Pabrai Investment Funds/Dhandho
2019 Annual Meeting Transcript

Note: This is the transcript of the meetings held in Aliso Viejo (California) and Rosemont (Illinois) on September 7, 2019 and September 14, 2019, respectively. Transcripts of the meetings have been 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/360365619

Welcome and Introduction (Slides 1-5):

We'll go ahead and get started. Thank you very much for taking time off on a nice Saturday afternoon. I know you could be doing many other, maybe more interesting things, but I appreciate you being here.

Pabrai Funds just completed 20 years. When I originally set up the funds it started as a hobby. I had eight friends who I used to give stock tips and they said these stock tips were pretty random. They wanted to have more structure. They wanted me to manage some money for them. And I didn't want to have a situation where there would be any kind of a loss or anything like that. When the original fund was set up, which was PIF1 which doesn't exist now, there was no plan to scale it or anything. It was started with $1 million with eight investors. And I guaranteed the principal and I guaranteed them 6% a year. I just wanted to make sure that no matter what happened they would be fine. And then about a year later, the fund was up like 70%. And we had about two and a half million in the fund. And that's when I decided I should not treat it like a hobby. I should make it like a real business and scale it. Because it was fun -- I liked it.

I went back to the investors. I said, look I need to make an amendment where we need to remove the principal guarantee and remove the 6% annualized guarantee. They said no, we like that. I said I can't add more funds if I have that hanging over. They said we don't want any amendments -- this is a good thing. What I did is I started PIF2 and I told them that PIF1 is going to close in the next three months. It's not going to exist anymore. There's a new fund which doesn't have any guarantee. Everything else is the same. They all came into the new fund, so we got them there finally, which is why there's a PIF2 and no PIF1.

Anyway. I have a lot of slides today, but I won't read through them because that gets too boring. And you guys can look at them later. The first thing I'm going to play is a video and it will test your knowledge of the star-spangled banner.

We'll follow our usual format. I'll talk about Pabrai Funds, then I'll talk about Dhandho Holdings and Dhandho Funds, and then Q&A, which is the favorite part for me.

This slide is our compliance guy saying hello.

Slides 6-8:

We've had some temporary headwinds. Sergio Marchionne, who was the CEO of Fiat Chrysler, passed away last July. And the stock is down about 16% or so since then. The company has been doing very well. They've been firing on all cylinders. Mike Manley is the new CEO. Sergio was going to leave in 2019 and Mike would have taken over. He just basically took over around nine months or so before he would have. They haven't really missed anything. In fact, the execution has been flawless. They've had perfect launches, in fact better-than-perfect launches. I've always hated the auto business. It has always had headwinds. Fiat Chrysler also has a bunch of tailwinds. But in balance basically our take is that as I've been finding opportunities, we've been trimming our position and we'll keep doing that.

It's been a good run. Every dollar we invested in Fiat Chrysler in 2012, if we held it all the way till today, would be approximately six and a quarter dollars. It's been a good run. And a good amount of that came through Ferrari. Approximately $3 or $4 of that came from Ferrari and the rest has come from Fiat. It's been a pretty good run.

We've also had a significant amount of money in India. In fact, the three funds have had different amounts, ranging from 28% to 68% at the beginning of last year. The Indian small cap index has performed worse than the S&P did in the financial crisis. It's down about 44% since then. And of course, the different funds are down proportionally mainly because of that exposure. But we've got good assets in India. I don't have too much concern. I'm sure some of them may either flat line or we might even lose money. But in aggregate, we’ll do well.

The second largest position we have is in India and that is Rain Industries. We've talked about it before. We bought it in 2015 at about 40 rupees a share. And by 2018, it was about 440 rupees a share. It went up about 11x and in my infinite wisdom I never sold. And then it went all the way down to recently around 88. That's what the stock has done. I'm more interested in the underlying business and the underlying business looks good. I got to know the CEO and managing director and got to know the DNA of the company. At some point in the next one to three years Rain will probably make around 50 rupees a share and it's sitting at 88 rupees. I don't think it'll sit there. We'll do fine with Rain. All of these will basically take care of themselves and will regress back to the mean. And in the portfolio in general we've got some very, very good businesses.

We've recently made some investments in Korea and now a small investment in Turkey. We've also been able to find a few things in the US. Fiat Chrysler isn't really a US company, but it has a big American footprint as does Rain. But now we have two businesses that are listed in the US. They both have global operations. GrafTech and Micron are relatively recent additions.

Slides 9-11:

PIF2 is the oldest fund going back 20 years. Every dollar has turned into about $12 over that time. If you look at PIF2 you see a pattern where we had about eight years from 1999 to 2007 when we did about 29% a year after fees. We had no down years then. And then from 2007-2009 during the financial crisis it was down about two thirds. Then we again had another 10-year period where it did about 24% a year for the last 10 years. And then more recently, which is the last year and a quarter it's down again. The best I can tell things look pretty good. Maybe last quarter or perhaps this quarter might be the bottom.

And one recent change I've made which is more formal is that I used to do all the investment work myself. And now there's two more individuals. Both of them help me part time because they've got other duties. Fahad is here. He is our CFO, but he's also been extremely helpful on the investment side. And the second is Jaya who's not here. Fahad is Harvard undergrad went to Harvard Business School and Jaya is IIT Madras and then went to UCLA for his master's in quantitative finance. They're both extremely good at what they've done and been very helpful. And I am not using them for Blue Sky kind of investment work. It's very, very directed specific drill down on specific names. A lot of work is on stuff that we already own or we are interested in drilling down on and, especially, they both have been very helpful on the endeavors we've had in Korea and Turkey. I'm enjoying it. It's a lot of fun to work with them. You should be aware of that we've got a little bit more horsepower now.

Slides 12-17:

As I said, every PIF2 dollar is about $12 now after fees and every PIF3 dollar is about $5. And then PIF4, which is presently lagging the indices, every dollar is about three and a half dollars or so. If you look at PIF4 we have a similar pattern where for about four years we had about 20% a year. Then we had the financial crisis. And then again, we had a six-year period where we did about 29% a year, then again, a year which wasn't great. And then we had a big year in 16 and 17. And then the last year and a half is down. We are due to move in a different direction.

We always watch our pennies at Pabrai Funds and we have one of the lowest expense ratios amongst hedge funds -- usually single digit basis points. All the funds are between four and seven basis points for expenses. And of course, we have no management fees. We only have performance fees. The frictional costs for investors is pretty low. There's about $580 million under management between the different funds.

Slide 18

Our value proposition at Pabrai Funds is pretty simple in the sense that we have no management fees. If I were collecting management fees it'd be about $11 million a year. My family's the largest investor in the funds, so we're eating our own cooking. Everything is subject to high water marks. Once we go down, we have to come back to the previous high and then 6% annual rise from there. PIF2 went through a 10-year period from 2007 to 2017 where we didn't collect a fee because we had to first come back to normal and then the whole 6% a year. And that was very fair. I got paid a lot in 2007 before the financial crisis and I got paid a lot in 2017. No complaints. It was perfectly fine. And then finally there's no leverage. There's no shorting, there's no derivatives. It's a pretty vanilla long-only portfolio.

Slides 19-23:

I'm going to talk about two different positions that we've exited. One of those is our only company we've invested in in quite a while in China -- Moutai. Moutai is the most valuable liquor company in the world. It's kind of a funny investment for me because I don't drink.

When I visited Moutai headquarters in the middle of nowhere in China, I went with Guy Spier and my daughter. At the end of the tour and visit to the facilities we had dinner in Moutai's state dining room. Guy told them that we don't want to offend you, but could you get my friend Mohnish a diet Coke or a Coke? And they said they're only two liquids served here: water and Moutai. I had to pretend like I'm really enjoying it, but it's like drinking gasoline. Anyway, 50% of all the liquor sold in the world over $150 a bottle is Moutai. I saw them making the bottle that sells for $150 or $170 at their plant and I don't think the cost is more than $5. 85% of the Moutai sold in the world is counterfeit. They've got very severe restrictions because of the way they produce it in terms of the volume they can produce. The demand significantly outstrips supply. I have not found a business on the planet with a wider or deeper moat than Moutai.

It's quite incredible, because this company goes back 2000 years, but they've got inventory going back more than 100 years. When they come out with a new batch of Moutai, they've mixed a number of previous decades of Moutai in with the current one to get the right blend. People have tried for decades and centuries to clone it or replicate it buy they're not able to do that. The brand has very strong dominance in Chinese minds. Sometimes they'll come out with a limited run, $40,000 a bottle. It's gone in an hour. It's really quite incredible.

Moutai is a company which can have its earnings be whatever they want it to be. It's a pretty amazing business. And anyway, we had a good run. In fact, I had planned to, which is very hard for someone like me, basically just never sell it. Because that's what you do with these great businesses is never sell them, but then, there's the value investor in me. You see ridiculous multiples and then you see things at two times earnings and you're looking for what to sell and course, I'm Mohnish and I'm an alcoholic and so Moutai got sold. At some point in my evolution as an investor I will learn not to sell these phenomenal, great businesses, but I'm not there yet. Anyway, we invested about $22 million and we collected about $100 million. And if I had not touched it from then till now, we'd have got $150 million. We got some good return from it. But it was wonderful to own it and to get to know the company.

The governance of the business, because that becomes a big concern in China, has always been extremely good. They've always paid out half the profits as dividends. They've treated outside shareholders really well. It is majority owned by the province and the Chinese government. We flew into Guizhou and then drove to Moutai and in that province a lot of the infrastructure development comes from the Moutai dividends. It's a very important asset for the provincial government.

Slides 24-33:

The other thing I just want to talk about is tax loss selling. We engage in it every year and I've never really talked about it. I want to give you some perspective on what goes on behind the scenes on tax loss selling. I hate tax loss selling because you are taking a chance on a number of things. But in 2018, we had significant realized gains. We had made an investment in Micron on December 3rd and December 4th. We had invested $48 million in Micron in the two taxable funds -- I'm only talking about PIF2 and PIF4 here -- and basically three weeks later it was worth $35 million. Everything we buy goes down in price and just kind of par for the course.

We paid about $38 or $39 a share, which I thought was a great price. And by the 22nd or 23rd of December it was at about $29 a share. I had three choices. One is to do nothing. The second was to sell Micron and then buy it back in 31 days. Or the third was to sell Micron and buy SK Hynix. There are three players in the memory business. Micron is one, Hynix is the second one and then Samsung is the third one. Samsung is not really a pure play, but Hynix and Micron are very similar. I said that there's a good chance that if there is movement in the price of Micron, Hynix would move as well. What we did is we sold the Micron, we bought Hynix and of course after we sold, Micron decided to go up but Hynix went up as well. We ended up achieving the best of the three options between the taxes saved and where we ended. In hindsight we ended up picking the best option. It was $38, $39 a share on December 3rd and December 4th, then it was down to about $29 a share before the year ended. And by the time the 31 days came up, it was again at $38, $39 a share. It went through this quite volatile change in price. And of course, now it's at $50. It worked out fine.

Slides 34-41:

Just a little bit on Fiat Chrysler and what's going on there. Basically, Sergio did a very good job. I mean, one very unusual thing about the car business is that if you look at a company like Ferrari that makes 8,000 cars and they have a market cap approaching $40 billion on 8,000 cars. And in many of the cars they've got 80% margins. It's an incredible business and it makes more money. I mean, it's got a higher valuation than Fiat Chrysler. Fiat Chrysler makes 5 million cars and is valued less than Ferrari is in the market. But again, one of the interesting things about the car business is that if you have a car company that just makes 100,000 cars, let's say some luxury brand, and they make let's say $10,000 a car, that's $1 billion a year. One of the things Sergio did was he took the 5 million cars that Fiat made and he got rid of all the me-too cars.

They killed all kinds of products and cars that were commodity sedans, $2,000 margin cars, $1,000 margin cars, that types of margins. He just got rid of all of them. What Fiat Chrysler ended up with is really a great footprint. Jeep is now close to 2 million units a year. They're selling them on every continent. They're producing them on nearly every continent. It's gone from just a US-centric production and sales model to a global franchise. They recently introduced the Gladiator, for example, and on Gladiator alone they'll have something like 50,000 additional units. And I told you that the 100,000 units gives you a billion so this will give them $500 million a year incremental. Just the Gladiator business alone probably adds about $5 billion to the value of Fiat Chrysler in incremental sales. And the car is selling -- they can't keep up -- it's selling about $10,000 over list at some dealerships. They've executed well on that front. Out of the five million, two million a Jeep and close to a million is Ram and Ram professional, which again have got similar profiles to the Jeep. And then they've got their luxury, like Maserati Alpha and so on, which they have yet to get cranking but they're working on those.

The execution has been really good. Even post Sergio, they are following that plan quite well. But I also see that there are plenty of headwinds in the business. Jeep used to be a situation where in 2009, one in 23 SUV’s sold was a Jeep and by 2018 it's one in 17. They want to take it to one in 12 in the next three or four years. And they aspire at some point to get to one in five. It's a strong brand and they're nurturing it well.

I have another commercial for you. I hope you enjoy this one too.

Even on the Ram side, they've done really well. In fact, one thing that would have been unthinkable a few years ago is FCA is now number two in pickup trucks. They blew past Chevy -- they were a distant third. The execution on the Ram heavy duty is another business probably worth $4 or $5 billion because of the incremental sales they're taking. They've done a great job both on the 1500 and the super heavy duty. These are very protected markets. There is a 25% import tax. This business is a very, very nice business for Fiat Chrysler.

Slide 42:

If you look at our portfolio in mid-August, it's about 44% India. That's a little bit misleading because one of the large positions is Rain and most of its footprint is in Europe and the US. They have hardly got anything in India. The US is about 23%, Fiat is about 17% and then about 14% South Korea and other/cash is about 2%. Fiat Chrysler will keep going down as we find other stuff to buy.

We've got a very good portfolio. Most of the portfolio is companies with some pretty significant moats. And that's the general direction things are moving in. I don't have to do anything. If we just sat on what we had for a while we would do quite well.

Slides 43-46:

I'm going to give an update on Dhandho. Dhandho Holdings was a mistake. We had raised about $150 million. We have returned about $90 million, so about 60% of the capital has been returned. We sold Stonetrust to Francis Chou. I met Francis this morning and right now he is at a Cubs game. He may show up during dinner time. But it's been a wonderful sale. He's been a wonderful buyer. We haven't had any issues. It's worked out very well. And given that we made a mistake buying the insurance company and we were able to sell it at slightly above cost. That's really good on a mistake. It looks like we are on track to return the capital. We’ll get probably the entire $150 million back in the next two or three years, but 60% is already back, probably another 10 or 20% comes back in January.

And in the meanwhile, what we've done is we've created a new business, which is Dhandho Funds which is owned by the owners of Dhandho Holdings. Once we return the capital, we've got this not-so-embryonic business now. Dhandho Funds has got about a hundred million or so in assets and that is growing. Things look pretty good and we've also been giving the option to investors to fully exit. We've done two distributions so far and each time we gave people who wanted to be completely out an option to do that. And some people have taken us up on that. Insiders like myself, Fahad, Jaya and so on, we own approximately one fourth of Dhandho

Holdings. None of us have been selling any of our units inside. We've been net buyers. And if I were you, if you're a Dhandho Holdings investor, I would not sell. You'll get your money back and then you have this stub. Just sit on the stub and it'll have some value over time.

The investment management business is one of the best businesses. I mean, I've had a front row seat on it for two decades. It takes no capital, it can generate very high returns. If we can scale Dhandho Holdings at some point too, let's say for example, $1 billion or so in assets, it would have some real value, maybe $50 million, $100 million, something like that, it would revert something significant. That's what I would suggest if you own the units, just as you get cashed out that's fine just keep them.

Slides 47-49:

We launched the India Zero Fee Funds in October 2017. I already told you from January 2018 until now, the index is down 44%. Timing, like usual, was awesome. We just went straight down after we started. The funds haven't done as badly as the index. We're down about 28%. But we got to buy because there was so much dislocation. We've gotten to buy some good assets at sizable discounts to intrinsic value. The India Funds will do quite well over time. They are allowed to have up to one third of the funds outside India. It's about two-third/one-third. The India Funds have approximately $80 million of capital.

Slides 50-52:

The Junoon Zero Fee Funds are on autopilot. It's a quantitative product. We've got about $21 million in it. It has three strategies, cannibals, cloned ideas and spinoffs and it's a 22-stock portfolio and about one third of the time it lacks the S&P in our back tests. And over time it beats it. The funds are up, but they are behind the S&P. Just the last few years have been a very strong period for the S&P. Funds are up about 8% a year. The S&P is about 14%. But again, it'll catch up in due course.

Slides 53-55:

This is the team in Southern California, Fahad is here with me, Jaya is in the picture. And then we have four wonderful lead ladies who work for us. They are all part time and they are great -- Betsy, Jennifer, Valerie and Julie. It's great to work with them. And some of the folks are here. We have Ajay from UBS with his team here and then we've got a few folks from Liccar. We've got Mike and Vishal, and then we've got Bob Sempsey. Bob was also with us on the California bike ride. And we've got Mike Froy, Mike's here from Denton's. It's a good team. And then we've got Vinay from Kotak. He is based in New York and they're our India broker and custodian. It has been great to work with them. I invested in Kotak for the first time as an individual in '95. And in my infinite wisdom I sold in 2000, I didn't need to, I don't want to think about how much I left. I don't know, 250X or something since then. Such is life. One should always just buy the stuff that's with the vendors that we use. Peter Lynch suggested that approach was likely to work well.

Q&A

That's pretty much the song and dance. We'll open up for questions and that's what I look forward to the most in these meetings. Just tell us your name, where you're from and then your question.

Q: Hi, I am Nielsen Fields from San Clemente. I was wondering if you could touch on your postmortem on Southwest Airlines. Maybe you sold a year or two ago. Kind of realize what the investment thesis was going in but haven't really heard much or read much about the thesis for selling the name. Thanks.

A: I talked about the fact that amongst all the, I would say even globally amongst all airlines they are extremely unusual in the sense that all their full-service competitors at different times try to go up head to head against them. Setting up low cost operations. You know, United used to have Ted, Delta used to have Song and without much fanfare, they all shut their low-cost operations because they couldn't make it work against Southwest. Peter Drucker used to say that culture eats strategy for breakfast. Almost everyone in the room probably has flown Southwest many times. They have a very unusual culture on many different fronts. I don't think that culture is able to be cloned by pretty much any other US airline. You see pilots cleaning up the plane after it lands. You just don't see that in airlines. Herb Kelleher designed an incredible airline. In fact, the economics are that if you'd bought Southwest at the IPO in the 70s, you'd have done better than Berkshire Hathaway. It's an airline, so it's a pretty remarkable experience. The only one that never went bankrupt.

I was looking at a pretty undervalued bunch of airlines and I picked Southwest amongst them. And then the funny thing was that a quarter later it came out that Warren had bought a bunch of airlines. Not that I told him to, but it was good to see that. But airlines have gone through some transformation because the number of carriers has dropped substantially. In the case of Berkshire, I think he didn't go into Southwest but he would have, if he could. He knew Herb Kelleher really well. Probably would be their preferred bet is my guess. Everything was good to like in terms of the valuations, etc. We had a decent return on that investment over a relatively short period of time. And I forget which investment showed up on the radar, but the swap looked pretty good. And in hindsight we lucked out because since then some of these companies that, these have hit some temporary headwinds. But it's a very good business. It's very well run. Even if you look at their credit card business that they have with Chase it's really exceptional. I think Delta just got paid $5 billion by Amex for the miles. Quite remarkable. Overall it's a very good business. When I look at the things we own today, it doesn't rise up to the top of the list.

Q: Hi, I'm Alex from Irvine, I wanted to get your opinion on, I've always felt that India had more of a socialist type of bend to their economy. Do you see any loosening in regulatory actions or more the business environment in India?

A: That's a great question. I don't think the folks in power have the political capital to make the changes needed. India has a dire need for a lot of structural reform on a number of fronts. The labor front. The minimum support prices, subsidies, etc. There's a lot of distortions in the economy and the government understands quite well what would be utopian. India does not have a socialist government, but it has a socialist legacy. And undoing that legacy is not easy. I'll just give one example, if I were to look at the growing of sugarcane in India, which is a pretty large industry in the north. There's a huge amount of sugarcane farming that takes place. If you made it purely market-driven where all the subsidies are gone, the price controls were gone, all the minimum support prices are gone and there were no import duties on sugar coming in, I don't think India would be producing any sugarcane.

Brazil is vastly more competitive in the production of sugarcane. And you know, this is Adam Smith 101, Ricardo 101. You want countries to focus on what is their competitive advantage. But because there's a legacy of this large base of sugarcane farmers it's political suicide for any political party to try to mess with it. They have minimum support prices they really can't mess with that. They have subsidies on the inputs, power is at zero cost, it's very subsidized and they have import restrictions. Those distortions make India uncompetitive. But if I look at another example, there are a number of industries and different sectors of the economy that, because the government isn't paying attention, they do exercise full free markets and they do get really good. The IT industry in India is an example of that. It just kind of mushroomed out of nothing and the government didn't even understand it. There are no regulations really. There is really no subsidies. There's not much incentive but because India has structural competitive advantages in IT, it grew a lot.

Similarly, more recently shrimp farming took off in a major way in India. There's a state Andhra Pradesh which is optimal in terms of climate, soil, proximity to saline water, all of those kinds of nuances. And Andhra farmers very quickly became experts at shrimp farming, and they moved from rice and other crops to shrimp farming. And they moved from being on bicycles to SUVs very quickly. If you go to Costco, it's not branded that way. Probably 50 plus percent of the shrimp is from India. Thailand used to be the number one country in shrimp farming and exports. Andhra in India went past that. The joke in India is that economy grows at night when the government sleeps, and we see sectors, sector after sector in India which is very competitive, where the government is not involved, but we have a huge legacy that needs. They tried to chip away at it, but they've got plenty of wood to chop on that front.

From our perspective, when I look at India, we try to look at areas or industries with the least amount of distortions and free market capitalism.

Q: Was just curious, if you were meeting with a 20-year-old younger version of yourself and giving, wanted to give them advice about what you would do differently if you were starting today, what would you have done differently or do differently in this environment?

A: Yeah, that's a great question. Well, one lesson that has been very slow for me to learn but I get more and more appreciation for is it's far better to buy a good business at a fair price than a fair business at a good price. I started life as a bargain hunter and I'm still a bargain hunter and I've learned to appreciate that. The transition I've made is I don't want to buy pure bargains that much anymore. I'm more interested in moats that are at bargain prices, but it's probably another level of evolution to be able to buy moats which don't appear to be cheap but may in the end be wonderful. Something like Moutai -- there's a case to be made to never sell it, and when I grow up, I'll get there. If I was talking to my younger self that's what I would tell him is to look for the great businesses. The Holy Grail from my perspective is that because there are 50,000 stocks, the market does give you every so often great moats at great prices.

And someone like me can go there. And that part of it I can deal with. What I'm not good at dealing with is great moats at optically high prices. The optics become an issue. I mean, let's say if I look at a company like Google for example, which we used to own. I think Google can make its earnings whatever it wants it to be. You know, 80, 90% of the products are given away for free. If they wanted another 5 billion in profit in probably an hour, they could figure out how to get that. And almost no other businesses can do that. When you have businesses with those types of characteristics so that's what I would tell my younger self is save yourself some time and energy, you know, go after the great moats. But I would still tell him don't pay up.

Q: Hi, I'm Pranchir, I'm from San Diego. And maybe last question was a good segue for my question. What I wanted to understand is how do you value growth? So, if there are two companies, the first one is trading at P/E of 5 but not growing and the other one is trading at P/E of 20, but growing at 25%, which one do you think is undervalued and how would you…?

A: You go for the second one, you don't need to think about that too much.

Q: But how do you go about the valuing the growth company?

A: The P/E of 5. The key is to buy growing pies not discounted pies. I bought plenty of discounted pies in the past. And of course, the Holy Grail is you get a growing pie at a great price, you know, a growing pie at a P/E of five. We had some of that in Moutai because at that time when we were buying it they were clamping down very heavily on corruption. The price dropped a lot because Moutai is very heavily consumed by people in government getting entertained before giving contracts. It became in China that if there was a government official meeting, someone for lunch or dinner and Moutai was on the table, somebody would take a picture and that was the end of the guy's career. The government didn't even care to understand anything more. They said, if there's Moutai on the table and you're talking to someone, a non-government guy and related to some contract that's going to be awarded, we know what's happening and so the demand dropped precipitously because of that and the price dropped accordingly.

The P/E of five not growing and P/E of 20, growing, that's a no-brainer, just go for the P/E of 20. But what we want is a P/E of five that's growing.

Q: Hi, this is Noor Kagalwala from far, far away in Aliso Viejo.

A: Did you walk here?

Q: No, I drove because it's far, far away. So, I was wondering if you can talk some about the Indian real estate market and what you see going on over.

A: Yeah. Indian real estate basically there, well it depends. Real estate everywhere you've got to think local. There are pockets of Indian real estate that are severely distressed. I think Noida in the outskirts of Delhi is one example of that. I haven't had that much interest in the real estate market in general. We have investments in two real estate players in India. Both these companies, we bought at tremendous valuations because the valuations collapsed after demonetization because Indian real estate used to have a lot of cash component to transactions and the government took all the cash out of the economy overnight. Specifically looking at the businesses that we have, both those companies have great tailwinds. They are dealing with a slowing economy. They're dealing with overhangs in some cases of too much inventory. But again, in their local because real estate is very local and I mean, if you have apartment building, what really matters is the other apartment buildings within a few blocks. If something is 20 miles away, it's really not that relevant.

In the micro market that these companies operate in they've been very good and they've got great assets. I'm happy with those bets and we'll keep those for some time. Also the real estate business in India with these firms and others is going capital light. 80 to 90% of developers are no longer in business because of all the regulatory changes that came in. A lot of people who used to be developers now simply are landowners and they're not able to develop. They basically want to do joint ventures with developers where they say, okay, I'll give you my land and against that you give me some percentage of the project. And for the developer it's really good because they have to tie up no capital. These are really good for the players that are left standing.

Q: I'm Sy Zilberstein, Newport Beach.

A: I haven't heard you say that very often. Welcome.

Q: Thank you. We're wondering what you think the impact of imports, import duties, tariffs, I'm sorry are on your portfolio?

A: You’re talking about the tariffs in the US?

Q: Yeah.

A: The trade wars have already had very serious impacts on China. For the US it has not made that much difference which is why Trump can play this game. The portfolio overall benefits if the US turns more protectionist. Because, for example, one of our positions, Rain Industries, they're providing raw materials to aluminum manufacturers. If you put import duties on aluminum, we're going to have more aluminum produced in the US which benefits them. I'm seeing at least direct impacts probably are net positive. But if you continue down this path and everyone slows down, then of course you've got macro headwinds that come out of that. So far I haven't seen anything that gives me kind of cause for concern. If you are in China or you’re the Chinese government, it has a much larger impact because the US footprint is a large portion of their GDP. And the Chinese manufacturers have got an advantage because they've got very deeply entrenched supply chains. It's really hard to move that production to other countries easily. But a bunch of stuff is already moved and it'll keep moving and not just by multinationals but also by local Chinese entrepreneurs. The headwinds for China are far worse than the headwinds for us, but China also has the ability to be extremely patient and take a lot of pain.

The US ability to take pain is more restrictive because of our elections.

Q: Dipesh Shah, Silicon Valley, my question is regarding your funds' performance compared with the popular indexes from the inception date. Have you ever done the analysis that how it would have performed if it was DCA (Dollar Cost Averaged) approach that one could easily do with index funds compared to if I had done DCA in Pabrai Funds? And if you have ever done it, what would it in the performance, if not would you consider doing that?

A: Yeah, well we haven't done a DCA on Pabrai Funds. What I do know is the history of Pabrai Funds has been that whenever we've had very strong performance and the funds had been open, a lot of money has come in. And when we've hit bottoms and the funds are open and we really want funds to come in, nothing comes in. For example, April 2009 if you look at the PIF2 it did a 10X from 2009 until 2017 or something. Hardly any money came in 2009. And that would've been a great time. Investor's psychology is that when things don't look so good, they're not really interested in adding funds, but it's not a difficult calculation to do. We've got published NAVs for the entire period. We do have DCF-type stuff going on internally in Pabrai Funds with our internal retirement plan. We have a plan for all our employees, including the part time ones, and every quarter money goes into that plan. And I'm able to see the returns because we can see all the different tranches that went in. Just to give you an example, there was $50,000 went into that plan in April 2009. Total plan assets must be like maybe two and a half million. But just that $50,000 is probably sitting at over $200,000 now.

Q: Hi, my name is Ajay Chowdhery from Bay Area. First Mohnish I want to thank you for being so generous with your time and sharing your thinking about all these investments and how do you think about the world. And particularly, I very much admire the work that you've been doing for Dakshana in India. And so, thank you for that.

A: Well, Colonel does the work, I take the bows. He's here today. We can give him some due recognition, so that's great. But go ahead.

Q: The question I have is, as we were talking about China just now how and you obviously have been going across the world whether it's Korea, Turkey and India, and making investments in all these different markets, which are, you know, having pressures for various macro reasons and you're finding opportunities you know, that exciting, more exciting than what you can find here in US. So, from that perspective, I guess, how do you think about China particularly given this tariff war that we were just talking about? I guess taking a step back, do you think on a macro level or long-term, is China a good place to hunt? And if so, does these import tariffs and whatever, is that the implications it's going to have for the Chinese market does that give you opportunities to make investments there?

A: For the most part, China is outside my circle of competence. The joke with the Chinese accounting is that a company has three sets of books, one for the government, one for the wife and one for the mistress. And you don't know which set of books you're looking at. Well the first thing is I just wouldn't even be able to recognize when I'm being defrauded. I would have no ability to even do that. Moutai was an unusual investment because I got a lot of handholding from someone who knows China really well. Korea also has challenges, but those challenges are little bit different. And those are more understandable. What we do have in Korea is we have governance related to intra company transactions, but a lot of that has been cleaned up.

If I can get some comfort about the DNA of the group we are dealing with then it's a starting point. These countries aren't the kind that you can throw darts and pick things. You fish where the fish are. Korea is a tremendous market to fish because the KOSPI has just doubled in 30 years. And if you think about Korea in 1989, basically it doesn't exist, I mean, look at the GDP then and now. It's night and day. But the index has only doubled. It'd be kind of like the Dow being at 6,000 today or 5,000, that'd be the kind of equivalent you'd be looking at. A lot of things are very cheap in Korea. The local population is not interested in the stock market, which is great, which is part of the reason why it's cheap. We also found two ideas in the US so we were able to put a decent amount of money into the US and that's good.

Q: My name is Anthony. I'm from Australia I'm an investor in the international fund. Mohnish, I'd like to express my appreciation and acknowledge the 20 years that you have worked for the fund. I want to ask, am I reading you correctly that you'll be working for another one or two decades with PIF?

A: I hope it's more than that. It's too much fun. As long as the investors give me the privilege of working for them I would love to do that.

Q: Now hearing that, may I ask a few more other questions. Do you have an idea of what the ultimate size of Pabrai Funds will be and given that the Buffett partnership evolved from a partnership into a closed end listed fund, is that a possibility many years down the track?

A: We already tried that once and gave up, we're not going to go do that again. The idea is to keep Pabrai Funds in the same format that it exists today. And in terms of size, it's a function of the opportunity set. The funds are closed because for the most part we have the capital we need. We don't need more capital. If we get to a point where there's more ideas than capital, then we'll open it. But usually at those points, people aren't interested in putting money in. But at this point it's fine to keep it the way it is and I don't know how much bigger the funds will get. But clearly, we've got a couple of throttles. One throttle is to cut off inflows which we've done. The second throttle which we've never done is to force, basically reduce fund size. We haven't done that so far. But it does depend what happens in the future.

Q: One final question with the PIF3, I noticed that yourself and your wife are the two directors. So, I understand you make the sole investment decisions. Can I ask about what are the governance rules around yourself and your wife taking legal responsibility for the international fund?

A: It's Fahad and me who are now the directors. We are both insiders. When you're investing in any of the Pabrai Funds, you're making a bet on the manager. In terms of governance, it's controlled by me because Fahad works for me. I don't think he is voting against me any time soon. And but I don't think we've had any issues along governance pretty much ever. I'm always going to make sure that the investors are getting a fair deal.

Q: Hey, I'm Ravi Dandu from San Diego. All right. Thank you Mohnish for being so generous with your time. My question is about Rain Industries. Can you go into a little more explanation of why you think it has a lot of upside and what the potential there is?

A: Sure. Well we don't want this to be about stock tips, we're not in the stock tip business. But you know, we've owned Rain Industries since 2015 and I thought it was very undervalued at the time. And I thought at the time that there was a decent chance we would probably make about five times our money in the next four or five years with that company, just because of, it was like a public LBO. There was a lot of debt which was was non-recourse, so it couldn't hurt us, but it was likely to play out in a manner that was favorable for the shareholders. And it did. We got an 11X and then we were too dumb to sell. In hindsight, that was a mistake. And now we're down to about a 2X. Rain has gone through a lot of volatility. But the underlying business also went through some stresses and headwinds. They've dealt with those extremely well. The market doesn’t don't like these ad hoc uncertainties that pop up and they won’t get rewarded by the market until they demonstrate that they're out of the woods.

When I bought into the business, I had some understanding of the nature of management. I got to know them a lot better in the last few years. Extremely high-quality management, doing all the right things, earnings are growing. They're building more earnings into that engine. Their redeployment of cash flows is very good. Capital allocation is really good. Governance is really good. We will be rewarded very well for being patient. Rain is at 88 rupees a share, probably in the next two or three years they'll start making 50 rupees a share per year. I don't think it'll be at 88 rupees.

Q: My name is Pawan Agrawal. I'm from Bay Area. I have two questions. The first question is what kind of moat do you see in Micron and when it went down, why did you decide to sell?

A: Well, we sold to capture the tax loss and after 31 days we bought it back. We were not exiting Micron. We sold it all, captured the tax loss and then 31 days later we bought it back. And in the meantime, we replaced it with Hynix. I don't want to go into why we bought it.

Q: What’s the moat that you see?

A: That would answer the question on why…

Q: All right. I'll ask my second question then.

A: I would say that I'd be very happy to talk about Micron when we don't own it. Just defer that question for a few years and then we can talk about it.

Q: And my second question is, what is your typical day like?

A: Well, a typical day the job description is reading. We don't have too many investments that are being made. There's a handful of stocks we'll buy in a year and a handful of stocks we’ll sell in a year -- maybe three to five each year. It takes some time to buy and sell them. I used to do all the trades myself. Now because especially international trades take a little bit more time, I don't do most of those trades. But my job description is reading, which I love to do. We don't have too many meetings and things like that. A good amount of reading is not directly investment-related. And specifically, the last year and a half, two years, it was interesting to do deeper dives into India, Turkey and South Korea. Those were fun activities and I'll continue those because both those markets have good promise in terms of good places to fish.

Q: Hi Mohnish, my name is Luis I'm from Monterrey, Mexico and I have two questions. My first one coming back to the previous one is on average how much time do you spend between the different funds? And my second question is I was recently scanning some of the 13f filing from some of our hedge fund managers value investors like Glenn Greenberg and he recently acquired a significant investment on Berkshire Hathaway and also Bill Ackman. So, knowing you are close to Warren and Charlie, what's your opinion on the grand valuation on Berkshire Hathaway?

A: I'm sorry, what is your first question?

Q: On average how do you split your time between the different funds?

A: I don't think of Pabrai Funds as three funds. I actually think of it as a single pool of capital. And I have to make the buy separately but the way I look at it is that if we have $600 million in Pabrai Funds and we like Micron, I'd like to put $60 million in and ideally want to have 10% of all the funds. Even with the India Funds, we have an offshore and onshore fund. It's a single pool. I just think of it that way. And Warren and Charlie certainly don't share their secrets with me, so I have no special insight into all their thinking. Berkshire is in a very good place because they have a large amount of cash. They have now put two managers overseeing the businesses. GEICO used to be managed by Warren and the Railroad used to be managed by Warren, for example.

Now GEICO is overseen by Ajit Jain and the railroad is overseen by Greg Abel. If you just take an example of those two businesses, GEICO significantly underperforms Progressive on their combined ratio and underwriting and the Railroad is significantly underperforming all the other North American competitors and Warren's mode of operation is not to get involved. He's got the manager, he's picked the manager and he's done. In effect, Berkshire basically is an entity that has always had underperformance by managers and businesses, but they've accepted that. They've accepted that as part of the price of keeping the good managers. Ajit and Greg specifically for the larger businesses like these two -- they're the new sheriff in town. My guess would be if you look at GEICO three years from now, there'll be humming like Progressive. And the same with the Railroad. In both cases you've got very strong guys who are very good managers who will demand much more results than Warren did.

One is that the operations are becoming tighter. And Bill Ackman alluded to that. He alluded to the fact that these guys have come in and the second is that at some point they'll definitely get a chance to put their money to work. You know, the hundred plus billion and that would add some significant earnings power. The company is in good shape. They are patient, they will probably not make a mistake when they put that money to work. And so, it's a good bet. I would agree with Charlie that it's a better bet than the S&P at this time.

Q: Hi Mohnish, my name is Eric Speron I work here in Irvine. Thank you for hosting us. I had a question on Brookfield. I know you're a co-investor with Bruce Flatt who's been an incredible investor in GrafTech. And I just wonder how you think about the IPO of GrafTech the secondary that they eventually pulled. So, if you could just not talk about GrafTech but kind of your co-investor because it's, I'm sure kind of a strange situation to have. Someone you trust probably investing alongside, but he's at the other side, other under the table selling to you. So, I just kind of wondered how you think about the tension.

A: Well, I'll go out on a limb and try to give some data on GrafTech, but please don't think of it as a stock tip. Maybe you won't be interested after I tell you anyway. GrafTech is to me, it's a very interesting case and in fact, if I go back, if I go back to 2004, we made an investment at the time in a steel company called IPSCO. And IPSCO had unusual nuances at the time. The stock was at $45 a share. They had no debt, they had $15 a share in cash, and they had given guidance that the next two years they were going to earn $15 a share in each of the next two years. And that guidance was based on signed contracts with customers. They manufactured tubular steel -- steel used in pipelines etc. You've got some big pipeline that's going to be built they've contracted with IPSCO for next several years to deliver that steel. All the terms are decided and they forward bought the raw material. They had a lock on the profit.

And after two years, there was no visibility into what that business would do. It could even lose money because it's a very cyclical business. When I made the investment in IPSCO, my thinking was I have no idea what the intrinsic value is because who knows what the earnings are from year three to year 10. But I knew that the odds of us losing money were extremely low. I mean, you had to have some force majeure event, plants going down or burning down or something weird happening where they would have some issue. The risk reward was lopsided. And the key was that I couldn't lose money. I was at a floor, which I couldn't go below. And I thought the odds of going below that floor was very low. It was a good bet. We made a 10% bet on IPSCO. They announced that they had one more year of visibility also at $15 a share. Now we were in the money. Basically, we had three years of $15 plus $15 in cash. And when they gave that guidance, the stock went to $90.

I was thinking about what to do and then somebody offered $160 to buy the business and the stock went to 152 and five minutes after that I issued my sell orders. We were done. There are some specific nuances that IPSCO. One is markets hate uncertainty and markets had a lot of certainty about IPSCO for two years and then complete unknown. I mean, if I look at a company like Google, the odds are very low that in year three from now there's no earnings. You know, that's very unlikely outcome Apple, unlikely outcome in this case. Markets hated that uncertainty and they punished the stock as much as they could. If I come to GrafTech, GrafTech is not as good as IPSCO, but there are a lot of similarities. One of the similarities is that you had a market cap, let's say 3 billion and contracted revenues and profits over the next five years is 3 billion. Unlike IPSCO, which was in two years, this is over five years, but you have something IPSCO doesn't have, you have one-third of production, which is on the spot market. IPSCO had no additional production capacity. They were sold out.

This one-third production gives you some kind of variance that could develop. And then the second thing we don't know about what happens after five years, right? After five years is unknown, but the market is pricing GrafTech as if the only thing that they will get is the five years of revenue and cash flows and nothing else. My take is that happy days are here again, you know, IPSCO is back, I would love to always have IPSCO in the portfolio because it's non-correlated with all the other things going on. And it's just like IPSCO I have no idea what the value of GrafTech is because who knows what happens there. Then you get to the governance issue with Brookfield, pimple on a camel’s butt. Completely irrelevant. Can you see a pimple on a camel’s butt? You can't even see it. Let's say Brookfield is a villain, let's say they're horrible people and they're going to screw us every way they can, no problem. We'll get our money back. The IPSCO bet was plan B, we get our money back, plan A, we might make some money.

Plus it's Delaware, unlike Teekay Offshore and all that. I don't think that they can easily, I mean I would say that we bought it at $10 or $11 a share or somewhere around there. I don't think it's in the cards for Brookfield to come in and buy at eight. The stock is at $13 right now. What I think is 99% probability is there is no takeover and the nuances of them selling more stock or buying more stock or whatever else -- I don't care what Brookfield does because I am not delegating investment research to Brookfield. I am doing my own work on GrafTech. Brookfield may have a view on GrafTech which is different from me, but so far with GrafTech they have improved the hell out of the business. They made it a vastly better business. The five-year contracts they're the only ones who do that. Everything Brookfield has done so far with GrafTech hats off to them. I have seen no behavior from Brookfield which gives me any cause for concern. But even if there is cause for concern, it's okay, we'll take our $60 million and go somewhere else no problem. It's okay.

And GrafTech is kind of fun because it's mathematical, you know, we don't have to pick, we don't have to figure out stuff. Some of the other stuff we have to use our brain. This is just, you know, fifth grade math. It works.

Q: Hi Ken Ryan. I live in Laguna Beach. My quick question, what are the two most useful mental models you've developed in the past few years?

A: I will tell you that some of these models don't directly relate to investing. And they can be very elementary. But for example, one model which has helped me a lot is humans don't care what the truth is. They just want the truth. And if you give them the truth, you get huge advantages. Let's take an extreme example. Let's say someone commits murder and they go into court and did deny everything. That's usually what murderers do is they go into court and say not guilty. But let's say some murderer goes into court and says I did it, I am extremely sorry, and he's genuinely very regretful about the whole decision and explains to the court what happened. We as humans have enormous amounts of built-in compassion. The thing is that whatever happens in that case the outcome would be far better than if the guy denied everything. He may get a life sentence instead of a death sentence. He may get parole after some time.

Peter Kaufman said that if humans only knew how much more money you could make by being honest no one would be a crook. Honesty is not just the best policy it is the most lucrative policy. So it's stupid to be dishonest, quite frankly, because you cannot get away with it. We as humans have built in bullshit detectors. And if someone is lying to us, there will be some part of us which can understand that. And on the other hand, if you're always getting the truth, those are the people who want to be around. We want to be around Buddha. We want to be around Christ. We want to be around Warren Buffett. We want to be around Charlie Munger. And one of the reasons we want to be around those people is because we know we get pure truth from those people.

That is a huge attractor for humans and I'll give you one example. I have tested this many times over the last few decades. In 2008-2009 when I was writing my letter to partners and we are down 65%, $600 million of capital down to $200 million, $400 million is gone. I could have written a letter which said that basically the financial crisis is going on, all stocks have dropped, therefore we have dropped, etc. Blame it on the market. I said, yeah, that happened, the financial crisis, valuations have dropped but there are specific mistakes I made which exasperated the situation. I talked about some of the leverage financials that I invested in went to zero. And said, yes, part of it is because of the market. Part of it is just I was stupid and I did these stupid things and I wanted to be forthcoming. And in 2009, I still remember that, everything is crashing and burning. We don't have virtually any emails or calls from anyone. I will say the number of people that called me then doesn't stand out in any way. A lot of investors withdrew money. But they were redeeming everywhere.

I've seen it play out in my personal life -- many different areas are that if you tell the truth you get huge advantages. That's, for example, one mental model that is very strong for me, it's been there for a long time. It's kind of hard to prioritize the mental models because there are so many of them. And they overlay on each other. The important thing with the models is that they tell you that the world works differently than you would think the world works. And that's what gives you an edge. I mean, I would say that for example, the IPSCO, GrafTech model is an example of a mental model because there we are making an investment. We are always told make an investment based on discount to intrinsic value, for example. Both those investments have nothing to do with that.

In both the investments, I don't know what the intrinsic value is. I have no idea. All I know is that we're at a floor and we can't go below the floor very easily. We deviated from core principles. But that model works. If you can protect downside, you don't need to figure out upside. In fact, those will give you the best upside because markets hate them till the upside is clearly visible.

Q: I had a question about volatility, but for, as a follow-up to the question about your day to day life, I mean, if you just, how much time do you spend reading a day versus say telephone calls or meetings? Just on average curious?

A: It varies because sometimes, for example, if I'm writing the annual reports or letters and stuff, so it just depends what's going on. I like to read in the evening and night, so I usually sleep late. I read three newspapers a day, so that's some of the reading. There's stuff going on with the portfolio companies that's also coming in. There are usually some books that are on the radar, so it just depends. And then if there is some investment, I'm looking at then all of that, except the newspapers get pushed aside and then we zoom in. I have virtually no calls or meetings. It's several hours a day.

Q: It's nice though so you can focus.

A: There's not much distraction.

Q: I'm just thinking your thoughts or philosophy on Baupost and you. You guys have both had successful track records, but you have very different views of volatility. And so, I'm curious if you could explain your philosophy on accepting volatility in your portfolio versus say some other value investors.

A: Well, you know, I would like there not to be volatility that we, that'd be a nice place to be but that's not reality. I'm not, not sure how Seth thinks about that, but if you are an investor you can't call yourself that if you are not comfortable with swings. I mean we are in auction driven markets. Auction markets can do all kinds of things and in the near term they can do very strange things and they don't make logical sense. Someone asked me the other day, why don't you leverage GrafTech? Well, even if they're at a floor auction driven markets can do bizarre things. It can take it to $5. It may not make any mathematical sense, but it can do that. For me, the leverage is we've already, you know, the mental model that's hard coded we're not going there. Volatility is something you have to be comfortable as an investor, because when we invest in auction driven markets, everything I invest in goes down.

Q: Hi, Mohnish thank you. Thank you for hosting us. You know, I'm from Oak Park, California. So, my question is essentially twofold. Congratulations on your 20-year career and I was wondering if you could speak to what has been your most successful investment in the 20-year period. And then, you know, how has your investment philosophy evolved over the last 20 years in terms of like, were you initially more running more diversified portfolio and then now you're more concentrated in terms of a number of stocks and then how has you know, just the overall philosophy of all and maybe in terms of checklists, how it has evolved?

A: Sure. I haven't thought about which was the best investment the funds made. I mean we've had six, seven, 10X type things. Before the funds I had two hundred baggers. I keep waiting for the 100 baggers because now we have the money. I guess maybe fate just plays with you. The first 100 bagger was in 1995-2000 where $10,000 became $1.5 million without doing Bitcoin. That was a pretty good. And then we had another one that I put more money in and that became $6 million or $7 million we made out of a pretty small sum. But both happened in the 90s. And there was no Pabrai Funds and even if there were the Pabrai Funds then Pabrai Funds didn't have much capital then. We are ready for the 100 baggers now. You know, that will be a nice but it's unlikely that you get such wide mispricing. Some stuff we bought in Turkey we might get a 10X we'll see. I'm sorry, did you have another question?

Q: I was just asking about the investment philosophy, how it has evolved from a diversified to concentrated or how the checklist has evolved.

A: That has not changed. I used to always be a 10-stock guy way back in 94 or 95 and I'm still like that. That has almost no change. I mean, my ideal situation is that when we make a bet, it's a 10% of assets bet. What I do in my personal portfolio, that is more concentrated. I have no problem taking 80% in one stock. Because then I look at the total allocation. You know, a lot of my funds are sitting in Pabrai Funds, I'm not putting 80% of all the assets in one stock, but I'm willing to do that. The highest conviction bets, I'm happy with a three-stock portfolio personally. If I were to go completely on my own without having Pabrai Funds, I don't think I would have more than four or five stocks. That has changed whereas in a pre-Pabrai Fund era, I was in a 10-stock type universe and it was worse than that because when I had a million, the 100 baggers were a 1% position, that was not good. But we live and learn.

Q: Hi, Colin Dresser from Seattle. I know this is unpredictable, but in regards to fishing where the fish are over your next few decades, do you expect to only find quirky things in the US or do you think it will kind of cyclically come back and be a good fishing pool?

A: Oh, it'll come back.

Q: And then in your personal portfolio, do you ever do cover calls anymore or do you don't think that strategy has legs?

A: I've done some of it. I would say the results are mixed. I'll do little bit here and there, but I would say that probably better for me to just not even go there. If we've got enough upside in the stock then why put a timeline on it.

Q: Thank you.

Q: This is Xing from Huntington Beach. Regarding the GrafTech question. I noticed that they took a lot of long-term debt. I'm wondering if you are concerned about that affecting the cash flow. My second question is related to the Moutai and I saw it, you flip the PowerPoint showing that the reason you sell the Moutai you know, Warren still owns Coke and I think Moutai high still has a long, long way, you know, so there are quite a lot of stocks that has you know, long good returning history. So just want to hear your insight on that. Last question is what books are you writing or what books are you reading these days?

A: Well, I'm not writing anything. Regarding GrafTech, their debt they've got because they've got these contracted revenues, they don't think it's excessive. They've got good coverage vs cash flows. I don't think that's an issue. The second question about Coke and, you know, like I said, I'm Mohnish Pabrai and I'm an alcoholic. What can I say? If you take the Coke example from 2000 to 2016 or something the return results were terrible, like 3% a year or something. Berkshire's situation is a little bit different because they have a lot of cash coming in every month. And if they were to sell the Coke position it would go to 1% returns. You know, they would go straight to cash. I don't think it's the same. I would say that if Warren in 2000 was running just personal money, he'd be in like four stocks. I'm sure Coke would not make his top four in 2000. There are issues that come up with great moats when they get very fully priced.

Though I agree with you that these great moats are so rare that and you know we held Moutai for a long time. Almost a five-year period and we didn't do anything with it for a long time. There's some work to be done there. And in terms of reading, you know what I am enjoying, well, two things one is that Buffett posted all the annual meetings online on Buffett.cnbc.com and every video of every meeting from 1994 till now is posted online, which I never thought they'd do. I use a waterproof Bose Bluetooth speaker in my shower and while I'm shaving and it's about 150 or 160 hours of video. And I went through about 30 minutes a day and I just finished about a month ago many times I would replay stuff. That was incredible. I mean, I learned a lot because I went through every annual meeting and I attended every annual meeting from 98, but still I learned a lot. And if I went back and played it again, I would again learn a lot. The biggest learnings I had in the last I would say 15, 18 months is those videos. Those were great. And then more recently, because I told you I'm an alcoholic, I decided to pick up Phil Fisher's book, Buy and Hold Forever. There's still some hope for me.

Q: Deepak Ahuja from the Bay Area. Looking at the PIF Funds, India is a big allocation or a big high conviction area for you. And just, I'm trying to understand, given the challenges that you see in China with governance and you know, not knowing these companies, I guess, how have you gotten comfortable with, you know, promoters, related party interests or transactions in India and the DNA that surrounds those companies? Maybe you can talk about the process and building your comfort level there.

A: In India, all the investments except Rain which was made before we met management, all of them are made after a lot of kicking of the tires. And one of the main things I was trying to do was make sure that we are not dealing with fraud or governance and those sorts of things. If we have problems in India, those won't be the issues. I'm confident that our portfolio doesn't have frauds because they were pretty well scrubbed. These are some very high-quality management teams, high quality promoters, a lot of skin in the game and good treatment of outside shareholders. In some cases I'm not an activist but I made some suggestions. Like in one case, I think the salary was not high, but it could have been lower. I just told the, the CEO that look, it's dumb to take a high salary because you're better off doing it via a buyback. And if you do it via the buyback, then your tax payment for the same amount because basically when the company does a buyback, you can tender your shares and in effect you're getting the comp that you would've gotten, but the tax you pay would be a lot less.

And he was very appreciative. He said, well, you know Ernst and Young who does my work, they never told me this. And he implemented. I'm not going to twist arms. And if they had not done anything, that would have been fine too. It wasn't egregious. But I have found that a number of the companies we invested in are very willing to listen. When we have something that we bring up or say, they may not change but it's been a good dialogue and we're not ever going to be in their face. You know, that's just not what we do. But I don't have concerns about governance or any of those issues with our holdings. It's a big concern in India, but we have very few holdings and they were scrubbed pretty well for that.

Q: One quick last one. A few years ago, you were talking about checklists maybe you can update us on how these, has it evolved? How are you using it? Is it a dynamic checklist? Is it and has it helped you?

A: The checklist doesn't go through too much change. Every once in a while we added a question or two. But yeah, it's part of the process that I run through before an investment, it's got about 150 questions on it. And its main advantage is that it highlights stuff that I have not thought about that I should have thought about. It forces me. Usually the first time around the checklist I find that there are questions I can’t answer and that means we haven't done the work that we should have done. Then we go back and answer those questions. And that's the big value add of the checklist.

Q: Hello, my name is John. I'm from Las Vegas. And I have a question about dividends and companies that pay dividends and the funds. And it seems to me that in some of the stuff I've read, it looks like the funds don't reinvest dividends in general that it's just goes to cash. And I was wondering if you've got, if that's true, if you've got stocks that are paying dividends and they're at such a good valuation, why not just have, have those reinvested and then compound on top of those?

A: Well, that's what we do. We don't voluntarily send money to investors unless they ask for it. All the dividends coming into, from the holdings we have goes into our cash pool and is used to be invested.

Q: I guess what I mean is why not just reinvest back into the company that's paying the dividends?

A: I'm sorry. You are asking about a company and reinvesting the dividends.

Q: Yeah. Just have the dividend automatically reinvested into the company.

A: Yeah. There are companies that offer that and that's a perfectly fine way to go, but it may be a little bit better to at least think about it. It's kind of like a buyback. The thing is that there are companies that are buying back stock all the time, but at 40 times earnings maybe you shouldn't buy back your stock. If you have three or four positions and one is paying a dividend, it may be that one of the other positions is the better investment. You might be better not doing the reinvestment in the same company. In general, the advantages that it gets invested someplace, it gets invested automatically. You don't have to think about it. That's good. The negative is it may not be the most optimal place to be going at.

Q: My name is Dev Chaudhari from McLean, Virginia suburb of Washington DC. I have a question regarding the Moutai. What was the holding period for Moutai and when was the last position sort of for Moutai?

A: Moutai we bought in 2014 and we very recently sold probably in the last maybe six weeks or something. Like from 2014 to 2019.

Q: Other question is, I know that the Rain Industries have been a pretty sizable holding. What's the near-term goal in the next one, two, three years what kind of prospects are there for it and how does the scenario look at this point looking over next year or two?

A: Yeah. Rain was not a big position for us when we bought it because one of the restrictions, we have in India is we cannot own more than 10% of a company. In 2015, when we invested in Rain, the market cap was about 200 million and the maximum we were allowed to invest was about 20 million. That's all we basically put into the company is about 20 million. That 20 million went to being worth 220 million at the peak. It went up a lot and became a very large portion of the funds because it went up. And the second thing that happened is that the offshore fund PIF3 just because at the time we were investing, it was the one that has the most cash, half of that 20 million, 10 million went from PIF3. PIF3 especially had the most kind of extreme volatility because the 10 million went to 110 million which is always good. But then we had two very large investors in PIF3 fully redeem. And so, when they left, I didn't touch the Rain position I wasn't ready to sell any of it. Rain already was disproportional because of the run and then these investors leaving.

What happened in PIF3 which was kind of a confluence of multiple factors coming together is Fiat Chrysler went up a lot. Rain went up a lot. At one-point PIF3 was like more than 70% in just these two positions. if you looked at it in like January 2018 at that time, Fiat was hitting its all-time highs around $25 a share or so $24 a share. And Rain was also hitting its all-time high. They were both hitting highs at the same time. And since then they are both corrected. Now neither one is a sizable position, which I don't know whether it's good or not but that's the way it is. But the company is in good shape. In hindsight it was a mistake for me not to sell. We did sell some in the 300s, but not very, very much. I'm very impressed with the business. I'm very impressed with the guy running it. They've executed extremely well. And especially when they faced very serious headwinds. Their execution in the face of those headwinds has been really good. I have no concerns. In fact, if I were to look at, let's say my own money, let's say I just have my own money to invest I'd be happy to have one third in Rain. I'd be very happy if I let's say if I was able to let's say 100 million net worth and if I could put 35 million into Rain, I would do that. It'd be one of my three bets.

Q: You have roughly got 44% of the holdings in Indian equities, roughly what are the significant positions out of the 5, 6 holdings that you have and particularly you know the fact that the latest quarter, the economic growth in India was not that great as compared to what has happened over last 5 to 7 years, so, in view of that what are your strategies or plans?

A: All our holdings, the major holdings are in our annual reports and they're all posted online. Because the different funds are different percentages, just go to Pabrai Funds website, pull up the annual report, it has all the audit reports and inside each of the audit reports anything over 5% that a fund owns, we have to give the name. That will give you a picture at the fiscal year end. Regarding the macro picture in India, well, Rain is not really affected by it because their business is really not in India. The other businesses are affected. That will reverse in the sense that the government is already making some changes but also that they have some restrictions in terms of, you know, just wanting to make sure they get, they don't alienate their vote bank and all those sorts of kind of political considerations. There are challenges in India where they need to make reform, but they're not able to. But the India growth story is a good story because the demographics are very favorable.

The negative is that it's coming from a very socialist legacy. The transitions that are taking place towards capitalism are happening, but not at the pace that they should. Overall, India will do fine but we will do okay even if we don't get exuberant growth in India.

Q: Hi, Mohnish. Mike Knipp from Chicago. Last year, and I think the year before you talked about, you talked about your strategy, which is I remember was to wind down the insurance business but to also put a big focus on India where as I remember it, you would go to India every month and a half or so and try and spend a couple of weeks there and see four or five companies a day and try and really get a handle on individual companies that were uncovered in kind of that mid-market and small market space because they had no analyst coverage. And I'm just wondering how you feel that went over the past couple of years and you know, are you continuing to do that? Does it set you up for I mean, if you've been through all the opportunities that you want to in India? I'm just kind of interested in maybe your general plan in that regard if I heard that right.

A: You got all of it right, Mike. I must have either met or visited about 200 businesses in India from 2017 till now. Great education. You know, I've been in the room with some frauds, which is great. It's always good to be face to face with the frauds because they don't have horns growing. But anyway, we haven't invested in any frauds as far as I know. India was a great education because I got to really understand number of different industries, a number of different businesses, different management teams. The one big positive India has is a lot of these companies have very significant insider ownership. It's very typical to find a listed business in India where 50 plus percent is owned by the founding family. Generally speaking, incentives are not a problem. There's plenty of incentive. What has happened historically that governance hasn't been the best, but even that is moving at a pretty rapid way where enlightened entrepreneurs have understood the importance of governance in maximizing their own wealth.

The market will reward you quite significantly if you've got robust governance and a great business. There were some really incredible businesses. I found in some cases we paid up way more than I'm normally willing to because the business quality was so high. And in many cases, there were moats that people couldn't see because even now the companies are not really good at articulating, but we were able to see that. Overall when I look at the portfolio we've got in India today, I'm pretty sure that you know like 10% one third of your bets are not going to go the way you want. I'm pretty sure there are mistakes in there that I'm not aware of. But when I look at the bets in aggregate, they'll do very well. It looks good. To Dev's point about the macro, India is, the policy makers are smart but they have their hands tied behind their backs. I'll just give you an example of why that's the case and the difficulties they face.

Let's look at the sugar cane industry in India. We have no bets in that area. India is a very large producer of sugarcane. It is a very distorted market. The government has a lot of subsidies across the board to farmers, not just sugarcane farmers but all farmers. For example, inputs like fertilizers are deeply subsidized. Water is given for free. Electricity is given for free. You have a lot of distortions on the inputs going in. Also, what they've done in sugar specifically because the lobby has been so strong for so long, is they have significant import restrictions to sugar or sugarcane coming in. And they also have MSP (minimum support prices). When farmers sell sugarcane, they're guaranteed a minimum price. All of that is because they have a large vote bank and such. If someone just read Ricardo and Adam Smith for a change and just eliminated everything, which was market distorting on the subsidies or the market price controls or any of those things, just take it all out, take the import duties out, make it complete free market, it would be awesome.

What would happen is that the Indian sugarcane industry would disappear. It is not competitive. Brazilian production of sugarcane is much cheaper than Indian production of sugarcane. And in fact, if we follow Ricardo and Adam Smith, Brazil should produce sugar for the world. India should not be producing sugarcane. But I'll give you another example. India has risen very dramatically in the last probably 10 or 15 years in shrimp production. If you go to Costco and you buy shrimp, probably 50% of that is from India. And it might even be higher by now, but the thing is that industry did not exist in India in any meaningful way about 15 years ago. And there are no input subsidies. There are no export price protections. There are no free market distortions in India's shrimp farming industry, zero. It's a complete pure Adam Smith/Ricardo model. India conquered the shrimp market globally, they killed Thailand. Thailand used to be number one, but Andhra Pradesh in India, which is one of the southern states that dominates shrimp farming. And in fact, those shrimp farmers in Andhra Pradesh they used to be on bicycles they all have SUVs. They're all doing really well.

And I visited some of them. I never invested in the industry, but I drilled down into the shrimp processors and all that. I got a very good view of that business and that industry. And that is exactly how the country should work. If you look at some industries in India, if you look at the IT industry, you look at the shrimp industry, any place where the government, all of this growth in the shrimp industry took place where the government is looking somewhere else, they don't even realize it's happening. Then they suddenly look and say, oh my God, this is a huge industry. Yeah, exactly. You didn't pay attention that's why it became huge. If we were to take out the sugarcane farmers what would happen in my opinion is that the sugarcane farmer would not tell his son to become an expert in growing sugarcane. He'd focus on making them an IT professional. He'd focus on doing something else so that the factor of the production, this is the magic of the factor of the production would adjust. It would be a very painful adjustment.

We've gone through the adjustment in the US you know, we used to be 90 plus percent agriculture, we're like less than 2% of the population focuses on agriculture now. That adjustment would take place. But if they tried to do that in the manner I have described, forget the election, I think the leaders would get assassinated. You know, it's not possible. It's not politically possible to go from point A to point B. The Indian leadership understands these distortions, but they have their hands tied behind the back. They have to chip at the edges. And the other thing is you have these sunrise industries that come along once in a while where they can rise out of the ashes because there is no legacy and they are allowed to rise from the ashes. This is the issue with India. The government needs to get better infrastructure, get out of the way in a lot of places, gradually take out all the market distortions. But that is a very long, it's a multi-decade process to take out the distortions. That's why we end up with where we are. Unfortunate, but it's so sad that if you could execute, we will just see incredible 10 plus percent growth as far as the eye can see. It would be great.

Q: Hi, my name is John from Calgary, Canada. So Mohnish, historically I've always been very impressed by your admissions of your errors and learning and how you're a better investor today than yesterday. And with the funds now being at a 20-year period and you look at the overall return since inception there around 10%, which is nothing to sneeze at, but maybe you would have hoped for more. So, my question is, what do you know today, conceptually, strategically that if you had known before would have had an impactful change in the overall return since inception?

A: Yeah, that's a great question. Well, there's a couple of things that pop up immediately. If I go back and look at the mistakes lots of mistakes in levered financials. I've had multiple zeros on levered financials. Multiple zeros are very bad especially when we don't have that many positions. If I could go back in time and take out all the levered financial bets, our results will look very different. I have learned over the years that there is something in my wiring which leads to blind spots in that industry. And if I look at, for example, if I look at someone like Warren Buffett and if I look at levered financials with Buffett, he's batting a thousand. I've never seen him lose money on a bank. I've never seen him lose money on a financial type asset. I mean, they had a massive bet on Freddie and Fannie, seven years before the financial crisis eight years they were completely out. And I remember one time I was talking to Charlie about it. I said, you know Freddie, Fannie, you guys like the financial crisis took place in 2008 in like 98, 99, you guys were exited. Why did you exit? Because they hate to sell.

You know, at that time, Freddie and Fannie were just these great dominant franchises, license to print money. He just said no. He said that one time they had either the Freddy or Fannie CEO at Buffett's house in Laguna in California. And Charlie and Warren were both talking to him. And at that time, they were reading that Freddie and Fannie wanted to grow earnings at 15% a year. So, he said, once we see a levered financial institution set those types of targets, we get goosy. They tried to talk the guy into going a different way. And then they observed that he really didn't care about what he told them. So, they sold it all. It's remarkable, for them to sell great compounders, pay all the taxes and all that was quite remarkable. But if I look at a Buffett in, for example, retailers the record is terrible, you know, so if you look at, I mean, Berkshire doesn't talk about it because he would upset or take away motivation of the CEO, so he can't really express it.

But if you look at all the retail bets they made, the good news is those are smaller bets so it doesn't really hurt. But most of their furniture, retail bets didn't work. Most of the jewelry retail bets didn't work. Their original furniture bet worked really well. The original jewelry bet worked. Borsheim's and the Nebraska Furniture Mart. Basically, all of us as investors have strong points, weak points. First thing I would have done much better without levered financials and so note to Mohnish going forward, try to avoid those in the future. And the second is that I've been very slow to understand the importance of letting it ride with great businesses. Investing in great businesses and letting it ride and letting it ride even beyond intrinsic value. That's another lesson that, you know, probably like I mentioned with Moutai I'm not sure it's the right thing to sell, but we sold. Both those lessons I'm getting better at the selling better at keeping these positions for longer. Our holding periods have gone up significantly. For example, Fiat stock, 2012 to 2019 we still have it, the guy's gone we still have it seven years and counting .

We've had Rain for about four years. We have no intention to sell that. We had Moutai for four or five years. Some of that is seeping in but we need to get better at that.

Q: Hi Mohnish, Bill Brewster from Chicago. I have a follow up on self-discipline. So, on one hand you said you probably should have sold Rain. On the other you said, well, I probably, well we'll see if selling Moutai is a problem and it's 30 times current earnings and their earnings are theoretically infinite if they wanted, I mean, I know, obviously there's someone. I know this isn't an art, I mean, it's not, you can't just like throw a dart and say that's when I sell. But I'm just curious to, if you don't mind talking a little bit more about how, you know, when that art, you know, when the picture looks like sell. I had it recently on Starbucks I mean, near 80. It looked crazy to me. Now it looks insane, but, you know, I lost out on, you know, 20 bucks of run. So just how do you think through that?

A: Yeah. I don't think I'm ever going to get to utopia on that. Let's say for example I'm looking at some company in Korea, which is let's say $150 million market cap, $200 million cash making $25 million a year. Should I buy that and sell Moutai or not? What should I do? I got to sell something to buy that. What should I sell? It's not a sell decision in isolation. In isolation it's easy. The decision becomes a little harder when you have to compare to something else. And that's usually when you're trying to make those comparisons is when the, or even if I look at Moutai and I don't want to talk about, let's say something like Micron but at some point we will, I'm buying one business at three times earnings or four times earnings and the other, the 30 and both have incredible moats. Should I swap? I don't have a problem and I never had a problem holding Moutai at 30, as long as they don't have other very compelling things coming in, I'd even hold it 40 times earnings, no problem.

But when you have these choices to make is, that's when it becomes more difficult to deal with. I don't know whether I can ever become as good as I need to be, but we don't, I mean, you can still do well without being perfect. But I can clearly see that I would do better to let these winners run more than I have in the past. Whether I can make them run them as much as they should be allowed to run is the issue.

Q: Hi Mohnish, Deepak from New Jersey. So, you talked about Sergio and I think CEO for Rain, Jagan if I recall correctly which are some of the other like, you know, three, four other superstar kind of CEOs or managers that if you could share with us.

A: Well, you know, I'm a little reluctant to go into lots of details of current portfolio. I mean, the funny thing is that if I look at a business like Moutai, I never knew who the CEO was. I didn't even care to know who the CEO was, you know, an idiot can run that business. You literally didn't need any brainpower to run that business. And that's the kind of remarkable thing. In fact, in my whole day at Moutai the thought never came up to ask who's running the business. I still don't know who was running it. I never focused on that. It was an irrelevant data point. I don't want to go into the names of these people in our portfolio companies. But I admire many of them. I'd be more comfortable talking about them when we don't own them. Ask me in the future. I've discussed Rain, I've discussed Sergio because, and I've been willing to discuss it mainly because they became so large that investors were entitled to more than just, oh, it's a holding we won't to talk about. I was willing to talk about them just because they were so large. And I think I owed a little bit more to you than I would have otherwise.

Q: Hi Mohnish, Sam from New York. You've been trimming your Fiat Chrysler position for a while I'm guessing it's stuck at 17%. I was reading your transcript for the last two years basically, you were fairly bullish on Fiat Chrysler just two years ago and you saw a lot of headwind for Jeep and Ram, which I think is still there. And you said that, I remember that in one of the scripts you said that in China, they have zero base basically and they probably still have zero right now I'm guessing. I just want to hear a little bit your thoughts on the headwinds and the tailwinds for Fiat Chrysler in general. It seems like it's more headwind than tailwind at this point for you. Thank you.

A: Yeah, one thing that did change is we knew Sergio was leaving. We didn't know he'd be gone, you know, so he would have still been around the Agnelli's and around the business. I mean, he wouldn't have been, so that clearly changes the dynamic a little bit where he's completely gone so that's a factor. But the auto business has got just basic issues, which are a problem, unionized, very high capex. And you've got this big transition to electrics and then to autonomous. There's a number of things that are going on in this industry which are significant. And for example, one of the things that some of the other guys have decided to do is not to invest anymore in hybrids. They're just going to go all in on pure electrics. And if you just make investments in hybrids and electrics, it's a big drain because they're two very different paths and one is a dead end eventually. And so, you lose all of that R&D and effort and everything else that you're putting in.

The tailwinds Fiat Chrysler has are very significant in the sense that they've got very dominant brands, they've got very dominant positions. Those positions could get even more dominant. Like when they introduce the Grand Wagoneer. When they enter those markets, those open up white space markets for them. But the entire group is behind on electrification. They have a lot of investments there. And I agree with you. They've got upside with China; they've got upside with Latin America. At this point it no longer in no brainer territory because you've got headwinds, you've got some tailwinds, you've got no Sergio. We'll only sell when we have something very compelling.

Q: Do you have less of a confidence on the 2022 plans basically? Is that what you're saying? Because Sergio is gone.

A: They are committed to that plan. They may very well make that plan that is and they also may have upside to that plan if they do anything with Renault for example. But those types of combinations also have downsides. What I'm saying is that I'm not sure they will be allowed to play out that plan. If you have a deal that takes place with Renault that plan changes. And if you have integration pains with Renault then you're in a spiral. You get more upside when you do that, you get some downside. I hate the business. I've always hated the auto business and so if we get a chance to put our money in some other assets, we want to look at that.

Q: Hi, Mohnish Peter from Chicago. I'm a creature of habit. So I'll ask the same question that I asked last year, which is just your recent reading this year, what you've been reading, what *you've been enjoying and also in your YouTube videos, you know, the book stack that you have behind you can't read the titles, you know, they're turning.*

A: You’ve got to zoom in.

Q: I tried; the resolution is not that good. So, I'm asking you if you're willing, you can turn them. Thank you.

A: Do you want me to like do a close-up next time?

Q: That'd be just yes just in between two stacks of books. Thank you.

A: All right. I'm glad you're focused on that. The thing that had the most impact on me is -- it took me about 15 months. Buffett put all of his annual meetings online from 1994 onwards on buffett.cnbc.com. It's more than 150 hours of video. What I did is I set up a Bluetooth speaker, in my shower and while showering and shaving, you know, Warren and Charlie are talking to me, which is good. It's kind of like going on a drive with them. And it's been really good because I usually get about 30 minutes done a day and it took me about a year and a quarter to go through the whole thing. Some parts I played back again and again.

There is a big difference between the letters and the annual meetings for Berkshire Hathaway. The letters are premeditated, because Warren starts writing in November and he thinks very carefully about what he wants to say and how he wants to say it and it’s edited by Carol Loomis. It's a deliberate document. The questions they get at the meeting, they have no idea what's going to come and they're fairly open no matter what question comes. We get a lot more candor in their thoughts and we also get thoughts about a lot of subjects that they never covered in the letters. I learned an incredible amount just going through that once. I know if I go through it again, I mean, I've attended every meeting since 98. I've read every transcript after every meeting. I've gone through all of that. I still learned a lot.

The second is that more recently I decided to reread Phil Fisher, because I said, you know the alcoholic if he needs to recover, he needs to overdose on Phil Fisher. Phil Fisher says you just buy and never sell and I find that he's way better than I thought. Lots of good stuff in there.

And another book, I wanted to send it to people, but I couldn't get the hardcover. It's a great book and is one of Charlie's heroes from like 2000 years ago, Epictetus’ *The Art of Living*. It's a very thin book very easy to read, but a transformational in terms of changing your life. In fact, the funny thing is when I was reading the book, I thought, you know, all of this sounds like Charlie Munger. I'm reading this stuff and it's talking like Charlie does.

Q: Diane from New York. Hi Mohnish. When you decide to make a large purchase such as Micron, did you buy it all the 48 million all in one day?

A: Two days. I would have bought in one day, but I couldn't.

Q: Do you ever think to, you know, space it out a little more?

A: I don't want to play games. I mean I have no idea if it's going high or low or whatever. And my take is that if the cash is available, we have conviction we're going to proceed.

Q: And then my other question is over the years at times the fund had I think a position could be as high as 10%. And then it, I think in after 2008, you lowered it to 5%. And what's the largest size of position?

A: We've never invested more than 10%. And ideally, I don't want to have 30 stocks. Ideally I'd have 10 stocks and 10% in each. Sometimes we look at, it happens, well sometimes it's involuntary. In fact, a lot of times involuntary where we can't get a 10% position. And then we end up with these smaller positions and sometimes it can be deliberate. Like when I was making the Moutai purchase we made that a 5% position because I still had concerns about China and other things, which was not completely well-founded given what happened. But I wasn't willing to make that a full bet. That was a smaller position. That's why we only had like 23 million in it across all the funds.

Q: My question for you is that you never went to the business school and what that you do now has a lot of financial and mathematical brain words and brain power and how do you improve yourself from somebody not involved in these financial statements, understanding, watching things. How do you improve yourself and how can we improve ourselves reading these financial documents?

A: Sure, yeah. Well, I did get some formal and some informal education. In India after 10th grade you get to specialize in different areas. I ended up doing an undergrad in computer engineering, but for two years I took a lot of accounting in high school. And then in college I took a lot of courses as many of the electives I could in accounting and finance. I got some formal education there. The bigger thing was I ran a business for a long time. Probably the thing that had the most impact was from the age of 11 or 12 till about 18. My father was an entrepreneur. He ran many different kinds of businesses and the common theme across all of them was that he was really good at identifying great opportunities and really good at getting a business off the ground with no money. But then he was always aggressive. They were always levered and they would blow up. And at the age of 12, he would sit down with my brother and me and because we were like his board of directors and we would have to figure out how to let make the business run for one more day, you know, just how to make it survive for one more day. All the walls are closing in and then we'd meet the next night and how to make it work one more day.

And after 16 or so, I used to go on sales calls with him sometimes. I thought I finished many MBAs before 18. You know what they still don't teach you at Harvard Business School. And that was this accidental thing that I was exposed to and the human brain is actually optimally set up to specialize between the age of about 11 to about 20. Just to digress a little bit because some of you might have kids might want to before it's too late, do some tweaks. The birth canal is too narrow. The brain is the most underdeveloped organ when we are born. It is growing at the fastest pace of any organ in the first five years. Very rapid growth. It's still growing pretty rapidly in the next five years until the kid is 10 or 11 years old and then from 11 to about 20, the brain is cutting neuron connections. What it's doing is whatever activities you're involved in, it's putting more of the space and the brain into that area. It's optimally set up to specialize from about 11 to about 20. And after 20, it's a lost cause, you know, we are by then hardcoded and what happens in a modern world for all of us is we are going through high school and junior high and all of this and you're a jack of all trades. I mean you're forced to take every subject you're not allowed to specialize.

But if you look at Bill Gates, Michelangelo, Warren Buffett, all these guys, we look at Buffett very carefully from the age of nine or 10 he ran a whole bunch of pretty significant businesses by the time he was 20. I mean, he got incredible amounts of stuff done. Same with Gates. By the time Gates was 20, he had more programming experience than people who were 40 or 50. He'd done a lot of work. It just so happened with me that I got a lot of exposure outside of school into businesses which has been very helpful. It's not that difficult. Income statements, balance sheets, audit reports, all of that. There are plenty of books that can help you with that, but I'm sure a lot of YouTube videos, I mean you can get pretty good at that. But the more important thing than that is to be able to look at a business and be able to relatively quickly figure out the economics of the business. Not necessarily by fixating on the income statement or balance sheet. You can look at that, but just kind of getting a feel for the business without overdosing on those factors because all the financial, they're giving you a history which gives you some data. But what matters is the future.

The future, you can extrapolate some of that from the financials, but a lot of that is not a quantitative analysis.

Q: Ken Hachikian from Chicago, not a 20-year investor, but probably 17 or 18 years.

A: The older guys have stopped coming. You are probably the, I don't know if any original investors in the room, see they're just, oh we've got one guy. Alright. Pretty good.

Q: So a quick comment and then a question, the comment and I know you know this Mohnish you know, Buffett is fond of saying that his favorite holding period is forever and he holds on to businesses despite lofty multiples, which he would never buy at that price, but he just thinks they have such a great moat that he'll stay with them. Anyway, my question's a little off topic here but in the automotive industry, I'm interested in your perspective on Tesla.

A: Yeah. First just quickly on Warren, he's got a little different calculus because Berkshire's got about 15 odd billion coming in every year. When you've got net cash coming in, you're not really looking to sell Coke to raise more cash and pay taxes and all that. They've got a little different equation in what's going on there. Well, I would say Tesla goes in the too hard pile. We've got an incredible entrepreneur in Elon. Anyone who can land two rockets backwards, you've got to take the guy seriously. Elon is an incredible entrepreneur, his ability to execute is amazing. His ability to innovate is amazing, but he also has massive turnover amongst his direct reports. He is a very difficult guy to work with but he also attracts incredibly bright people coming to Tesla. The quality of the workforce is very high. But the burnout rate is also very high. When I look at all of that and when you overlay that into the auto industry and you overlay that into electric cars, which no one's been able to figure out how to make money on them, so every Tesla ships with $10,000 attached to it.

It's really dumb to short Elon, I wouldn't want to short them, but I don't want to go long Elon or Tesla.

Q: Thank you. Hi Mohnish, I'm Pedro Zuloaga from Miami. A question, sort of along the same lines about the economics of the business where Buffett will tell us he loves business that really don't change through time and with technology today, I'm wondering what is your framework? For example, the automotive industry with EVs and so it's one example, but we can see a throughout really across industries, what is the framework you have to manage through this technology transformation that is happening really to across all industries?

A: Capitalism is always hard. Someone's always trying to unseat you. The odds that any business you look at is even around couple of decades from now is not a given. If we just go backwards, you know, how many businesses that were around 100 years ago, 60 years ago are still around. In general, it's not the current era. It's always been the case that capitalism is hard. And when you overlay, that's why Buffett says that industries that rapidly change are the enemy of the investor. He tries to stick to things like Coke and so on but even there you got taste changes and other things going on. The only protection you have against these things is how much you pay. In some cases, you can get moats. I mean, one of the reasons Moutai was so good is 50 years from now it's around no problem. Even 100 years from now, it's around. We can protect ourselves with the multiple we are paying. We're trying to be in industries with less change. It's one of the reasons I'm a little goosey on the auto industry because when you go on the electrification side the margins are a problem because all these companies are trying to fight each other, beat each other up and all that. It's a difficult situation. We have to watch for that and it makes it hard.

Q: Hi, it's Nitesh from Chicago. I have a few questions at a time. How much of your percent of your net worth is invested in India Zero Fee Fund? That's the first question. Second, is that your policy, that whole like 10% of our portfolio in each company so I wonder how much is that is pros and cons for India Zero Fee Fund because US market is different than the India market? Because there are other issues that like, especially around the policy, laws and the fraud thing that you talked about, they're all of other factors that we don't have in the US. I sometimes wonder how much risky that is from owning like 10% of the position in India Zero Fee Fund. And the third question is that you normally a micro investor and you also talk about a lot of macro policies. I feel like that our holding in India Fund dependent on macro policies or not and should they be? Thank you.

A: I have not invested in the India Funds. But you know, I also didn't invest in Pabrai Funds. When Pabrai Funds started I put 100,000 in with the other guys. That's the only money I put in, and the idea was that the fees would get reinvested. And that's what we'll do with the India Funds is just like what we did with Pabrai Funds. I'm not making sector bets or not going to be really comfortable having too many investments. Typically, we want to make a 10% bet in the India Fund. It's going to have similar concentration to the other funds. It's not as concentrated at the other fund because the money is coming gradually over time. The inflows have been a little bit different than what we had in Pabrai Funds. But it may get concentrated depending on I mean, if we had a Rain type situation in India Funds then yeah, it would get concentrated.

I'm not making a macro bet in our thinking. My thinking is very much around specific businesses. It's not around government policy or macro or anything. Clearly some factors that come into looking at specific businesses is kind of the environment and what's going on that may affect it. But what is more important is what's happening inside the business. I mean, we clearly have some businesses I mean like for example, this year India had an incredible monsoon, you know, just, you know, which is generally a big positive for many sectors. We have one investment in a seed company in India. It has nothing to do with the monsoons, but it will get a tailwind if there's a great monsoon. But it's not a factor in why the investment was made. I'm not particularly concerned with specific factors. The micro execution inside the business and whether we are right on that is what will matter. That's what we focused on.

Q: Hi Mohnish, James Bell from Australia. A bit of a follow up question to the risks in the Asian investments. I want to know how you compensate in margin of safety or whatever in really left field things that you can't predict. So, you've talked about a lot of government intervention, government ownership and in the Moutai example a large amount of people that are copying their product and you still think it's a great business. How do you compensate for these things that are very left field and the examples that you give indicate that business is fundamentally different in Asia than it is than what we're used to in the Western world?

A: We rarely make too many investments outside the US especially in these emerging markets, etc. without meeting the management teams. And I've almost never met management teams in the US so there's a very big difference in the way the investments are made. When I looked at something like Moutai it came from another investor I respected a lot and I had a lot of data I got. You still have a one-third error rate. Best case you're going to have a one-third error rate. But I also don't want to make 2% bets. I don't think we're going to get to where we want to get to by doing that. We try to do the best we can. It's been very hard to find stuff in the US for a while we had nothing in the US now, we found two bets, which is good. But the US is still not a good hunting ground. There are other better hunting grounds but they need more work.

And that's fine. The way I look at the portfolio right now, like I said to you, if we did nothing next few years, we'll be fine. There's no urgency. And if I find even one or two things to do in the next year that's pretty good.

Q: Hi Mohnish, David here from Toronto, Canada. Have you considered investing in other asset classes such as distressed debt or non-equity related products that have possibly less volatility than equities? And the second question is, have you seen the average holding period for investors in Pabrai Funds change over the years as the investments have grown?

A: We've done some distressed debt in the past. I look at it like equity in the sense that, I mean, if we are typically stepping in on distressed debt we're typically stepping in when there's a lot of hair it might be 60 cents on the dollar or something like that. And there where we are very comfortable owning the equity. Many times we've looked at the equity and then we found that the debt is distressed. If I'm willing to buy the equity, I'm definitely willing to buy the debt at 60 cents. It's been a proxy for equity with more downside protection. Regarding the holding period for the current investors? We've never done a study of that. There's a couple of things that are true. One is in general, we don't have a large portion of people's net worth at Pabrai Funds for most of the investors. It's not the case with me. For me, most of the money's inside, but for most of the investors, I don't believe we have an overwhelming portion of their assets. In many cases we might have their entire IRA for example but they might have a lot of assets outside. And I would be surprised if in many cases we are more than a fourth of their assets, for example.

When these individuals look at things, they're kind of looking at their entire picture. In some cases, we've had some, I can think of where either we had a large portion of the assets or they went through some kind of financial distress where we became a large portion involuntarily, you know, where other stuff didn't work out. And we've seen more redemptions around that. There are some people in the room who are all in with me, but I'll leave them nameless for now.

Q: Hello. Hi. Yedu Jathavedan from Oregon. I started a quote, it's about kind of a mindset in a room full of people with little knowledge. I am the person with the least knowledge, and I want to just say please forgive me for any stupid questions. Thank you very much for your commitment to helping others learn. Your knowledge sharing on YouTube are phenomenal. It has had a huge impact on my own personal knowledge, your effort to start Dakshana Foundation and help all those smart kids are amazing and really hats off to you. Hopefully I'm already thinking about how I can help. Hopefully I can help somewhere in the future. By the way, you mentioned Charlie Munger and Warren Buffett talking to you in the shower. You have been talking to me. I make sure it's not in the shower. It's while I'm washing dishes which I hate, but half an hour, 45 minutes of my time, I just make sure my friend is talking to me. So, I just wanted to let you know that one of the, not the, the first very first book I read on investing was called One Up on Wall Street by Peter Lynch. And I had what you kind of described very eloquently as the orgasmic effect. So, I had one of those. So, my questions are the following. I have a lot of questions. I have like 18 questions I had written it down, but I want to narrow it down to two primarily because I know time is of essences primarily for you, investors.

But I want to get a lot of value out of it for all of us, not just for me. What are things that in your family life that you would look back and you say, hey, I regret that and wish you would have changed it? In my personal life I can say this, like everyone says, spend time with your family, but no one says how much time. And I know you know, no one really achieved something phenomenal in life unless they are very narrow focused on something. So that's my number one question and the number two would be how did you find someone with a similar mindset as you in Guy Spier as a friend? And whom you could talk to at any point of time, any hour, like not just call him up, something like that. So how did you find that kind of key person and how much did that impact you?

Q: Yeah, I mean, even Bill Gates says the most important thing for him for success was focus. And there's a quote in the Upanishads, which is a very ancient set of books in India, your deepest desire is your destiny. If you really want something to happen and you go all in it'll happen. With the Pabrai Funds, *One Up on Wall Street* was the first book I read. And that led to many other books. Wish you all the best in the journey. That's good. I don't really have any regrets or things I would want to do differently with the family. If you talk to my wife, she would have preferred I traveled less and was around more. But I'm around most evenings, so that's fine. When I look back, I don't have any regrets I should have done this or I should've done that. I don't really see it that way. And I'm sorry, your second question was about oh yeah. Well that's a very subjective thing. You will know it when you see it.

They’re very honest and high-quality people. That's the kind of baseline. If you're seeing that person is cutting corners or some questionable behaviors, whatever then that's a pretty quick exit. The second is that it has to be fun. You know so they have to be, there has to be a lot of humor and jokes and can't take yourself too seriously. When Guy and I are together, there's a lot of banter and there's a lot of fun and jokes and stuff. It has to be fun. It has to be fun with your life partner. It has to be fun with your best friend. And then beyond that, you just have to see if you're going to, you're seeing a strong connection, you know, that you're able to grow. One plus one can become 11. My dad used to say that in life, if you had a one good wife and one good friend, there isn't much else you needed.

Thank you for attending. And he just went to Dakshana’s Bangalore campus.

Q: I would tell, encourage everyone to, if you ever visit India, you know, just go to one of those Dakshana campuses because the kids really are smart and they are so curious about life and they're very enthusiastic.

A: Well, it's worked out far better than I would have thought. Thank you.

Q: Hello. I'm Vijay Damle, I’m from Houston, Texas. One quick question. Do you have any plans to open up either PIF3 or 4, for additional investments? We normally make that announcement, but I don't know how you go about it.

A: Yeah, the Pabrai Funds always open up when we are doing a distribution for Dhandho because we always want to make sure that people want to move some of the money in. Most likely date when all the funds will open up is April 1. We'll probably do a distribution of Dhandho in the first quarter of next year, probably January or February. And then we'll open up the Pabrai Funds probably April 1. If anyone wants to come in. That's a high probability the end by lots of, probably make some note of that in the January letter to investors. But if you want to join then that's probably a pretty certain date that we'll do that. Other questions? Yeah, right here.

Q: Darius from Austin. So, my questions on the India Zero Fund. And I'm curious, why do you have the one third mandate for stocks that are not in businesses that are not in India? Why not go all in, in an India Zero Fund in India?

A: Yeah. You know, I'm still not, you know, I had some misgivings about these sectors specific or country specific funds. I've always been, I've not been in favor of that. I like, in fact Pabrai Funds has an open mandate it can go anywhere do anything. I wanted to leave, let's say a safety valve or some cushion because I, I wasn't sure that the best ideas would come from India. I wanted to have the ability to be able to put some ideas in there. In hindsight that was a good thing because we are pretty much close to one third non-India even though we can be 100% India, as it turns out, in reality, we are about a third non-India. And I like the fact that those other assets are in there. Maybe time will tell if we should have just done an open-ended anything. But I also wanted to put some focus on the funds and focus me on looking at other opportunities, which it did because I spent a lot of time looking at different businesses and such there. So far, I think that not being 100% is a good thing. And we'll see how it works out over time.

Q: Another question on the India Fund. So I'm curious, I heard you say that when you evaluate businesses for that fund, you talk to the management and you don't do that in the US so I'm curious, how do you avoid biasing yourself to managements what I would assume would be overly optimistic presentation and salesmanship when you meet them?

A: It's a real problem. We do the best we can. That's a real issue because these guys are extremely knowledgeable about their businesses. They're very smart. They're good salespeople. All of those reasons why we didn't meet me and I just didn't have a choice in the sense that there wasn't a way to get around that. Those are real issues that we face. And we have to go back and think about it, but I don't think it's foolproof. It's just a necessary evil I have to deal with.

Q: So, when you say you, it's a necessary evil, what specifically about meeting management is beneficial to that investment process? I'm just curious.

A: Well, first thing is of the most important thing that I'm trying to avoid is outright fraud. Meeting the management, seeing the facilities you know, a lot of the scuttlebutt is helpful. And then beyond that, a lot of these guys are very wealthy. They own a large portion of the business, they're worth hundreds of millions of dollars, maybe even north of a billion dollars. The degree of hunger and just trying to understand how they look at things. How they look at the business etc. We have to make some assessment that they're still in the game. And they're still wanting to create value and how they think about the outside shareholders. Those types of things are helpful.

Q: Naren from Massachusetts. So Junoon and India started at the same time a couple of years ago, but Junoon's or India has attracted a lot more capital than Junoon. Are you surprised by that or were you expecting that going in? And where do you see Junoon going a few years from now?

A: The only thing I have noticed, which I have a lot of history for Pabrai Funds is all the capital comes in at wrong times, you know when we want the money to come in, nothing comes in. And the times that are the best for the investor to come in, nothing comes in. And it always comes in when we are cresting. I mean, literally the periods when we hit all-time highs is when the maximum amount of money's coming in. And that's just the way life is. You know humans look at recent past and that's what they focus on. And I wish it was different and we have some throttle control now in the Pabrai Funds because it's closed. For example, if I opened the funds now, because they're down, we won't have much in inflows. Someone asked me a question which we never calculated. I was asked if we have ever calculated a dollar cost average return of Pabrai Funds.

And we have kind of a real experiment on that just by accident because we have the Pabrai employees' pension fund invested in PIF4. All the employees, even the part-time employees, participate in that. I'm very happy with that because even the part-time team members have a significant balance, so it's a good benefit for them. It's worked out well and has about two and a half million or so in assets. There's usually one chunk that comes in April every year and there's a little bit coming in almost every quarter. For example, in April 2009 there was about $50,000 that came into that fund at that time which was when the NASDAQ bottomed. That $50,000 became many times that number in a few years. Those periods matter a lot if you can. The pension assets have done very well because of this consistent money coming in at different times. Generally speaking, investors would be better off in Pabrai Funds if they had averaged over time or if they had focused on the periods which were generally down periods. But it's hard for investors to do that. That's just fighting human nature.

Q: Dev Chaudhari from Washington DC again I have two questions, but they're kind of related and are probably on the minds of a lot of people looking back at the 20-year history of Pabrai Funds. First question is one of the slides that you showed earlier had a number of performance returns from various periods. And in the earlier part, if you look at it, I think it was 28 point something for the past six, seven, eight years. And there also had some pretty bad market performance periods such as 2001 and 2002.

A: The funds did fine then; market didn't do well.

Q: The market did not, you know. So, in spite of that, you had significantly high-performance levels in that period. Now when you look at 2009 through 16 or 17 or 18, whatever, I would say about 18 that was more like about 24% something. So how do you explain that variation when you look at the overall market performance vs Pabrai, you know, that's question number one. Question number two related to that is if you look at chronologically PIF2 started in 99, PIF3 later, PIF4 later. And if you look at the relative performance of PIF2, 3 and 4, there's a significant variation, not a positive one in general. How do you explain that? Thank you.

A: That 2001 and 2002 period, in fact, that entire period from 1999 onwards, we did very well because we didn't have tech. What happened at that time was in 1999 and 2000 literally for example, the day the NASDAQ peaked, March 7th, 2000 was the day that Berkshire bottomed. Literally money was going from these brick and mortar basic businesses into pets.com. There was a massive bubble in not just the dotcom but even the Microsofts of the world. And the big names, even like Coke and GE etc., were all peaking. But if you looked at smaller basic businesses at that time, they were very undervalued, and no one was interested in them. In that period of time, because we had no technology, we sidestepped that whole bubble. I was buying funeral homes at two times earnings at that time no one's interested in that. That's why we didn't have any issues then. And the three funds, one of the reasons the performance is different because they started at different times. That's one difference. And the second difference has come sometimes more recently just because of the randomness of the allocation.

We are not always able to buy everything in all the funds at the same time. Like for example, Rain ended up being heavily in PIF3. Moutai ended up being heavily in PIF4. It doesn't always balance evenly. And that, especially if those become either highflyers or they go down, has distorting effects. But if you look at all funds until for example from inception to around 2017, they all beat the indices. In the last year and a half all the funds have lagged the indices. But I think that will reverse itself. The funds have been more volatile than I would like, but I'm not trying to induce volatility. It's just the way it's been. Whenever we are buying these businesses that are undervalued, many times you can take two or three years for the market to recognize that they should be re-priced. That re-pricing sometimes takes a while and then depending on which funds are bought or whatever, then that can lead to some distortions.

Well, we are at 6:30. I don't see anyone at the mic. We're going to go have our cocktails outdoors and we have a very good caterer for those of you who've been here before, great Indian food. I had to twist his arm to do our stuff because normally he does thousand-person Indian weddings with like 20 meals. And we are kind of a pain for them, but they still do a good job. Hope you enjoy that and also get to meet your fellow attendees and shareholders. Thank you.