Mohnish Pabrai's Chat with students at the Rotman School of Management and Rotman Student Investment Fund on Mar 3, 2023

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Rinal: Okay. Hello everyone. A very good afternoon. Thank you for taking the time out and joining us on a Friday afternoon. I am Rinal Shah one of the portfolio managers at the Rotman Student Investment Fund. Before we start, a few housekeeping rules. This event is being recorded. Kindly keep your microphones muted until you have a question. This session is going to be interactive. Please post your questions in the chat and we will moderate them. Last but not the least, we would like to see your pretty faces. It'll be nice if you can please keep your cameras on. Let's get started. We at, this Rotman Student Investment Team is very excited to have Mr. Mohnish Pabrai with us today. Mohnish is the Managing Partner of Pabrai Investment Funds, which he founded in 1999. Mr. Pabrai is an ardent disciple of Warren Buffett and closely follows Buffett's principles on value investing and capital allocation. I am personally very excited about this talk, because my first interaction with Mohnish dates to the early days of the pandemic, and I was truly inspired by his wealth of experience and knowledge. We have a bunch of aspiring value investors amongst us today. I am sure, and I hope that all of you will feel the same after his talk today. A very warm welcome, Mohnish. Thank you for taking the time out of your busy schedule and speaking with us today. I would now like to invite Sean Swift, who is one of the founding members of RSIF to give the opening remarks after which the current CIO of the fund, Phomolo Rabana will be moderating the questions along with Mckoy Jackson, who is also one of the portfolio managers at RSIF. Over to you, Sean.

Sean: Can everybody hear me, okay?

Rinal: Yes.

Sean: Good. Okay. Thanks, Rinal. Mohnish, thank you for taking the time. I can't say how excited I was when Rinal brought this idea to the team. And, we had reached out to people at the Columbia Business School before, like Tom Russo, but I did not think we would get an investor of your caliber at some point presenting. So, we really appreciate your time. And so, for the students on the line, really what you want to do today is focus on generating questions to learn more about an investment process. So, at RSIF obviously we're focused on doing high quality, deep fundamental research. So, I think Mohnish is one of the leading worlds experts in the field. So I take this opportunity to really dig in on how you can become a better analyst and add value to the street once you get there. Mohnish, maybe starting off, I'm curious, and I'm sure people read up on this, but maybe if you could just give a little bit of background and maybe go into the story on the lunch that you bid on with Warren Buffett, and then

subsequently how that kind of conversation unfolded or how that interaction went. For reference students, the Oracle of Omaha himself has frequently noted Mohnish to be one of the best investors he's ever seen. So, I know Mohnish will be humble, but I think it's a two-way street here.

Mohnish: Well thank you Sean. Yeah. So, if we lived in the time of Newton or Einstein or Gandhi and, if we had a chance to break bread with them at some point, many of us would be excited to do that. And I had noticed that Buffett was willingly taking bribes to have lunch once a year with whoever paid the highest bribe. And the bribe used to be relatively small. They used to run a charity lunch auction for the Glide Foundation in San Francisco. And they used to do it at the Glide Annual Gala, so it was not online. I think in the late 90's our lunches used to go for like $25,000 or something. And then Buffett had the smart idea to tell them to move the lunch online to eBay. And then it immediately jumped to like a quarter million. And I think the last year, I think 2022 was the last year that he auctioned off lunch, it went for north of $17 or $19 million, I forget. So anyway, I've plagiarized and, copied everything of my investment philosophy from Warren. I think most of my net worth comes from that all that cloning. So, in 2007 I think my net worth at that time was north of like $80 million. And most of it was because of, cloning Buffett. So, I said, why don't I try to bid for the lunch and why don't, maybe 2% of that amount is a good tuition fee to pay. So like, $1.6 million or something would be perfectly fine. And I decided I was going to bid for the lunch. I had bid for the lunch a couple of years before that, but I had set it like an upper limit of like, $200,000 or whatever, and I would always lose out. So, in 2007, I decided, okay, we're going to kind of amp it up a bit. And then my friend, Guy Spier, I asked him, he was the only guy I asked, because you can bring seven people to the lunch. So, I asked him if he wanted to join me on bidding for the lunch. And he said, yeah, he was fine, but he wasn't fine with the $2 million, so he said he was good up to a quarter million. So, I said, okay, we'll cap you at a quarter million and I'll take care of the rest. And so actually we won the lunch for like, I think about $650,000 and which, most people thought was a little ridiculous, but now when I look back, it was like, kind of, I think kind of like buy one get infinite free. So, the lunch led to a very nice friendship with Warren. He introduced me to Charlie Munger. And then we met Charlie Munger for lunch. And then that led to a nice friendship with Charlie. And I usually meet Charlie probably four or five times a year for dinner at his place. And I used to play bridge with him on Friday afternoons at the LA Country Club. He doesn't do that anymore, but that for several years whenever they were short one player or something, they would call me. So, that was also a lot of fun where we would meet for lunch on a Friday and then spend 4- or 5-hours playing bridge. So, the lunch was terrific. I just had a very simple objective in bidding for the lunch. I just wanted to look Warren in the eye and thank him I didn't have any other agenda, because I just felt so grateful for all the learnings and teachings that I had gotten from him and the huge impact he had had on my life. And so, everything else that happened was just gravy. And so, the lunch with Warren, the first lunch with Warren went on for about I think about three hours and covered probably like, I don't know there were like 54 questions or something. So, it covered a very wide range of things. In setting up the lunch, I had some interaction with Warren's assistant Debbie Bozanek, who's a wonderful lady. And after the lunch for a few years, Guy and I used to go to Omaha day before the Berkshire

meeting, and we would meet Debbie for lunch. And so, we had lunches with Debbie for a few years, and I thought the lunches with Debbie were better than the lunches with Warren. And, the first lunch with Charlie, I also thought was a lot better than lunch with Warren, even though Warren is a tremendous lunch companion. And we had a great time. So yeah, I mean I think there was a, a lot of take-home value with all of that, but just, it, it spilled over into all these other relationships and meals and games and whatnot, so it worked out wonderfully.

Sean: That's great. I'm sure there's a million follow up questions everybody would like to ask, but maybe we can get to those later. Last question for me, really, and I'm borrowing from the book that you wrote, the Dhandho Investor, and the thing that we've tried to instill in the students consistently is a repeatable investment process. And so, if I can distill my interpretation of the book, it's buying quality businesses at the right price. And so, you've mentioned things like emote or businesses with low competition or an experienced business, and then a margin of safety. Maybe if you could just highlight to the students a very simple breakdown of that investment thesis or philosophy and how you think about it. And maybe if that's changed over time, so changing market conditions, maybe we start there.

Mohnish: Yeah, sure. So, I think I'll, maybe I'll try to slice it a little bit differently. Buffett's letter came out recently last weekend and some of you may have read it. If you haven't, I think it's a great read. It's one of his better-read letters. And it's short. I'll just read maybe two or three sentences from what he said, which I think you might find interesting. So, he says that over the years, I have made many mistakes. Consequently, our extensive collection of businesses consists of a few enterprises that have truly extraordinary economics, many that enjoy very good economic characteristics and are very large group, and I'm not a very large group just, and a large group that are marginal. And then, a little further down, he says at this point, a report card on me is appropriate in 58 years of Berkshire management. Most of my capital allocation decisions have been no better than, so I'll just reread that sentence again, because this is, the greatest investing mind in the history of humanity.

"In 58 years of Berkshire management, most of my capital allocation decisions have been no better than", so then he goes on to say, "our satisfactory results have been the product of about a dozen truly good decisions that would be about one every five years." And then he goes on from there, so basically if you look at Berkshire Hathaway talking about the 58-year history they bought probably around 80 odd businesses as complete acquisitions over that 58-year period. And I would guess that over the 58-year period, he's probably invested in maybe north of 100 stocks. It might be 120, maybe if you take two a year, it might be 120. So, if you take, to make it kind of way it take in even you have 120 stocks and 80 businesses, so you have 200 decisions basically that took place over almost 60 year period. And he points to 12 that really are responsible for most of the outcome. And I think it's a lot more than 12 that were good decisions. But he also points out that they own a very large group of marginal businesses. So, if we look at the 80 companies that he's bought, so, one of the things that Buffett doesn't like to do is he doesn't like to criticize specifically. Because I think, like, so for example, if he said that Helzberg Diamonds was a terrible investment, Jordan's Furniture was a terrible investment, it would

really dissuade those managers, like make them feel bad. And what a business is already that's struggling would probably have even more headwinds thrown up. So, he would not be helping those businesses by highlighting that they were useless decisions. But actually, we look at the list of businesses, which I think the list in the annual report, it's not a difficult exercise to go through and figure out which businesses are kind of mediocre or poor or useless and which are great or exceptional. I think in general, in investing, it is not that difficult to understand what a great business is and what is a not-so-great business. I think that usually if you look at the history of a business, what you'll find is that usually a great business, it'll be visible in the numbers. You'll have high returns and equity without a use of leverage. You'll have long runways where they can reinvest capital at high rates. And you would obviously recognize just from looking at the names that this is a great business. So, if you look at a business like Coca-Cola or if you look at a business like Visa or MasterCard or American Express or like, Flight Safety, Geico and so on, we can run into many, many great businesses, pretty obvious. So, one of the things before I kind of go a little further on answering your question is maybe you can just help me because that might help tailor the conversation, is in your student investment fund, what are the investing rules? So, what is the amount of money that you have to invest and what are the rules that you have to follow?

Sean: Yeah, absolutely. Phomolo, maybe if you want to take over from here as the chief investment officer.

Phomolo: Sure. Thank you very much for your time first of all, Mohnish. At this point in time, we just started the fund. So, we've got a $100,000, Canadian dollars to invest. We're going to get $150,000 more to invest. And our position sizes, which is slightly different to I guess how you manage your money, is that we are limited to 5% initial investment. So that's a key thing. And then we're looking for companies which are compounding over time. Because we're looking for 45 year holding period. So, those are the key sort of companies we're looking for. We're looking for models, leverage as well, businesses, which are easy to understand, and which we do expect to be able to grow the value over time.

Mohnish: So, the 5% maximum bid size means that you would have at least 20 positions.

Phomolo: That's correct.

Mohnish: And the students who are managing the fund, are they involved in the decisions on managing the fund while they're students?

Phomolo: Yes, that is correct. It is the five-executive team now. We have a team of 21 analysts, and they're the ones who are involved in terms of looking for the stock pictures. And we have the final stock picture coming up next month, sorry, later this month. And they're going to pitch five or seven ideas. And then from those seven ideas, we're going to the top five ideas.

Mohnish: Okay. And then what happens to the positions after everyone graduates?

Sean: So, the idea there is generally, so we're following the five-by-five model from Tom Russo at Columbia Business School. But the idea is the portfolio managers are responsible each year for taking over prior research

committed on stocks within the fund. The 21 analysts are responsible for pitching either new ideas, supporting a current idea, and so, Phomolo Rabana, Mckoy Jackson and team are responsible for saying, of the five we bought last year, are there any that maybe we want to buy or sell or buy more or sell?

Mohnish: Okay. So, that means each group picks five, is that correct?

Sean: Yeah, give or take, yeah.

Mohnish: Okay. Alright. Okay. That's pretty good. And are you limited geographically?

Phomolo: Oh, North America at this point in time.

Mohnish: That's so sad.

Sean: Yeah. Yeah. The regulators in the school asked us for the first three years before we build a full track record that we keep it in developed North America over time. However, the plan is to kind of unleash the student powers internationally because Robin's actually a fairly international school. I think it's a strength, so.

Mohnish: Yeah, I mean, I think that, when I read this year's letter from Buffett and I thought about, his 12th grade decisions, out of the 200, I would say out of the 200 just outright mistakes where he lost a lot of capital would be very small. But a lot of businesses which either flatlined or had some loss of capital would be a fairly large number. So, one of the important lessons that comes up from Buffett and his letter and his approach is what I would call, the circle the wagons approach to investing. So, basically Buffett has an incredible record in the sense that he has, he has compounded at 19.8% annually for 58 years which is two times the rate of the S&P, which is at 9.9%. And the 9.9% compounded for the S&P has led to a 24,700% increase in value. But the 19.8% for Buffett has led to a 3.8 million percent increase in value. So, it's just not even in the same zip code. So, even though he says that, most of my decisions are so-so, and, when we look at those 200 decisions, we would not be scratching our heads over many of them. And many of them we would obviously say, well, I would've never bought it. and such even with all those watts and everything else thrown in, the overall results are incredible. And the reason the overall results are incredible is because the flowers were never cut, and the weeds were never watered. And so, that's an important lesson here. So, what I mean by that, and I think somewhere in the letter he brings up something about the flowers and weeds. I don't know if I can find it on the fly over here, but I'll see if I can find it later because he has some quote about that. So, basically if I just switch gears a little bit, in the early 1970s there was this concept of investing called the Nifty 50, where the idea was that you bought these 50 tremendous businesses, equal weights, 2% in each, and you kind of set it and forget it, and you made a lot of money. And the idea of the Nifty 50 was that you really didn't care how extensive the business, it was a great business, you bought it. And so for example, McDonald's was in there and Proctor & Gamble's in there, Xerox and Kodak and all these, different businesses that were really kind of strong and powerful, IBM and so on at that time. And the Nifty 50 became so popular that those businesses went into stratospheric valuations. And then in 73, 74, when we had the big, huge downturn in equity markets, the Nifty 50 got taken out back and shot, and very little was

left off that portfolio, it was decimated. There's some controversy about whether Walmart was part of the Nifty 50 or not. There's one group of people who think that Walmart was part of the 50. There's another group of people who think it wasn't, but let's go with the side that thinks that Walmart was part of the Nifty 50. So, if you bought the Nifty 50 at whatever ridiculous valuations it was trading at in the early seventies, and you went through the whole 73, 74 downturn and never touched those 50 positions, and you assume that 49 of those 50 positions went to zero except Walmart, you ended up trouncing the S&P from 1970 to now by some significant margin, like, you'd be about like four percentage points over the S&P. So, I'm taking a $100, I'm lighting fire to 98 of those a $100 and taking those to zero, I'm left with my $2 in Walmart, and my $2 in Walmart beats the pants off the S&P and so that kind of data is somewhat in sync with Buffett's record. the thing is that the, some of these investments he made are like holding Walmart for 50 years. They're like that, they just had such powerful economics. There was a very good investor in India who passed away recently. He had a lot of health problems. He didn't live that long. He passed away when he was 62 years old. And Rakesh Jhunjhunwala and he basically never managed outside capital. He didn't have any money when he started. He borrowed about I think about 10 thousand from someone to buy a few stocks at 18% a year or something. He was paying that person. And he didn't have any collateral when he was borrowing that 10 thousand, when the person said, how do I know I'm going to get this money back? He said, I'll put the stocks in your name so that, that you have those, and I have the economic ownership, but if things go to hell and I can't pay you, you have ownership of the stocks. And of course, he was able to pay him. But when Rakesh passed away, so he never managed outside money, never started a business or anything like that. When he passed away last year at the age of 62, he was worth about $7 billion. And half of that $7 billion, about three and a half billion was one position. It was a company in India called Titan Industries which is a jewelry, retailer and manufacturer. And about 25 or 27 years ago, Rakesh had put 4% of his net worth at that time into Titan Industries. And he was a hyperactive trader where he'd sit, with three screens and be in and out of all these positions all the time. But there were three or four positions he had that he never touched. He just kept them forever. And Titan was one of those positions. So, if you do the same thing with Rakesh's portfolio, where you torch 96% of the portfolio in the mid-nineties when he bought Titan, he still ends up with three and a half billion. And so that's very similar to the Nifty 50.

So, the lesson, I think the lesson in investing is that it is a very forgiving business. I mean, if you look at the Nifty 50, you could have been wrong 98% of the time, 49 out of 50 times, and you still did okay, now you wouldn't have done okay if you danced in and out of Walmart stock wouldn't have worked. And in the last 50 years, nobody held Walmart stock. Nobody held Walmart stock for the entire 50 years except the Walton family. And so here was this great business, it was obvious it was a great business. It was doing well; it was embryonic and going like crazy. People didn't hold onto it. So, the key with investing in my opinion is not so much that we won't make mistakes. We are destined to make a ton of mistakes. It's just the nature of investing. John Templeton said, the best investment manager will be wrong one out of three times, probably more likely would be wrong half the

time. If you look at the 200 bets Berkshire made, I will say probably a good hundred would be mediocre or poor, and still didn't matter.

The concept that matters a lot is the concept of circling your wagons. So, you don't really know a business till you invest in it. And it really takes you a few years of ownership to really understand the business. You may have some ideas about a business before, it's when it drops 40% in price after you buy it, that's when you get a real education of what the business is all about and what it's worth and everything else. Your analysis will be extremely good at that point. It won't be so good before you buy the business. It'll be good when it drops 40%, you'll be amazing at it. So, the important thing is that all of us will find ourselves in a happy situation every so often of holding a small interest in a great business. And when that happens, what you need to think about the portfolio, you need to think about the portfolio in the form of a few concentric circles. So, at the very center of the circle with a bunch of wagons circling around, if you go back to Rakesh Jhunjhunwala is Titan Industries, and the next round of positions with a bunch of wagons around it would be bets that he has less conviction on. He might have like three or four others that he feels pretty good about, but not as good as Titan. So, he puts, them in the next circle, and then you might put the next set of positions in the next circle. So, one of the things I would encourage you to do is that the portfolio you are inheriting, try to see if you could put them in those different circles. So, we want to make sure that the business or the businesses that we have that are just tremendous go at the center. And the center needs to be a very rarefied space. So, it's not enough for the business to be great. Like I said, it's very easy to tell. I mean, if I look at the S&P 500, probably 200 of those 500 businesses are great businesses. they wouldn't be in the S&P 500 if they weren't great businesses. So for me to look at the S&P 500 and pick out, which are the best businesses, and in fact even to even just rank them best to worst is a very trivial exercise. It doesn't take much to do that. That'd be easy to do. What would be a much harder exercise is which of the businesses will do the best for an investor from today onwards, because when a business is great and the markets recognize it as being great, then a lot of those prospects are discounted in. And so when you become the 201st analyst to buy that business, what are you bringing to the party? it's possible you have some insight that the rest of the world missed. But if these are, widely followed, well understood businesses those become difficult and rare. So, for the innermost circle, with the most precious cargo being circled by the, tightly formed wagons, we need two or three things. We need a tremendous business which has a tremendous growth runway which has very high returns on equity without using leverage, which can reinvest capital at very high rates, and which has a very modest price. The last one is the deal killer and the most difficult because everything else we can find relatively easily. And the last one is why, Munger says we need to go fishing where the fish are. And he also, I think few weeks back, there was a Daily Journal Annual Meeting, I think about two weeks ago, and he was talking about, I think he was asked a question about the single biggest flaw a lot of humans have. And the biggest flaw humans have is denial. A lot of investment managers have denial, where they are going up. If I am given a mandate to only buy S&P 500 names and beat the S&P by five percentage points a year, and I decide to, and I need to have at least 20 names in the portfolio, I shouldn't even try, that would be really hard to do. But a lot of other managers will try that,

and that's what Munger means by denial. So, with that, maybe we'll see what else you guys want to talk about.

Phomolo: So, thank you very much. Just going back to great businesses, I read somewhere that you think only about 5% of companies globally are great businesses. So, I just wonder whether how you define a great business might be different to other people. And also at the same time, perhaps there were learnings that you went through your investment process or decisions that you did make that actually made you think twice about what actually a great business is versus what is not actually a great business. Can you perhaps just take us through some of the mental models that you use to make sure that what you are investing in is a great business?

Mohnish: Yeah, that's a great question. So, one of the hallmarks of a great business would be durability. And one of the issues with capitalism is that if you have a mouse trap that delivers high returns and equity grows a lot, does well, etc., you have a target on your back. And other capitalists will try to come and take market share from you, make the landscape far more competitive, reduce the profit margins, and even take you out of business. And the reality is that most of those eroding invaders coming to take the castle will succeed. So, if we look at how many businesses last 10 years after they have formed, how many businesses last a year after they're formed? It's a very small number. 10 years is an even smaller number, 20 years even smaller, each time it's going down by a whole exponential, 30 years, 40 years, 50 years, just keeps going down. If we go look at the, another Dow Jones Industrial average from a hundred years ago today you look at, kind of 30 most powerful businesses a hundred years back, it used to be only GE was the one that came through. And then now GE is gone too, taken out back and shot many times. And so basically a business, I mean, if you look at a business like IBM, IBM is a very interesting case study because they were able to morph and evolve and jump curves many times when they should have died. when mainframes switched to many computers, switched to PCs, switched to client server computing through many of those curves IBM just kept plowing through, kept doing well, and now it's a shadow of its former self. And investing in IBM hasn't been a pleasant exercise for maybe a couple of decades now. So, one thing we must understand, so if we go back and look at, okay, the oldest business in the world that I'm aware of is about 700 years old. It's a very small boutique could hotel in Kyoto, Japan, which is in the 36th generation of the same family running it. And so, when we get to about three or 400 years or 500 years, you are left with, you're basically left with liquor companies. liquor companies are great businesses by the way. Tobacco companies, human vices. If you invest in the vices, you do well. So, basically when we talk about great businesses, we must talk about them with great humility. Because even if we look at a business like Apple today, it absolutely dominates and is so entrenched alphabet, Amazon, Microsoft dominant, well entrenched, deep remote businesses, high returns and equity, just tremendous. Which of these will be with us 20 years from now, still thriving, 40 years from now, still thriving 60 years from now? I don't know if I would make a bet that any of them will be thriving 40 years from, 40 years is a long time. 10 years, I don't think we can touch any of them. I think they're all solid for 10 years. 20 years, maybe they're all still there, after that who knows. So, one of the problems we run into in investing is, on one hand I told you, circle the wagon. You find this great

knight, controlling this great castle with a great moat around it. Just hang onto it for dear life. And then on the other side, we have this, permanent, creative destruction going on where even your most precious crown jewel Numero Uno bet just gets decimated, taken out back. So, this is why, like Charlie says, why should it be easy to get rich? so this is what makes it challenging. So, what we must do is we have to circle the wagons that we have to do, because without circling the wagons, you don't get to hold a Walmart for 50 years. But the second thing we must do is we have to separate signal from noise. So, what we must do is these businesses will go through ups and downs. Nothing is straight forever. And so when they go through these ups and downs, we have to separate normal cyclicality, whatever's going on such as life from secular decline. And we cannot be like, trigger happy. And when we are, we can be a little sloppy on the selling. So, we can see something is declining, but let me be sure we are not reacting to the noise. So, that's fine, you can be a little bit careful on that, but when you are absolutely convinced that some castle is in permanent secular decline, you then must put the wagons around something else and move from there. And those are not easy things to do, but that's why you guys get paid the big bucks.

Phomolo: Thank you for that. You mentioned tobacco, you mentioned beverage companies or alcoholic beverage companies, but when you look at a company like Anheuser-Busch or BTI, they've pretty much done or they haven't performed very well, as I say, over the past several years. So, even they are great businesses, they've been great investments. So, what's your sort of view of the disconnect then in terms of them performing?

Mohnish: Yeah, that's a great question, especially a great question to ask a teetotaler. And so, I'll give you my best shot having never had a bud before. Basically, I haven't really looked at those businesses, but I would say that, obviously we've had some change in taste, where things have moved to the hard seltzers and so on. It all tastes horrible to me, but some things taste less horrible than some other things. Just to take a little detour is, me the teetotaler had an investment in a liquor company in China called Moutai. And I'll just tell you the story about Moutai for a second, and then we'll get back to Anheuser-Busch after that. So, Charlie Munger when I got to know him, he insisted that Li Lu and I should meet each other once a month for lunch. So, I told Charlie, well, if Li Lu wants to waste his time with a yo-yo like me, I'm more than happy to do that. So when I was in California, now Li Lu has moved to Seattle. Do most of who Li Lu is? Most people don't know who Li Lu is, so I'm like barking up the wrong tree. So, let me go a little further back to first explain Li Lu, and then we'll get to the Chinese liquor, and then we'll get to Anheuser-Busch, and hopefully all that will happen before it's all pumpkins and mice. But going back a little further, because there's some lessons in each of this. So, Charlie Munger said that he read Barron's for nearly 50 years. I think all what Barron's is. And so, Barron would show up every week at his home and he'd read it. And each issue of Barron's probably has at least, 5 or 10 stock ideas, probably at least 10 different stock ideas. They have different write-ups, and people are, talking about different businesses and all that. And so, if you take each Barron's issue, having 10 ideas, and you have 50 issues in a year, you have 500 ideas in a year, and then if you go 50 years, it's 25,000 ideas. So, Charlie says that for 50 years he read Barron's and he read all these 25,000 ideas, and he

never acted on it, okay. And then in 2003, after 50 years of reading Barron's, he reads one idea in Barron's that really excites him. So, suddenly Charlie is seeing something in this writeup, which he could not see in the previous 25,000 writeups. And he had about $10 million of loose change lying around. And he put the 10 million into this company that the world thought was going to go bankrupt. It was Tenneco Auto Parts company. So, the bonds were very distressed. The bonds were down to like 20 cents on the dollar and the stock was very distressed, and the whole thing was very distressed. But Charlie somehow was super excited about it, and he put $10 million into Tenneco. And then about three years later the $10 million had turned into $80 million. Okay, well done, Charlie, well done. Okay. And then Charlie decides to take the $80 million, give it to this Chinese guy that he's met once to manage for him. And the Chinese guy who's met once is Li Lu. Okay. So, I asked Charlie, I said, hey, Charlie, you meet this guy from China one time, and you take the $80 million, which is little more than loose change now, and just give it all to him. Why would you do that? So, he said, "well, Mohnish, it was a no-brainer." I said, "why was it a no-brainer?" He said, "because I just looked at the guy's track record." So, Li Lu was a student leader in Tiananmen Square, and he was one of the main instigators of Tiananmen Square. And the Chinese government basically wanted to hang him at high no and be done with him. And so somehow, he managed to escape to Hong Kong. And then a bunch of, Chinese, dissidents in Hong Kong helped him come to the US and he got admitted to Columbia University, and Columbia admitted him into three programs at the same time. So, he did three simultaneous degrees at Columbia. He did an undergraduate degree in physics, at the same time, an MBA at Columbia, and at the same time he did a law degree at Columbia. And when he entered Columbia, he spoke no English. And the university basically gave him a free ride because he came with no money. So, they said, okay, we'll fund you. And so, what they used to do is like, let's say there was, $20,000 of expenses for the semester, they would give him the $20,000, then he'd pay the fees and, have money for his living and all that. The float on that, on the money they get giving him every quarter or every semester, he started to invest that. So, like for example, he's got money in January, and it doesn't need to be paid to the landlord till March. we got two months of float. That's a long time, okay. So, he invested that two-months of float. So, by the time Li Lu finished at Columbia with near the top of his class in all three degrees he had converted that afloat money into a million dollars, okay. So, and then Charlie said, I just looked at what the guy was doing, and to me it was a no-brainer. So, he gave 80 million to Li Lu, which very quickly Li Lu turned into 800 million. And I think now that money that Charlie gave to Li Lu might be sitting at like 1.2 or 1.3 or 1.4 billion or something. So now that we know what Li Lu is, and when Charlie says, Mohnish, you should have lunch with Li Lu, I told Charlie, if he wants to meet the yo-yo for lunch, the yo-yo is very ready to meet him. And so, I used to meet Li Lu once a month for lunch, okay. And I told Li Lu, look, so whenever I meet somebody for lunch, I don't drink alcohol and I don't smoke, but I do like great food. So, I said, Li Lu, listen, near your home is Din Tai Fung. Have any of you heard of Din Tai Fung? A few nods. That's awesome. We have a few nods. It hasn't come to Toronto yet, but it'll come soon. In the meanwhile, whenever you go to other cities, you can have Din Tai Fung. Anyway, there was a great, it's a Taiwanese dumpling place. So, I said, listen, while we are having great conversation, we'll meet at Din Tai

Fung once a month. He said, yeah, that's fine. So, I meet Li Lu one time, and he's telling me about this obscure Korean company called Amorepacific, okay and he's trying to explain the, like the cosmetics business, this and that, whatever. And I finished at lunch, I went back, I tried to look, everything's in Korean, and then I found some places in California, which carried their products. And I went to those stores. I could not make out head or tail of this business, okay. Way outside circle of competence. So, I said, okay, whatever aim or whatever. And then after about 18 months or two years of meeting, he tells me, yeah, so did you invest in Amorepacific? I said, Li Lu, I couldn't make head or tail. He said, it's gone up 600x. Okay. So, then Li Lu tells me, Mohnish, you should buy Moutai. I said, Li Lu, I'm done with these wacko names. So, here's what we are going to do. Don't tell me go buy this and go buy that. Please spoon feed me everything I need to know, because when I leave this lunch, everything in Moutai is going to be in Chinese, and then I won't be able to do anything, and then I want to meet you after two years, and it's gone up a 100x. And I'm again, the idiot who did nothing with it. So, he said, well, you could have asked me that about Amore, I would've explained it to you. I said, well, now I'm asking, please explain spoon feed me Moutai. So, Moutai is the most, now it is the most valued liquor company in the world. It's above every other liquor company. It only has one product. Okay. The product costs about a dollar 50, less than $2 per bottle to make. And the last time I check it was about $1,400 per bottle that they sell it for. So, like a 99.9% operating margin. And so, I asked him a bunch of questions about Moutai, it was obvious, this was a remarkable business, and it actually had gone down in place for temporary reasons. And I made an investment in Moutai. And then and Moutai instantly started elevating and moving up in price. Life is good. And I told Li Lu, if you want to take the lunches to twice a month, I'm off that too. In fact, if you want to meet me every day for lunch, that's also okay. He said, we'll keep it to once a month. I said, okay, that's fine, and so a few years after that, I decided that the Moutai become such a big part of the portfolio that maybe I should go visit the company.

So, I made a chip trip to China, and Moutai is in the middle, very obscure remote area of China, which nobody would ever go to. And my friend Guy Spier came with me and my daughter came with me, and we went to Moutai headquarters. And because Li Lu was a big shareholder and he helped set this up, they had arranged a great banquet for us at the Moutai museum, and so at the banquet Guy Spier was with me, and my daughter was with me. So, Guy Spier tells the host, "We don't want you to get offended, but my friend Mohnish does not drink alcohol. And is it possible to get him a Coke?" So, they said, "within this hallowed ground of this restaurant, there are only two liquids that are served. It's water and Moutai, and we would be offended if he did not consume Moutai." So, if you ever get a chance to have Moutai, tiny serving like this small, you have it neat. It's like diesel going straight in. It's like concentrated diesel. That's all I can describe it as. And I didn't want to offend the host, so I took one sip and then my insides were burning for the next three days. So, that was my experience, my one and only experience with liquor.

But anyway, coming back to Anheuser-Busch. So, I think the thing with Anheuser-Busch is what we'd have to know is we have these kinds of changes in human taste and trends. Is that noise or is that signal? It still has

a dominant position. It's still a great business in many ways. We must look at the valuation. We've got to have some idea what it might do in the future. And then if all of that becomes at the point of being a no-brainer, like Tenneco was for Charlie, then we pull the trigger, otherwise we move on. So, that's all I can say about liquor.

Phomolo: Cool. Thank you very much. I guess just to follow up, when are you meeting management teams for instance, how do you go about assessing the judgment between a good management team and a bad management team? And I say that because usually when things are going well for a company, everyone says, this is a fantastic management team. They say they do fantastic work, XYZ, they're futuristic, they're thinking forward. But when sending things do turn for that management team, people start calling them naive. They're not really focused on what's the most important thing for a company. So, I want to know how you go about differentiating what makes a good management team versus the bad management team?

Mohnish: Yeah. So, Warren has given us the framework on that. So, that's straightforward. We simply look at the track record. So, all management teams have one thing in common, especially all CEOs. They got to be CEO, because they have great things, okay. And so, if you go meet a great salesman and he talks to you about a subject on which he knows everything, and nothing, and you rely on that information to make decisions, you will not get to nirvana. You will get to the poor house. So, basically the average public company CEO, being male and thereabout would be someone you'd be happy to have your daughter married. They are high quality, high integrity people, but they are optimists. And if they weren't optimist, they couldn't lead. So, it's not like they're trying to mislead you, they believe the Kool-Aid that they're trying to sell you. It's just that the Kool-Aid may or may not be real Kool-Aid. So, the way to look at a business and look at a management team is to look at what they've done in the past. And if you go back and look at what they've done in the past, then it becomes obvious. And also, sometimes you might be confused, was the past great because the business was great, or was the past great because the manager was great. And who was this? Who the American General Patton. Patton used to always say that he didn't want his, the officers, no, it was Napoleon, sorry, Napoleon said he was not looking for his generals to be great. He just wanted his generals to be lucky. He said, I want the luckiest generals. I don't want the great generals. Okay, so when we look at the history of a business under a given manager, did the business do well, because the manager was great or did the business do well, because the business was great. Like, if you look at a business like Coca-Cola, for example, we know for a fact that for about 35 years or 40 years, it was managed by idiot managers. And the business still did well. Despite the idiots trying everything under the sun, they bought paramount pictures, they bought shrimp farms in China, they bought all these stupid businesses, which when the next team came in, they sold everything, okay. They did all these stupid things, they couldn't kill the business, okay. So, when we look back and we see great performance, it now doesn't matter what we think of the manager, because more than likely that great performance is mostly due to the quality of the business versus the quality of the manager. And so, just like Napoleon, we want lucky generals. And so,

forget what the manager is saying, forget what he's forecasting, forget what mumbo-jumbo tales their spinning for you. That's all hocus- pocus. All we care about is what's happened in the past, and what's happened in the past is not subject to debate, it's obvious. So, it becomes simple and straightforward.

Phomolo: Thank you. Mckoy, you want to ask the question quick?

Mckoy: Yep. So, thanks Mohnish. Just turn into a few questions from the chat from the students and other participants. So, this one is a bit of a segue into what you mentioned about finding great businesses. So, the question is, after you've identified a great business, what's your approach to valuation? I know you hate Excel models and fine tuning those models. So, what sort of mental models do you use of value companies? And the second question from the chat is on one of your commandments to look for the hidden PE within your companies. What's your approach to that? And then how do you go about, as a related question, how do you go about assessing the normalized earning power of companies you're looking to invest in?

Mohnish: Yeah, so what we want to do is we don't want to use a lot of brain cells, because we have limited brain cells. So, we want, what I would call no-brainers. And, like, I started making trips to Turkey about five years ago, and in about two weeks, I'm going to Istanbul for about two weeks, and it should be quite the orgasmic visit. But basically, I started going to Istanbul about five years ago, just out of curiosity, because it was screening as probably the cheapest market I'd ever looked at. And Turkey has very crazy economic policies, 80% inflation. Everyone and their brother have exited, and the local investors are gamblers. Their average holding period is like, six hours. I have a good friend in Turkey. I told him to just if he would be, just take me to the businesses that he already invested in, which he was very happy to do. And in my second trip to Turkey, I ran to this company that he was taking me to where the market cap was $16 million. And my friend was telling me the liquidation value is like $700 or $800 million. So, I asked him if it was a fraud. He said, no, I own part of the business and it's a perfectly normal business. And I looked at the business and I really couldn't find anything wrong with it. I liked the people running it. And I really was kind of scratching my head about the valuation. And then I thought, it's such a nano cap, what am I going to be able to get for this? But for about $7 or $8 million, I got one third of the company. Now that market cap is about $350 million, and probably the liquidation value is around maybe one and a half billion. It's a company, which what was exciting to know what that business was, that it was trading at less than 3% of liquidation value, which is very good for your health, because that's a straight 30x if liquidation value never increases. And, but they were reinvesting capital at such high rates, 25%, 35% a year in dollars that I knew that that liquidation value was going to go, as I'm tad ice. And so, I tried to buy as much as I could, and then I said, we need to circle the wagons. So, I put it at the absolute epicenter that when everything else is sold, you would still hold onto. So, I was only able to invest 1%, a little over 1%, maybe one and a half percent of my assets under management into Reysas because it was such a small, like $8 million. And now it's approaching like 25%, 30% of the portfolio, something like that. And so, there was no need for excel. We could look at it was like, $12 million square feet of warehouses, 80 bucks a square foot kind of replacement value that gives you about $960 million, $200 million of debt at the time,

that's $760 million. And $16-$20 million market cap. You don't need to do much more math than that if the warehouses are there and 99% lease and inflation index leases, and Amazon is a tenant and car for the tenant, and Ikea is a tenant and Toyota is a tenant, and Mercedes is a tenant, and DuPont is a tenant, and none of those tenants are going to default on their rents or try to bail out of the leases or anything like that. So, what we, now something like Reysas, I know God loves me, but I know he only loves me enough to give me one of these in my lifetime, one and done. He also showed my tremendous love for me by putting me in front of Li Lu for lunch. And then he also made Li Lu tell me about Amorepacific. But then what God did was he took me, he took the horse to the water expecting the stupid horse to drink, and the stupid horse was too dumb to drink the first time. And so, what we want to do, which is difficult for you to do in your fund, is we want to do what I would call anomaly-based investing. We wanted to invest in things which make no sense. If it makes sense, don't invest in it. So, like Mark Twain says, truth is stranger than fiction, because fiction must make sense. We want to invest in things that don't make sense. And when they don't make sense, that's when we've got a shot at greatness. And excel is not going to help you make sense of something that doesn't make sense.

Mckoy: It's hard to break away from the excel models. So, how another one?

Mohnish: the thing is that there's an AA program for people who have an Excel addiction. You start by going to the meetings and say, I'm Mckoy and I'm addicted to Excel. And then we'll all say, welcome Mckoy. And then the healing will start.

Mckoy: I might sign up. So, I have another one here from the chat, and this one is around Buffett's, I guess, famous approach of your circle of competence. So, the questionnaire is, aren't you concerned about things outside of your competence, great investments that you might be missing, because you're sticking to that circle that you understand?

Mohnish: Yeah. So, it is important to not stray outside your circle of competence. So, the size of the circle is not relevant. You don't need to understand very many things. I hate the defense sector. I don't like companies where there's only one client and the client are the government. I hate the healthcare sector because in the US it doesn't operate with market forces. There could be great investments in the defense sector, great investments in the healthcare sector. Moderna might be a great home run, etc., but they don't fall within my circle of competence, so that's perfectly fine. So, don't have envy, oh I should do this, or someone else understands this, or my idiot neighbor is becoming really wealthy because he bought salesforce or whatever. The problem is if you invest without conviction, you will not be able to hold the company, and you will also not be able to separate the signal from the noise. So, it is important that you understand the business well, because understanding the business well will help you decide, is this something that I need to hold forever, or is this something that I could possibly replace with something better and so on. So, I think there is no substitute for circle of competence.

Charlie Munger has a billionaire friend who passed away recently John Arrillaga. And the interesting thing is John Arrillaga’s daughter is married to Mark Andreessen. So, she's already a daughter of a billionaire, and then she,

randomly chooses to date a billionaire and then it's billion to the power of a billion. And I've lost count of the billions now. So anyway, John Arrillaga basically only invested in real estate within two miles of the Stanford University campus. And he never went beyond that. He did not invest in Northern California real estate or Bay Area real estate, or California real estate, or New York real estate, or Toronto real estate or any of that. And if you were walking with him around the Stanford campus, he could tell you the history of every building. He could tell you what the rents were, what the price was, what everything was. And basically, when people became very pessimistic about real estate around Stanford, he would load up on these businesses. And when people became very euphoric about these things, and they were bid up to crazy levels, he un-load them. He did that a few times, and he ended up with, several billion dollars. He didn't understand anything about an Anheuser-Busch. He never understood anything about Moutai or Amorepacific, or, going to Turkey or anything else, all irrelevant to him. So, I think sticking to circular competence, there's no substitute for that. One of the most important things to do, and all of you, when we start out our circular competence is very narrow. because we haven't had a lot of experience, we can only really understand products that we've used in the past, and a small spec level of them. We could probably understand the economics, but that's okay. Over time, the circle will expand naturally, we don't really need to worry about it. But even if it doesn't expand, like it never expanded for John Arrillaga, it never really expanded for Sam Walton. Every entrepreneur, for the most part, has very narrow circle of competence. they're inch wide and a mile deep, and that's how they succeed by being a inch wide and a mile deep. So, we want to really make sure that the bets we make are businesses we really understand well.

Phomolo: Thank you very much. We're coming close to time. Just wanted to ask you a quick question. Going back to your multi wage approach where some companies want to hold for dear life, you've mentioned that you only want to sell it when it gets egregiously overvalued. So, what's the difference between egregiously overvalued and being greedy? Like, when do where to sell off?

Mohnish: Well, you would want to basically make that decision when it's a no-brainer decision. So, if you are confused about it, it's not yet time to sell. So, it's like you couldn't possibly justify that valuation no matter what. no matter what kind of, rose colored glasses you put on, you can justify it. I had made an investment, this was one of the first investments I made when I started investing in 1994, almost 29 years ago. And at the time, I was running an IT services company in Chicago, and I made this investment in this IT services company in India called Satyam Computers. And I knew those people, they used to come and meet me in Chicago periodically. So, I knew it was a good company. I knew they were growing fast. And then I looked at their valuation at that time. India was very undervalued then just the real estate they owned in Hyderabad exceeded the value of the business. And this was the IT company that was growing like 70% a year and, huge margins and everything. So, I didn't put much, I think I put about $10,000. At that time, I didn't have much money. I had about a million dollars. So, about 1% of my portfolio, small. $10,000 went into this company. And I basically said, it's one of the businesses I understand well, it's got a very long runway, all these things, I'm not going to look at it. And in that time, in India, they didn't have

Demat. So, I got physical share certificates sent to me, which I just stuck at the bottom of my drawer, and I said, okay, we'll open this when I'm a much older man, see what we can do with it. And I just didn't really follow the company much. And I noticed when the .com bubble was raging in early 2000, about five, six years after I bought the company, that it had gone from 40 rupees of share to 7,000 rupees a share. It was trading at a, like a 150x including like some currency that went against me. So, it was 150x in dollars. And I looked at it at that time. I mean, I knew their business was doing well, but there was no way to come up with evaluation that would fit no matter how optimistic I was. And so, I said, as much as I like this, we got to let this go. And I was also very skeptical about the whole process of sending the certificates back, and I didn't know whether the Indian government would allow me to repatriate the money. they said in theory, you can take everything back, but I said, I only gave them 10,000 and I'm going to, pull out 1.5 million or something, and they're going to like choke on that. And so, I wasn't sure it all go through but it did, everything went through and I sold within 10% of the peak. And about nine months later it had dropped 85%. Still would've been a good home run, but that was my first a hundred bagger. And so, life was good. And so far, I've only had 200 baggers. I shouldn't say only, even one is good. And possibly with the one in Turkey, we'll have a third one that'll be the most fun I think, because it has the most meaningful amount of capital in it. So, basically when things get to total no-brainer territory that it's just completely egregious, that's when you add.

Mckoy: I'll take the last one from the chat before we close. This one is a, I guess a more macro sort of question. It involves your investment thesis or your investment approach to your Chinese investments, has it changed? Has it evolved given what's happening with the fundamentals of the Chinese economy?

Mohnish: Yeah, I think China is a difficult place to invest. I think that we only have really one investment. We still have a tiny amount of Alibaba left, which is a mistake, but we have one investment which is in the South African company called Prosus. But in effect, it's an investment in Tencent. We still own it. I think Tencent is a very remarkable business, but there are aspects of that business which are difficult for someone like me to figure out how the Chinese government thinks of them and all of that. It's also a mega cap. One of the issues is, there's a law of large numbers. So, if I want to focus only on hundred baggers and, Tencent have the $300, $400 billion market cap, to get a 100x we are looking at $30, $40 trillion. And there are no $30, $40 trillion market cap businesses anywhere on the planet. They cap out at about 5% of that number currently. So, that's the other thing. We may do okay on it. If I find something better, I will switch it.

Phomolo: Cool. Thank you very much for your time today. I think that brings us to the closure of the event today. We do thoroughly appreciate you taking so much time to speak with us today. We've learned a lot and I've learned a lot. I'm sure our team also learned a lot. We're looking forward to seeing how they put their learnings if you practice in a few weeks' time when they do their final stock pitch. We'll see if they have DCFs or not, but we'll see how that goes. And then obviously it says a lot about person on the take time out of the day to speak with us when they have no reason to do so. So, it does mean everything to us that you do take time today to speak with us.

We're highly appreciative and we do look forward to continuing this relationship with you, and we wish you continue success, looking forward to more talks and all the best for future.

Mohnish: All right. Well thank you very much. I very much enjoyed the session and some great questions and I'm sorry for the long-winded answers and the detours. But hopefully you got something out of it, and I wish you all the very best.

Phomolo: Thank you very much.

Sean: Thank you.

Mohnish: Thank you.

Mckoy: Thank you.

Rinal: Thank you so much, Mohnish.

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