Mohnish Pabrai's Q&A Session with London Business School (LBS) MBA Students on May 19, 2021

Raashid: Mohnish, Thank you so much for taking the time to visit students at London Business School. We're incredibly privileged to have you here. Thanks once again. For those who are on the call on the LBS side, Mohnish has been very gracious with his time and hopefully is insights today and for those who don't know him that well, he's the founder and managing partner of Pabrai Investment Funds and the CEO of Dhandho Funds and the author of Dhandho Investor and Mosaic. He's also the founder and chairman of Dakshana Foundation which has gotten over 2,500 impoverished brilliant students admitted to IIT's, which are very prestigious engineering school back in India. He obviously has been a business owner and operator before having founded TransTech back in the 1990s, I think before most of us were even born. And eventually became a Fortune 500 company, which he sold in 1996, I believe. He started his investing career in 1999 and the records speak for themselves. He has accomplished tremendous things in the investment world, he is probably one of the most well-known investor to emerge out of India. Mohnish, thanks once again. Just a general flag - Mohnish has kindly agreed to do this event. We sort of doing this series on behalf of the India Club where the Investment Management Club and India Club are coordinating to raise awareness about the Covid situation in India. There's a fundraiser which I'll put a link below. Anything that begins, donate towards those proceeds would be greatly appreciated. Mohnish, why don't we start with any high-level thoughts, things on your mind, any opening note that you have and maybe we can then get into a Q and A go forward.

Mohnish: Yeah, well Raashid, it's a pleasure and an honor to be with you. I do want to correct one thing in your wonderful intro for me. TransTech was not a Fortune 500 company, it was Inc 500 company. I wish it was Fortune 500, but that's okay. It's a pleasure to be here and I have always enjoyed my numerous visits and trips to London and the UK. I always enjoy the pool. It's wonderful. I would just say that I feel this is a very interesting time from an investment perspective because we have so much change and transformation going on in all our economies. A lot of our habits went through a change in the last year or so, and many of those habits are going to stay with us, even post-pandemic and so on. For example, this one thing I was thinking about is that, when I first came to the US, I was 18 years old and 1983, and I was in this small town in South Carolina, Clemson College town, there was a Pizza Hut in the town. At that time, Pizza Hut did not deliver, it was purely a dine-in restaurant. I don't even think there was much of a carry out business. It was really kind of a full service dine-in where you went in and you got a booth and you got a pitcher of Coke, life was good. A couple of years after I got there. Pizza Hut had just started experimenting with delivery. They had thousands of locations, which were all these full-service locations and salad and everything. They had just started a few locations where they were experimenting in delivery. Of course, if you fast forward to today, I mean, Pizza Hut has known for the most part. I mean, if they have dine-in, it's more an exception than the rule will be a rare exception actually. The business got completely reconfigured in the sense that, if you go to a Domino or Pizza Hut, it's really like an assembly line, it's a continuous oven and the whole name of the game is, how quickly can you get the beats already and how quickly can you get it delivered. But for the longest time in the US, for several decades, the only thing you could get delivered home as far as food goes was a pizza. There was really nothing else that you could really get delivered. Now we've had a sea change in that, right? I mean, you can get anything delivered, any kind of food and even now the DoorDash app says, "hey, if you want the guy to get something from seven eleven on the way, you've got like eight minutes to tell us and we'll do that as well", so they've broaden that quite significantly. I would just say if you just look at that one area which is food delivery and all of this, we are in a very I would say embryonic stage right now. If you fast forward, you can just see that both in the production of food at the restaurant level and the delivery of the food, there's going to go through a lot of efficiencies and Amazonization of all of that. On the back end we've got cloud kitchen and all kinds of entities experimenting with these warehouses where you are not taking high street real estate and such, you're going to have some warehouse relatively close to large population centers, which has got maybe 30 or 50 kitchens. Then currently DoorDash when they deliver, mostly its one to one restaurant, one, which is ridiculous actually to think about it. Because even Pizza Hut for example, they used to, pool the deliveries, the driver goes with 5 or 10 pizza at a time. We can just see that probably on the, a lot more densification. One driver might on one trip make 20 deliveries or something. Depending, if it's very urban, they could just, in one building do 20 deliveries and on the production end they're going to look at the back end of how food is prepared and how ingredients are sourced and all of that. These cloud kitchen might even pool the purchasing power and such of the back end. We haven't seen a lot of those come through yet, but you can just see that if you fast over 10 or 20 years, there would be a sea change and there would even be AI deployment. The drivers would be positioned in advance of you making the order because they would statistically know, okay, at this time we get these types of orders and we're not going to send our driver to Chipotle after someone places an order, they're already going to be pretty close to there and so on. Of course, you have drones and everything else that might come in as well. I just feel that if you just look at this one area, it's going to transform. As it gets more efficient, people will have a lot of behavior change in how they react to all of that. I think you can go across many other industries and such, and I just think that there's a lot of reconfiguration and reconfiguration generally create efficiency, create opportunities, so it can be a good place.

Raashid: Fascinating. With that, I'll open up the floor for questions. I do have one that maybe I can kick off people, start raising their hands and type them into the chat. To what extent, Mohnish, do you think that the experience of building your own business has helped you become a better investor? How important is it for investors to have hands on experience of actually building, managing, running businesses? To that end, what sort of advice do you give to current students as thinking about their careers on that note?

Mohnish: Sure. Yeah. Buffett has a quote. He says, "I'm a better businessman because I'm an investor and I'm a better investor because I'm a businessman". There's a huge cross pollination between the two. He has another quote. He said, "talking about walking on land to a fish for a hundred years is not the same as actually walking on land for five minutes". Okay? Basically, you can be blue in the face talking to a fish about walking on land and it's really not going really explain to the fish what that means till the fish try it and of course the fish can unfortunately, not walk on land so sad but unless you actually do it. I think there's lot to be said for having met a payroll and having gotten customers and all of that, to get an appreciation for what a real business looks like and what real business goes through. I think that if you look at a business through a bunch of spreadsheets, it's going to be quite myopic. In fact, almost all entrepreneurs do not run their businesses through spreadsheets. In fact, many of them don't use spreadsheets. They basically understand that there are three or four variables that are going to control 80% of the outcome or 90% of the outcome, and they focus on those three, four variables. That's pretty much all they try to do. I think it is a huge advantage and the second thing is that, just the way the human brain is set up. The brain is the fastest growing organ when we are born, when we are born, it's a very undeveloped organ because it has to get through the birth canal. Because the birth canal is so narrow; the brain is the biggest organ that has to go through the birth canal. Evolution has made the brain as large as it could possibly be at birth, but that is still not large enough. It goes through a very significant explosion in size and neurons in the first five years of life. It's the fastest growing organ for a long time. Then the growth tapers off, and actually from the age of about 10 or 11 to about 19 or 20, the neuron connections get cut. There's a culling process that goes on where in that window of time between about 11 and 20, the brain is optimally set up to specialize. These neuron connections get cut, but they are ready to take on data, which allows you to become really good at something. If you look at people like Michael Angelo or Bill Gates or Warren

Buffett, all of them basically had intense specialization in what became their eventual calling during the teen years. Of course our education systems are the exact opposite. What they do is, they force you to be a generalist right at the time when you should be a specialist. There is only some countries like Germany, Germany gets it, they start separating the kids at about 13 or 14 between the ones who are going to go to college, ones who are going to be vocational, ones who are going to be factory workers, and the ones who are going to be factory workers already start doing some apprenticeship and internships in real factories. We end up with Germany, which is a manufacturing powerhouse, while having some of the highest wages in the world. The two would seem to be at odd of each other. You have very high wages, you can't be a manufacturing powerhouse, but Germany has flipped that one again. It does extremely high-end sophisticated manufacturing, pretty much the best in the world, not because dramatic of genes, which are pretty good, but I think it's because, those people got those experiences at the time when the brain was optimized to specialize. They're better factory workers than any factory workers around. That shows up in the numbers. The unfortunate thing about our education system is, it blows that window completely. I think unfortunately most of you are way past that window. It's so sad that we are not talking when you were 12 years old because I could have actually had some take home value and impact, but now this is just purely for entertainment, no impact. The second part of this is that, this is the unfortunate part with this whole way our evolutionary biology works and the way Western society is set up, it's just at odds with each other. I think in terms of careers, you can't force things. The important thing is that, if you set up a lemonade stand when you're 10 years old, that has a huge impact 20 years after in your ability to run a, manage a business. Even the small things that you might do during the period the brain is specializing can have massive impacts later. My advice is that, you should always pursue your passions. You don't really care about which employer is the most prestigious or would look good on a resume or pays the most or whatever else. It's really should be about what are you most excited about working on? The best job is one that you would take if you weren't getting paid. That's the one to focus on. I think that's what I would suggest.

Raashid: Thanks for that Mohnish. We'll still try and hopefully have an impact hopeful on that front. I have a question raised from Taha. Could you just unmute yourself and ask your question please?

Taha: Hi Mohnish, thank you so much for meeting with us. I just want to say, I’m a really big fan, I came across you through Preston patient’s stake on that podcast of your interviews and also on the value investing podcast from Columbia. Like you, I kind of discovered investing mainly through Buffett and it's funny actually, when I asked Ricky Broderson because I wanted to repay them for all the value that they added in my life. I asked like, I want to give some money to a charity as a way of paying you guys back. What do you recommend in here, he actually recommended your foundation, but this talk also prompted me to want to give to the foundation. Hopefully one day we'll meet in person, may be in Buffett's next AGM or, whatever, or I don't know maybe when you're in London or something. But anyway, my question is, what advice will you give to someone who like you Mr. Clone Buffet, and starting from, and what was the best thing you did and what was the worst thing you did? That's the question. Thank you.

Mohnish: Yeah, thanks for the for the kind words on Dakshana though I think I would encourage you to focus right now on Covid versus Dakshana. That seems to be more of an immediate more pressing need. One thing that Munger says is that if you're looking to start a fund, you should already be wealthy. Munger's perspective is that if you really should start a fund after you've proven to yourself that you're good at managing money and such. If you're any good at managing money, just because of the way compounding works, over a couple of decades even with a relatively small initial capital pool, you could be independently wealthy. Then at that point it proves that you can at least do this for yourself and at least serves a baseline that's possible. You could do it for others. But I think I've always felt that should be the litmus test on whether you fund or not in terms of, I think cloning Buffett and such. I mean, I think that we are very blessed because Buffett, Munger, Ben Graham, and so many other wonderful practitioners in this field have selflessly shared their knowledge and experiences over the decades. There's a very rich depository of information and experiences that have been very freely shared, including in the books and annual letters and, Ben Grahams books and of the biographies on Buffett and Munger and so on, I think there's a very rich data set there that one can tap into. I think that's wonderful. Because basically if you can just study those, then the second part of it is applying it. I mean, once you have the frameworks, that's the battle, three quarters of the battle is to just have the right framework and then you can go from there. I think in my case, I would say that probably the biggest mistake I made was focusing for too many years on Graham, which is, buying discounted pies versus Munger, which is buying growing pies. I would say that, someone like Nick Sleep who's in your backyard and maybe you should twist Nick's arm to do a webcast with you is basically that, he takes it one step further, which is not just growing pies, but you think of yourself like the entrepreneur who founded that growing pie and hold on for the long haul. Think of yourself as the founding family. I think those are things that can be quite helpful.

Taha: Thank you, very much. Thank you. Really nice meeting you.

Raashid: Next up we have Sourabh.

Sourabh: Thanks Mohnish for your time. I'm also big fan of yours. From your Buffett meeting, one of your key takeaways was the idea of Inner Scorecard. Just wanted to understand the concept better and how it helped you or benefited you in terms of professional and personal life. Thank you.

Mohnish: Yeah, I think that's a wonderful question. Buffett told us at the lunch in 2008, and actually at that time Alice Schroeder's biography on him had not come out yet. He had read the manuscript where the book hadn't come out, and the subject of the inner and out scorecard is covered in her book. Is this a reference. I would say that if you wanted to probe further, you could go through the biography. Basically, there are two ways you can go through life. You go through life in a scorecard, or you can go through life with an outer scorecard. He said, would you like to be the best lover in the world, but known as the worst? Or would you like to be the worst lover in the world, but known as the best? If you know how to answer that question correctly, then you've got it made. The inner scorecard is a very powerful mental model because there are many times when the world does not calibrate its response to you or how they think of you appropriately. They may think you're way more awesome than you actually are, or they may think you're way more useless than you actually are. The correct way to think about it and calibrate is to have an internal yardstick and to have internal objective measures. I think that if you can set a true north internal compass, both in terms of integrity, you know how you go about your affairs and you measure yourself based on that inner scorecard, then I think that's a great, great way to go. There's a book that Nick Sleep recommends, Zen and the Art of Motorcycle Maintenance. It became a best seller even though the first 140 publishers turned it down. It's quite a weird book on many fronts. I would say that probably after you read the first 10 pages, you'll probably toss it aside saying this is nonsense and you know, probably won't have the patience for it. But he goes through, in effect, he doesn't talk about scorecards, but he goes through this concept of the pursuit of quality. That book had a huge impact on Nick Sleep and it had a huge impact on how he ran the Nomad Fund and he was looking to do a quality job, and he wasn't trying to do a quality job just to make it look good for the rest of the world, he wanted to himself be convinced that, it was a job well done. Nick has a quote in his letters, and I'm kind of paraphrasing. He says that, when people asked me or asked Zach and me what we accomplished in the war, he said, we'd like to say that we converted a dollar into 10 dollars. Right? That is an outer scorecard measure the dollar $10. But I think for him, the important thing was how did you do that? How did you go about converting the dollar to 10 and did you do the best possible job in getting there? They set up a whole environment. I mean, they used to read annual reports, they got blue in the face, Zach didn't even have a desk, they ran this $3 billion fund. One of the partners doesn't have a desk, and he just come in and read in his lazy boy. That's what he did. He didn't see the need to have a desk and the job was well done.

Sourabh: Thanks Mohnish. Next up we have Dev.

Dev: Hi and thank you very much for the time. I'm also a big fan just to set you on the record. I have two questions one a little broader. I was wondering if you could share with us how do you do management, especially in the holdings you have, have some secret around that and the other one is if you could talk about one of your older positions, Graphtec, I was really interested in that.

Mohnish: Sure. The older position you were at, what is the name you said?

Dev: Graphtec.

Mohnish: Oh, Graphtec yeah, sure. Well, I think for the longest time I never interacted with management. I think there were a few reasons for that. One was that Buffett and Graham always said that, when you interact with managements, the one skill that virtually all CEOs have in common is they are incredible sales guys. They couldn't in general get to the positions they're in if they weren't good at selling. Not only are they good sales guys, you would be talking to them about a subject in which they know everything and you know nothing. You have this super salesman talking to you about a subject that he or she is a great expert on. The knowledge delta is pretty significant, and the charisma is pretty hard. The end result is that you are likely to have a distortion in your perspective, and the distortion would be more hurtful than helpful because you may gain some data or input on the way to think about the business or the industry, but that probably gets outweighed. But your warm and fuzzy feelings about this great leader running this company. They always suggested that instead of talking to management, look at what they said 10 years ago and look at what transpired after that. Focus on the track record and focus on the history. Don't focus so much on what they're telling you. Even this year at the Berkshire annual meeting, Buffett said that one of the greatest risk factors that businesses have, which doesn't even get mentioned in the large risk factors section of the 10 K or the 20 F, is that you end up with a CEO who's very personable, everyone likes him, the board likes him, and is totally incompetent at his or her job. To discern from body language of a CEO who is great and who is useless is really hard to do, it's a lot easier to do it when you look at the track record because then that's black and white. This is an area where I think an individual investor is not necessarily at a disadvantage from the institutional investors just because they don't have access. It may be an advantage not to have access and for the institutions it may be a disadvantage. For the longest time, I never interacted with management. More recently, I have begun to interact more with them because I think it's kind of useful to understand the industry, but I have to keep in mind the charisma and I have to keep in mind that these guys are really good sales guys. Recently, for example, there was one CEO where it took me, I think about 15 months to figure out that the guy really wasn't that great. You get to these grey zones where, I would say that in live interaction, you would have difficulty understanding how good a Buffett is or how good Bezos is, or how bad Al Dunlap is or how bad Jeff Immelt is. I think Jeff Immelt is a really good example. At least in American business, a good number of CEOs belong to fraternities or president of their fraternity, or they were on the football team or they were a quarterback, whatever, right? Jeff has all of those things on his resume. I think he was on the football team, I think he was president of the fraternity, all of those good things. Even someone as smart as Jack Welch who had watch this guy over a while got snowed, I mean it's really surprising to, but you can clearly see that Jeff checks all the boxes. He's a white male, he's very tall, he's handsome, he's got good academic credentials and everyone likes him, so how could he not succeed, checks all the boxes. I think one has to be very wary of that, and I didn't want to single out Jeff, but I think he is just a good example. There are actually two books that came out recently, which I think are interesting books to read. They're both on GE and I think one is called Lights Out, which was what happened with GE and the other was Hot Seat, which is the one Jeff Immelt wrote. One is you get his perspective on, hey, it wasn't me, everything's fine, I really kicked actually. Of course the other one, which is Lights Out, is probably going more on the other direction. I think it's fun to read both books just to get the two different points of view regarding Graphtec. I would say that I went through some evolution in the last year or so, and today if Graphtec came up on the radar, I would've a lot less interest in the business than I had at the time made the investment. But at the time the investment was made, it was pretty mathematical and quantitative in the sense that Graphtec has a dominant position in these EAF electrodes that go into EAF appliances. They had a large portion of their production already sold intake or pay contracts which means that these companies had to take this output. The margin was known, the cash flows were known a lot of stuff in the future, which for most businesses you would try to extrapolate, a large portion that was locked in. It was relatively easy to look at the market price, the stock versus the likely future cash flows. They also had a kicker about a quarter, I think, of the production was not sold in advance. There you had more of a open ended market forces that would determine, and that could go either way, it could be super profitable or marginally profitable and such. You had a range of kind of additional cash flows over there and when you did the matter, it was a very compelling investment. Of course when Covid hit, the world turned upside down. My big concern was that these take or pay cap contracts were no longer going to be solid because the companies who had signed those contracts could make the claim that there was a force major event and the contract was wared. and a lot of courts would agree that Pandemic is a force major event. Just like, if we had a non-refundable air ticket before the pandemic, it suddenly became refundable. The terms changed and Graphtec became a lot more uncertain after March, 2000. First of all, those contracts were very questionable whether they'd be able to keep them or not. The second is that the world was shutting down. I mean, all these factories were being shut, the car production was shut, and therefore as a result, it'll almost for sure that steel production would decline. With steel production declining, there would be a real loss of demand for those electrodes. The new course of the world which had signed these contracts would definitely pursue all legal remedies to get out of them. My take was, we were in a position in March, 2000 where I was able to exit at a slight profit. We had a significant profit on before the pandemic. It turned into a small profit. I said, Hey, I'd even exit at a loss because I don't want to watch this story unfold in slow motion. But we were able to get out the small profit, and in hindsight, I would not make any changes to that decision, even though today Graphtec is back to the pre-pandemic price, but it just became very uncertain and the bet the nature of the bet changed.

Dev: All right. Thank you very much. Just a quick follow-up on that, did the ownership from Brookfield affect your decision whatsoever?

Mohnish: Completely irrelevant.

Dev: Got it.

Mohnish: I think there's a lot of, with Brookfield where people bring up that Brookfield kind of has sharp elbows in the way they dealt with TK offshore and that whole saga. The concern with Graphtec was that they would do a take under, that was the issue. I found that whole concept really strange because Brookfield had voluntarily IPO'd the business. It's like they owned the whole thing, they IPO it, and now they want to take it back again. The whole round tripping to me made no sense because actually the situation with Brookfield was that the ownership of Graphtec was split across a number of Brookfield entities. It wasn't just one entity of Brookfield that owned it, number of different entities that owned it, including some PE funds. These private equity funds had been a major home run for them, audit for and what it was trading at. These PE funds have a 10-year life and they have to return the money after 10 years. They had to sell down their position, which is why they took the company public and which is why Brookfield was in those entities selling down. I didn't really see a take under risk. I felt that even if Brookfield changed its mind, and even if it decided that, okay, I'm just take this business private, see more upside that I didn't before my take was, we were buying like 7 to 9 dollars a share somewhere in that range before the pandemic hit. It was trading at 14, 15 dollars a share. My take was, take it under, if it's at 15 and make an offer has to be 18 or something and yeah, maybe it's worth 40 or maybe it's worth 50. Okay. But I viewed it at a low problem event. Even if it happened, the investment still delivered a decent return. I find in general; I don't overdose some conspiracy theories and there's a lot of people who like to overdose on conspiracy theories. You would live a very happy life if you tone down that everything is a conspiracy against you.

Dev: Lovely, thank you very much.

Raashid: Great. Next up we have Gus.

Gus: Good evening or good afternoon, Mohnish. Thanks so much for your time, this is a real privilege, I'm a big fan as well. Two questions if I'd to hear you just rationalize your investment in Alibaba and secondly beyond talking stocks, how do you think about portfolio construction and specifically position sizing?

Mohnish: Yeah, so I will duck the Alibaba question, we will maybe if Raashid has me back or maybe one of your successors. Raashid has me back in a few years and I don't own Alibaba though I think, we may own, Alibaba for a while, when we don't own it like Graphtec, I'll be very happy to talk about it. At this point we're still adding propositions. I don't like to talk about things that we're which are in the portfolio and actually going through some change and such as we speak. But I must like it, if I'm buying it, I must like it. That's all I can say. I think it's a business worth studying it's a business worth diving into and studying. I think it's a fascinating business. I'm sorry, what was your second question?

Gus: Yeah. Portfolio construction specifically, you think? Yeah. How you think about position sizing?

Mohnish: Yeah, so I think on that front if you talk to someone like Charlie Munger he would say that, for diverse stocks carefully selected is all you need, of course the operative words are carefully selected. Munger also says that if you lived in Peoria, Illinois, which if you guys have never visited Peoria Illinois, be a fun place to, and you own the Ford dealership in town and you own the McDonald's franchise in town and you owned the best class A office building in town and the best apartment tower, those were the four assets you owned and you don't need to own all of, you could own partially, you could have a 10% stake in the four dealership, for example, so could ownerships, he says would likely do extremely well over the years and live a pretty happy life as an investor and someone looking at that from the outside would say, well, you are geographically so concentrated. Even though your four different industries, four different asset classes, it's all in the same geography and that is true. But I think that if you look at most entrepreneurs, they don't even have bets. 98% of their assets is one bet and they don't have sleepless nights. They're pretty comfortable with single bet and a lot of the eggs in one basket. If you don't know what you're doing, please index pretty honorable way go through life and you still get the power of compounding. But if you know what you're doing, then it seems like insanity to own 30 stocks or even 20 stocks. I mean, why would you put money? Like Buffett would say, why would you put money into your 27th best idea instead of your third best idea? That just makes no sense. The idea that you would actually understand 27 businesses as well as each of them or equally is unlikely. There's circle of competence issues, there's a depth of understanding issues that come in. From my point of view, the answer has been, at least in Pabrai Investment funds has been to go with like a 10 by 10 portfolio. 10 stocks, 10% each seems like a good medium in my personal portfolio. Sometimes I've had one stock, you know, and sometimes, and I don't think I've had many occasions and there've been more than four or five positions in the in Dakshana foundation, where we have thankfully, we've now got significant assets, we've got north of 20 or 22, 23 million in marketable securities in Dakshana. It's invested in a very concentrated way. I mean, I don't think most of it is in more than three positions. Of course, in Dakshana the, the idea there is that even when we do our work, the places where you spend our money, it's the exact opposite of what we do in investing. In investing, we never swing for the fences or in, in British terms. We don't go for hitting sixers. Okay. We try to get one run here and one run there. That's what we're trying to do. But in investing in philanthropy, what you want to do is just go for Sixers every time. Okay. Because that's the only way you can possibly move the needle on these really tough problems is be willing to fail. In Dakshana, we are very willing to fail when we spend money. I don't think it's that risky to have three or four well selected stocks in Dakshana and likely to work out and likely to help us do you more good.

Gus: Thanks so much.

Raashid: Great. Next up we have Josh. Josh if you don't mind unmuting yourself and maybe putting the video on that'd be great.

Jash: Mohnish. Thank you for your time. My question is actually to get a perspective on your experience in investing in Mumbai specifically as a real estate play. I think the pandemic has made it very clear that the inequality between the haves and the have-nots hasn't been starker. I think that slum rehabilitation, the way it is programmed, the way the regulations are in Mumbai, arguably can be one of the best impact investment idea with returns, with real good changes to the lives of thousands of people. But I don't see big players looking at it. Do you have a view on it and maybe just a general idea of what got you to Mumbai would be very nice to hear Sir?

Mohnish: Yeah, Well, I don't want to talk about the investments we have because again they are portfolio positions, but I can just give you some general perspective on Mumbai real estate. I would say that when you look at what you pay for real estate and Mumbai in terms of the quality and size of what you get, it's one of the worst kind of bargains, if you will. It's just terrible value for money. The housing stock in general for the entire city is terrible. In fact, the way I look at Mumbai is that 80% of Mumbai is a tear down. It needs to be torn down and redeveloped, and that is happening. It's happening in two different ways. One is there's a large number of very old buildings, let's say 50, 60, 70 years which are relatively low rise, maybe three or four stories, and they have a decent amount of land. And if those are torn down and, put a 40-story tower in the economics can become quite interesting. What the government has done, they've codified in very precise laws how that is supposed to take place and how the interest of the apartment owners, the condo owners, is protected. For example, there's a method by which the entire building has to agree and a certain percentage of owners have to agree. Then once the residents have basically moved out, the demolition can take place. The developer has to pay them pre-set monthly rent allowance for the entire period before they can move back in. Someone may have an 800 square foot apartment and they would've negotiated that or when I move back in, I get a 2000 square foot apartment for example and whatever else, and my rent for the next three or four years gets paid, something like that. The societies will negotiate these deals, but the way the laws are set up is that it really is pro apartment owner and basically, the developer could lose money, but it's in general unlikely that the owners would be in the short end of the stake. They're well protected. That's good. I think they've done a decent job there. On the slum redevelopment side in general, that's a dirty business. It is very political. There's probably a lot of kickbacks and there's a lot of I would say unquote mafia involvement in that entire process, which is why you don't see kind of you know, organized developers playing in that space. I mean, they basically have no competence to. There are these third parties kinds who will do all the work, get the deal kind of done in whatever way they get it done, and then present the package to an organized developer and insulate them from that process. That can work. But there is some redevelopment taking place. Even there, the laws are very good and they're very enlightened. For example, the slum revelers have to be given housing in the exact same location. The old rule was that they would move them out like 20 miles or something and give them housing, but their livelihoods are right there, everything for them is right there. Now the laws require that you have to give them housing in the same location. You see this, I think overall realty, you can see this, they have this Ritz-Carlton tower coming up and if you look carefully right next to it, there's a, maybe 10 story buildings. A few buildings, which is where all the old slum revelers have been given housing right next to the Ritz. That works. I think the city over the long haul will go through a complete tear down and rebuild because the land is so valuable, but that whole process will happen in fits and starts.

Raashid: Great. Next up we have Rahul.

Rahul: Hi Mohnish, thank you for being here with us, I wanted to ask you, when you invest internationally, especially in emerging markets, how much time do you dedicate to macro stuff and in particular exchange rates? If that changes when you're doing a Graham style investment versus longer hold investment. Thank you.

Mohnish: Yeah. Rahul, I think that's a good question and the answer is, I spend almost no time on those things because I have no competence. I couldn't tell you what currencies they going to do or what macro is going do, or who's going go in and out of power or whatever else is going to happen. And I also think that those factors for the most part don't matter. For example, there's a company in Turkey, which is the coke bottler, for Turkey, okay? Not only they're the coke bottler for Turkey, they are also the coke bottler for Pakistan, which is significant market and a few other geographies. There were that Coco-Cola I think owns 10 or 20% of the company. And from Brazil, 3G owns a portion of the parent company eventually coming down. They got some good investors in the mix. It really doesn't matter what happens to the currency. I mean, the currency could devalue by a hundred percent and they will just raise their price according. The bottom line is that business gets hot. People like to drink Cokes no matter who's in power, their annual cases sold every year in Turkey goes up with GDP. It may even go up. For example, recently the pandemic, their consumption in restaurants went down a lot, right? Because restaurants were closed and they got some of that back with the home sales, with people buying it didn't quite make it up, but this is quite a six sigma event you're talking about, a pandemic coming in. But I think that for the most part, if the business, I think you just have to look at the nature of the business and there's some businesses that are very significantly immune to a lot of macro stuff that might happen. You could buy the Coke bottler in Turkey a lot cheaper than any coke bottler anywhere else in the world and the economics of that business versus all the other coke bottlers anywhere else in the world are almost the same. They're very similar businesses. One really shouldn't be trading and it's a well managed company. It's the management quality comp family that owns it. Very high-quality investors. There's nothing wrong with it. They are well-managed business.

Rahul: Thank you, thank you very much.

Raashid: Slightly conscious of time. Sourabh, a quick question from you.

Sourabh: Yeah, sure. Thanks for the opportunity. I just wanted to delve deeper into your changing investing recently, maybe inspired by Nick Sleep. Even we can see Warren Buffet owning companies for decades, how it has changed your decision making points or you know, your diligence, all the 10 commandments you used to earlier. Thank you.

Mohnish: The 10 Commandments definitely need some updating. We need to take it down to five commands. One of the things that the 10 Commandments is that what they tried to do was they tried to make it easier for humans to understand how to live a good life. They needed to create a Cliff Notes version because the Bible is too big, the Old Testament, New Testament, these are too big complicated documents. They came up with a 10 commandment saying, ok, here's the Cliff Notes version, you know, then someone told God, listen man, this 10 command is too much, can you just give me one because I can't handle 10, just give me one. Okay. He said, no problem. I'm God I can do it all in one sentence. Ok, I don't need 10 sentences. God came up with one command. You know what the one commandment was? Do on to others as you would have them do on to you. Okay. God basically encapsulated everything into one commandment, just follow this edict and everything is taken care of. Instead of saying, thou shall not covet neighbor's wife thou shall not covet neighbor's goat, Thou shall not covet their neighbor's house. He just said, as you would have others do on to you, and that all the life adultery issues one shot. I think that yeah, I would say that reading Nick Sleep added a layer on top of what I understood from Munger and Buffett, even though I think a lot of the next sleep lessons were embedded in the Munger and Buffett, but they were not as explicit about it. So probably took some, me listening to another person to really understand it. But the idea is that you think of it as if you're a business owner. Raashid, that'll give an answer, but the past time is that for you guys. If any of you guys need to leave, please feel free. I won't take it personally, but we are going over and I don't want be disrespectful if you got other commitments. But I was actually just earlier today I was looking at this is that in 1995 when I first started investing, I had a million dollars that I had gotten from the sale of my business, portion of my business, and I had just begun to learn about Buffett. Such that I decided I would invest this money in equity market and I wanted to grow it and scale it and see what would happen, so out of the million I put 40 thousand into four Indian stocks, I opened a brokerage account in India in 95 which was quite a convoluted process then because it was just, there was no D-mat or anything at that time, and one of the stocks basically went up 160 x or 140 x was like a 1 million that I got out was a huge, and when that happened in 2000, the other three stocks were either flat or down, they hadn't done much. I said, Okay, it is ordained and written in the Bible that if you get 100 baggers out of four bets, that is your quota. I thought okay, this is fine and the other three, there's nothing happening, I sold the other three stocks. Now there was no good reason to sell the three stocks if I had just held on to the other three stocks, one of them actually went down 90%. That basically was a useless investment. Let's forget about that, but were two others in my portfolio.

That one went up from the time I had bought it till today 500 x and the other one went up about a 150 x now to capture those 500 x and 150 x I needed to have a 26-year holding period, right? I needed to be holding it today. Actually, if I had read Nick Sleep in 94 instead 2020, I would had no difficulty holding those because Nick asked a few questions. The first question he ask is, what is the destination? What does this business look like 10, 20, or 30 years? Right? Answer that question, the second question he asks is, is the business getting better? As time goes on, is the business getting better? Is the mode getting wider? Is the mode getting deeper? The third question is, is evaluation reasonable? What he means is that yeah, it can appear over value. That's okay, just not egregious. It just can't go crazy like crazy valuation. These other two stocks that I sold, one was , which is actually now my broker and I had only invested out around 40000 dollars I only put 2400 dollars into Kotak and I put the 2400 into Kotak, almost the last second because they were my broker and I had a lot of interaction with them getting the account set up and talking to different entity, different people and I was extremely impressed. I was very impressed with the people I was dealing with and I said, this business, the brokerage business is going to do nothing but grow, but it's a great business, and these guys are really good guys at that time Kotak did not have their banking license. The banking license came eight years after that, and that's when it went, you know, as a product. But there was no reason in 2000 to sell the stock because the business was definitely better than 2000, by 95 it was a reasonable valuation destination looked good. That was done. The second business which I sold, which I shouldn't have, was Blue Dart, which is the FedEx of India. I made two bets because Indian postal system was so bad that I knew that private parties had to step in to give people assurances that packages get there next day, or letters get there next day. I made two bets, one was sky pack and other blue dart, both were listed companies. My bets were one was on the broker banking, whatever happens there and these two bets were on courier services, which were very greenfield, huge on ways ahead, sky pack went down 90%, didn't go anywhere and Blue Dart is up 150 x and FedEx later took a state and do that. There was no reason to sell those. The destination looked good, that evaluation reasonable. What I've learned now from Nick Sleep is that basically buy great businesses run by great management, but don't sweat the intrinsic value. Don't worry about oh, this is worth a hundred million and now it's creating 120 million. No, what you want to ask is what is the destination? The entrepreneur is not selling, so why are you selling? Raashid, this was a lot of fun. Thank you very much. I really enjoyed the session and I hope you guys did too.

Raashid: The pleasure was ours, thanks. On behalf of everyone in the investment management club I think you found it very insightful. Just a final plug for the cofundraiser. I posted the link on the chat so people can take a look. They'll be massively appreciated. Hopefully we'll see you back at LBS in the new future.

Mohnish: All right, thank you. Great being here.

Raashid: Take care.

Mohnish: Bye