and we made some money. We also have an investment in Fiat Chrysler. Those were the three main investments. Dhandho now has about $9 million or so invested in India. This number will probably increase and it doesn't have much else beyond that.

Q: You still have the Fiat in Dhandho?

A: Yes and we are going to keep that for a while.

Q: One last question, what do you think of the growth that is happening in some of these robo advisors like Wealthfront and Betterment. Do you see that continuing and what are your general thoughts on that?

A: These are really good developments and I think the Betterments of the world will do really well. Financial advisors are an oxymoron. Most people are better off if they index and cut out the high frictional cost of financial advisors etc. Betterment provides a layer over the indexing and it's a good service at low cost. I think that's a good trend.

Q: I have a quick question on India -- maybe you can just highlight. You mentioned some of the demographic trends and how favorable they are. Where do you see opportunities and value? You also mentioned the ability to move down the market cap spectrum, but where are the long-term opportunities and the best pools for fishing?

A: It's a little difficult for me to answer your question on India without making this a session on stock tips and I'd like to avoid that. I'll give you an example that took place in November of last year where we had something known as demonetization: they took away most of the currency in circulation and replaced it with different notes. Then in July of this year we had the Goods and Services Taxes (GST) that came into effect. We also had the Real Estate Regulatory Act (RERA) that also came into effect this year. For example, say you take a place like Mumbai. What you really need to do is tear down the whole place and rebuild. In the last three years or so they codified exactly how tear downs need to happen and made it a step by step process. They

also codified how slum redevelopment happens. There are large amounts of land in Mumbai which are incredibly valuable, but there are low rise slums on it which are illegal, but they have possession. The government says you can go to these people in the slums, but you have to give them housing based on certain square footage. The slum dwellers would also get a rent allowance for the amount of time they were moved from their current location until they return to the new housing you provide. When they come back they must be given housing in the same location where the slum was and you can't move them to another location. They codified all of this and what's happened is that we are seeing significant private sector slum redevelopment taking place now in Mumbai. What used to be a slum with open sewers is now a Ritz-Carlton (and we own a part of that Ritz). It's a very dramatic change that is taking place. The same is happening with older buildings where these 40 year old buildings are low rise and not that great. You make a deal with the co-op, move everyone out, tear it down and rebuild a 60-story tower (which used to be a 4-story building) and then give the units free to all the people who moved out.

When you take all these four things together, the slum and society redevelopment, RERA, GST and demonetization, what's happened is that real estate has gone through a huge change. Cash used a large portion of the purchase price and basically unaccounted wealth was thus ploughed into real estate. Due to the way GST works with input tax credit, it is not effective for a builder to play those games because they don't get the input credits. If they buy cement, they pay GST on the cement and they get the credit for that GST when they sell the apartment. If they don't show the revenue, then they don't get the credit. What has happened is a huge shift from heavy cash to almost no cash and it's transforming in a very significant way. What they have done is made it very hard for unorganized developers, who have gone out of business big time. The players who were the highest quality players, who were always dealing with only check payments, have gotten a tailwind. In Mumbai, 85-90% of the real estate developers have gone out of business in the last one year. It's quite a change and Pabrai Funds went long a few of the very best developers in Mumbai and we think we'll do very well on those investments.

My take is that these companies that are publicly traded have huge runways. Like I said, when you look at a city like Mumbai with more than 15 million people and the whole 20 or 30 year period while it gets redone, the economics are very good for the leading players. This is just an example of one industry that is going through this transformation.

Q: I have three questions regarding Fiat that are all connected so I will give you all three at the same time. The first is: Have you asked Sergio why he is not thinking about spinning off Alfa Romeo and Maserati? If you haven't asked why not? My second question is what do you think the worth of Fiat is at this time based on the sum of the part analysis? And the third is what is the lowest price that you would be happy to sell all your shares of Fiat?

A: It sounds like you are excited about Fiat. I don't have a direct line to Sergio but he does have a few things going on that he has commented on publicly about Alfa and Maserati. What he has

said publicly is that at some point they become businesses that can be spun out, but he has also said that it would be premature and immature to do that today. What's happening at Maserati in the next three or four years is that they are transforming very heavily to electrified Maseratis. In three or four years I think we'll see Maseratis that look like Teslas except with Italian styling. I think they have a number of things going on in both Alfa and Maserati, and I think Sergio's perspective is to get these companies further along in the next few years before doing the spin.

One of the misnomers in the auto industry is that people think the auto industry is a terrible industry for cyclicality, high CapEx and all these issues. The luxury end of the auto industry is actually a good business. BMW is operating in the highest wage geography in the world and they are very profitable. My sense with Maserati and Alfa is that they want to broaden the portfolio and get better penetrating China and other places. Maybe in two or three years they will figure out that it's time to do something with them. The good news is as a passive investor in Fiat, I think we have really smart guys running the business in Sergio, and a family with a strong vested interest which cares a lot about outside shareholders in Exor and John Elkann. I have no doubt that they will take care of the shareholders like they have done in the past. All of the actions they have taken over the years have been very pro-shareholder.

The first spin out we will see is probably the parts business and I think Marelli will spin that out early next year. Again I don't have much understanding of the Marelli business, but it'll probably comes out at a $5 billion or higher market cap which is almost one-fourth of the market cap of Fiat Chrysler. I might want to sell that because I don't understand that business very well. Marelli is a business that could double in value when it separates from the parent. In terms of the value of the pieces, this is where it can get complicated. What I knew about Fiat Chrysler in 2012 and what I know now is that a lot has changed. Sergio likes to make statements and in the last conference call he said that Jeep will get to 2 million units next year and that the correct volume for Jeep long term is 7 million units. If you look at a brand like Jeep -- when they took over Chrysler, Chrysler was selling less than 300,000 Jeeps a year and almost all were sold in North America. Today Jeep is manufactured all over the world in the US, Mexico, Brazil, Italy, China and in India. In India they have maxed out and they can't keep up with the orders coming in. They have gone from 300,000 units to 2 million units next year (which I thought they would stay at 2 million) and then he makes a statement saying it should be at 7 million. I don't know in what time frame, if ever, he gets to 7 million. If you do the math, even at $2000 or $3000 a Jeep you are going to be making $15 or $20 billion a year pre-tax on Jeep if they ever get to 7 million Jeeps. At 2 million Jeeps they are going to make $5 billion or $6 billion a year on Jeep alone.

You can apply whatever multiple you want to it, so what I have done with Fiat Chrysler is I have given up. I have just decided that as long as Sergio is alive and going to work every day I am not touching Fiat. Sergio is in my opinion one of the Top 20 business leaders to come along in the last 100 years. Quite amazing. What he also said is that they will come up with a new five year plan which will go out to 2022. The good news with these five year plans is that the market doesn't seem to appreciate them. In the five year plan they tell us what the cash flows will be in

the year 2022. They told us in 2014 what the cash flows would be in 2018. By next year we will see the 2022 cash flow and hopefully it will be some high number. I am inclined to believe them because they have delivered in the past. If that number is high enough we'll let it ride - maybe even after Sergio is gone.

Q: Thank you. The reason I am very interested in Fiat is because I'm in Dhandho [Holdings] and the only way to make a profit in Dhandho is with Fiat.

A: That is not true. We have the funds. You have GP interest in the funds and that might match Sergio.

Q: First of all thanks a lot for taking the time to write "The Dhandho Investor" book. It was very inspiring and I learned a lot. After seeing your presentation, you have Dhandho, the Junoon Funds and *PIF1& PIF2. You have a lot on your plate and you have to figure out how to allocate your time. So my question is what is your approach to maximize your returns on your time invested in the research?*

A: One of the reasons why we want to put the toothpaste back in the tube is so that all of our time is focused on passive investments and that's where we are headed. Basically I don't spend a lot of time on Stonetrust, but once we no longer have the insurance company and Dhandho Holdings, the only thing we have left is in effect the two vehicles. The quant fund is on its own and it pretty much does its own thing. We have the India Fund and Pabrai Funds and both of them are focused on India because I can't find much anywhere else in the world. The investments will get allocated and we follow a hierarchy. Pabrai Funds goes first, then we'll look at Dhandho Holdings and then the India fund. From a time perspective, my time in effect benefits all of them because they are all in the same area. I don't particularly feel that I don't have enough time or anything like that.

Q: Maybe you have already answered this question in the presentation, but you are buying undervalued companies and waiting for them to rise back up to a level that you expect them to be. In the future, are you going to be holding companies for ten to thirty years? If so, what's changing with your research?

A: The ideal situation is to buy businesses that are increasing intrinsic value significantly over time. These are the best businesses to invest in, to the extent that we can get into businesses like that. Even if they were to get overpriced I would keep them.

Let's take something like Ferrari which is probably fully priced at this point. We have a magical manager on top that will do strange things to increase the value even more. We would not sell something like Ferrari until it gets to what I would call egregious pricing. So between fully priced and egregious pricing there's a significant difference. As long as we have businesses where the intrinsic value is increasing and they have great moats with great managers, we want to ride those for a long time. Historically we have not held things for a long time. I would say

that the Fiat holding at over 5 years is probably one of our longer holdings. One thing that I learned is that I need to get better at holding longer. In 2002 we owned Amazon at $10 a share and it was 8% of the fund. In a few months we got a 50% return and we sold, but that was very stupid. I think that if we get smart enough to have great moats, and especially great moats with great managers, then we want to keep them for a long time.

Q: One last question, so for all the cash that you are holding and even the T-bills, are they supposedly unsafe right now or as safe as it can be?

A: I don't think T-bills will have a problem -- it'll be okay and you can go into T-bills. Washington will get its act together and you shouldn't worry about it as far as T-bills are concerned.

Q: Where would the funds be holding all of their cash? Are they not gaining any kind of interest at all?

A: We have not historically invested in treasuries -- we keep our cash in money market.

Q: You have talked about your checklist many times before, and I am very interested to know what has changed in the recent past on your checklist now that you are entering a lot of new markets like India and Korea. Have there been any significant changes in terms of what you should not do like you talked about earlier with insurance? Have you added any significant don'ts to your checklist and what is your current view on the checklist? Do you still follow it 100% or have you changed and rather do different things? For example in emerging markets you want to take basket bets and so on? I want to get your thoughts on that.

A: The checklist went through a lot of changes in the first few years. Currently the checklist has about 150 questions on it and it covers a range of topics. I haven't found a need to make changes to it because of India. We have always had questions about competence of management and integrity of the management, and those have been in the checklist for a long time. I think that what changes is how we answer the question. With India we need to do more due diligence on these things, but those questions have always been part of the list. Just because we are investing in India or Korea, there hasn't been any meaningful change in the checklist. It's a great tool and it actually works really well. It doesn't take much time but it carries a lot of weight which is great.

Q: So you still give a lot of weight to that?

A: This is usually the biggest advantage the checklist has and it forces you to look into areas that normally your brain will skip over.

Q: Since you are able to buy such large stakes in companies or relatively large stakes and you have an eye for great businesses, why haven't you identified great businesses but with poor management and become an activist basically?

A: We tried buying private businesses and have actually owned them, but we have no desire to ever do that again. It is so much easier to just buy Sergio's stock and not tell him what to do. The whole area of activist investing has never appealed to me. I think that control is overrated and the ability to get a management team to do what you want is very difficult. If I own a business, the only lever point I have is who runs the business. I don't have the lever to tell the person how to run the business and it will not work. Like Buffett says if you are going into a business with the idea of affecting change, it's like going into a marriage with that same idea and neither are going to work. The idea of going into a business and saying it's an undermanaged business and that I'm going to have to stick around to make management change its ways - my answer to that is that there are far easier ways to make money. I would much rather go into a business where I love the manager and the business and have nothing to do with how it changes direction in the future. Activism is not for me.

Q: I am actually from DC and I can tell you that the treasury would hold no matter what happens and everyone on Pennsylvania Avenue will make sure that happens. My question really to you is about India. Your story about the slum transformation was great but having worked in India and seeing investments the affordable housing has not done well in the last decade. Everything that happened in UP, and even Pallonji's new initiative hasn't really been giving good returns. On the other hand banking seems to be doing relatively well. I saw two investments the IDFC and South Indian Bank, which I think you exited. So what is your take on the banking side? It seems that demonetization has been factored in, there are lots of new banking licenses and lots of IPOs happening in that space. So, I know you are not supposed to give stock picks but anything on the sector would be nice to hear.

A: I think you are right. First of all we have no investments in affordable housing. The slum redevelopment is focusing on residences for the rich or upper middle class. They are giving the slum owners space in the same area but it's not in the same towers. So far I haven't delved into affordable housing but one of the companies we invested in is looking at it. We'll see what happens there and they will figure it out.

I agree with you that there are a number of opportunities in both banking and in the non-bank finance companies (NBFC). In general what I have found in India is that the well-run private banks are fully priced or overpriced, so at least to my eye they are not bargains. They probably will do really well in the future, but they are not available at a significant discount to underlying value, at least when I look at them. I am interested in that sector but I haven't found a whole lot where the valuations make sense. I think we have one investment in a NBFC. We may be able to find something on the smaller end and so far in the last four trips I have met with a few dozen management teams.

Q: Sure. Sounds good. Just a tip, there were like ten NBFCs who got a banking license a year and half back and some of them are doing pretty well.

A: Yes and the only thing, like I said, is you can look at the multiples they trade at. One thing that Charlie Munger and Warren Buffett highlight is that levered financial institutions are like gasoline and it can get very toxic very fast. One thing which is harder to understand than a typical business is the underwriting discipline and sometimes that can go undetected. Let's say a bank like HDFC has a drop in the underwriting discipline, it would not show up in the numbers for two or three years. This is one of the issues and are we looking at something where the discipline is there. If we can find something that looks like a no brainer, the discipline is there and the price is cheap, then we can look for that.

Q: Thank you for giving the opportunity to listen to you. I want to say thank you for all the work you have done as a teacher to all of us and I'm particularly thankful and grateful to you. I think we have learned a lot over the years by just watching you, your book, all of your YouTube videos and all of that have been extremely helpful. My question is regarding Fiat Chrysler and this presentation seems to really be focused on that. Two aspects of it: One is you had significant investments in your portfolio in two auto companies and sort of a contrast between the two, both in terms of brands and the owner operator. Sergio seems to have produced an incredible value and unlocked value inside Fiat, while in the case of GM it has been a disappointment. The second thing that I thought about when I looked at your presentation was to me it came across as you bought a good company at a great price and you found out there was a great company at a great price with Fiat with all the brands. So that's just two aspects of both Fiat and GM, the value of the brand and the value of the owner operator. Can you compare and contrast the two?

A: At the time I was buying Fiat, it was very clear that it was run by an incredible manager. You could look at HBS case studies on Sergio which dated back before 2012 and I had read those. There were also some books on the Agnelli family which had a lot of history on him. It was very clear that Fiat was a very unusual asset and it had some room to run. GM was nowhere near as cheap as Fiat even then in 2012 but it had more going for it. Fiat had a lot more issues in 2012 which probably caused the pricing and GM had far fewer issues. The nature of investing is to forecast the next several years of what these businesses will look like, and by definition this is an exercise that may have an error rate. I was thrilled that the error with GM was that we invested $70 million and the mistake was that we made only $50 million. I love those mistakes and those are great mistakes. In hindsight GM didn't work out as well but what also happened is the fact that we had a GM position and we could unload it at a point in time when I had other things to do with it and it was a great blessing.

I think you learn about a business after you own it. I learned a lot about Fiat from 2014 onwards, and I have learned a lot more about Ferrari recently, and that's just the nature of the beast. Our exposure to autos is not as high now because GM is gone and that takes away a significant piece of it. I don't think of Ferrari as an auto company and I don't even classify it as one because it's in a different universe. So quite frankly the only auto asset that we have is Fiat Chrysler and we'll live with that.

Q: Has the prominence of Sergio and how good of an operator he was kind of surprised you over time?

A: Yes, I am surprised that he is way better than I thought. I thought he was really good, but I think he is head and shoulders beyond what my understanding was in 2012 and 2013.

Q: I have two quick questions. Given what you have learned, in what you know now, you wouldn't have actually started Dhandho. Could you elaborate a little bit on exactly what those lessons were?

A: The first lesson was when I spent more than two decades investing in public markets. One of the good things about public markets is that we are not dealing with intelligent sellers. Auction driven markets lead to distortions in price. We are making investments in India that would not be possible if I was sitting across the table with a family that controlled or owned those shares or businesses. They would not sell it to me at those prices. Auction driven markets have a great quality that tends to undershoot and overshoot underlying value quite significantly. So for example, if I took a dart and threw it at any stock in the New York Stock exchange and look at the 52 week range on it, there will be something like 70 to 130. If I look at a business that's for sale and I asked the owner of the business what the selling price is, it's hardly going to move over the year. Maybe +/- 15% at most. So auction driven markets create opportunity to buy when they are cheap and sometimes to sell when they are overpriced.

In private businesses, especially in the US, there is all this capital, and when we are trying to buy businesses we are dealing with sellers who are able to time the sales to their advantage. They typically know far more about the business than you do and they are fully priced. What I found in Dhandho is that it's very unlikely we would be able to acquire private assets at huge discounts. Fiat is a company that has $150 billion in revenue in 2018 and in 2012 the market cap was $5 billion. We are never going to find private business trading at 3% of revenue with the moat that Fiat had with Sergio/Elkann/Ferrari/Maserati/Jeep/Ram/Alfa etc.

The first realization I came to was that we are not going to find undervalued private businesses. The second realization was that running an insurance company is a really tough business. Buffett makes it look easy because he is so good. At Berkshire Hathaway because of their AAA ratings they get far more flexibility with float than any other insurance company. What Berkshire can do with its float, almost any other insurance company cannot do with its float Float for the most part needs to go into high quality fixed income. Once you put the float in high quality fixed income, then you hardly have any earnings in this environment from the float. The realization that I came to is that insurance is a really tough business and most surprises in the business are very negative. We had a three year run where we have done really well in that business with our hands tied behind our back. It worked out quite nicely and the underwriting results have been decent. We have an intelligent buyer who is willing to pay us a reasonable price for it and so we are going to take that opportunity and run. Having learned these things, I

want to go back to my wonderful life of finding deep bargains while sitting in my armchair or meeting companies in India. This is a game that I understand and can play well, so that's what we want to do.

Q: My second question, on a couple of occasions you mentioned the attractiveness of captive financial companies within manufacturers and I think specifically about the stability of their earnings and the potential to continuously grow over time relative to time of the volatility of the manufacturing base. I was wondering if you could elaborate a little bit more on what you see in those types of businesses that makes it so attractive.

A: You can screw up a captive and it just takes dumb behavior to screw it up, but it does happen. It happened with GM and the captive was GMAC during the pre-financial crisis era. Instead of GMAC financing auto loans they went into financing mortgages. In addition to financing mortgages they went into owning real estate brokers. They branched out into different areas and then they got their head handed to them. If you have a well-run captive where the managers of the captive understand the dynamics of how to run it, then it gives you a huge tailwind. For example, if you look at John Deere and go to their website and look at their corporate presentation slides, they have slides which show the earnings of the John Deere business over the last 20 years. For each year you can see how the business has gone up and down over the last 20 years. They have another slide which shows the 20 years of history of the John Deere finance business and that goes straight up. The reason it goes straight up is because John Deere has some advantages that Joe Public who sets up a finance company does not have.

One advantage is that they have a deep understanding of the assets. They understand their combines and tractors really well. As an example of what they are able to do, say they lease out a tractor for three, five or seven years. When the lease ends they have the ability to recertify them by having it rehabbed with the factory and then sent back out and the people will respect the warranty and the certification. So their ability to take a seven year old combine and put it back out in the market is superior to Joe Public trying to do that. They have a captive dealer base and the dealer base has incentives to sell the new tractors as well as the pre-certified ones. When they have assets coming back to them, they have the ability to extract more value from those assets than anyone else.

The same applies to Cadillac when they get the Cadillac back. These captives have an inherent advantage in terms of cost of capital, because typically the companies are very solid and it's a much more focused operation. If you are only leasing and financing Cadillacs, you know the asset really well and you can do well with it. Some of their options when the Cadillac comes back is to send it to auction, sell it on the dealer lot, offer it to employees at a discount or recertify it. They have a lot of options available and they can figure out what makes the most sense. Most non-captive companies cannot do any of these things. This is one of the reasons why it is a great business and has great value. You can't spin these businesses out because they need to be tied with the manufacturer. This is one of the businesses inside GM. The $2 billion

GM finance business should be valued at 15 or 20 times earnings because it's growing and has very stable cash flows, but then we are selling GM stock.

Q: What is it in particular that leads to the stability of the earnings?

A: Any finance business has stability because it has recurring revenues. If auto sales dropped by 10% one year, they may have 10% fewer leases. They may have leases over the last several years where the cash flows are coming in. Unlike the auto business where it's going up and down, this is going in a straight line because you are adding more leases. You may slow down a little bit, but on a net basis you are going to keep adding. If you look at the John Deere slide for example, every single year the earnings are higher than the previous year regardless of what happened to the underlying tractor business.

Q: I have two questions, the first on Southwest. When you look back it's an amazing business, but what do you think about the threat from the ultra-low cost carriers from the bottom attacking them and then from the top the Deltas, all the network carriers. Who are they and where do they fit in that ecosystem looking out three or five plus years? Then secondly, in terms of how you manage your portfolio, when you think now there aren't a lot of opportunities, but if you fast forward five years and hope there will be a lot of opportunities, how do you maintain the discipline to make a decision to sell something you know and own that may be up and close to fair value, versus finding discounts that are out there. How do you think through them and make those decisions?

A: In regards to Southwest, we will have to see how that plays out. The Spirits of the world have far lower costs but they are disliked by the customers. However, the airline prices are what consumers focus on, and that is why the Sprits of the world do so well in terms of growth. I think the Southwest bet is on the unusual culture. We have a three minute clip which some of you might have seen on YouTube where the flight attendant is giving a briefing and she has a whole bunch of different jokes in there. Southwest has an unusual culture that has a very good discipline on managing its low cost of capital and they have very good employees. So overall culture is a big deal. A big reason why we picked Southwest over the other airlines is because of the culture. Berkshire bought United, Continental, Delta and Southwest. I saw that they were all cheap but I felt that Southwest had some resilience because of the culture. Your competitors can copy everything but they cannot copy your culture no matter how much they try. There is no way for United to clone Southwest and it just won't happen in 20 or 30 years. United did try by setting up Ted but they shut it down; Delta set up Song and then they shut it down.

I think on that front it was cheap, a nice business, generating high returns on equity, the employees love them, people love them, it's a focused business and I think they have a lot of growth ahead of them. Regarding your question about the opportunities, I think that Pabrai Funds and even Dhandho are opportunistic operations. We don't have a game plan on what we are going to do. In many ways it depends on what shows up, opportunity cost and what is

available to us versus what's in the portfolio? We hope that most of the time we get it right but sometimes we get it wrong.

Q: I have one question from the presentation. I noticed that you mentioned fully priced and you mentioned you are not finding any opportunities in the US. You also said markets are at an all-time high in India and the US. What will make you start returning money back to the investors?

A: We would return the money if we couldn't put it to work. For example, when I look at our offshore fund PIF3, it is probably the most concentrated. About one-fourth of PIF3 is Fiat and another one-fourth of PIF3 is in an obscure company in India called Rain Industries. So half of the fund is in these two businesses and there are a few other businesses beyond that. I think both businesses are undervalued and will do very well over the years and have a significant tailwinds for quite some time. If we can't find opportunities, I have two or three levers. The first lever is to stop taking capital, which we have done. The second lever, if we have to exercise that, is to return capital. Every year we have investors taking capital through redemptions every year. Once I stop taking capital and we have the annual redemptions, it goes down gradually. Last year we had $100 million leave and we didn't bring in new capital. We brought in a little bit of capital during the year but not much. This year I am not sure how much will leave and that again will act as a lever to bring it down. If we get to a point where we are sitting on cash and can't do anything then we can return the money. I don't get paid for holding cash.

Q: I have two questions, the first is on the healthcare industry in the United States. I notice that you haven't been aggressively jumping into that, and in fact I think you have spoken against it this year. I believe at the same time there is consolidation and a lot of growth in the major providers, there is aggregated services and still others are rapidly expanding niche businesses within that. What is your stance or how are you thinking about that? My second question is about Dakshana and I'm sure a lot of us would be very excited to hear how that is going?

A: Yes, so to answer your first question about the healthcare industry, in my opinion it's a very corrupt industry in the United States and market forces don't work in this industry. I'll give you an example - as I was looking at an invoice for $280 that I received from LabCorp for lab test results. It went through the insurance company and there was an adjustment discount between LabCorp and the insurance company for $220. It went from $280 to $60, the insurance company paid $20 and then they asked me to pay $40. If I didn't have insurance LabCorp would have billed me the $280 and say that's how much it costs. How can you have a system where a test costs $280 in a non-negotiated transaction and $40 bucks in a negotiated transaction? I don't know any industry where the buying power leads to an 80% or 90% discount. We see this in all of our bills and the same with hospitals and everything else.

This is just one example of corruption in the industry. You have corruption across the board because you don't have market forces at work. When I go for a procedure I have no idea what the cost will be because there are so many different providers. It will depend on whether you

have insurance or not, who the provider of the insurance is and drug prices. So given the fact that this is an industry that I don't understand really well, and can clearly see what I would call corrupt behavior, my take is to just side step this and not try and figure it out. I'm not even sure that I have the competence in healthcare so I decided that I'm not going to bother with the health business. If I look at hospitals, they have distortions where if you are not insured you still have to be treated. Then there are games they play on who they treat or not treat. We also hear stories about sick patients being dropped off on Skid Row in LA when they are not fully treated because they want to get them off their books. There is a lot of push and pull between ethics and what you should do. There's also all the distortions with the uninsured and the markets. It's so complicated that I think it's easier to just buy Southwest Airlines or deal with Sergio.

In regards to Dakshana, the good news is I have very little to do with Dakshana. I have an awesome CEO in Colonel Sharma and a great team in India running it and we are very blessed. We bought a 110 acre property about four years ago and the first batch had 70 students. Last year we had 250 students; next year we are going to take about 650 students and we are going to keep bumping that up. There is a lot of infrastructure going in there and our number of scholars and students going to IIT is going up. I think it's performing really well and I have no complaints. The key is who you have running it and I lucked out. I had two prior CEOs and the third one worked. I was telling John Elkann, the Chairman of Fiat Chrysler who became Chairman when he was around 28 years old, that you have to be wise beyond your years to get a guy like Sergio to run this place and how do you figure that out. He said, "Mohnish, the two years before that I fired five of them before him". He said he had five CEOs who came to Fiat before Sergio and in a few months he got rid of each one. I told him that the great thing is that you were quick to act and you didn't sit with those guys. It's magical when you have great managers and so I am very happy with Dakshana.

Q: Thank you for one very important thing. The most joyful part of an otherwise difficult journey with Dhandho has been your straightforwardness, your proactiveness in reaching out to your investors and sharing with them timely and very upfront updates. I thank you so much for that and we really appreciate that. I have two quick questions, one tactical, you mentioned that 50% disbursement happening around Q2 and then was it plus three years after Q2 of next year when the rest will be disbursed or including the one year, is it two more years?

A: We will have approximately $11 million of our Stonetrust purchase price that will get paid out to us over four years. It's going to be approximately $2 million a year for the next three years and the last year we will get the rest. When you look at the $150 million, this $11 million is not the tail that wags the dog and it's a very small piece. We also have an investment in a venture fund that is also illiquid and that will come out over time but that's also a small piece. We have $5 million in and we have another commitment for $5 million. These two pieces are the only pieces that are illiquid and everything else in Dhandho is stocks that we could sell tomorrow.

What we'll do when we give out the first $75 million, we can clearly value all the publicly traded stocks at a given point in time and we can come up with a value for the illiquid piece. Maybe discounted over time because there are some contingencies on those payments because if Stonetrust had an adverse development those payments could disappear. So based on that we will come up with some number. For example if you were doing it today, that number might be $4 per unit, so you might be able to exit completely at $9 a unit if someone says they don't want to wait for this three or four year gradual liquidation. Those liquidations may be frontloaded, in the sense that we are not interested in selling Fiat at present prices. We also own Exor, which is the parent company and we aren't even interested in selling that at present price. Between those two we have about $30 million.

Some of the other investments we would be more amenable to selling depending on what's going on. The bottom line is that it could be that $5 per unit comes out in Q2, maybe a couple of dollars comes out by the end of 2018 and then we have $7 out and then the rest comes out after that. I'm not completely sure of the timing of how it comes out, but what I will do is suggest that if people want to exit completely, we will try and figure out a mechanism. One mechanism we might do is allow people to put money in because it creates a special situation where you have a string of payments coming and a discount against that. Some people may want to invest in Dhandho and take out the people who want to exit and that's what we might do on that front.

Q: You also said that people can decide to stay for the long-term and bet on you long term and also indicated there is a general partnership stake. Could you embellish on that a little bit, such as if you were to tell a partner why he should stay?

A: What I will actually do when we get to that point is to put together a document which will show that if our positions were reversed, what information would I like to see. What you will find is that when you get the document it will be absolutely clear to you what are the pieces, what are the probabilities, what do we own and what does it look like. Then you are able to make an intelligent decision on what you want to do. I would like to do that for everyone. We don't have the ability today, for example if 100% of the investors say I want out, we don't have liquidity to get 100% out. We might be able to accommodate that if we allow people to come in and I will need clarity on what they are buying. We will do it both ways and have a similar document for people who want to come in and a document for people who want to go out. My perspective today would be there is only one reason why people buy and there are many reasons why people sell. Individual circumstances will dictate why people want to sell and it could be that some people see the value but have a need for the cash. That is fine and so we will try to address that as best as we can.

Q: This document that you are talking about is likely to be sent in Q2 next year or earlier?

A: Well, we would like to get to the first milestone and close the sale of Stonetrust and that will probably happen before the end of the year. Once we get to the close of Stonetrust and get some

definitiveness on this then we can share the document. I would say that my best guess is if Stonetrust closes in December, then you should have the document in January and then we'll probably have these decisions take place in April.

Q: Mohnish, I think I heard you say that in four years those who would wait might experience a 10% haircut on their Dhandho Holdings funds? Is that correct based upon your projections now?

A: That is not true. What I said is that if you elect to stay the money would come back to you over four years and the money that comes back to you over four years could be significantly above $10 a unit.

Q: Okay. I didn't hear that at all, nor did I see it in the presentation.

A: Well, because I don't want to give you rosy future projections.

Q: Here is a question though, what if the markets correct during this period with the common stocks, all of your stocks are going to be hammered with the markets, including Sergio Marchionne who won't be saved either. So how do you manage for that event?

A: The document I talked about earlier will list the stocks that we own and our assets. We will value them all and we will present them to you. If you have a view and believe that these things may go up in value you may differ on that view. If you differ on that view and don't want to stay on the four years we'll give you an option to exit based on what is available. What happens is it may not be just the four years. As we get rid of our public holdings, say in three or four years and we get all this cashed out, we are left with an illiquid GP interest in a couple of funds. I don't know what this will look like in ten years. For example, if ten years from now these funds have $500 million or a billion in them, I mentioned that Pabrai Funds for ten years didn't get fees. If it ends today, the fee just in the third quarter alone is $13 million. This is an incredible business when the engine is on. I will personally try to take every dime that I own to buy out whoever wants to go because I want that GP interest. I don't care about Sergio and all the other stocks. I own 6% of Dhandho Holdings and I would love for that interest to go up but I don't want to do it by taking advantage of my partners. So what I will do is give you a full open kimono on everything that I would want to know, and then you can make a decision on whether you want to stay for the ride or not stay for the ride.

Q: So with respect to an owner who wants to liquidate tomorrow, what would you do?

A: I have limited options for an owner who wants to liquidate tomorrow. I could liquidate you, but I don't feel comfortable for two reasons. One is that I would have to heavily discount a lot of these pieces that are moving parts. I would have to discount whether or not this deal closes and I will have to put a haircut on that. Since I will have to put so many haircuts, I'm uncomfortable

making those decisions today. I would say that I would be in a better position to make these decisions in December or January.

Q: What is Stonetrust's combined ratio right now? How is the insurance company doing right now?

A: It's doing very well and their combined ratio so far this year is around 100% and we are doing really well on the investment side and on the underwriting.

Q: So insurance is making money now including investments?

A: It's making a lot of money.

Q: You mentioned Dhandho Holdings was a mistake. So I just want to understand why was it a mistake and why do you call it a mistake?

A: The reason it was a mistake is because the idea was to buy a number of private assets anchored by insurance and then eventually have a public company. First of all what I found is that the private equity market in the US is overheated and are either fully priced or overpriced. We looked at a lot of things but we could never find anything that was attractive pricing. We would have to go into bankruptcy courts, for example, to do something there. With the insurance company itself, I overdosed on Warren Buffett. Berkshire Hathaway is a very unusual insurance operation because of their long history and incredible performance. The regulators allow Berkshire Hathaway to do things that other insurance companies cannot do. Capital and float in an insurance company has many regulatory restrictions. I actually agree with the regulatory restrictions because the primary objective of the insurance company is to make sure there is strength in the balance sheet to take care of claims. In the case of Stonetrust, we have people who will be getting paid out in claims for decades and so it's very important that the company maintains strong financial strength to meet its obligations over the decades. It makes sense to have restrictions on investments so that those constituents are well taken care of.

One of the things I learned is that insurance is a very tough business. Once we exit from Stonetrust, I will go to my grave without having anything to do with the insurance business. I enjoyed Mike and his team and they are great guys to work with, but it's not an easy business. You are in the thick of it and you see it every day. These are the reasons why we are moving on with what we are doing.

Q: I have a two part question, my first on the India Fund, how much capital are you looking to raise and over what period of time? Then second, for prospective LPs who would like to invest with Mohnish and have the two options, the India Fund and Junoon. How would you summarize the differences between the two?

A: On the India Fund we haven't really set an amount. I don't expect us to have more than $10 or $20 million come in now. I don't see any issue putting a couple hundred million to work.

Once we get past those numbers we will look at the situation just as we did with Pabrai Funds where we had no grand plan of how much assets we wanted. We just found it's hard to put money to work, so we closed the Funds and we will do the same thing.

In terms of looking at the India Fund versus Junoon, I think that Junoon is a very good vehicle as an alternative to the S&P. If someone were looking to index with the S&P, Junoon over time will do better than that. It has the zero fee structure and it doesn't have a lot of frictional cost associated with it. The India Fund is more of an active fund if you are looking for exposure into that asset class, and to some extent our fortunes are tied not completely, but meaningfully to India. Pabrai Funds will probably never get to 70% in India because it has some investments that we will not sell for a long time. The India Fund will just be more focused. Another advantage is if I find an opportunity where we can only put in a million or two in India that cannot move the needle for Pabrai Funds, but it can move the needle for the India Fund and these are some of the differences.

Q: A very quick follow-up if I may, would Junoon be a little less downside risk versus India or would it not be fair to say that?

A: I would think for good or bad Junoon's fortunes are tied to the US. Most of the underlying investments are US businesses and I already mentioned that what I find with US businesses is that they are either fully priced or overpriced. At the same time if interest rates stay low for a long period of time the US equities could be underpriced. No other country in the world has the governance and the long term underlying strengths that the US does. I would think that Junoon is probably less risky because it has 22 positions. I don't think the India Fund will get to 22 positions because we are going to try and put 10% into each idea. It's going to be more concentrated in a country where we have currency risks because we are not going to hedge the currency. So if you are a US investor then you will have to worry about that. I think the currency will move in our direction and that may not matter, but probably the best thing to do is split it into some portion depending on where it's going. What I personally will do is max how much I can put into the GP. Better than being an LP in either fund is to be the GP. I will try and put as much as I can in the GP and what I can't put in the GP I will be more biased towards either putting it in Pabrai Funds or the India fund because they are actively managed by me over the algorithm and that's how I would do it for myself.

Q: I have two questions. Is your holding of Fiat Chrysler not a US holding, is that why?

A: Yes, that's right and even though Fiat has a lot of sales in the US, it's not domiciled here. They are a European company and their headquarters is in London. You can think of Fiat as a US company because it has so much US sales, but they have a lot of European, Latin and China exposure as well.

Q: My other question, it sounded like if Pabrai Funds are closed to investors and you are going to open them up to allow others in, is that any kind of a conflict for you?

A: I feel that I let the Dhandho investors down. They came in with a certain perspective that didn't quite work out. My first consideration is not to lose money for them so if they gave me a million I want them to get at least a million back and I think that will happen. My second consideration was a way for them to continue having exposure to me if they want that, and so I wanted to open up all the vehicles to allow that. It won't be a large amount of capital because we have $75 million that we are giving out initially. If all of that came into Pabrai Funds it will be 10-12% of what we have and it wouldn't be a lot of capital to absorb. I don't think that $75 million is going to come back to Pabrai Funds -- some people will just take the cash and they will want to spread it out to the others, so I don't think it will matter.

Q: Today you talked about some mistakes and you also talked about some investments that you exited a bit too early. So from an investor's perspective, which do you struggle with more and how does it affect your thinking process or making decisions on your investments?

A: I think that the number one skill set that one needs to have as an investor is patience. It's the most important skill above all other skills. In general you are usually better off taking no action over long periods of time. Whenever I look back what I always find is that selling early has been an issue and I've tried to balance against that. One issue that we run into is that sometimes when you are looking at a very compelling opportunity but there's no cash, then you need to do something if you want to take advantage of that opportunity. Sometimes that drives it and we make mistakes. For example, I didn't have to sell a million shares of Ferrari to meet redemptions and I only had to sell a smaller amount. I know that a portion of Ferrari was sold to buy Southwest Airlines and to buy some stocks in India. Neither of these investments has done as well as Ferrari. When I was selling Ferrari it was trading at north of 20 times earnings and I was buying Southwest Airlines at six times earnings. In my mind that swap made all the sense in the world but even though Southwest is a great company run by great people, it has dynamics that are quite different than Ferrari. Ferrari has no competition and it lives in a universe of its own. It's a very unique asset and I didn't appreciate that. I would guess that Ferrari will continue to outpace a company like Southwest even though it's done well. The good news about this business is that we can be sloppy and make a lot of mistakes but we still look good. We don't have to get everything right, and I will probably keep making these dumb moves even though I try to learn to do less. I think that the big lesson is the less movement there is in the portfolio in general, the better it is.

Q: I have a couple of questions. One on the India Fund. On the India Fund you said that a third will be invested elsewhere. Does that mean internationally or is it US restricted?

A: I've always had an aversion to these specialist funds. If you had asked me this a few years ago, I have always thought these specialist funds made no sense because it boxes you in, but here I am doing a specialist fund. The reason I'm doing this is because I see the India story playing out over a long period of time, maybe 10 or 20 years. I wanted to leave myself an escape hatch and thought if I should find other opportunities in other geographies I didn't want the India Fund

to not be able to take advantage. If we find things outside of India that make sense, we want that fund to be able to buy those. At the same time I want enough there to force the attention on India and by having the India Fund it will force me to pay more attention and that is what I'm looking to do.

Q: My other question, you said that the size of the fund now is about $10 million.

A: Well, I don't really know right now and we'll know on October 1st when the money comes in. One thing I have learnt is that there is a lot of slippage between cup and lip. People always tell me that they're investing, but then the money comes in ten years after that.

Q: What is the minimum?

A: The minimum is $1 million.

Q: As an owner, manager, or as a CEO, how do you allocate your time and do what is needed to be done in such an exemplary fashion, and how has your thinking changed over the last 18 years since you started till now?

A: If you asked my wife and daughters this question they would say he just sleeps and does nothing. There isn't much activity coming out of me but my life is actually pretty simple. I rarely have team meetings or staff meetings. My assistant will ask me once in a while if we can meet now as a group and talk because it's been seven months since we last talked about what's been happening, so we'll have a staff meeting at lunch to catch up. My job description for what I do is reading and that's really what it boils down to. I enjoy reading as an activity because it's a lot of fun figuring out these businesses and especially the ones in India. I have made four trips so far to India and it's been a great experience. I have met incredible operators and managers who are very driven and smart. Of course we have met a few frauds and others who are not so good as well, but the experience has been great. In terms of the activities, they are very simple and you can just read and scan the horizon with the objective of not doing anything and then every once in a while seven moons line up and then you can do something. One thing I learnt many years ago while running an IT company with 200 employees is that I like my life a lot better now than when I ran that company because I was constantly spending my day on HR problems. The whole day was just HR issues with people. The good news with the fund business is there are no people and hence there are no problems and so I don't have any HR issues to deal with.

Q: Can you discuss your approach to your own time allocation?

A: I learned a lot from Warren about time allocation. Some of you may have seen the video on Warren where he pulls out his calendar and he will show you there is nothing on his schedule for the next several months. Considering he has more than 80 CEO's reporting to him and a huge amount of capital, he runs a schedule with nothing on it because he wants control over his time

so that he has time to read. What I learned is to be good at saying "no" and also be good at declining, which I have become really good at and it opens up my day. In a typical day, week or month, I hardly have anything on my calendar. This allows me flexibility on what to read or where to go. Not much has changed for me over the last 18 years, but one thing is that I can get to conclusions and decisions a little faster because I've seen some patterns so I don't go into as many rabbit holes.

Q: I have two questions, my first is I'd like to know if you still use the checklist to buy and sell stocks? In the annual report every year there is a line about the fund may close and you may terminate it on October 1st 2020. For so many years 2020 seemed a long time away but it's getting closer now.

A: I don't know why the lawyer placed that in there, but what we will do before that date is make sure that it disappears. I don't know if there was some statute at the time that required a date, but I don't think that's required. There are no plans to close or terminate the fund and so that date is not meaningful. As for the checklist, I use it for every investment and it's very useful. The biggest value the checklist adds is that it highlights what I have not thought about. The first time I run it, it usually brings up questions that I cannot answer. When I think I've done my research it tells me I'm not done yet and I need to answer these questions.

Q: It sounds like you have a very mellow lifestyle - you read, nap and you aren't flying all over the country doing diligence on American companies. I was wondering why you are going to India every seven weeks?

A: India is a different situation and you can't do it by remote control or as an armchair investor. The Indian companies, even the large ones, are really poor at describing their business and the way they communicate. They are not trying to hide anything but they just haven't been coached into writing good letters or presenting in a manner that investors can figure out what's going on. A lot of the businesses are family controlled which is great because then you have vested interests. With the Indian companies I don't think I would have been able to figure out the companies we invested in by just reading. I have never lost money investing in the US because of fraud, but I have lost a lot of money because of my stupidity and not because someone engaged in fraudulent behavior. In India this is not the case. There are still a lot of companies that are publicly traded and one big difference is almost all US public companies have big four audits. There are very few Indian companies that have big four audits. Many times the auditor may be in a firm that has four people so you don't have the same degree of checks and balances that you have in the US market. One of my friends in India has a list of fraudulent auditors. He knows which companies are frauds by looking at who the auditor is. We don't do that here and just assume that the numbers are correct. We have had some companies like Enron, but it's very rare. It is unlikely that an investor in the US will lose money because of an accounting fraud, whereas that would be much more common in India.

Q: Are these small cap stocks you are looking at or are they illiquid?

A: No, some are well over a billion and maybe even two or three billion. Some are very illiquid and I'm not particular about the company having to be a certain size. In fact the best opportunities are those well under a billion, say a few $100 million or even below that because that's when you have large runways. There's a mix in our portfolio and we have some businesses which are multibillion dollar market caps and we have some that are very small. We don't have many businesses which are less than a $100 million market cap.

Q: With your investments in the automotive businesses (GM, Fiat Chrysler and Ferrari) going through a lot of change with the autonomous driving and electric vehicles, how fast is that change coming and when will we see autonomous cars? Secondly, what does it do to the value of these businesses, particularly GM and Fiat Chrysler and any ancillary impact on oil because of electric?

A: Our exposure in autos is down considerably because we no longer have GM. I don't consider Ferrari an auto business because it's a different type of business that happens to make automobiles. If you look at Fiat Chrysler, I don't think the Agnelli Family long term is going to own mass market cars. They will figure out a way to monetize these assets and move on in a way which I'm confident will happen when the chips are in their favor. As they said, I believe that Maserati and Alpha will be spun out in two or three years. The entire Alpha, Maserati line and especially the Maserati line is going to get electrified. Jeep and Ram may also get spun out and I think that Jeep alone might be in the $30-$40 billion market cap if it becomes a separate company. My perspective on Fiat is just be long as long as two things are happening - the Agnelli's own it and Sergio runs it. We have a very gifted manager and a benevolent owner and will just let that be.

The self-driving cars isn't going to happen anytime in the timeframes that we own these companies. I was surprised when I heard recently that Waymo at Google has reached the conclusion that self-driving trucks is a better way to go than self-driving cars. For example, Anthony Levandowski, the Google engineer who left and went to Uber and then he formed a company called Otto which basically does self-driving trucks. For example, I can drive a truck to an interstate, leave the truck, program it, let it go across the country on the interstate without a driver and then park itself when it's ready to exit and then another driver at the other end can take it the last mile. I think they can do this today and it's the solution if you want a truck that only drives itself on freeways. The thing about self-driving trucks is that the freeway time can be 50 to 70 hours and the end point is only half an hour. The number of truck drivers in the US is about a million or two million. It's a huge number and I think that we will see self-driving trucks relatively soon.

I believe they are already talking about self-driving tractors and I'm surprised we haven't seen this yet, but self-driving tractors will happen even before self-driving trucks. In fact, I don't

know why they didn't do self-driving tractors ten years ago. You have farms with no humans so we can let it run even if it goes off course and if it does you can fix the software.

One thing that's an indicator is that one of the Google founders, I think it's Sergei, has a project outside of Google for autonomous flying cars. I believe this happened as a way of pushing back their efforts on autonomous. I think that Google internally understood that self-driving cars in a human dominated world on the roads is a pipedream because there are too many variations going on. For self-driving cars if the roads aren't brightly marked in white then there will be a problem. There are so many roads in the country that have fading marks, or if there's snow on the road and you can't see any of the lanes. These are some of the issues that become a problem for self-driving. Of course there's also the assumption we want as humans -- we don't think it's acceptable for self-driving cars to kill 40,000 humans a year, but we think it's acceptable for humans to kill 40,000 humans a year. The moment the first self-driving car kills a human it'll be all over the front page, but how many times does a human killing a human show up on the front page which happens a hundred times every day.

So I think there are a number of regulatory issues and psychological issues. I don't think the end to end technology for me to get into the backseat of a car which has no human in the front and telling it to take me to a destination is going to happen for at least ten or twenty years and it's a long ways off. What will happen is that they will be able to do it on campuses or in some controlled environments but I think they will get a lot more bang for the buck on the trucks. The driver assisted technologies will take a huge leap forward and it'll help bring down the fatality rates and we are already seeing that now in cruise automation for Cadillacs. When I look at things from the vantage point of owning Fiat, Sergio has taken a perspective that he doesn't want to recreate the wheel. He will partner with Waymo and be able to keep their brands and sell into the autonomous crowd whenever that happens. I don't think in our finite timeframe of ownership of these assets that we'll see anything that distorts it and that's the best I can see.

Q: You mentioned with the India Fund that you are expecting the exchange rate would move in our favor. I was just wondering if you could share your thoughts on that a little bit more as to why that might be.

A: I don't have many good thoughts to share there, and I don't have many strong ideas about why that would happen because I don't spend a lot of time thinking about it. I would just say that if you were to put a gun to my head and say "over or under", I would say that the rupee gets stronger rather than weaker. In general the reason for that is because the dollar has gone too far in one direction. I can see that India will bring its inflation down as they become more productive and the currency will adjust accordingly, but I'm not making bets on that. I would say that our India efforts would work even if the currency went the other way or we had 10 to 15% movement in the other direction and I think we would still be okay. So I would not take my comments and go along with the rupee because I'm not doing that.

Q: I was just wondering if you had some secret I didn't know.

A: No, in general I would just say that it would be dumb of us to hedge the rupee against the dollar and I think we would pay a lot for that and it would go the other way.

Q: In one of your videos, I think you were talking to the people at Google and one of the gentlemen asked you what your most valuable lesson was over the last 10 or 15 years and you said that you wish you held on compounders longer than what you did. I know that you would sell once they reach intrinsic value, but now if you held them longer, how would you value them after they reach the intrinsic value point? What type of thinking would you use from that moment on?

A: My answer is that there is no thinking. Let's say we take a company like Google and you can come to some calculation that tells you its fully priced. Google is the type of company that has high returns on the capital, and has so many things in the works that it's probably best not to outguess them -- they themselves probably don't know where they will be in 10 or 20 years. So my answer is it's not 80% of the fund and I believe our Google position is a $40 to $50 million position and we'll just keep it there and not worry about it.

There's a very good friend of Guy's, Nick Sleep, who sleeps more than me and he spends all his time biking and sleeping. Nick Sleep's portfolio has three companies that make up 90% of the portfolio. The companies are Amazon, Costco and Berkshire Hathaway. I think his fund had over a billion in assets and he told his investors, "Dear Investors, I have these three investments, I'm never going to change these three investments, you are stupid to pay me fees because you can go buy these three companies and since you are stupid enough to send me the money and not take it back, I'm returning all your capital, so can you please buy these companies on your own and stop paying me because I just want to bike all the time and not send you letters". He and his partner did this and returned all the capital which was about a billion dollars. They made about a few hundred million holding these companies and then he went off biking and doing other crazy things. I don't think Nick has changed anything in his portfolio and he still has Amazon, Costco and Berkshire and probably will for next 20 years. He has a way of looking at these compounders which is above my pay grade. He tried to explain it to Guy and myself and his way of looking at it is very smart. During a conversation with him three or four years ago, I said to him that life has been really good to you, Amazon has done really well and it's at 50 times earnings and now is the time to sell. I was trying to get him interested in some Japanese net-nets and his response to me was, "Mohnish, I'm too dumb to buy those Japanese net-nets and too dumb to sell Amazon, so warm regards". The way that Nick looks at Amazon, he says to do an adjustment and assume the company never grows. For example, say you are Jeff Bezos and you decide that you're done with growth and I want to keep my sales exactly where they are and then ask yourself the question how much can he raise prices so that growth is zero? Now you have a company that is not growing or making money and you can do a DCF on that and can figure out what that money is. So how many of you in the room are Amazon customers, raise your hands?

How many of you comparison shop when you buy on Amazon, raise your hands? We've got a couple of comparison shoppers in the room. So Bezos can raise prices on you and you would be clueless and he would probably still keep growing after raising prices. So the question, is how much can he raise that price before you say I'm done with Amazon?

I own Google and I don't own Amazon. Google has something called Google Express and it's similar to Amazon. I went to the Google Express website because if I owned the stock I should buy from Google and not Amazon. I found that Google Express was terrible. How many of you have used Google Express? Okay, we have a couple of brave souls who bought from them. I called my friends at Google and asked who the idiot that runs Google Express is because next week I'm visiting the Google campus and I would like to set up a meeting and explain to him a few things about cloning. I'd like to tell him to look at Amazon.com and just clone the stupid thing and don't try to innovate, that's all you need to do. Now we have Bezos who has no competition. He could raise prices and sales would probably not decline, but at some point they might decline. If you were to do a DCF under these assumptions according to Nick it would be super cheap. This is why Nick spends all his time sleeping and biking and isn't concerned about anything. The issue with the compounders is that this is the nature of capitalism and entrepreneurs. A few of them will get most of the spoils and if you're lucky enough to be a partner with them, it's probably not a good idea to exit when it's "fully priced". I made this mistake with Sergio and Ferrari, thinking that he is going to make the twenty times earnings become five times earning in three years because of what he does. What I said in the Google talk was don't sell the compounders when they are fully priced and not sell the compounders when they are overpriced, but sell them when they are egregiously priced and when you figure out what egregious pricing is call me and let me know.

Q: I have a question on asset allocation. What asset allocation strategy are you looking to employ for the India fund? Will it be the same as Pabrai Funds or will it be different and what do you think is the most optimal asset allocation strategy?

A: I don't know what's optimal but I'll do what I've always done which is basically try and make a 10% bet. Sometimes we might make a 5% bet or do a basket and make it 2%, but I will try and have the India fund have ten positions that make up 80% of the fund. I don't know whether that's optimal but that's comfortable and we will kind of take it from there.

Q: The highest would be 10% in any given asset?

A: Yes, I have never invested more than 10% on assets, but they have grown to be larger. I have also never cut any assets because they have become larger and we'll just let that go as we keep going and then take it from there.

Q: You seem to have a fair amount in AerCap but you haven't really touched on that very much today. Could you talk a little bit about what interests you there?

A: I really don't like to talk much about what we own. We like to talk about them after we have sold to avoid being in the stock tip business. AerCap is a very well managed business that does aircraft leasing. They are an oligopoly with GE and Air Lease and they have most of the market. The cost of capital for most airlines is very high. For them to buy aircrafts on their own it doesn't make a lot of sense because they usually don't have the financial wherewithal to get great financing. AerCap plays an essential role as the middleman on that front. You need people like AerCap in the middle and you also need people with scale. It's a business that naturally scales up and once you have scaled up then the competitors have a hard time. I think it does well for a long time, but we will talk more about AerCap after we don't own it.

Q: As a PIF1 investor I just wanted to start by saying thank you and it's been a great ride. You like to talk about your mistakes, so I'm going to give you another opportunity. With Stonetrust you shared a couple of facts tonight that got my attention. You have installed new management that we are very happy with. We have cleaned up the balance sheet, we have done away with marginal underwriting, focused on more profitable business and we are selling it at a 20% discount to what we have paid for it. Can you offer some insight as to what changed with the valuation from how you looked at it as a purchase to how you are looking at it as a sale?

A: Thank you for riding the ups and downs as a PIF1 investor. In regards to Stonetrust, this is a difficult conversation for me to have with the management in the room but since I'm a transparent guy I will go ahead anyway. Warren Buffett has a quote that says, "Should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks". There is no question about the fact that the core insurance business is a tough business and even the management at Stonetrust is under no illusions on that front. They had a good team who was very much focused and they did a good job with the hand they had been dealt. At a high level this is a challenging business. We are improving the business so that the economics and the rates get better, but the thing is that you cannot be smarter than your dumbest competitor. Everyday Mike sees other companies writing policies at numbers that make no sense to him. When they see this their choice is to just walk away and they do. When a large number of companies go to them they will give them quotes but they don't get bound because someone else offers them a much lower price. This isn't a good business when you're facing this type of a situation day in and day out. The core insurance business will always be a difficult business. It's not easy to get high returns of 80% or 90% combined ratios and it's difficult to do. The only way that you can really make money in the business is to get it down to a 95% combined ratio so that you make some money on the underwriting and then do really well on the investing, but that can be very limited.

For example, most regulators look at foreign stocks with a jaundiced eye and there are a lot of restrictions on owning them. There are a lot of restrictions on how concentrated or diversified you have to be. There are a number of rules and all of these rules in my opinion make all the sense in the world. We have these restrictions on the investment side but we have done really well in spite of those restrictions. We also have core economics that are not easy and we see a

lot of capital leave the business and serious losses come in to a number of players but not come in to hit us. We need these events that would take away capital from a lot of the insurance players without taking away capital from us and leave us in an environment where we get high returns. This happened with Stonetrust when we entered Oklahoma in 2011. At that time most national carriers were leaving Oklahoma because they had such a bad experience with workers' comp because they changed its laws and made it far more favorable for the insurance companies and the insurance companies didn't react to the change. Stonetrust was able to move quickly and get into the state and start writing. I think we had a 85% combined ratio for several years in Oklahoma from 2011 till about 2017. So right now you are seeing the carriers that left are coming back. What happened during this five or six year period is that if you just looked at Oklahoma and workers comp, it's a great business and that's the nature of it. When you have this shiny object doing really well, everyone and their brother wants to come and have a piece of it. We had great results for a few years and it's getting more competitive but I don't know where it'll be three or five years from now.

The second reason is that the original premise for Dhandho [Holdings] was to have a public vehicle with multiple companies and I just didn't see us being able to generate high returns. Just to give you an example, Pabrai Funds has none of these restrictions and we can put our capital anywhere and do whatever we want. The offshore fund and also the other funds, which are similar is probably up about 55% this year. I'm also managing the Stonetrust portfolio but it's not up 55% and it can't because it's so diversified. I put the most that I could into Fiat and into the best ideas, but even that is small compared to what we could do at Pabrai Funds.

Q: So I understand your rationale for why we are exiting and I applaud you for having the courage to do so. My question was more about why we bought a business for 1.2 times book, spent a bunch of time improving it and are selling it for one times book.

A: It's because we have to sell at what people are willing to pay. We tried and we couldn't find buyers who were interested in 1.2 times book. My take was that I was willing and still willing to exit the business even at a loss. My thinking was that we didn't have to make the money back the same way we lost it -- we can do it another way. Overall when I look at Stonetrust, I look at the entity who will control it in the future and all the constituents, not just that the investors are served very well. It's a very good outcome based on all the dynamics involved.

Q: What stood out in your mind after you were done with the last meeting that you thought you might share with everyone?

A: Honestly I don't recall any of the questions being tough and maybe the grapevine is looking at them differently. We did have one individual who was somewhat irritated, but his questions weren't difficult. He was not in an ideal state. Let's just put it that way.

Q: I admire what you are doing with the India Fund and I was curious if there is any overlap with what you are doing with Dakshana in producing super smart, talented individuals by the

hundreds now in India and if that informs your strategy with how you are finding companies for your India Fund.

A: So far there is no synergy. We did have some synergy between Dakshana and Dhandho which wasn't planned. We had set up an office in India for Dhandho and we had two of our alums – one from IIT Delhi and the other was from IIT Roorkee that joined us. They were both exceptional. That is winding down and they are both landing on their feet. There may be synergy when I look at the list of our alums and the companies they work at. It has crossed my mind that it would be just great scuttlebutt to call them because they are working at a lot of listed companies and they would have a view from a different level which would be great to get. I haven't done that so far but I will probably leverage that at some point. It's not part of a broad big scheme, but if it happens that will be okay.

Q: In terms of the AUM for Dhandho Junoon, what is the AUM now for that? Earlier there was an ETF with one of the funds, can you sort of describe that process and is there possibly going to be an ETF for Dhandho India?

A: We had an ETF. I had never run an ETF for a mutual fund and I have no aspiration to do that ever again. What I discovered is that it's very expensive and convoluted. Anytime you are dealing with the public, which is what ETFs and mutual funds deal with and not high net worth, the SEC and FINRA imposes a whole bunch of rules and restrictions on you and those rules and restrictions make it really expensive to operate. With the ETF we could never get a large amount of assets in it and we had a significant expense base from keeping it alive. It just economically made no sense and it would take a long time to get to the break evens so we decided that we are going to give it a burial and move on. The lesson I learned is that we didn't need to do that.

Q: What's the AUM, the asset under management for Junoon?

A: The Junoon fund is about $10 million and the India Funds will probably launch with $10 or $20 million. The way the economics are, even a fund that has $10 million and does 10% makes a $100,000 a year in management fees. So even at a $10 million level we can almost cover a lot of our internal expenses. Once we get to $20 or $30 million we then get into the black, whereas with an ETF you probably need to get to north of a $100 or $200 million before you break even. I think the fund economics are a lot better in the private fund business, and having run private funds for 18 years, it's a great business.

Q: I'm just curious, how do you sort of figure out where you are going to spend your time and look at companies there in India?

A: Actually I don't have any grand plan for India and it's really simple. I can meet three to five companies a day if they are in the metropolitan areas. My trips are usually about a week long and I can do around 15 to 20 meetings in a week. Quite frankly I don't care what industry they are or what their valuations are -- I just want to learn. For me it's like a HBS case study to go in

there and learn a few things about the business, look at the filings and then spend an hour or two drilling down and trying to understand where management is, where it's going and then coming back and processing it. So far I've found three or four ideas, which is great, and that's way more than what I would have thought. This is the plan and there are hundreds upon hundreds of companies and we'll just keep going and throwing darts and meeting with the folks that want to meet. There is no grand strategy and if I am in a particular geography, I'll try to visit all the companies I can that are available at that time in the area.

Q: Thank you very much for having me. You mentioned Google and Amazon and I was just curious if you have spent any time thinking about companies like Facebook? How do you think about value investing in the next ten years in the light of things such as how traditional businesses use technology and AI and robotics, things of that nature? Do you think that will change the way we should be thinking about looking at businesses and what lies under the hood?

A: In terms of Facebook, I'm a cheapskate. It was never cheap and I probably had a juvenile understanding of the business so that's why we never bought it. It's obviously done really well and will probably continue to do well. I would say that a lot of the things that Facebook does are outside of my competence and certainly the valuations didn't make it easy to get in. I was lucky with Google when there was a point in time where it was actually not expensive, so it was easy to get past a number of basic objections on valuation that I have to most of the FAA.

With a lot of these businesses like Facebook, and especially the ones in China, the valuations appear full or overfull and then the understanding isn't that great. One of the things I learned is that the most important thing besides patience is to stay within the circle of competence. You really have to stay within your wheelhouse and that you really understand and not venture too far from there. In terms of the changes you highlight, anything that changes the status quo is a negative for investors because it shifts the field. In general, changes of that sort are a negative for incumbents. To the extent that we invested in incumbents, if the changes are significant enough then you are going to have issues. Someone asked Charlie Munger what he thought about American Express and his answer was that it was a cinch 20 years ago to invest in American Express, but it's no longer a cinch today. It's likely that it will do well five, ten or twenty years from now, but it's not a sure bet. There could be others who come along and erode the moat. I think that anytime you have these sorts of things coming in, like we talked about self-driving trucks. If we actually get to self-driving trucks, then how would the incumbent truck manufacturers fare in that world? We also have Tesla trying to do the electric truck.

Anytime you are changing the rules of the game, it can be quicksand for the existing players and one has to be careful. What Buffett does is that he tries very hard to look for businesses where there is unlikely to be change for long periods of time and sometimes he is right about it, sometimes he is wrong about it. For example a few years back they bought Pampered Chef, which is multi-level marketing and consultative sales through demos. Pampered Chef did really well in the world when there was information asymmetry -- the knowledgeable consultant doing

the demo knew a lot more. But when you have the internet and Amazon, it makes it really hard to have that, and a business like Pampered Chef has struggled. At the same time Warren Buffett believes that the way we buy and sell cars will not change that much from the traditional car dealerships, which is a different view than Elon Musk has. Buffett has made a bet on traditional car dealers and he has made a bet on traditional home brokers. I think he will probably be okay and they will probably work out, but we don't know what the world looks like 10-20 years from now. The nature of capitalism is that there's going to be change and innovation, which helps consumers. In general it's a net negative for the investor and with knowing that, I try to do the best I can.

Ad: Southwest Airlines

Thank you for coming and I hope you enjoy dinner.

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