Pabrai Investment Funds/Dhandho
2022 Annual Meeting Transcript

Note: This is the transcript of the meetings held in Austin, Texas on September 10, 2022, and a virtual meeting on September 24, 2022. 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/manage/videos/753883786

Mohnish: Thank you for taking time on a Saturday afternoon to join us for our Annual Meeting.

Introduction (Slides 1-4):

The agenda here is that I'll first talk about Pabrai Investment Funds, then we'll go over Dhandho Holdings and Dhandho Funds. Personally, what's most interesting to me is the Q&A session to discuss what you guys have in mind. This is our lawyer saying hello. Pabrai Investment Funds, this is our 23rd year. The oldest fund is PIF2, which started in 1999. All three funds have underperformed for the last four years until March 31, 2022. They've turned a corner in the last six months. They have significantly outperformed the indices. But all the funds did very well from inception through Q1 2018. Our declines in the last four years mainly were because we had two very large winners, which subsequently declined; in my infinite wisdom, I did not sell them at that time. But we also had some other losers like Care Ratings, Shinoken, NICE Holdings, and Healthcare Global. But these were relatively small, and it was the drawdowns that we took with Rain and Fiat that were driving that.

Slides 5 – 8:

PIF2 is the oldest fund. It's been around for about 23 years. No matter when you joined the fund, it did quite well until 2018. It's a similar story with PIF3 which started in 2002. Again, it did very well till 2018, no matter what period you look at, similar to PIF4 which started in 2003. All the funds outperformed the S&P over these periods. We've had plenty of volatility in the past in Pabrai Funds. For example, from 2007 to 2009 we had about a two-thirds drawdown, when the S&P had gone down 40% at that time as well, during the financial crisis. Usually, these periods of underperformance have usually been followed by periods of very robust returns, because things get very undervalued and wide discounts for intrinsic value and so on. We seem to be in a similar situation currently.

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If you look at the period from April 1st, the last five and a half months or so, PIF3 is up for this period. It's up about 3% while the S&P is down about 13%. PIF2 is down, but it's down by less, about 4.5%. PIF4 is down by about 6.7% or so, all much less than the S&P, which is down 13.2%. Of course, we created the slides about a week ago, so we don't have the data until yesterday, but it would be relatively similar. One of the reasons this is happening, even though it's a short period, is again, we get so compressed in terms of valuations that the discounts finally start converging.

Slides 10 – 11:

I'll go through some detail on why we are going to be doing probably better than the indices in the years ahead, but just let me cover the expense ratio. At Pabrai Funds, we charge no management fees. We only charge performance fees, which are subject to a 6% hurdle. The only cost that fund investors pay for is the direct third-party cost, like audits, accounting, tax prep, and so on. It's 5 to 9 basis points for the three funds. It was similar a year ago, 4 to 9 basis points.

If we were charging management fees, I would be getting about $9 million a year for breathing and doing nothing else. My family is the second largest investor in the funds. Interests are fully aligned, not only do I have a fee structure that is aligned with the investors, but a large portion of my net worth in the funds. The funds are subject to high watermarks. Until we get past the previous highs, which were in 2018 plus 6% a year from then I don't get paid, which is very fair. It's a pretty vanilla operation. We have no leverage, we have no loans, no margin, no borrowing, no short position, and we have no derivatives. It's mostly high net worth individuals. A lot of investors like you are first-generation entrepreneurs, have built or building their businesses and such. The investor base is wonderful. It's a long-term oriented base and typically they've done their research in finding me, and they typically tend to get it, so they understand the nuances of the value investing. It's a great group.

Slide 12:

I'm going to just go through a few current positions in the funds just to give you a sense of what are the different major holdings in the fund and why I'm so optimistic about our results going forward. Reysas Logistics was a business we first invested in 2019. It's based in Turkey. At that time when we made the investment in the summer of 2019, the market cap of the business was about $20 million. The liquidation value was $600-$700 million at the time. It was one of the most extreme cases of undervaluation I've ever seen in my career. We will never have another investment like this. It's just once in a lifetime, as an investor that we get something like this to show up on our doorstep.

The other thing that was surprising about Reysas is that I thought it would be difficult to buy the shares because of the nano-cap nature of the market cap. But Turkey is an unusual market. If you look at the entire Turkish market cap, about 80% of it is held by insiders and foreigners, foreign investors, and about 20% is held by retail Turkish investors, and maybe some local Turkish institutions. That 20% turns over every nine days. It completely changes hands, every nine days. It's a market dominated by speculators and not investors. Because of that high turnover, the liquidity in Turkey even when the companies are heavily and closely held, is very high. Buffett has a saying that the markets are a mechanism to transfer wealth from the active to the inactive.

Probably a pretty extreme case of that is Turkey. Anyway, we were able to get a third of the business which we own today. I hope we are smart enough not to touch this for a while. Reysas has a number of businesses, and one of their primary businesses is that they are one of the largest warehouse operators in Turkey.

They have about 12 million square feet of warehouses. These are 99% leased at 10-year inflation index leases. The demand outstrips the supply. The business is relatively easy to get to at least a base-level liquidation value because it's relatively easy to value these warehouses. When we were investing in 2019, the warehouses at that time probably had a value somewhere between $800 million and a billion. They had about $200 million of debt. Reysas Logistics, which owns about 62% of the warehouses also has a number of other businesses, like the largest freight train container network in Turkey. They have the largest truck fleet in Turkey and the largest forklift rental operation in Turkey. They just have a number of different businesses, including one of the largest vehicle inspection franchises in Turkey.

In Turkey, every car is inspected every two years to keep its registration, and the government had given franchises to different companies to do that for them. The common theme of all their businesses is that they are all very good high ROE type businesses. The company uses a lens that they are looking to get their money back in dollars or euros in two or three years when they make a new investment. Generally speaking, their return on equity on new things that they do is very high. On top of that, we have a very wide discount. The discount is not so wide anymore. The market cap is around $140 million or so now, it's gone up about six, or seven times in the last three years. Still very undervalued, but they've also increased the intrinsic value of the business.

The business could easily be worth, $1.5 - $2 billion in the next maybe seven, or eight years. We would have about a third of that. Most of the investment is just based on where the money was at that time, most of it is in PIF2 and PIF3, PIF4 does have a small position in Reysas logistics. This is one of the unusual holdings we have in Pabrai Funds.

Slides 13 – 14:

Another position that we were able to get this year is TAV Airport Holdings. TAV also is based in Turkey. It's one of two positions we have found to invest in this year. TAV is an incredible business. They are a manager and developer and operator of airports. They operate 15 airports in each country serving about 70 million passengers and probably go to about 100 million passengers in the next three years. One of the unusual things about TAV is that they were able to purchase the Almaty International Airport in Kazakhstan in 2021 on an outright basis.

Usually, the airports that they operate are BOT (Build Operating Transfer). They might be a 20, 30, 40, 50 year operating period. After that period, the airport would go back to the government that gave the concession. It's a win-win for both sides because the country gets a world class airport and TAV gets the ability to charge passenger fees and duty free and so on for that period. The Kazakhstan deal was unusual because it was an outright purchase, so it's not a BOT they own it into perpetuity. The other thing about this deal is that it was done when there was no passenger air travel, during the middle of the pandemic. They got an unbelievable deal. Kazakhstan is a landlocked country. It has a very high per capita GDP. Things go in and out and have to come in either by road or by air. Cargo is a huge portion of their business, and even in the pandemic, the cargo portion of their business continued. Kazakhstan, the Almaty airport already is outperforming their 2019 pre-pandemic numbers, whereas most airports around the world in 2022 have still not come back. They'll probably all come back in 2023 to the pre-pandemic numbers. Airports are good businesses because there are 40,000 airports around the world, but about 10,000 are commercial with a decent amount of traffic, and only about 300 are privately run or held. It's like 3% of the airports around the world are in private hands. But when operators like TAV run these airports or develop these airports, it's a win-win for everyone.

The country gets a great airport, TAV gets amazing free streams for several decades, and eventually, those assets transfer over. Air travel is on a secular increase of about four and a half percent increase in passenger traffic forecasted for the next couple of decades. We will also see many new airports being built in places like China and India and other fast-growing economies. The odds are very high that TAV will be operating many more airports in the years ahead. My guess is probably every couple of years, they may add one or two airports. They just announced that they've submitted a tender for the Lagos airport in Nigeria for the international terminal and cargo. Anyway, this is a great business.

They have a very high dividend payout ratio. The other interesting thing about TAV is that even the airports they have in Turkey, all the revenues are in Euros. Their costs in places like Turkey are in Lira. The devaluation of the Lira and the high inflation is a tailwind for them. Every 10% drop in the Lira increases their Euro earnings by 3 or 4%. One of the things that attracted us to TAV and also attracted us to Reysas is we were very concerned about the high inflation in Turkey, which was about 80% a year, and it's going to be continuing at that rate. I was looking for assets where either the inflation is a tailwind, or it has no impact. For example, Reysas' warehouses become more expensive to replace because steel prices go up and cement prices go up, and so rents go up. That's why we've seen so much inflation in Turkey, but in dollars, our investment has gone up as well.

Slide 15:

Micron is a position we first invested in 2018. We've held it for about a little over four years. It's an oligopoly business, three players control most of the DRAM market in the world and four players control most of the NAND market. It's the underlying core infrastructure for everything digital that we have. When Amazon builds a data center, 30% of the total cost of the data center goes to the memory guys. It's a high capex business, but it's also a business of very favorable economics. The business used to have very high volatility and very low returns in equity and a lot of bankruptcies and so on. But once it got down to three players who are already rational it's become a nice place to be.

Slides 16-17:

Edelweiss is a business in India that we also first invested in 2018. Here we have a situation where they're going to be doing a bunch of spinoffs of different businesses in the next few years. The first spinoff, which is their wealth management business, is coming in early 2023. The estimated value of that business when it starts trading is in the $650 to $800 million range for the stake that Edelweiss has. Edelweiss entire market cap today is less than $600 million. It'll be interesting to see what the value to Edelweiss is, because it right now has a negative value where even the wealth business is not fully valued. They have a bunch of other businesses like asset reconstruction, life insurance, alternative assets, mutual funds, and so on.

One of the things that happened post-pandemic is the GDP growth rate of India has accelerated double digits north of 10% a year. A lot of companies are moving manufacturing to India. They have skepticism about China. Even when you're seeing all the energy problems in places like Germany, number of German companies are looking at moving their plants to places like India because they're just not able to operate. Anyway, most Indians did not have their wealth historically in financial assets. Usually, it was real estate or gold or under the mattress or whatever. But it's moving very heavily into stocks, mutual funds, and all of these areas that Edelweiss operates in, like life insurance are all going through very rapid growth. We plan to keep all the spinoffs that they send our way, and we plan to keep the stock for a while. It's a good management team that understands capital allocations that should be good.

Slides 18 – 19:

Rain industries is our oldest position. We bought it in 2015, and we own 9.99% of Rain. In 2015, we had bought that stake for about $21 million. The thesis at that time was that the company's market cap was around $200 million. I thought they could, because they have quite a bit of volatility in their earnings because it's a commodity producer. It's a low-cost producer, which gives them a moat, but I thought that we were at such a low point of the cycle that in the next five years, they would probably have a single year where their earnings would exceed what we were paying for the entire company. That came to pass. They had a couple of quarters where the net income was over $50 million, $200 million run rate of earnings in late 2017, and early 2018.

Our $20 million position got valued at close to $200 million. Then we had a drawdown, and because I did not sell that was one of the reasons for the not-so-stellar performance of 2018 to 2022. I had fallen in love with Rain in the meanwhile. At the end of the day when we close the chapter on Rain, it may well be that that was a good decision not to sell then, but time will tell. We will, again, get back to those old highs and maybe probably go beyond that. Now the market cap of the company is about $600-700 million about $750 million or so. It has a very good management team that’s done several good things. It's a low-cost producer. They are good capital allocators. We will own Rain at least for the next two or three years. I'm not sure what we'll do after that, but we'll look at what the numbers and valuation and such looks like.

One thing about Rain is that it's about one-fourth of the assets of PIF2, not because we put so much money into it, but just because it's gone up a fair amount since we bought it. It's in dollars, it's up more than three, close to four times. We'll hang onto our Rain position and see where we go there.

Slide 20:

These positions that I discussed make up two-thirds of the assets. The other one-third also is not exactly slouches, they also have some strong tailwinds. We've had lumpy performance in the past. I don't know where the performance will be smooth, but we should easily be able to do over 20% a year. If you look at just the funds since April, and the degree to which they are outperforming the indices, they're set up to do very well.

I don’t want to add assets to Pabrai Investment Funds, because it dilutes the holdings we have. We have the funds open just so that it offsets the redemptions so that we can play out our hands. If you don't redeem, then we aren't that interested in adding funds. I'm just trying to, and it's not easy to match it because we don't know who's redeeming till November 1st. We keep the funds open just to make sure we are offsetting, but so far it looks pretty good. 2022 should be fine in terms of our subscriptions probably exceeding the redemptions and so on.

Slides 21 - 23:

I'm going to talk a little bit about Dhandho Holdings, which was a mistake to start. We've been in unwind mode. The good news is that we've returned about 80% of the capital that we raised to investors. We had bought an insurance business, which was a mistake, and we were able to sell it for a little bit more than we bought it for, which was great. Putting the toothpaste back in the tube had been going pretty well. About 20% of the capital we raised is still with us, a good bit of it is illiquid in a venture fund. They'll gradually send us distributions as they exit the different positions. About 37% of it is in these three stocks.

Then finally, we've got a little bit of value ascribed to Dhandho Funds. One of the things we were able to do with Dhandho Holdings is, we were able to start a fund business, Dhandho Funds and Dhandho Funds has now got about $80-90 million in assets. It could have some decent value in the years ahead. Once we returned the capital, Dhandho Funds could become a nice investment for the original Dhandho Holdings investors. Basically, the fund business doesn't need much capital. The AUM, like I said, currently is about 90 million or so. If we were able to get the AUM to a billion or so, which I don't know whether we'll get or not, but if you get to some of those numbers, then this business would be worth at least $50 or $70 million or more.

Slide 24:

I'm not keen to sell my Dhandho Holdings shares, and you should also hang onto your shares. But if you want to exit, we have a mechanism to allow those exits because insiders, like Fahad and Jaya, want to buy these units. The insiders of the Dhandho, which is me, Fahad, and Jaya, own little more than a quarter of the business. I'm not increasing my position, but the other insiders are so that their interest get more aligned. But I would just encourage you to just keep the shares you have.

Slides 25 - 27:

Dhandho Funds manages two fund families of zero fee funds. One is the India Zero Fee Funds, which we launched in 2017, which was a terrible timing because the Indian Index went down 50% in the next two and a half years. We've reallocated a lot of the portfolio to much higher quality businesses. During the pandemic, we were able to make some adjustments, which were very, very good for us. The funds are in a pretty good position.

From the start of the pandemic till the end of the second quarter, it's doing better than the S&P. It's got a nice set of businesses that make up the fund.

One of the mistakes Pabrai Investment Funds made in the beginning of the pandemic is that we used to have a position in Indian Energy Exchange (IEX). It was a mistake. We sold that position to buy things that looked cheap. But IEX is one of the best businesses I've ever seen in India, and probably even in the world, it's just got very favorable economics. IEX makes up 25-30% of the India Funds, not because we invested so much, but because it's gone up so much in value. But they are a monopoly, there are 97, 98% market share. Now, about 7% or so of all of India's electricity usage is running through IEX servers. About 1% of the value of that electricity comes to IEX as their fee. Because it's a very digital business, something like 70% of that fee is net income. It's an exceptional business, as they grow their expenses don't grow. The other businesses we've talked about, Sunteck Realty Limited is a home builder in India, they make apartment towers. They've got a lot of tailwinds because housing is doing well in India because the growth rate is so high. Our main challenge with the India funds is simply to do nothing, just hang onto what we own and let it do its thing.

Slides 28 – 29:

The other fund we have in the zero-fee family is Junoon. Junoon is a alternative to index investing in the S&P 500. When we first started Junoon, it was purely quantitative automated portfolio construction. We realized that didn't work so well. A light human assist hybrid approach was the best. We look at the funds once a year on April 1st, and we'll make some very, usually small edits to the portfolio if Junoon is well positioned. It has several great compounders and should do well in the years ahead.

Some of the Junoon holdings, for example, it has Starbucks, which we haven't talked about, and BYD in China, Chipotle, and so on.

Slides 30 – 33:

We moved the operations to Austin little over a year ago. Everyone is happy about the move. We also added two team members to our Austin team. We took the opportunity with the move because all of the part-time team, admin team, back-office team I had in Irvine, none of them were interested in relocating. What we did is we moved several of those positions to India. We ended up with a very high-quality team in India. Two of them are CPAs. We never had CPAs on our team before. We've got some strong accounting back-end people.

Now we have Kimberly and Pauline here in Austin, along with Fahad and Jaya, and then we have Anu and Miloni and Anuradha in India. It's a good team. One of the reasons we need so many people is that the team works on several things. They work on the foundation which is a sizeable operation now. Of course, there's Pabrai Investment Funds, Dhandho Funds, and Dhandho Holdings. The team pitches in for all these entities, and it's working out pretty well.

These are some of our different service ` providers. UBS is our US broker and custodian. Kotak is our custodian and broker in India. Dentons is our US law firm. Finsec is a law firm. Finsec and Khaitan are law firms we use in India. Conyers is for our offshore funds. Liccar does our administration, and Price Waterhouse is our auditor. The Chugh firm helps us with accounting. Then we have Shinhan, which is our Korean broker, and then Akbank in Turkey is our broker in Istanbul.

With that, we're going to open up for questions.

Q&A:

Audience: Thank you for inviting us. It's a wonderful meeting. I enjoy every minute of it, except I have one small complaint. I'm in PIF 4 and Dhandho, and neither of them have Reysas Logistics. Yes. How come?

Mohnish: It's a very valid complaint. When we are buying a position, we will look at the cash availability in different funds and usually the smallest fund will go first, so it has the most impact. Then we go to the next fund and the third fund. We have a standard way we do it. Just so you know, the largest position in Reysas is in a fund (PIF3) that I have the smallest position in. It's not designed to directly benefit me, it's just the way the chips fell when we ended up with about a third of the company, which surprised me, that we were able to buy that much.

One of the puzzling things about Reysas was that a public company that has a $20 million market cap with $800 million liquidation value should not exist. You know, that just defies logic. The promoters might take it private, they could sell it, they have various choices. What I discovered, is that the father and son who run the place are good capital allocators, but they did not understand the notion of buybacks. Buybacks are hard for most management teams because what happens is, cash leaves your treasury, and you don't have anything tangible. We have some shares, but you don't have anything else you can point to that you own. It's like a leap of faith for management to understand that. When we got to a third, they got a little concerned and they made a verbal request to me not to buy any more shares. We are not in the arm-twisting business. We could go and buy more shares if we want to, but I don't want to create animosity, so I said, fine, if you don't want us to buy, we won't buy. We voluntarily ceased our purchases. I tried to educate them about buybacks and I said, look, keep us at one third and you can start buying back the shares and that'll help us and help you and help everyone. That logic still doesn't work for them. But what they have understood is that they should personally buy shares, which they've been doing.

Because we took away so much of the float, one of the reasons the stock has jumped is that if anyone goes in and tries to build a position, it'll pop because these are mostly held in long term hands now. We just ended up with the ratio between the three funds, just because we were going through our mechanism of where the cash was. None of the Dhandho Funds ever got to that because the Pabrai Investment Funds were not done yet. We usually will go Pabrai Investment Funds first and then Dhandho and so on.

Now if you look at some other positions, if you look at something like TAV Airports, PIF4 had more cash than the other funds, so it was able to go ahead of the others and it has a full position. But I would say this has been a problem from the beginning where we never tried to make the funds equivalent to each other. We just go one after the other and then we end up with these, what I would call accidents of history, where sometimes we can end up with a large position and it goes negative or down. Sometimes it can be a benefit to go last, you might get a better price. I am sympathetic to you. I have a large position in PIF4 , which does not have a big Reysas position, but hopefully over in the fullness of time it'll pan out okay. We also own a small amount of shares in the Reysas REIT. PIF4 has some of those. The Reysas position in PIF4 is small, but it's not zero, there is some exposure. I sympathize with you, but we can't buy more. They requested that we sell shares back to them and I just said, I can't do that, because we can't sell at the current prices. It is the way it is. Thank you very much.

Audience: Hello, Mohnish this is Sathish. I'm from Dallas. There was one point you made about sitting on the ass and doing nothing. If you need any help with that, let me know. I can help you. All right. But the question is about, again, Reysas being a Turkish company, there is a lot of geopolitical risk and inflation running rampant there. Any concerns?

Mohnish: That's a very valid concern. I would say that 97% of the Turkish market is not investible. They have very high inflation, very crazy monetary policies, but I don't know if that will change with the election coming up in June. But there's a sliver of businesses in Turkey, which are not affected by these policies, and we tried to focus on those. What happened in Turkey is everyone and their brother exited the markets. Maybe Haydar might have some thoughts he can share, but everyone exited because of these crazy policies, and when I looked at the valuations, they did not make any sense. I remember the first company we visited in Turkey when I went in 2018. A PE of 0.1, not one, 0.1, the market cap was equal to one month's earnings. It's a serious bank, one of the largest banks in Turkey. It has probably done well, has it? What's happened to that business from then till now, Halk Bank?

Haydar: Last 1 month the price doubled. But it hasn't been doing very well.

Mohnish: The reason why the valuation went to 0.1 PE was they had flagrantly violated the Iranian embargo by the UN. They were wire transfers and the US came down hard on them and such, we weren't going to touch that. But you get some very crazy valuations. For example, there's a juice company in Turkey which exports to the European Union, about 97% of their revenue is exported. Sales are in Euros. Because Turkey is part of the European common market, they pay no tariffs. They have full exposure to the entire European common market. They can sell whatever they want and its free trade. A company like that benefits when there is heavy devaluation because all their costs are in Liras and all the revenue is in Euro.

TAV is another company like that. Some of the airports they have are in Turkey, some of them are outside Turkey. All the revenues are in Euros even for the airports inside Turkey. They get paid like 15 euros per international passenger, duty free etc. The company has told us that for every 10% that the Lira drops, earnings in euros grow up by 4%. One of the issues that happens in Turkey with this heavy devaluation that's going on is the Turkish people are becoming poorer because wages are not keeping up with the real cost going up. What we are seeing with a business like TAV is they are doing well as their costs are in Liras and they have almost no revenue in Lira.

There's also a Coke bottler in Turkey with similar type of situation where they can raise prices with inflation, and they operate in like 12 countries. Turkey is a decent chunk of their business, but they've got Pakistan and few other countries. Again, the Lira is not a dominant factor in that business. If we look at Turkey with the lens that I only want to invest in businesses which are not affected or maybe positively affected by the inflation and devaluation, then you'll end up with a small sliver of businesses.

In the case of Reysas, what attracted me was, of course, there was this huge valuation gap, but the second thing is that if you have inflation, steel prices are going to go up, concrete prices are going to go up, land price are going to go up, cement prices are going to go up. What makes up the warehouses? Just those four or five things. It's naturally what I would call inflation indexed. In fact, we have seen that play out in the sense that as the Turkish lira devalues, the prices for these properties go up. Which is why when we invested in Reysas at that time when it was five lira to the . Today it is more than 18 lira to the dollar. It's gone from 5 to 18. In the last three years, the stock has gone up 7x in dollars in that period. It didn't matter that we had all these macro issues. Of course, their leases are inflation indexed. They get CPI increases but sometimes CPI numbers are not accurate in Turkey.

Audience: What is the risk of Reysas becoming a large listed company which is essentially private and that is why there is no price discovery? Because the owners are buying more shares, you have bought the rest and there are very little shares to be had for the others.

Mohnish: If we go back to Graham and fundamentals of investing and so on, in the end, the intrinsic value will show up. It's bound to show up. Let's say if I look at Reysas Logistics, 40% or 41% is owned by the promoters, and then we own about 33% or so, right? About 75% is between the two of us, right? The other 25% we don't know who owns it. There's no disclosure because if you're below 5%, there's no disclosure. Reysas has significant daily trading volumes. Everyday millions of shares trade hands.

One of the things about Turkey, which is unusual is, if you look at the entire market cap of the country, 80% is either held by insiders or foreign investors. 20% is what I would call is the local float of the entire market cap. That 20% turns over every nine days. It is one of the most hyperactive markets, the reason why we were able to buy a third of the company is that 20% of owners. Their typical mind-set is to buy at 10 o'clock and sell at 2 o'clock. Most Turks are not willing to own the stock even for two days. The interesting thing is that they don't use the term "invest" in the market like Haydar, an unusual creature in Turkey. They call it "playing in the market." They don't call it investing. Buffett has a quote that the stock market is a mechanism to transfer wealth from the active to the inactive. If somebody wanted to build a position in Reysas, they can, they can buy shares, they are offered every day. You would have to like, you know, maybe take a 100,000-200,000 shares a day. But you could do that, you could probably buy a 100,000 shares a day without affecting the price too much over time. That business is going to find its value. It's no longer today sitting at the $20 million. I mean, we stopped buying the shares two, three years ago. It's not us, you know, driving it.

The insiders can only buy one month out of every three months. They've got these restriction windows during which they can buy. For two thirds of the time, they're not in the market at all. We are not there. They're not there. It's just the float. Over time, it would find its value. That's the bedrock of what Ben Graham thought is the nature of capitalism. People will come in eventually. I don't know if I agree with Haydar that there will be a change of regime next year. We never invested with the idea that there'll be a change of regime. If there is a change of regime, we may see a lot of people come into the Turkish market and that could be the catalyst. We'll have to see what happens.

Audience: Then you have the risk of the currency being frozen by the government and foreign remittance and things like that. Your investment could become compromised.

Mohnish: That's a possibility. We haven't seen that so far that would be a significant step. Turkey has a good balance of payments. They just have weird policies, which are relatively easy to fix, but we just don't have a person in charge who is interested in fixing those. Even when there's regime change, I don't believe the inflation will vanish overnight. These are difficult problems and it'll take time. We don't have extreme exposure to Turkey. It may get big if these positions get to where they're expected to get to. It's not an issue today. We'll see what happens in the future, but you have very valid points.

Audience: Mohnish, what platform can you buy that on? You said you can buy it yourself. What platform can you buy it on?

Mohnish: Individual investors can buy through Fidelity. If you opened a retail account at Fidelity in the US, their international trading desk can access Turkey. Turkey is not an easy market for retail investors in the US to access, but that's one path that's available.

Audience: Do they have any plans of listing in the London Stock Exchange or New York Stock Exchange? Are there any restrictions preventing them from doing that?

Mohnish: You're talking about Reysas?

Audience Yes.

Mohnish: You're asking whether they would take it private?

Audience: No. Like listing on other stock exchanges like London Stock Exchange. At New York Stock Exchange or New York stock exchange.

Mohnish: I requested them to put a PowerPoint on their website. I said, "I'll make the PowerPoint for you in Turkish, just put it in your IR section." Because when you look at the financials, it doesn't tell you that there's this value gap, right? Even when they do an annual appraisal, it doesn't show the real valuation. I don't know how the appraiser works, but it doesn't show real market value. Their reply to me was, which was smart, they said, "We like the low stock price, so we'd have no interest in putting anything on the IR section of website." They've woken up to the fact that there's a significant value gap. They never cared about the value gap because they were just so focused on building the business that they never cared about the gap. In their mental mind-set, they don't think their wealth is tied to the stock price. They think their wealth is tied to the underlying value, which is fine. I mean, it's a right way to think about it.

The bigger risk is a take-under. It's a bigger risk than Turkey shutting off you know foreign exchange inflows and outflows and so on. They could offer a 30% premium tomorrow, and now we would try to block it on our end, et cetera. We just had that happen to a company in Japan that we used to have a position in, Shinoken. Shinoken was a company we were buying at about 1,000 Yen a share and the liquidation value was at least 3,000-4,000 Yen a share, and they were growing the value quite significantly. They offered to take the company private at 1,600 and it's going through. They're taking it private at a much lower price than is a fair price for the investors. A take under is a real risk, and it was a real risk from the beginning. Now, one of the things that would help us is we have a large position that could block that if that ever came about. They haven't shown any deep interest in going down that path. Their mind-set, which is the right mind-set, is they're focused on growing the intrinsic value of the business. That's where they spend all their time. They don't spend time worrying about the stock price.

They are very focused on projects and things that can move the needle on the intrinsic value. There's a range of possibilities in the future, but it's possible that if we held this position for 20 years, it might be worth $10 billion, and we'd have a third of that. It's also possible that the take under happens or there are exchange controls that come in. You can think of this as a probabilistic bet. We don't have a hundred percent shot. We have a good shot, so far it's working and we just have to see where it goes.

Audience: Mohnish thank you for having us here again. It's nice meeting you in person like this again after the pandemic. I have two questions. First is, if you could share a little bit more about IEX, both on the portfolio level. Are you buying more? Have you sold? Hopefully not. Then on the business level, market value, how much cash flow they're making. I understand it's a high profit business, low CapEx, what they're doing with that cash flow? Then the second question is with respective interest rates. For the past 20 years, we've lived in an environment of low interest rates. I know as investors it's hard or possible to predict there's not much we can do about it, but it doesn't mean it doesn't affect us as investors. Is there anything you're thinking about, changing your strategy in any way.

Mohnish: All right. Those are good questions. I probably visited or met in the last eight or nine years, maybe about 200 different companies in India. I would rate IEX as probably a combination of business model and management team as being the best. High-quality people and a high-quality business combined together. When we bought the business and we made the investment, I paid up, it's very unusual for me to pay up. At that time, we paid more than 40 times trailing earnings to buy into the company. It was growing very rapidly, of course, it was very well liked by the markets, et cetera, because it is such a strategic important asset for India. No foreign investor can own more than 5%. Normally in Indian companies, you can have up to 10%, but in the case of IEX, they restricted it to 4.99%.

We had a full 4.99% allocation to IEX. Besides the India funds, Pabrai Investment Funds had a position. One of the big mistakes I made was when the pandemic hit early 2020. IEX was one of the only positions I had where we were showing a gain, and it was still trading at a very high multiple and everything had collapsed in price. Markets were very cheap in March - April, and I made a switch in Pabrai Investment Funds, which was a big mistake. We made a switch from IEX to other bets, which hae not done as well. In hindsight, the big lesson I learned is when you have a partial ownership of a great business, if you're going to sell it, the question you should ask is, is the business getting better? If the business is getting better, then give it a lot of rope. Don't have a tight leash on it, like, let it sit. It might be optically overvalued because those are very rare businesses. But I didn't have that type of a mind-set two years back. That came about in the last, I would say 18 months or so. Pabrai Funds exited IEX. India funds had the same situation with IEX, but I would have to find another Indian company. We didn't have any ideas. We had ideas outside India. We had no ideas in India. Thankfully India funds could not do anything with IEX. I could not kind hurt myself, which was great.

We were left with that position, and it's done well and we've come to appreciate it. In Europe for example, almost 30-40% of the total electricity transacted is going through these exchanges. It's a very large number. Even in the US there's a significant portion that is especially the merchant generators and so on. In India, the government sees a lot of benefit to have IEX become a bigger portion of the pie. Though it's a private company, it's regulated by the CERC in India, but it's a very benevolent relationship they have with the regulator because the regulator understands this is a very high quality operation that's looking at the long term interest of the country, not just their own bottom line and so on. IEX is a very innovative company. They have started another business called the Indian Gas Exchange where they've funded the same thing for natural gas and that business is getting a lot of traction. They are planning an IPO of the gas exchange in 2025 or 2026, thereabouts. They are required by law to take their stake in the gas exchange down to below 25% by that time. They did a very smart thing. They started the gas exchange; they owned a hundred percent of it and they gave away 5% chunks to a bunch of strategic players in India almost for nothing. They gave 5% to the Ambani's, they gave 5% to the Adani, they gave 5% to these large gases, generators and so on. They gave away 50% of the equity at a very low cost. In effect, what they did was they blocked anyone who would become a competitor.

They just brought them into the tent and when they brought all these people into a tent, they all pumped all the volume through IEX through the gas exchange. The gas exchange is already profitable. It's growing fast. They will take it public in 2025 or 2026, it may have a multibillion-dollar value. They have about 45- 50% of that business. In 2025 or 2026, they'll take it down to 25%.

When I met with the management, they're good and they are continuously looking at what else they can do. The thing is that it's a very relaxed place because they have, for the most part no work to do every day. Everything is automated running through their servers. The money comes in advance. They have a massive float because the buyers of energy pay them in advance and then they pay the sellers after three, four days. They have a big float and they generate alternate income on that. IEX has innovated very heavily on cross border energy. If you look at a country like Bangladesh, which is significant, Bangladesh is about, probably one seventh of the population of India. But now, the per capital GDP is higher than India and energy prices, electricity prices, Bangladesh are much higher than India. The grid between India and Bangladesh is not high capacity yet. IEX is doing a lot of work behind the scenes to increase that capacity. India has a lot of surplus electricity generation capacity. Over time that's going to go very heavily to Bangladesh. A lot of energy comes from Nepal to India, from Bhutan to India. This cross border stuff is increasing quite a bit. They've been working on that, they worked on the gas exchange and they're continuously looking at, what can they do? They even looked at whether they want to go in the software business and license some of their technology to exchanges in other countries. It's a creative team, they're just looking at a bunch of different things.

My take is it's a very good business. We will keep that stake. When I run the metric, is the business getting better? I would say absolutely. I don't see any signs of anything on the radar, which is a concern. The big concern everyone has with IEX is that people say, 70%, 80% of your net income is profit and your regulator's going to come in and just take your take down. But the regulator has shown no interest in doing that. This has been the case for a long time, because what they are charging is a very standard international price. The charges in Europe and other places are very similar. The competitors of IEX who are trying to get traction don't want those rates to come down because they would lose even more money.

The interest rate question, I never invested assuming interest rates will stay low. I mean, when I first started the funds internally, I used to assume, okay, like 10% discount rate type thing. Even now, I assume that, we've never like tried to discount based on 2, 3, 5% interest rate. Our investments will not do poorly or well based on interest rates. Of course, in the long term with equities, the higher the interest rate, the worse the equities do. But like for example, if I look at a business like Micron, the important thing is what are their earnings and cash flows in a few years. If interest rates are high, they won't get a high multiple, but the bigger determinant is, what is that cash flow number? I don't spend too much time trying to figure out what inflation is going to be or what interest rates are going to be, and just take it from there.

Audience: Hi Mohnish, I'm Deep from Los Angeles. Thanks for having us. I have a two-part question. First, is, what is the perceived technological or competitive advantage that Micron has in that space and in a highly consolidated oligo-type environment that's highly visible? Why do you think it's trading in a mid-single-digit PE multiple?

Mohnish: Both are good questions. One thing about semiconductors in general is it's the closest thing we have in technology to black magic. One time I was speaking to the CFO of Micron and he said that, look, if one of our plants burned down and we have all the patents and we have all the engineers, we are not sure if we can get back to where we were. This is the problem that China has, which is frustrating for them. China sees that they have a real exposure because they don't have the semiconductor tools and they don't have the ability to create those chips. China has put a lot of money behind it, and nothing has come out of those tens of billions. $50 to $100 billion is put on it.

They have got no output out of it that is worth talking about. The leadership of China never understood that they're probably understanding it now that they're never going to be able to get to hold in semiconductors. Just not going to happen because on one side you don't have the tools. The US just shut off all the tools from going in on the other side, even if they had all the tools and they violated all the patents of everybody else and they violated all the international laws, even then, it would not work. They tried to hire engineers from Taiwan at like a million dollars per person per year. They paid up, brought those people in, and they put a lot of these guys together and they said, okay, clone the chip manufacturing and all that, it all failed, didn't work.

They can do this in aircraft manufacturing, you know, as long as they have access to the suppliers and all that they can do that, they can do it in almost any other field. Memory chips has three players. NAND has more players, but DRAM has three players. The number of things you need to master to produce DRAM chips at the nano level they're at today is something like 120 different processes which have nothing to do with each other. Which means that you need 120 different teams with different competencies all doing their job correctly with full access to the full patent portfolio to be able to produce those chips. There's a company called TSMC in Taiwan and TSMC has a monopoly and that they don't do memory chips, they do other logic chips and so on. It has no competitor in the whole world. It has no competitor for the same reason. Intel finally is trying to compete with them and Intel is formidable but we'll find out in 5 or 10 years if Intel can do that. I wouldn't bet on it. I mean it’s possible, but I wouldn't bet on it. I'd asked Charlie Munger a few years back when I was looking at Micron, I said, if you have an oligopoly of three players, and I didn't bring up Micron in these companies, I just wanted to have a conversation about oligopolies. I said, if you have oligo of these three players, what are the odds that they remain rational, right? One of the things that can happen is one player decides I want more market share and so I'll reduce the price and I'll take more market share. Then the second one has to respond to that. In the end, what happens if you have that sort of behavior going on? Nobody makes any money. Charlie said that Buffett looked at Coke and Pepsi Bottlers in almost every geography in the US and around the world because those are oligopolies, right? You've got two players because nobody else can bottle Coke or Pepsi. He said that in something like 97% of the geographies, both the companies' bottlers made decent profits. There were about 2, 3, 4% of the geographies where nobody made any money.

What happened in the 2, 3, 4% is, either the coke bottler or Pepsi bottler decided I want more market share and went aggressive. Then the other person just responded and then, egos and other things get involved and all this stuff. There were just a few markets where, there were no profits being made, but 97% of them were behaving rationally. They weren't trying to increase the market share. In the case of Micron, Samsung, and Hynix , these are the three players. Samsung has 50% of the market and approximately Micron and Hynix have 25% each. I met with Samsung in Seoul a few times, and I met with Hynix also a few times and I asked the Samsung people because at that time when I met them, they had an edge, they were ahead and they had the ability to drop prices, which would cause pain on the other two players and take more market share.

They had 50% market share. I said, why don't you take your market share 70%, why don't you like, drop your price a little bit? They can't match you. You've got a price advantage. Their response was that bad things happen to us over 50%. They said, we get a lot of undue attention. They said, we don't want to increase over 50%, we have 50%. We're happy with 50%, we don't want to increase it. When I talked to Micron and Hynix, their perspective was, well, it is what it is. We're going to stay where we are. It is illegal for the three players to get in a room and collude on prices, but they do exactly what the airlines do in the US. What happens is United goes out and says, Houston to New York is now $170, right?

It used to be like $210, they took it to $170 and five minutes later American adjusts that price to the same price and five minutes later someone else adjusts the price. They've not spoken to each other. That is perfectly legal, right? If you change your price and the other guy reacts to the price, there's nothing unusual about that. When I was looking at these three companies, what surprised me is that they're a very high frequency of making market announcements. I said, why are they so frequently making these like we are cutting CapEx, we are increasing this. Then I realized they're not talking to me, they're talking to the other two guys, and they can't talk to the other two guys in a room, but they can put a press release out. Micron will issue a press release, our CapEx next year will be $11 billion and 2 days later, Hynix will issue press release, our CapEx is $11 billion, and then Samsung will release. They have no conversation with each other, but what they're trying to tell the other two guys is, I'm not interested in rocking the boat. Then the second guy says, I'm not interested in rocking the boat either. The third guy says the same thing. I've been seeing this game with all their releases and the market shares are stable. The best I can tell with these three players is, they are like the 96 - 97% of the two bottlers where there is a rationality in how they are approaching things. As long as that is the case, they will make money. Now, market doesn't recognize that today. It's sitting cheap.

It's mispriced. The other thing is that there's such a huge tailwind coming. Another thing about the memory business is, we are getting to the end of Moore's law, right? We have doubling of capacity every two years, etc., reduction of size. That's not happening anymore. We've gone through this huge period over the last 40, 50 years. The incremental increases are becoming harder and harder. The time it's taking to increase chip capacity, etc., is being more stretched out, which works for the benefit of the three players. We have a situation where there is a huge increase coming in the demand for memory.

You get to autonomous vehicles; you cannot have the data come over the internet. You can't rely on that. It has to be in the car. All the maps, everything has to be in the car. You don't have this dependency that the internet goes down in the car, it doesn't know where it is at whatever apps. The memory requirements when you go autonomous are very high in automobiles and each automobile becomes like a server. You've got hundreds of millions of cars, so it will take time for all that to happen. But you have AI, you have mobile, you have all this cloud computing, all of that is driving towards more memory. At the end of it, you have these three companies and the three companies are on the rooftop talking to the other two saying, I'm not doing anything. My take based on all of that, is just sit there and have the bet to see what happens. The good news is it doesn't correlate with Reysas. It is different, so it's good to have Reysas and Micron in the same portfolio. We are fine with that. Other questions?

Audience: Hi Mohnish, Bijesh from San Antonio. Thanks for having us. My question is a lot of your investments are in the international companies, international market, and with all the different risks that people were just talking about moving forward. Are you looking at the US companies also?

Mohnish: We were having a hard time finding businesses in the US. Just recently a couple of things showed up on the radar, we haven't pulled the trigger yet, still studying them. I prefer to be invested in the US. The odds that I will lose money due to fraud in the US is probably the lowest in the world and it goes up in other parts of the world. So to the extent we can, I would want to invest more here, but if we can't find it, I mean, I would say that when we made our memory bet, Micron had the best governance. I preferred it for a number of reasons, being in the US, US governance, all of that. The others were not as interesting to me. I just don't think we could find airport operator like TAV at those valuations anywhere else. It's a quirk and I don't think we could find a company like Reysas or IEX. Those are tough to find. We look everywhere. I would prefer more US exposure. We just see where it ends up.

Audience: Hi. I was wondering if you could update us on your efforts on with the charity in India and how the pandemic has affected it.

Mohnish: Well, we are going to go non-capitalist. The pandemic had a big negative impact. One of the things that happened is that they shut down educational institutes. They forced us to shut down and our kids cannot do anything remote. They don't have electricity, they don't have a desk or a chair or whatever. If you send them remote, you're done. Nothing's going to happen. We've had a hard time because, normally when we are running our one-year program, we get the kids for 11 months. For this last year we got them for seven and a half months, which is a big cutback.

I just got the preliminary numbers. Normally we would get around 70% of the kids. We got the medical results, we haven't got the engineering results. Medical, we normally get like 70% of the kids through, it looks like this year it's 55%. It went down because of that. That's a pretty significant gap. The engineering results are coming out early next week. Now the second problem is that because they delayed the exams and next year they probably won't delay the exam, it's going to compress the year. Normally we start our coaching in July, and the exams take place in like May. This year, for example, the exams took place in like late August. By the time the coaching starts, they've already lost like two, three months, but they're going to still have the exam in May. We will have a problem even this year, and then we'll come back. But the pandemic was a big negative. The good news is, we've become better at it. We've got more of our alums having to be the faculty members, the operations are better, and the team is better, but the pandemic was terrible.

Audience: Hey Mohnish, this is Matt from Kansas City. I was just going to ask you if you could share some of the wisdom that you've learned from people that we probably won't get a chance to speak with - Warren Buffett, Charlie Munger, and maybe Li Lu.

Mohnish: Well, maybe it's too broad. Do you have something narrower? Well, I don't have any access to Warren, you know, in the sense that he's a busy guy. Charlie is more open to hanging out and having banter, and such. But Warren's got too much going on. But my take on both of them is that there's so much in the public domain with both of them that everything I learned from Warren, I just learned from what he's put out and he's put out a pretty large body of work. The same with Charlie. But what I find with Charlie is that I can bring up things that are unrelated to investing and bring up different things around investing. I mean, his wiring is unusual. It's interesting when sometimes I bring up issues to him where I know he's never thought about it. Sometimes I'm having fork in the road issues with Dakshana. Charlie has never been to India, but I bring these issues up to him and he just gives the answer. And then I say, oh, that's obvious, why didn't I think about that? His repertoire is very broad. He's able to have a good view of a wide range of subjects. The common theme with both is they're able to reduce a lot of stuff to the core principle. Then, what they get to is simplicity.

They are able to take a jumbled mess of stuff and filter through it to get to something that is simple and straightforward. That helps them a lot on that front. Li Lu is more I would say closed. There's not a whole lot of stuff in the public domain with him, but these other two guys, you've got plenty in the public domain, especially like Poor Charlie's Almanack isgood to look at on that front.

Audience: My name is Ibrahim. I'm from Saudi Arabia. Thanks a lot for having the meeting. The question I have is, you once mentioned that you usually try to focus on three or four variables that impact the returns of a business. If you were to pick those for an asset management business, whether traditional asset management or the alternative side, what would those usually be?

Mohnish: You're saying the three or four variables when picking an asset manager?

Audience: No. You know, in terms of measuring how successful they are, expanding them all to business

Mohnish: You're saying in terms of investing in them?

Audience: Yes.

Mohnish: Okay. Well, the good news about the asset management business is that it's got very favorable economics, right? It's doesn't need much capital. It can scale without much capital. In Pabrai Funds, when I started, I don't think I even put a thousand dollars in, right? I just started and everything grew from there. The leverage you get, it's in many ways better than even the software business. The core economics of an asset manager are favorable. It is favorable versus a lot of other businesses. An asset manager will do well in terms of scaling if they deliver the results right. Buffett says that if you're in a rowboat in the middle of the Atlantic and you deliver above average returns, they will swim to you in shark-infested waters to invest with you. If you deliver good returns, investors will find you and people will find you on the way to your door. The scaling makes the business even more attractive from a return perspective. The way to look at an asset manager is that you know what mouse traps do they have? If you look at some of these large ones, like Blackstone, etc., they've done well. I mean, if you look at people like Brookfield, Blackstone, KKR, all of these companies have done extremely well. The earlier ones, the mutual funds, etc., Fidelity, and all these other ones, Vanguard, they also did well. Once you've got a mouse trap that is, you've got the core engines defined and you're delivering good returns, the assets will find you.

Audience: Mohnish, I'm Sai from New York, and I work in the private equity industry. A few years ago, I was doing interviews for the hedge fund industry, preparing my stock pitches, and all of that. I guess the core piece of all of the pitches, which I gave to everybody, is not sufficient to point out that, this is the intrinsic value and this is where it's trading at now. Right? Obviously, that's probably the meat and potatoes of the pitch, but everybody also wants to know how is that value unlocked, right? Is that through buybacks, right? Is that through other sorts of return of capital? I know on some of the pitches, you touched on some of those like Edelweiss, they have a spinoff or coming. Are there any points you want to highlight for any of the other investments like catalysts you see in the next few years, right, that would help bridge some of this gap?

Mohnish: That's a great question. I generally don't focus on catalyst. I don't focus on a known catalyst when I'm trying to make an investment if I'm convinced there's a big gap. In the 1950s, there was a senate hearing where they called Ben Graham to testify, and Senator Fulbright asked him a question. He said, Professor Graham, some stock is trading at $10 and you say that the intrinsic value is $20. What exactly are the forces that make that stock go from $10 to $20? Ben Graham's answer was, he said, this is one of those mysteries that we don't know the answer to, but what we do know is that if we are right about the intrinsic value, eventually the stock will get there. Graham did not focus on a definitive catalyst.

I mean in his case he was a child coming out of the depression and the crash and so on. He pursued all these net nets and all of that where there was an obvious value delta, and he also pursued a basket approach on those. Templeton took a similar approach. If I go back to all the way to when I started in 94, I don't know very many cases of investments I made where the intrinsic value was never realized, where there's a valuation gap and that valuation gap never closed. That may have happened very rarely. Usually, the gap is always closed. Many times, it could be that our assessment of intrinsic value is wrong. Stocks at $10, we think it's worth

$20, it’s worth $12, get to $12, it sits there and the $20 was just, you were wrong about that. In the fullness of time, we will know what the intrinsic value is and we will know all of that. But I would say that we had this discussion about Reysas. We have some forces outside of control; if they like do a take under or whatever, we don't get our full value realization, and so on. But if that company just continues doing its thing, it'll eventually get to its value. It'll, and it may, and the nature of markets is that it will either undershoot or overshoot. Markets usually never get it right. Things might be undervalued or they might be overvalued at different points. It'll be on both ends of it. My take has always been since I started, I've just relied on that edict from Ben Graham that it's like a law of physics that if you have confidence in the intrinsic value and you are correct about it'll get there.

Question: Dimple from New Jersey is asking, how well are the portfolios ready to withstand possible recession due to rising rates and strong dollar?

Mohnish: Just from the time I've begun to invest I've always focused on the micro and I haven't made investments where there's a high degree of sensitivity to recessions or to interest rates, and so on.

If we look, for example, we don't have large exposure currently in the US. If we look at Micron technologies, which is one of our main US holdings, what matters in the long run with a business like Micron is what happens with data centers and with mobile phones and with AI and tablets and so on. Now they do get affected by recessions and pandemics and all of those things because economic activity goes down. But also, they have long, strong secular tailwinds going on. Micron in the near term will have some weakness in their business, but they'll be able to ride that out and move on.

Question: Danny's asking about how is 80% inflation in Turkey affecting our investments there?

Mohnish: 80% inflation is bad news for any investments anywhere. Probably 95% of the Turkish market is not investible for US investors, because they're so heavily exposed to the Lira; inflation rate is going to be such a strong headwind it'll make investing hard and probably lead to negative returns. The investments we focused on in Turkey, like TAV holdings, benefits from inflation. One of the things that happen with 80% inflation is that people are getting poorer. The wages are not going up at 80%, they're going up at some fraction of that which is unfortunate. TAV is seeing its Turkish costs in Lira drop while its revenues in Euros are not being affected. In the case of Reysas, for example, when you look at the liquidation values, in fact, when we invested in Reysas in 2019, all of those warehouses were worth about $800 million to a billion with $200 million of debt. That debt is now down to about $90 million. They've added a lot of solar panels on the warehouses, they now generate 15 megawatts of power. That footprint is probably worth over a billion with lower debt. Turkish real estate itself is depressed. It was depressed in 2019, and it's depressed today. It is possible that in the next few years, in dollars that footprint could be worth much more than a billion.

Again, these investments are designed to have some resilience and not be as affected by inflation and such. The question about Reysas is if it'll be affected by the war in Ukraine. Well, right now, Russian males in mass are moving to Turkey because it's one of the few countries they can go to without a visa. All the flights from Russia to any countries where there are no visa requirements like the former Soviet republics, Turkey etc., are all full. Turkey has been straddling, keeping a good relationship with Russia and keeping a good relationship with Ukraine. They've probably benefited a little bit from the war because they still have a good amount of trade and such going on with Russia as well.

So far we have not seen any negative impact that I can tell. The airports are jamming, they're doing well, and Reysas the warehouses are fully leased out, so we don't see anything there either. Now once we have tactical nukes, I have no idea what happens then. Then the range of things that can happen become difficult, but I don't see Turkey having any specific impact from tactical nukes that are different from the impact on even the US, for example. Once you have the tactical nukes, there's a lot of unknowns about what happens around the world. I don't particularly see Turkey being more or less affected by these factors. We'll have to see what happens there. Turkey has an election coming up next year.

There are some polls which seem to indicate that they'll be a regime change. We will see what happens. If it does, inflation is going to become front and center to bring down. It'll take some time but if there's a leadership change, we are going to see some economic changes. In the meanwhile, my assumption when we made these bets was that there's no leadership change and that there's no let up on inflation. The investments are made with that backdrop.

Question: There's a question about why PIF4 doesn't have a reasonable stake in Reysas. Seems unfair. WIth the current market value there should be no problem moving some amount of Reysas to PIF4.

Mohnish: Well, we own a third of Reysas. The founders of the business, the father and son who founded the business, have never had any significant outside shareholders. They're used to these gamblers in Turkey who are going in and out of their stock every day or every week and so on. They've never had people hold their stock or have a large take in their stock. It alarmed them a little bit, even though we have a good relationship with them. I met them a few times. They requested us strictly, voluntarily not to increase our stake once we were at about 33%.

We are not interested in having animosity with management, so we stopped buying at that point. There's nothing preventing us from buying, but I did tell them that I'm not going to go ahead and buy more until they tell me they want me to buy more. At the same time, what they have been doing for the last several quarters is that they themselves are increasing their individual stake in the business, which is a very smart idea. The father son who owned the business are very smart capital allocators. They're getting better at it now, but they're not stock market people. The dad never went to college. He's a very smart businessman. He is biased towards hard assets.

I talked to them about buybacks, for example, the most no-brainer thing for them to do with the capital was not to build warehouses, but just to buy the hell out of the stock. Buyback conversations with most management teams are difficult, even though it makes sense to people like us. They didn't fully get it, but at least they got to the point where they understood that their own well-being would be improved by buying the stock. I would like PIF4 to have more of a position, but right now we can't do much about that.

Question: There's a question from Matt asking, "When is Reysas is supposed to do a marked to market valuation of their business?"

Mohnish: They're supposed to do an appraisal of the warehouses every year. We have looked at those appraisals very carefully and we've also discussed the appraisals with Reysas. We don't believe the appraisals reflect market values. I don't know why that is, but they don't. When we discussed it with the Reysas founders, they agreed with it as well. There must be some rules and laws in terms of which appraisals they have to use. They cannot be interacting much with the appraisers when they're doing their work and such. We can also see, for example, when Reysas builds a new warehouse, we can see what the cost is and we can see what the land cost is and all of that.

The appraisals are widely off, and I'm not exactly sure why they're widely off, but they're widely off.

Question: The question about Tencent and Alibaba, given the tension between the US and China.

Mohnish: Tencent and Alibaba got more affected by the actions taken by the Chinese government than the US and China relationship. Tencent has pivoted quite heavily from investing in China and growing its China business to looking very heavily outside China. It's one of the smartest management teams I've seen anywhere in the world. Their track record is incredible. They're good business operators and they're exceptional investors, and so they've taken their focus in terms of capital allocation and investments very heavily outside China. Tencent will do well and even Alibaba will do well. The Chinese government also realized that they had taken too heavy handed approach with these companies, and they've backed off. It's hard to tell what the CCP will do and such, but all these companies should do fine.

Question: The question from Singapore is, "How do you feel about running the funds now when returns are below the high watermark and may perhaps continue to be so for a while?"

Mohnish: Well, thank you for your concern. That's a very valid question. I got paid a lot of fees in 2007, and then I got paid no fees until 2017. From 2007 to 2017, a 10-year period I lived on fresh air and water, and my weight still went up. So the fresh air and water diet for 10 years didn't quite help. I did get paid significant fees in 2017 and 2018, and then there have been no fees now for about four years. If you think about Pabrai Funds, it's a weird operation in the sense that if you look at this period from 2008 to 2017, almost 10 years, the expenses to run the ship every year, which are not paid by the investors, is approximately about 750,000 a year.

There's like, my salary and office rents and staff and so on. That runs about three-quarters of a million. If you take a 10-year period as we went through from 2008 to 2017, there were like, let's say seven and half million of expenses with no revenue. If you look at our income statement, it would show zero revenue and seven and half million in aggregate expenses over the last 10 years. In 2007, the fees were north of $30 million, and in 2017 and 2018 the fees were north of $40 million. There were fees collected every year from 1999 to 2007. Every year from 1999 to 2007, our income statement would look very nice. But if you look at these collected fees, like say $70 million or something, pretax and the seven and a half million of expenses, well, I would say that's a good business. Now we've gone about four years again without fees and so probably around $3 million or so in expenses with no revenue.

It may be, I don't know, three years, four years, two years. I don't know how long it takes for us to get past the high-water marks. I don't think it'll be less than two years. I don't think it'll be more than five years. It's somewhere in that window. That's perfectly okay for me because usually once we enter fee earning territory, just the nature of this business is that the fees can be sizeable. This was a concern an investor had earlier also, like they were saying, how long can you run when we were going through this 10-year period? It's a weird business model, but the business model has worked over the last 23 years, and it'll keep working so it should be okay. It aligns our interests and such.

Question: Amandeep from LA is asking that in a prior interview you mentioned Mr. Munger advised you to have a sounding board. You described once-a-month meetings with Li Lu. Do you still do this, and are there others that you discuss your investments with?

Mohnish: Well, Li Lu visited me a few weeks ago here in Austin, which was very nice. But because now we are in different geographies; he's moved to Seattle, so our lunches came to an end a few years back. We do talk periodically on the phone. I agree with Mr. Munger. Charlie told me it's important to have people to talk to about your investments. I've had Guy Spier whom I've had a lot of interactions with on that front, Li Lu, and there's probably about three other guys who I talk to a fair bit who are smart, and I respect their opinions. I do think that these conversations with these other investors are important conversations to have. What I find interesting is that when I bring up Turkey with any of these guys, I can't get anywhere with them. I mean, they just have mental blocks on that front. On some fronts we can’t see eye to eye. What Charlie says is of great importance, and I try to follow that.

Question: Question about Alibaba, why did we sell?

Mohnish: Well, we did tax loss harvesting with Alibaba. We did two things at the same time. One is I came to the conclusion that Tencent was a better business than Alibaba, and that both had dropped a fair amount of value, so we took a loss on Alibaba and we bought Tencent through Prosus in South Africa. We captured a tax loss, and we got into what is a better business between the two.

Mohnish: The question about currency hedging - we've never done currency hedging in the past. Most of our Turkey exposure is practically speaking, a Euro exposure. I don't have a particular view of what happens to the Euro and the dollar and so on. We've not done hedging in the past. It would be expensive in some cases. I don't know if that's going to be helpful to us. We will just follow our non-hedged approach that we've taken. We've also not hedged the rupee in India. We do have investments in India, and that hedge would be very expensive. Hedging the rupee against a dollar would not be cheap.

Question: Positions in PIF2 in approximate percentage?

Mohnish: These are listed every year in our audit reports. You can pull up any of our annual reports, which are on the website. Then within the annual report is the audits. The audits list everything over 5% so you can get a snapshot of when the audits took place. But I would say that if you just want a general snapshot of what's going on, I would say Rain Industries is approximately 23% of the pie and Micron is about 18%, and then we have a bunch of 10% positions in PIF2, like TAV and Edelweiss and Reysas and so on. That gives you some sense. But if you check the last audits, which went out to all of you on June 30th, 2022. That audit report would give you a pretty decent idea of what the portfolio looks like.

Question: Don't you see many attractive investments in the US for the time being with the NYSE in free fall? Are any US companies approaching attractive stakes?

Mohnish: We recently started acquiring a stake in one NYSE listed company which we are very excited about. There's another one that's on the radar right now that we are in the middle of drilling down on. That looks very promising. I've been wanting to have more US investments and I just was not finding the value but I'm excited about these ones and possibly two businesses that we may end up with a stake in.

Question: There's a question on Starbucks.

Mohnish: I don't think I'm an expert on Starbucks, but I can take a stab at it. Starbucks wants to grow the business in Europe, Asia, or whatever; there are competitors already there, maybe well established, how do you assess the ability to deliver on their growth? Well, I would just say that Starbucks is a very unusual business. It's a very high-quality business, and they have astounded people with the way they've executed in the past. I do think it's a business that has lots of tailwinds. If we look at Starbucks and its China footprint, historically the notion was that China is not a coffee drinking country and that it's a tea drinking country. But that notion has been set aside. There are local Chinese coffee chains that are doing very well, and Starbucks themselves have done extremely well in China.

They have about 5,000 stores in China and if you look at the economics of a Starbucks store in China versus a Starbucks store in the US. In the US they typically get their money back in terms of what they spent on the store in about two years. It's an exceptional business. 35% return on capital unlevered, it's amazing; with no franchising. In China, they get their money back in about 15 to 18 months or less so the return on equity in China is like 60-70%. It's even better than the US. Howard Schultz believes that the footprint in China would easily double, they could be at nine or ten thousand stores in the next few years, and I would not be surprised if that happens. They can definitely get there. The other thing about Starbucks is that they've been able to expand and tweak their core model.

They've got Starbucks Reserve which they've opened a bunch of stores in China, which got mobbed, and they do well with the Starbucks Reserve. They've got a few of them in the US as well. They also have experimented with alcohol and coffee. It's a great brand, very well run. It's become a technology company because what used to happen is that we'd go in and spend three hours with their Wi-Fi in their stores or whatever, and now a large portion of their orders are online where people just go and pick up and leave, and they still charge the same amount for the coffee. When people just come and pick up and leave, it's vastly more profitable for them. It's a great business. In fact, it's on my radar to go through a drill down to look at it because they're making some leadership changes and so on. We'll see where we end up.

Question: Do we need to come to Austin to get the cool Pabrai Funds shirt you're wearing?

Mohnish: Well, I will say that the people who attended the Austin meeting did get some good shirts and caps. This particular shirt that I'm wearing was not done by Pabrai Funds. I liked these particular shirts a lot. The only shirts I wear all the time are these; it's a brand called Paskho. I like these shirts a lot. They're Marino Wool. I myself had a bunch screen printed with Pabrai Funds and Dhandho. Then I have a whole bunch which are not screen printed. Paskho is a difficult brand to get in volume, so we've never been able to get these shirts for Pabrai Funds, and they're more expensive. Given that I'm living on fresh air and water now, we may have to wait till we have like a year with some robust fees, and maybe then we can get everyone these Paskho shirts if we can get them to ask at large volumes. But if you like the shirt, you can go on the Paskho website and buy the shirt, but it wouldn't have the logo, but such is life. But also, if you send us an email, we will send you some decent shirts. Not quite Paskho, but we'll send you some decent shirts.

Question: Steve has a question. Is there a reasonable way to buy Reysas stock for our personal accounts?

Mohnish: The one easy way for US retail investors to buy Reysas is to open an account at Fidelity. I am not aware of any other broker, not even Interactive Brokers or Schwab or anyone else that can deal with Turkey, but if you open any IRA or regular account at Fidelity you can buy it on their online platform. All you need to do is call them and ask to be transferred to the international desk, and then you can place orders for Reysas with the international desk which will then execute them. It's a good way to go. I cannot buy the stock, but all of you can, so all the best.

Question: If one were to add funds, which of the funds would you allocate to and why?

Mohnish: Well, it depends on, for the Pabrai Funds, like in your case, Philip, you're in Singapore, so if you're an offshore investor, your only choice is to come into the offshore fund, PIF3. If you were to look at the other offerings we have, which is the India funds and Junoon. From your point of view, you could go into the offshore India fund, you could go into PIF3 or you could go into Junoon. I would say probably the number one choice should be the most unrestricted fund, and especially given the heavy overdose of Reysas in PIF3. If I were you, I would just put it into PIF3 at this time.

Colin: Can you touch at all on Anadolu Hayat and AgeSA? Do these businesses have the same characteristics with revenues in Euros and expenses in Lira?

Mohnish: These are two businesses that we also have a position in Turkey. They don't have the same direct heavy Euro revenues and Lira expenses. A portion of their businesses is like that. For example, both of them have investments in Euro dominated funds, and then, the fees they earn on those are indexed to Euros and so on. We like both these companies because Turkey has very advanced laws for pensions. In fact, they studied the US 401k and IRA systems, and I was impressed with what they came up with many years ago. The government was concerned about the savings rate, and they wanted to increase the savings rate, they also wanted to have Turks create their own nest egg.

I would say some of their policies on these pensions is more advanced than the US in terms of how they're set up. But what they also did is they were very concerned about the custodians and the quality of the custodians; avoiding fraud and so on. They only allowed a very small number of companies to be in effect, the custodians through which these investments happen. Anadolu and AgeSA are two businesses which have dominant market share in the pensions business. They've got pension and life insurance, what I like about pension business is the recurring revenue nature of the business. The pension business does have headwinds with the Lira and all of that, but it's a young population. The government is repeatedly making tweaks, which allows the pension business to grow. Like recently they allowed minors to open pension accounts and such. They might add an employer match mandate. These are the only two businesses in Turkey we have, which don't have the direct Euro, Lira correlations that the others have. But they're amazing businesses.

Question: Parag asks, “Can you share your views on the Indian economy growth markets, and a bit more specifically, when you originally purchased Sunteck, the thesis was that the housing stock of Mumbai was going to be rebuilt, perhaps in mass. How is the thesis playing out?”

Mohnish: Sunteck is an apartment tower builder in Mumbai. Most of their footprint is in Mumbai. I do believe the Mumbai has terrible housing stock with extremely high land prices. What we've seen in places like Seoul is, even towers that were built 20 years ago are torn down, and new towers come on, which has three times as many floors and so on, because the land is so expensive and so valuable. Mumbai has the same situation where the underlying land is very expensive, and the housing stock is very poor, and it's very old.

Over time, I mean, that whole rebuilding process you're talking about, a 50 year rebuild is quite a way out. When we look at Sunteck in Mumbai today, the housing market in Mumbai is very healthy right now. It's doing extremely well. It used to have an overhang of a lot of inventory that was unsold. What happened with the pandemic is that it didn't matter how big the home was when they got stuck at home with their mother-in-law, they all wanted much bigger places. People at two bedrooms want three bedrooms, three bedrooms want four bedrooms, and suddenly there was a surge in demand, the finished inventory across the board was wiped out. Also, developers have been building at a furious rate because the demand has picked up so much, but even all of that is getting sold quickly. Sunteck doesn’t have much finish inventory. They have some very high-end apartments in BKC that still need to be sold. That's a little bit different market.

But their bread and butter, in mainstream housing, their finished good inventory has all been sold out. They're building at a rapid pace. The stock is quite undervalued, and they will do quite well. They've also gone capital light where they're no longer buying land, they're partnering with the landlords, giving them like 20, 25% of the top line. That is helping them. Their debt has pretty much gone away and that looks pretty good.

Question: Recent shift in philosophy towards a hundred bagger, how close do you think you are viewing every sell decision as a mistake?

Mohnish: That's a good question, that’s my goal. I'm not yet at the point where I'm not making mistakes or sell decisions are down to zero. But you probably already noticed and probably will notice that the holding periods are a lot longer and the turnover is a lot less.

Question: There's a question from Sy on any input on electric cars in the future? Any names you like, dislike?

Mohnish: Well, it's a difficult space to figure out. I do think that all the players will have a hard time competing against Tesla. The incumbent car companies will have a very hard time, and even the new players will have a very hard time. The reason is that Tesla is a software company and it's a battery company.

Those are two competencies that don't exist amongst the legacy players. They don't understand software. I mean, just 10 years ago, Tesla was doing over the air updates to their cars. I have friends who have 10-year-old Tesla which has updated same software as some of the newer Teslas. The legacy car companies, even today, have a hard time with over the air. They are just barely able to do that. Over the air is not that complicated. That technology is a very mature, proven technology, but even that is giving them heartburn. When you get to all the other nuances that Tesla's putting into their software, these guys are just way behind. Every year they fall further behind. Tesla probably has a 10-year lead on most of the incumbents and also the new players. That lead is expanding.

The other is about manufacturing electric cars. While it's a lot easier than the ICE cars at scale, it's difficult. This is why we never had any car startups for a hundred years that succeeded. Tesla themselves almost went out of business, but they figured out how to build cars profitably at scale. When I look at all the other players, I have skepticism on their ability to manufacture, I have skepticism on their ability on software, and I have skepticism on their ability on batteries. Tesla is not cheap. That space has not been that interesting. We do have a position in BYD in the Junoon fund, and BYD is doing well. They're going to also have a difficult time on the software end but they're going to have no problems on the battery end and the manufacturing end, but software will give them trouble.

Question: Are you back in Seritage? Now that Seritage has made decision to liquidate?

Mohnish: Well, we are not back in Seritage and we don't have any plans to get back. I didn't expect Eddie to suddenly throw in the towel. They've given a range of like $20 to $30 a share that will eventually come out from the liquidation. It would not surprise me if when the dust settles, investors get $50 a share. That may not surprise me or $40 a share when I look at their footprint and what they have. It could also be below the range. There's a lot of uncertainty there. There's timeframes and different things going on. We have other fish to fry that we are more excited about. Seritage is not high on that list.

Question: Shinoken just got a takeover bid, were you in the process of building a stake again?

Mohnish: No, we exited Shinoken because what we found is that we had discussions with them about buybacks and such, and we just didn't find them moving in that direction. Then they moved very extremely where they've done an extreme take under. It's a good company. It's probably worth about three times the price they're buying it for. We would've done well with the business if they looked at it from the vantage point of taking care of all shareholders. But I reached the conclusion that we would not get taken care of. That conclusion turned out to be right.

Question: Curious on your thoughts on Amazon, Microsoft, Google; the cloud business and opportunity.

Mohnish: You got to separate Amazon and Microsoft from Google. They're running circles around Google in terms of the cloud business. Amazon itself has some lead because they kept under the radar for a while. I haven't gotten to the point on these three businesses where I am excited to own them at present prices, even though they're, especially Amazon is exceptional. If I were to do anything with any of the three, my inclination would be to look at Amazon. But then when I look at someone like Amazon and I look at someone like Tencent. I like Tencent better.

Question: How did you discover TAV?

Mohnish: Well, I have a good friend in Turkey who came to the Austin meeting. He's deeply immersed in the world of Graham, and I'm trying to get him more in the world of Munger and Buffett. He's a smart investor. When I made the first trip to Turkey in 2018, I just asked him if we can go visit every company in his portfolio? We did that; I did that in 2019; I also did that in 2021 and in 2022 this year. This year I spent about three weeks in Istanbul. Again, I went to his portfolio companies because one of the things about cloning is that it's already gone through someone's filters and they've put real money behind it. That's a pretty good list to start looking at. Earlier this year when I went to Turkey and we visited a bunch of companies, TAV just stood out. I visited three businesses that I was impressed with. I met the Coke bottler twice. I like them. Also, there's a company that has an exclusive on all the VW brands coming into Turkey. I like them a lot too. All three of these businesses aren't affected that much by the lira, but TAV looked exceptional, so that's why we went for TAV.

Caesar: Even though Reysas is not directly affected by Lira inflation, don't you think it could be indirectly affected in a big way by the possible effect of inflation on the Turkish economy?

Mohnish: One thing about Reysas, which is a headwind for them is that their leases are inflation indexed, but the inflation rate that the leases rely on is the published inflation statistics by the government. Historically, they said inflation rate is 25%, for example, when it was somewhere between 40 to 80%. Reysas was getting the 25% bumps. But Turkey also has a law where no matter how long the lease is, people can keep extending automatically for 11 years. The landlord after 11 years can evict the tenant and demand a brand-new lease. If you assume that no one leaves voluntarily, which is not true, they do have businesses under trouble or whatever else and vacate space and so on. In the last year, that changed. Now the government, I don't know why they did this, but they are now publishing the inflation numbers as the real number.

They're publishing the 80% inflation number. Now Reysas is getting the adjustments in terms of real adjustments. They also have some leases in Euros, which don't get affected by all this. The net result for someone like Reysas is that when you look at their total rent collection, at this time, it is below market rent because these older leases are going up or were going up 25, 30% when they should have been going up like 40 to 80%. But it does a reset every 11 years. You could say that 10% of their portfolio gets this reset, or maybe it's closer to 15%. This was one of the reasons why it had the undervaluation. But at the end of the day, the market values don't get that affected because they still can get sold at good prices. You are right. Reysas does get affected by inflation, not as much as you would think. The other thing is because their debt levels are so low and all these warehouses were built in like yesterday's liras way back when they are very cash flow positive. They don't have any issues with servicing their debt or any of that.

Question: John asks, “Now that you've moved from California, how often do you interact with Charlie? How is he and what is he up to these days?”

Mohnish: First of all, Charlie endorsed my move to Austin, which was good. It was good to get his blessings on the move. I told him that he should ignore the fact that I'm in Austin. I told him Southwest has launched flights to LA at a pretty high frequency, and he can just let me know the morning of, if he'd like to meet for dinner, and I can be there. He's taken me up twice on it so far, which is nice. Even though the company moved in a year ago, I moved to Austin practically in April because home was going through some remodeling and such.

Since April, besides Berkshire, I've seen Charlie twice. I had dinner with him once in LA and then the Munger family does a cruise once a year in Santa Barbara Harbor on the Catamaran, that Charlie designed, the Channel Cat, which can hold like more than a hundred people. He'd invited us for that cruise, which was a lot of fun. We spent the day with him. The interactions have continued. He's in good health. I get surprised at how good his health is; smart as ever. Well, about new words of wisdom, I have to think about those. For both Buffett and Munger probably the best source to get wisdom from them is just all the published stuff on them and their annual meetings and all of that on the web and so on.

There's a tremendous body of knowledge there. The funny thing about the Austin meeting and this meeting is everyone only wants to talk about Reysas. I answered a bunch of questions on Reysas in Austin, and it continues here, which is fun.

Question: Matt asks, "As you mentioned that the Reysas managers are very good capital allocators, until recently, they don't seem to post profits. Can you explain if this is just an accounting issue or that the company just truly not make much of a profit?"

Mohnish: Reysas IR efforts are pretty lame. I asked them, if we can just put a PowerPoint on their website, which just explains the business. Their answer was that they are in the midst of buying the stock, and they don't have much incentive to see the stock go to crazy levels or whatever. They say we have no incentives to drive the stock price up. What I find with Reysas is, the disclosures we get are pretty much just minimal, required by law disclosures. The structure is that you have the REIT, which is also publicly traded, then you have the holding company, the Reysas Logistics, and their accounting is a little complicated.

You have to peel some layers. For example, if you look at their vehicle inspections business, which is a good business, it shows losses in that business. The reason it shows losses is because they paid a certain amount way back to get that concession, and they're amortizing that payment over the period of the concession. It shows up as if they're losing money, but they're not, from a cash flow point of view, they're making a lot of money. Similarly, even when you look at REITs with the depreciation charges in the US etc., you have to look at the FFO and all that. You have to make a number of adjustments at Reysas to get to the reality, and I don't think they do a lot of things to help us get to that reality easily.

Question: Given your close relationship with Mr. Munger, what is your insight that explains your preference for Tencent versus his preference for Alibaba?

Mohnish: Well, of all the things I've discussed with Mr. Munger, I've never discussed Alibaba or Tencent in any great detail with him. I had mentioned to him one time that I was making the switch and he just said it's very sensible, and that was it. We didn't talk much about it.

Question: What do you think of the Porsche IPO? Is that like a similar success play before in Fiat?

Mohnish: Porsche is coming out at $70, $80 billion value. I don't think it's as great a business as Ferrari was or is. What we had with Fiat and Ferrari was completely different in the sense that when we invested in Fiat Chrysler, the market cap was like five or six billion and 80% of Ferrari was inside that five, six billion.

You had a company making five million cars, which were not Ferraris, and you also had a company making 10,000 Ferrari's all within that six billion. That Ferrari market cap went to like $40, $50 billion. If you parsed it, in effect the value given to Ferrari, in that five, six billion was no more than a billion and a half. If I had kept the Ferrari shares from then until now that would have been smart. We would have something like a 30x on the Ferrari position. The situation with VW and Porsche is not the same. It's quite different.

Question: What is Turkey's connection versus other countries in the world?

Mohnish: Well, I've spent a fair amount of time in Korea, a little bit China, a lot of time in India. Turkey was of interest because of a couple of things. One thing is that it's got this free trade agreement with Europe, so things can go in and out from Europe to Turkey with no duties or tariffs. The second is that I just noticed in 2018 that there was a lot of dislocation. At the same time, I had this good friend of mine who was investing a hundred percent in Turkey. I just said, okay, why don't we go study it and see what's happening? When I made the first trip, I was very pleasantly surprised. Many of the management teams I met in Turkey have graduated from Ivy League institutions in the US, they're like Columbia or Harvard or Stanford grads and so on. The quality of those management teams is extremely high. Things get painted a certain way.

But if you sift through some of it, you find that there are some high-quality businesses, high-quality management teams who are doing a great job, and the valuations were completely off. If I were starting out as a retail investor or whatever else, I would put a lot of effort into Turkey. If you built a portfolio that was Reysas, TAV, the VW distributor and Coke, and those are your four bets in Turkey, you would do well. All great businesses.

Question: There is a question about my previous interest in racquetball and if I've taken up pickleball since moving to Austin.

Mohnish: In California, my sports were racquetball and biking. In Austin, what I found is that biking is significantly more dangerous because in Irvine we had all these dedicated bike paths, which is getting there in Austin, but it's not quite there. The risk factor was very high. I gave up biking, and I also gave up racquetball because, in the pandemic, things moved outdoors. I already started playing tennis in Irvine, so I continued with tennis here, and I just started with golf. The two sports now are tennis and golf. My beef with pickleball is that I don't like the sound it makes when the pickleball hits the racket. It's not a pleasant sound, at least to my ear.

I'm enjoying tennis and I'm enjoying golf, I took both up pretty late in life so I don't think I'll become great at them, but they're both good. They're both great. It's working out pretty well.

Question: Do the multiple recent analyst downgrades on Micron influence your perspective on there? Is the analysis informed by short term consideration?

Mohnish: Most analysts put a lot of weight on the next quarter or the quarter after that. That's a lot of brain cells that get put into that kind of thinking.

In investing there's a high error rate, so there are no absolutes. Who knows if our Micron investment in the end works out like I expected to or not. But I would say that I don't see anything on the radar, which is giving me calls for concern on the long-term positives with Micron. Semiconductor act just passed in the US and they're going to support the building of semiconductor factories in the US. Micron just broke ground on DRAM factory in Idaho, and they're going to also make one more factory in the US. These two fabs that are going in the US will end up manufacturing something like 40% of Microns total DRAM output.

Given all the issues we are seeing with Taiwan and China and so on, it's a smart idea for all the players who have plants in either China or Taiwan to look at putting them in other geographies. We have the same issue in South Korea, in the sense that even though it's stable, you have crazy guy in the north. If anything were to happen to Taiwan and there's a disruption of the supply of chips coming out of Taiwan, that would send the global economy on such a tailspin, because the amount of dependency, not just memory chips, but what's coming out of TSMC and all of that, that would be a real problem. The US Congress was smart to act on that, but all the players in all the countries need to rethink where the footprint is on semiconductors.

Question: You stated you're closing the funds to new dollars. Are we not about to see blood in the streets in the US equity markets very soon?

Mohnish: Even when there's blood on the streets, I don't think we are going to get things like Reysas. In effect, what we are doing is we are diluting the ownership of Reysas. When we add funds to Pabrai Funds, we are giving away Reysas something like, one-sixth of its value or one-fifth of its value. That's just not helpful.

Question: There are a couple of questions about books. Any good books that you would recommend and the best book you've read in 2022?

Mohnish: I'm trying to think if anything stood out in 2022 in terms of books, I spent a fair bit of time reading, my favorite genre is the business biographies, and let me just pull up. There was one book, and there's a biography that came out on Sol Price. I'm trying to remember the name. Let me just pull it up here. The book is called Sol Price Retail Revolutionary and Social Innovator.Tthe predecessor to Costco was Price Club and Sol Price was the founder of Price Club. Jim Sinegal worked for Sol Price of Price Club. Then later when Costco got formed, Jim Sinegal pretty much cloned everything he could from Price Club and then later Costco bought Price Club. Costco became vastly more successful than Price Club. When Jim Sinegal was asked what he learned from Sol Price, he said it was the wrong question. “Everything we do comes from Sol Price.” Costco is hardly innovative. They still follow the Sol price playbook. I found that biography good but it's not an easy book to get. It was difficult to get on Amazon, I got my copy from eBay.

Mohnish: The 1% tax on share buybacks is very dumb. I hope that that's just not a good idea.

Question: If you were to recommend five equity stocks in the US market where one could invest and forget about it, what would you recommend?

Mohnish: It's not the business I'm in, my suggestion would be to invest in one of our funds and just set it and forget it. The other option, which is also a very valid option, is just buy the S&P index. That's also very valid way to go.

I have tested your patience quite a bit. Thank you for attending the meeting. I enjoyed the interaction and I'm happy about this format that we are doing one live and one in person. I encourage you to come to Austin, it's a great city, and you might enjoy meeting some of the fellow investors as well. But thank you for being a part of Pabrai Funds and we hope to have some good news for you next year in terms of our returns and such, but we have to see what the markets also deliver as well. I wish you all the best. Thank you.