

Mohnish Pabrai's Talk at the University of Texas on February 28, 2023

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Professor: Welcome to class today. It is a great pleasure to have Mohnish Pabrai here today. He is a very successful value investor and was inspired by Warren Buffett. He had lunch with Warren Buffett a while ago. They have this celebrity or this charity auction where you can, and that is how he was influenced by Warren Buffett. His performance has been exceptional. I think starting in 1999 till today, a hundred thousand dollars would have grown to 1.1 billion after fees and expenses, and then outperformed the S&P by 4.5% per year, which is a very impressive performance, especially for value in the last decade. Before being an asset manager, Pabrai was a tech entrepreneur and won an award from KPMG Illinois for his entrepreneurship. He has been quoted very widely in the media. He is very active on social media, and it is a great pleasure to introduce you today and to learn from you. Thank you very much.

Mohnish: Thank you. It is a pleasure and honor to be with all of you. I just have a few opening remarks and then I am probably more interested in what you want to talk about. We can go to Q and A after that. Some of you, or maybe all of you, read Buffett's letter that came out on Saturday. It was a pretty short letter. God Google can take you to the letter, so that is good. I just wanted to highlight two or three comments he made in the letter. I will just read you Buffett's words because he is a lot more eloquent than I can ever be. He says, "Over the years, I have made many mistakes. Consequently, our extensive collection of businesses currently consists of a few enterprises that have truly extraordinary economics, many that enjoy very good economic characteristics and a marginal group." Then going to another section on the same page, "At this point, a report card for me is appropriate. In 58 years of Berkshire management, most of my capital allocation decisions have been no better than so-so. Our satisfactory results have been the product of about a dozen truly good decisions that would be about one every five years and sometimes forgotten advantage that favors long-term investors such as Berkshire." This is arguably probably the best investor who has ever been around. His record is exceptional. Over the last 58 years, he has compounded at about 20% a year, and versus the S&P, it is about 33.7 million percent up versus a few tens of thousands up, which can be 24000% for the S&P. It is a very significant delta once you get even small percentages above the S&P the aggregates line up. One of the things I would recommend to all of you is a website called buffett.cnbc.com. It is hosted by BC. What Buffett did a few years back is he posted all the videos of all his annual meetings; I think going back from the mid-nineties to today. They are all on that website and they have got annotations and so on. I spent about seven or eight months listening to them, and I still do. I have a waterproof Bluetooth speaker in my shower and I just listened to different podcasts for about seven or eight months. I went through all the

meetings while I was shaving and showering and I went through them twice actually. I am sure if I went through them again, I would learn even more. It is a great resource. The price is right, it is free. You might enjoy that. I think there is a lot to learn from those archives because each meeting is about five or six hours and there are a lot of jokes which is fun. He was talking about the dozen or so great decisions that have set Berkshire apart. If you look at Berkshire Hathaway over the last 58 years, they have probably acquired whole businesses, maybe around 80 whole businesses over that period. They have bought and sold probably well over a hundred stocks, which would be very little; less than two a year. Maybe it is 125 or 150 something. It is somewhere in that range, maybe two or three a year. With all of that mess of let us say investments in 200 businesses wholly or partially owned, there are only a dozen that he points to that he thinks are responsible for setting Berkshire apart. I tried to come up with a list of the 12 based on everything I can think of; what he said in the past and so on. I do not know whether this list is accurate, but I will put it up. It may be off by a couple of names, but I think it is pretty close. The first name is Ajit Jain. There is Apple, Berkshire Hathaway Energy, and Burlington Northern Railway. These are not in any particular order. They could be more important up and down, GEICO, then See's Candy then The Washington Post, Capital Cities/ABC, Coke, AmEx, and let me just see what I am missing here. Bank of America and National Indemnity, which was the first insurance company he bought. You look at this list and then you look at this very astute investor who is the best that we have been able to produce as humans. I estimate that out of the 80 or so businesses that they acquired whole, at least half were just outright mistakes in the sense that they have either disappeared or their annualized returns that they have generated for Berkshire since they have been bought, or even in the first 10 years after buying them was well below the S&P and so on. On the marketable security side, it is somewhat similar. I would say that probably at least half are okay. The good news with the investing business is it is a very forgiving business. There was a very good investor in India who passed away recently; Rakesh Jhunjhunwala; some of you may have heard of him. Rakesh never managed money as a profession. He just managed his own capital. He started with less than a couple of hundred dollars. He died pretty young. He was 62 when he passed away, so he did not have more than four decades of compounding. In those four decades without ever collecting fees or outside capital or anything, he passed away with about 7 billion or so. Half of that 7 billion was one company, which is a publicly listed company in India called Titan Industries. Rakesh had put about 4% of the total assets he had about maybe 27 or 28 years ago into Titan. He just left it there. He had a kind of a split brain in the sense that he was a hyperactive trader. Many times, he was in and out of positions in a few minutes or a few hours, but at the same time, there were a few companies that he just kept forever. If you think about someone like Rakesh, 96% of the portfolio could have gone to zero, and if he just never touched Titan, he would still have three and a half billion. It did not matter what happened with the other 96%, as long as he did not touch Titan. I think Berkshire is similar. The reason why these businesses have worked out so well is that they have great fundamentals and high returns and equity and that Buffett has held them for a very long period. It is the long-term compounding of a great business that has delivered these great results. I think you guys have probably what I think is the largest size investment fund being managed

by students anywhere that I ever heard of. But we are at UT Austin. This is not a poor school by any means. That is a pretty good place to be. I think one of the dilemmas that probably comes up, depending on the rules and setup you have for managing those funds is that in most cases there is no long enough time horizon. When we make investments, the payoffs may come in 10, 20, or 30 years and then, you may be done with managing the fund in two years or less. That is a little bit of a bummer, but hopefully, you are making long-term investments. Let me ask you a question, what happens to the positions when you guys graduate?

Student 1: Direct holding roll over into the next year and so we inherited the direct holdings from the year before us.

Mohnish: Okay. Have you touched those holdings?

Student 1: Our group has not yet.

Mohnish: What is the plan?

Student 1: We will eventually.

Mohnish: There was some heavy-duty horsepower that went into buying those positions. I guess we do not have as much respect for the past horsepower because the present one is better. That is a somewhat difficult situation because the fund managers have changed effectively. Hence, the number one skill set that is important for investing is patience. There is an investor I admire a lot; his name is Chuck Akre; some of you may have heard of him. Chuck is now 80 years old and he manages about 14, 15 billion out of a one-traffic light town in Virginia, Middleburg. I wanted to connect with Chuck and I did not know him, so I just wrote him a cold letter last year telling him that I would love to meet him and love to visit the one traffic lights town and so on. He responded and then I made the trip to Middleburg and met with Chuck. Chuck's approach, I think if you go on YouTube or Google, you will find it, he calls it the three-legged stool of investing and he only does one kind of investing. I would say someone like Buffett or Charlie Munger is a Swiss Army knife. They are doing different things and they are good at all of them. Chuck claims that he is a very slow learner and he only does one thing. He looks for businesses where, first of all, the businesses have great economics. They generate very high returns on equity. The second is that they have a very long runway so they can take those cash flows that are coming out and redeploy them into these high, wonderful economic businesses. The third is extremely high integrity management with skin in the game. Those are the three legs of his stool. Whenever they look at any business, they just look at these three factors and it has worked out well. They have delivered well above the S&P and so on, a pretty straightforward process. It is not very difficult to look at a business and look at its history and see what the returns on equity have been over time. Of course, if you want higher returns on equity, without the use of leverage, that is the kind of hallmark of a great business. The whole idea of looking into the future and trying to extrapolate what a business looks like 10 years or 20 years, or 30 years from now is a very difficult exercise. We have got creative destruction and we have got things coming from left field. I remember that when I was living in California and used to fly in and out of LAX many years back, there was a really good parking operator near the airport, with good service called Wally Park. First of all, what they had done in their parking lot

is that they had put these leather dividers between each car so that your car could not get dinged. Once you parked any doors opening whatever, you would never get dinged. The second is they just ran a very high frequency of shuttles back and forth. It was just always really good service when you parked there. It was very quick to get to the airport and picked up. I used to think this is probably going back maybe 15, 20 years that Wally Park is the kind of business that looks bulletproof. They have high customer service and none of their competitors around ever cloned or copied the leather dividers. I looked at all of them, and none of them ever did that, and they never even bothered with the frequency of the shuttles and all of that. I said these guys have been around for so many decades and it is great, and if the business ever comes up for sale, I should think about buying it if it is available at a reasonable price. These are just thoughts in my head. Then the next thing you know is you have Uber and then people are not parking at the airport. I was not driving to the airport anymore. You just have things that come from left field, which are not on your radar at all. You just do not think that there is anything that would create a distortion, but that is the nature of capitalism with creative destruction. With that, I am probably more interested in what you have on your mind and what you would like to talk about. We can go from there.

Student 2: Thank you for being here. Could you kind of talk about how you developed your investment philosophy, if that is still changing, and if you are still growing into it?

Mohnish: Sure. I do not have anything homegrown in terms of investment philosophy. Everything is cloned and copied from someone; from Buffett and Munger and Graham and Chuck Akre and a zillion other people. The good news about the value investing community starting with Ben Graham was that there is a culture of sharing knowledge and helping the next generation to learn and grow and so on. I did not go to business school and I just learned investing from reading initially Warren Buffett's biographies, then the Berkshire letters, then the Buffett partnership letters, and then Charlie Munger and all of that and Graham and so on. That is the way I went about it and I self-educated myself. Then I started to make investments. Buffett has a quote, he says, "I am a better investor because I am a businessman and I am a better businessman because I am an investor." There is an interplay between running a business and running a portfolio. One of the things that attracted me a lot to Warren Buffett was that when I was running my IT business probably three or four or 5% of my time used to go into figuring out strategy and direction. Every two or three years I had to tweak that because the market had changed and probably 80-90 % of the time went into all the blocking and tackling and the heavy lifting of making it happen and getting the people and all of that. I always liked the three or 4% times a lot better than the 80, and 90% of blocking and tackling. One of the kind of moments of epiphany that came to me when I accidentally heard about Buffett and I read about how he invests was that he had converted that 4% time to 80%. You are using the same brain cells and you are using the same kind of mental models in effect. If I am looking at an expansion of my business into a new area, I am looking at the economics and what kind of risk I am going to take and what are likely rewards, and so on, which are very similar to what you are looking at in investing. To me, that was just very attractive to be able to take the 4% to

80%, 90%. I started to take my foot off being an entrepreneur to being an investor where I think in 94 there was a small sale of a portion of my business and after taxes, I got left with about a million and it was the first time I had any money in my account because I had bootstrapped the business with credit cards and so on, and I did not need the money. I started to invest it using what I had learned till then about Buffett's approach. In about five years, that million had become about 13 million. I told myself, "Well done, Mohnish. That is pretty good." I was not spending that much time and I was spending more time on my business, but I was getting less and less interested in the business and more and more interested in investing, and around 99 I made the switch. I basically left the company, found a CEO, and then Pabrai Investment Funds started really as a hobby of a few friends who wanted me to manage their money and then went from there. Other question?

Student 3: Thank you, Mohnish. I had a question regarding this; I know there has been a lot of change happening off late with the stoppage or the reduction of the quantitative easing and perhaps there is a move back to value, but with all the technological changes which are happening, are there any themes you are thinking about for the next couple of decades, which might be coming in from the left field, which we should be thinking about?

Mohnish: I tend not to think much at all about anything macro and anything the Fed is doing or anything anyone says about interest rates and any of that. To me, all of that is in the noise level. I have always felt that whether the prime rate is 3% or 7% should not make much difference to what I am doing in terms of investments and so on. The idea is that we want to look for no-brainers. We want to look for things where there is a very large gap between price and value. We want to look for things where the returns on equity are very high. We want to look for things where the runways are very long. Just Chuck's three-legged stool, right? One of the difficulties that come up in the US market is that it is a very heavily picked-over market. We have more hedge funds than stocks, and that's a problem. We have more mutual funds than stocks by some significant margin, and just right there, which means that you have got in effect thousands, maybe even tens of thousands of some really smart people picking over several businesses. To be able to get a differentiated view versus that August group is not easy, which is why we go back to what Buffett said about his record. Here is a more difficult time because for example, when a company is offered for sale as a whole company purchase, usually the seller controls the timing to make it a very attractive time for the seller where the business is gone on the up. Usually, sellers in the US will demand a premium because there is, I have not even talked about the private equity funds. We have got thousands of those as well. You have a lot of competition for wholly-owned businesses. You have got a lot of competition for publicly traded businesses and everything in between. When Buffett is presented with an opportunity to buy a business, it may have some great qualities but may also have some warts. He has got very little time and a lot of money. He has to make a decision; do I just say no? Do I go for it because we are earning 2% elsewhere and what do we do? Those are not easy decisions to make, especially when you have got something like two or three billion coming in every month in cash flows for Omaha to deploy. My answer to that nowadays is to not spend much time looking at North American

businesses. I started making trips to Turkey about five years ago and I am going there again in about two weeks. I found that it was a very hated, extremely mispriced market with a lot of crazy macro situations going on and I could not even get some of my best friends to look at some of the businesses. Turkey has 80% inflation and the currency loses a lot of value every year. But we have had some success investing there. It is a trillion-dollar economy and the total amount that all foreign investors have in Turkey is like 20 billion. We have about 200 million in Turkey, which is like 1%. It wasn't 1%. We didn't put 200 million in, we put much less than that and it just went up. But the thing is that I found very crazy mispricing and I found that even with all the headwinds, we were not going to probably have a problem. What I did in Turkey is I said, okay, let us only look at businesses that do not have earnings in Turkish Lira. They should have earnings in euros or dollars or they should have assets that have an international value. Because the baby got thrown out of the bathwater, nobody wants to go there because they think it is toxic. But I said if I look at businesses where we do not have any currency issues, for example, I do not have an investment in this, but there is a fruit juice manufacturer in Turkey where 90% of 98% of their revenue comes from the export into the European Union. Turkey is part of the European common market where they can export and import from Europe with no duty or tariffs. It is free trade. The more the lira collapses, the lower their cost in euros. Since they are exporting, they get operating leverage. Their earnings in euros keep going up even if they do not grow because of this dynamic. As long as this craziness continues, they would end up doing pretty well, but because everyone left, everything got mispriced. I found some extremely crazily mispriced businesses. I said, okay, we have got a whole market that is mispriced. What I will do is I will not go after the cheapest ones, which used to be the old Mohnish after a few decades you learn. I said, "I will go after very high-quality businesses." I ended up in one case with an extremely high-quality business, which was just extremely mispriced. We bought into this operator of warehouses, the largest warehouse operator in Turkey. They are kind of like a landlord. I remember the day I went to meet them in 2019 for the first time, my friend in Turkey whom I had told, listen, I just want to go meet all the companies that you already have an investment in, so do not take me to companies you have not invested in. I wanted one layer of protection to start with. He was telling me, Mohnish, a company has a market cap of \$16 million and the liquidation value is probably like 600 to 800 million. I said, "Is it a fraud? Because that is the only reason we would have such crazy pricing." He said, "No, it is not a fraud, I own it in my portfolio." I said, "It is sitting at 2% of liquidation value." He said, "Yeah, a lot of things in Turkey are mispriced." Before that, the previous day, actually the previous year, the first company I visited in Turkey when I again made the trip and I told him I want to visit companies in his portfolio, we were going to visit one of the largest banks in Turkey. He tells me, "Mohnish the PE is 0.1, okay, not one." Which means you are buying a company at one times the earnings. You would be buying the bank at one month's earnings. I think my trips to Turkey are the most orgasmic. The food is great, the weather is great, the company is great and the companies are great to visit. As we are walking over to go visit this PE of 0.1, the only time in my life I visited a 0.1 PE company, I asked my friend, "Is there hair on it?" He said, "Yeah, there is a little bit of hair on it." I said, "Can you tell me what hair it has on it?" He said, "The bank was Halkbank. Halkbank is one of the

largest banks in Turkey. The chairman of the company decided to ignore this UN embargo and sanctions against Iran with the fund transfers and all. And he was doing N-mass, permitting all kinds of transfers to take place and the US got wind of that. The CFO of the bank had made a personal trip to the US where he was going to go to Disney World with his family. When he landed at JFK, the Feds picked him up and sent him straight to Rikers Prison. The family, I don't think continued to Disney World without him. They went back to Istanbul. He was locked up in Rikers Prison. Then Erdogan calls Trump to try to get the guy released and Trump is telling his buddy Erdogan that it is the state of New York and it is the state of New York's Attorney General that is going after this. The federal government has no authority. He says, "I cannot even do anything. I do not have any power." He was trying to explain to Erdogan how the president of the United States has no power to get one guy out of prison. When all of this hit the newspapers and the US Federal Reserve was thinking about actions where they would just kabash them, take them out of the SWIFT system, and out of everything, the stock goes to the PE of 0.1." I am getting this story as we are going up the elevator to see the company and very high-quality, honorable people. I think that CFO had nothing to do with any of this. They just needed somebody to do that. I told my friend after that meeting that I can deal with hair, but not so much hair. This is too much. Can we just take it down one or two levels? Let's not do the 0.1 and 0.2, let us move up to the PE ones. I think the PE ones I can deal with that. The next year we were going to see this company Reysas and this time I could find no hair on it. I could find nothing wrong with it. The father and son who ran it, seem like really high-quality people. However, none of it made any sense. Their warehouses, which are just works of art are really beautiful. 12 million square feet in very prime areas in Turkey, 99% leased, 10-year inflation index leases. A lot of the leases are in dollars and euros, Amazon, IKEA, Carrefour, and Mercedes, DuPont, are the tenants. Anyway, I looked at it, and I could not find anything wrong with it. Then I am looking at the market cap of 16 million and I am going to say, what can I invest? I got it, I was managing like 600 million or something. I said, what are you going to do with this? So anyway, I started buying and I said, we can buy whatever we can get and I was surprised that for seven or \$8 million, we got one-third of the company, and nobody is interested. I remember we got a block of 5% of the company from Templeton Funds, and some guy at Templeton in New York probably issued some order saying, exit Turkey. There was no analysis or anything done about what they own. They just got a blanket order that we are nuking all our positions in the country. And I am saying, bring it on. John Templeton would be turning in his grave with his firm selling at 2% of liquidation value. That wasn't the best part about Reysas. The best part about Reysas was that when I met the father and son, they told me that their investment philosophy is that they do not want to put money out if they cannot get it back in two or three years in dollars or euros. Basically, not only did they have warehouses, they had the largest freight train network in Turkey. The railways are owned by the government. The government owns a track and they own their locomotives. But the rail cars, the freight rail cars, those can be privately owned and they are the largest operator of those, which is a great business. They have the largest truck fleet in Turkey. I think they got 2000 trucks. They have the largest lift rental business and vehicle inspections. Every business I looked at that they had very favorable economics and it was interesting. The father had never been

to college. He, if I asked him, what is ROE ROI IRR he would have no idea what I am talking about but he understands I put a dollar out, and I want it back in two years. That is what he understands. That was the bar by which they invested. Because they had this high bar, they always ended up in great businesses. All their businesses were like recurring revenue, with very good visibility deep into the future and so on. I said, "An asset is worth seven or 800 million. The cash flows are being redeployed at 25 to 35%. Where do I sign?" If they never increase the value of the business, we have a 50x or a 30x. By the time I finished buying it, it moved up a little bit. We would have a 3% liquidation value. So that 16 million market cap now is more than 300 or 350 million. It has moved up a bit, but its liquidation value is now a billion and a half or so. It may be more because a lot of the assets I am not able to value. I'm just valuing the real estate and I am ignoring the rest of it. I am not valuing the engine that redeploys. The engine that redeploys is the most valuable piece of the whole puzzle. I think that if I were you guys looking at the fund and so on, I would do what Charlie Munger recommends, which is you go fishing where the fish are. Some of these places can be uncomfortable and some of these will take some time to get your arms around. It took me about, now I think this would be my fifth year looking at Turkey. What I realized is that I understood everything about the fear and all the foreign investors exiting and all of that. I realized that there were a few businesses probably, I can think of at least four or five, maybe more, maybe closer to 10, where when I met these management teams, they had been US Ivy League educated MBAs from Cornell or Harvard or Columbia, very high-quality people that I met, very high integrity and very high-quality business that they were running, but nobody was interested because of the stigma of where it was located. There is an airport operator in Turkey, which is the other investment we have. Operating airports can be a good business if you don't overpay. In the US in the continental 48 states, all the airports used to be government-owned. We don't have the phenomena of this United Operators, but LaGuardia Airport now is the only one. LaGuardia used to be an armpit of the US as far as airports go. Now it is a spectacular airport. They gave it to a private operator and it has become a great airport. But in other parts of the world, private airports are much more prevalent, but still out of something like I would say more than 10,000 airports around, only about 300 are private. It is a very small number, but that number will grow. The number of airports coming up in Africa and Asia will go up a lot and a lot of them will end up in private hands because it is a win-win for everyone. This airport operator, which is based in Istanbul, operates 15 airports, eight of which are outside Turkey. But they still get the stigma of Turkey and even the airports within Turkey, all their contracted revenues and everything is in euros. Nothing is in Turkish Lira. It is completely insulated and in Turkey, their costs are in Lira; the people and the labor and employees and all that is all in Lira. All the devaluation and everything gives them tailwinds and all the airports, the ones that are private in the world, operate on what they call BOT to build, operate, and transfer. Typically, these concessions might be 20 years, 30 years, or 50 years, but, when they expire, they go back to the government or they get renewed with another pound of flesh extracted by the government, and so on. But in the middle of COVID TAV airports acquired an airport in Kazakhstan, in Almaty. It is the only significant airport I know of around the world, which is completely privately owned forever and this deal happened when no planes were flying. The entire all-in cost of

that deal was 650 million. Most of it is financed at a three or 4% fixed rate over a very long period. This airport in a few years will be producing something like 150 million or more in cash flows. Those cash flows will be growing at about five or 7% a year. I can see that because Kazakhstan is a very wealthy country with a lot of oil. Anyway, we own a little 5% off the airport, but just the Almaty airport alone, in my opinion, is worth several billion dollars. The market cap of the company was like seven or 800 million. I am not counting the other 14 airports and I am not counting their other subsidiaries; they have a whole bunch of other subsidiaries. This time when I am going to Turkey, I am going to be visiting a bunch of businesses that I haven't met before and I know people are not interested, which is great. We will hopefully not go to the 0.1 PEs, we will try to keep it at the 1 PE, 1 PE is a good place to be. So anyway, next question.

Student 4: How do you decide when to sell?

Mohnish: Phil Fisher has a quote in his book *Common Stock and Uncommon Profits*; a really good book if you haven't read it. He says that if the job is done right, every sell decision is a mistake. This took me a long time to figure out; a few decades and I have made a gazillion selling mistakes. It is just such a long list. Buffett thinks his list is long, but my list is even longer. Ideally, you want to be like Chuck Akre, they run a mutual fund and you know how the typical mutual fund has like 70, 80% annual turnover. The Akre fund is a 1% annual turnover and that 1% I think is mostly coming because they have some redemptions or whatever people going in and out of the funds forcing them to sell something. Ideally what we want to be doing is we want to be very patient. We want to be buying businesses that have favorable economics and long runways. We can have a very high error rate and still do okay. When you are convinced that you have made a mistake where either you misunderstood the mote or you misunderstood the runway or you misunderstood what the future of the business would look like, then those may become candidates for sales. But I think that selling is very hard. I think selling is much harder than buying. That is just the nature of investing. But because it is such a forgiving business, we can be okay with the selling. We can be sloppy on the selling and still be okay as long as we keep the crown jewels intact.

Professor: You mentioned that there are fewer opportunities in the US where you go to Turkey or other markets abroad. What would your suggestion be for the students since our mandate is to invest in US securities and they have now this week to think about the pitch, what would you suggest for them to do, how to generate ideas, how to evaluate the stock if it is a good value stock or not?

Mohnish: I feel sorry for them; it is a difficult job. I don't know what all the restrictions are, but generally speaking, you will have more inefficiency in the smaller names. I would say that given the time horizons, some areas like merger arbitrage might be interesting. Then, we have this Microsoft-Activision merger deal which has a pretty wide delta and Buffett seems to think that delta is not justified that might fit in your timeframes. Before you leave, you can have an outcome on that, which is good. What I would do in that case is I would look for quirks and anomalies and what I would do is I would zoom in on places and things like the Value Investors Club and because those are a bunch of pretty high-quality write-ups and I would look at the

ones that were in the US or North America and see which ones of those I would buy into and take it from there. That is what I would do. I think the fact that you are running 20, 30 million is an advantage. That is a big advantage. One of the things you could do is ... Are they allowed to go Nano cap?

Professor: No

Mohnish: What is the lowest cap they are allowed to do?

Professor: They have 1 billion.

Mohnish: Oh, so sad. It's like the knife went in and then got turned. Try to stick to things that are under a couple of billion I would take other than something like a merger arbitrage like Activision or something. I would take the whole radar to be between one and 2 billion and I would not look at these Googles and all of that. I would just look at that space and I would be trying to see if I can find anomalies in that space. That's what you would try to do. And how many positions minimum?

Professor: It is fairly 30 to 50

Mohnish: 30? They can't put it in one name? Buffett hired two managers, Todd and Ted, who have 15, 20 billion each now, he said, "I don't care if you put it all in one name." The third issue is that you have a very wide number of names. After five years of going to Turkey and drilling down all these businesses, I have two investments there only. I just found two out of so many. On each trip, I visited like 20 companies and it is a market that has been clobbered. Even with all the clobbering and everything else, I still couldn't find that many. I think the USA is an opportunity. I think the thing that you would have to do is you would have to have a differentiated view on these businesses which have a high probability of playing out, and those are just difficult. There are a lot of smart people looking at things. But if you have an edge in some area and you can see things a little bit differently then that edge can give you a big advantage. That can work out. Other questions?

Student 5: How do you think your background, kind of specifically speaking from either entrepreneurship or technology, is influenced or maybe differentiated you as an investor, your philosophy?

Mohnish: I think what helped me a lot was accidental. It is what I ended up as experiences during my childhood. It has to do with the human brain. First of all, when we are born and the baby is coming out through the birth canal, which is very narrow, the brain is the most underdeveloped organ that a human infant has because the birth canal is just not wide enough. The brain goes through, it is one of the fastest-growing organs in the first five years of life. Massive amounts of growth in the brain and long infancy for human kids. After the age of 10 or 11 till about 19 or 20, the brain is culling neuron connections. It goes through a rapid increase in connections in the first five years, then it slows down, and then after that, it starts culling connections and it's optimally set up at that window of time. That is the only window of time in our entire lives to specialize. If you can put a lot of time and energy into what eventually becomes your calling in life, you get a huge head start. One of the problems we have as modern humans are that in that period, our education system and society expect us to be generalists. You are sent to school and you have a set of subjects and you

have a set of things you do. The ability to specialize is for the most part non-existent. It may happen a little bit when you are 17 or 18 and may happen a little bit when you enter college. But basically, the window closes by the time the specialization starts and we end up with some quirks. You end up with people like Bill Gates who from the age of 11 or so went all in on computers and programming. By the time he was 18 or 19, he had spent more than 10,000 hours coding and a 40-year-old could not compete with a 25-year-old Bill Gates just because of that period where he completely specialized. With Warren Buffett, he bought his first stock when he was 11 or 12. He read every finance book in the Omaha Public Library before he was like 14 or 15. His father was a stockbroker and he would go to the office every weekend. Warren got a lot of expertise in investing very early in that window of time. If we look at people like Michelangelo and Leonardo da Vinci and so on, we will see that a lot of the greats were able to go through. We still have that situation in Germany where they start separating the kids when they are like 13 or 14 where if you are going to go work in a factory, you start doing apprenticeships and all of that in factories in Germany. Germany is interesting because it's a manufacturing powerhouse with some of the highest labor costs in the world. China hasn't been able to uproot German manufacturing because of the quality of the workforce and the quality of the workforce is high in Germany because they specialize that early and so in my case, what happened is my father was an entrepreneur, but he clock worked. Every three or four years he went out of business; whatever he was doing. He was always really good at starting businesses and identifying opportunities, but he was always undercapitalized; didn't have enough money. When the business was doing well, he just pushed on all cylinders, maxed the leverage, maxed everything he could, and then the first headwinds that showed up would destroy the company. My parents just didn't save. We would go from feast to famine quite regularly. When my brother and I were around 11 or 12, my father would sit down with us in the evening and we would have to figure out how to make the business last for one more day. All the wall, the caving in, all the creditors are coming in, it's just collapsing and it's a very kind of intense time and all of that is affecting us; we don't have money for rent, we don't have money for groceries, all of that. We would make it through one day and then the next night was, how do you make it survive one more day? When I was like 15 or 16, I used to go on sales calls with my dad and I never realized that any of these things with the neurons and all of that. I think I finished several MBAs before I was 18 and so I can actually look at businesses and figure them out pretty quickly probably because of a lot of experience and thinking about business in those years. Even though I was running working, going to generalist schools, and all of that, there was a decent amount of time that went into all of these things. Later when I heard about Buffett and started reading, a lot of things came to me pretty easily because I had looked at so many issues with these companies and businesses. I also learned from my dad how to start businesses with nothing. That was a great gift I got from him, which helped me get my first business off the ground because I didn't have any money when I was doing that. I think that experience helped me a lot. Then when I started running my business, obviously there was a more direct experience I got, and then when I got a proper framework from Buffett and Munger and so on, then that just overlaid everything else and it worked out. Actually, for me, I am

just accidentally in the right place at the right time and pretty lucky I would say. It worked out well.

Student 6: If we could get your thoughts on knowing how much you understand about Charlie Munger and Warren Buffett's side of investing; about their foray into Occidental, because for the longest time, they had avoided materials and very cyclical commodities and entering into Occidental, and they keep ramping up their stakes. What do you think of that as an investment?

Mohnish: I think both of them have been investors in oil and gas for a very long time. Munger invested in what was eventually one of his biggest mistakes because he didn't buy enough Belridge Oil in 1977 which is 46 years back. Charlie will tell me things, I have a good friendship with Charlie, and I usually see him four or five times a year for dinner. I used to play a lot of bridge with him, but sometimes I would be at his place in Hancock Park in LA and he would tell me that we are sitting on top of an oil field and he explained to me how that whole area was an oil field. But because so many humans moved in and the real estate prices became more attractive to build homes and sell the real estate that way than to drill for oil, LA developed without really extracting the oil, so to speak. It still sits there. One time I was talking to him and he mentioned that he would love to have an investment in Exxon and be able to get a commitment from the management that they would do no more CapEx and they would simply run all the fields with the cash flows going to the shareholders that he had calculated would be a tremendous investment. Of course, oil companies don't think that way but Occidental thinks that way. If you study Occidental, you will find they don't have exploration going on. If we look at the whole fracking business and the Permian Basin and all of that, basically when you drill a well, you have got a 90-plus percent shot of what is going to come out. The probabilities are high and it's not like what used to be conventional oil. Here you have got very definitive metrics going on and so OXY has almost no speculative drilling going on. In effect, it looks like a CD, they are clipping the coupons and what OXY is doing is they have a huge gusher of cash flows coming out and that huge gusher of cash flows is only going into buybacks and dividends. It is all being pumped out to shareholders and he loves that. And then they invested in Chevron. I think the reason they invested in Chevron is also Chevron has a very large position in the Permian Basin and if OXY was large enough, they wouldn't have gone to Chevron just like he bought all the US airlines a while back. He bought it all because he couldn't make one bet as the size of the capital is so large. He was forced, like you guys are forced when you find one airline you got to buy all of them because you have 30 positions to put to work. I think the Chevron bet is a heavy bet based on this non-exploration risk. The oil business lately, of course, UT Austin knows this well with the 8 billion that is coming out every year into the endowment, People think Harvard has the biggest endowment but they don't understand we are the biggest endowment here. I haven't seen a business school building as good as this one. Long live the oil fields. I think that the bet with Chevron and OXY is a coupon clipping bet. I think Buffett looked at what US treasuries are paying him and he doesn't want downsides. He looked at OXY as US treasuries on steroids and I think that is why he went with that bet. Other questions?

Student 7: You talked about the three-legged stool and one of those legs being management. I am just curious to know what is your process like. How do you go about analyzing the quality of management?

Mohnish: Buffett and Munger have spoken quite a bit about this. They say that what you should do is not listen to what they are saying, just look at the track record. If you have a long enough history of the business with the same manager, you will be able to tell whether they under-promised and over-delivered or whether they over-promised and under-delivered, whether they have skin in the game or they don't have skin in the game, whether their interests aligned with yours or not and how they think about it. You can come to some judgment about humans based on their track record and you should completely ignore the projections and what they are saying will happen in the future. They are the optimists. They are not trying to be deceitful in most cases they just see things from rose-colored glasses but I think if you just look at the history of the business then that can tell you a lot. Like the business in Turkey, Reysas, when the IPO they took in 40 million of capital and then recently they did a rights issue and they picked up another 10 million. 50 million is the total amount that went into that company. They have never issued dividends because they have been reinvesting and we have something like a billion and a half or more of value in not that many years, probably less than 15 years or something. That is a remarkable record. I can look at that history and when I look at the last few years when I look at the decisions they have made, I can't point to anything that I would disagree with. They have been very sound decisions. I just look at the past. The past is very easy to look at because we have got a lot of data. I invested in 2012 and I think this is one of the larger mistakes I made just because I should have held on and I didn't hold on long enough. In 2012, I invested in Fiat Chrysler automobiles. I always hated the auto business. The auto business just badly sucks. You have very high CapEx, you have unions, you have finicky customer taste, and you have four years it takes to engineer and bring a car to market. Then people may not like the shape or may not like various things about it and that could fail. It would cost you hundreds of millions or billions to engineer a car that may or may not work. On every front, it's just terrible, and especially in North America, Detroit used to be one of the worst places to build a car. You had very high labor costs and unions and all these different things going on, very kind of calcified management. But what I had noticed was that during the financial crisis, GM and Chrysler went through nearly that experience, and the auto task force that was headed by Steve Rattner was put in place in Washington DC to re-engineer these companies and bring them back to life. When I was studying Fiat Chrysler, I was reading Steve Rattner's book about the whole experience of doing that. He was talking about one time that the four or five members of the task force had come up with what they wanted the new union contract to be. Without talking to the union, they had come up with a new set of what workers would get paid and all of that, which was very widely off from the way it was. They had a meeting with the UAW and they sat down with the UAW in the afternoon or something and they told the UAW, "This is your new contract and please sign on the last page and give it back to us." The UAW said, "You don't understand how this works. If you are giving up something, that is fine, we will take it. In a few weeks, we will come back to you and we can just see from page one, we are not going to accept 90% of this, so we are not going to deal with this. And

you don't understand how unions worked." Steve Rattner tells him that our plane leaves at five o'clock. He said that if I don't have a signed contract without a comma change by five o'clock, I shut all the lights down in the city tomorrow and all your jobs are gone. I don't particularly care if they are in business or not. You are not dealing with some GM or Chrysler management. The UAW signed at 4.45 PM with no changes, never in the history of Detroit did that happen. Then I went to God Google and pulled up the contract that they signed which was available and I read it and I looked at the previous contract. They had knocked something like 70, 80% off the labor cost and they took out the ability to fire anyone at will. They just took out all kinds of things that had been bargained by the UAW over decades because they could always strike, they would strike in one plant that made transmissions and that would shut down the whole supply chain and everything, you couldn't produce a single car. I realized when I was looking at this thing in 2012 that Detroit had gone. The reason auto manufacturing went to Detroit, to begin with, going back to the time of Henry Ford and so on, is that area of the planet has tremendous iron ore deposits. It has tremendous coal deposits. We have a huge iron and steel industry and we have the Great Lakes which allow the movement of all those goods by water and the Erie Canal and so on. You had that entire footprint around the Great Lakes where you could bring in all the different factors of production you could ship out. It was very efficient and that is why Detroit rose because it had all those advantages and those advantages have come back. But the market did not recognize that. The market thought autos are terrible and unions are terrible and nobody was paying attention that everything had changed. When I was looking at Fiat Chrysler in 2012, they had hired a superstar manager, Sergio Marchionne. He architected the acquisition of Chrysler by Fiat, which was a minnow-swallowing whale, and did that acquisition. When I was looking at it in 2012, the market cap of Fiat Chrysler was 5 billion. The revenues were 140 billion. We were back in Istanbul. In North America we were back in Istanbul, it was the bazaar, the Grand Bazaar, and nobody was interested. We were at 4% of sales, not only that, but we were also at 4% of sales. They had a lot of assets in the company, but if I just looked at two of their franchises, their RAM franchise, and their JEEP franchise; on the RAM franchise side, they have this law in the US where imported trucks cannot come in, light duty trucks cannot come in. There is some very old law. Even when Toyota wanted to enter the truck market in the US, they had to start building trucks in Texas, otherwise, they couldn't. Texas is the truck capital of the US I think 50% of sales are trucks, and there are three players. All, not American players. Even Toyota has not been able to make much of a dent because the brand loyalty with those trucks is very high and they make \$10,000 a truck. It is very profitable, so if you just extrapolated the number of trucks sold every year and the 10,000 per truck, you would make 3, 4 billion a year just in trucks. Then the JEEP franchise, which was the other one, they were three franchises. The truck franchise, the JEEP franchise, and the minivans, these three were dominant for Chrysler, and the three of them together were coming up to 10 billion in cash flow. Now they had a bunch of other stuff that was bleeding, which these new contracts allowed them to kabash. But besides this, they had Alfa Romeo, Maserati and most importantly, which I didn't pay much attention to, 80% of Ferrari was sitting inside Fiat Chrysler. I put \$60 million into Fiat Chrysler 10% of the fund in 2012. And I thought that we would probably have about four or 500 million in a few years

because it was just the economics. I thought that the 5, 6 billion market cap, the after-tax earnings would be more than 5, 6 billion just based on what was going on here. We had a really good star manager and we had these different franchises. One of my big regrets is I owned around 1% of Fiat Chrysler when we made that investment; about 60 million over 5, 6 billion which was about 1%. We owned about 0.7 or 0.8% of Ferrari. They owned 80% of Ferrari, and about close to 1% of Ferrari was owned by me. Ferrari's market cap now is about 50 billion. And they went public I think in 2017 or something. 2017, 20 18, they IPOed Ferrari and in effect, out of the 60 million, 20 million have been invested in Ferrari. I collected around 150 million from that. But what I should have done, which I never realized is the quality of the business that should never have been sold. I got to know the chairman and the owners of Ferrari. I went and visited the factory and they also gave me a, let me bump the queue; I got a 488 in 2018, which was great. That is when I realized it was a tremendous mod, but anyway, so just Ferrari alone, out of that 60 million, 20 million as Ferrari is about 400 million, that is a 20x and the 40 million that went into Fiat would today be sitting at around 200 million or so. I don't have a position in any of these things now, collectively I collected about 250 million on this, which was still okay, but it was stupid. The whole thing was stupid. The sell decision was sloppy. Old too soon and wise too late. What I realized is that do not be quick to sell. Like I told myself that Reysas in the 2040s will look at what to do with it with TAV airports maybe into the 2050s. If I am still around, we will see what we want to do with it. They will probably keep adding an airport every year or two and they will keep the passenger counts, keep going up and all of that. It is just a great business. We are at 5.30. Go ahead.

Professor: Maybe just one question, you discuss little bit your Dakshana Foundation, Warren Buffett says that your annual report is much better than his and that is your charitable foundation.

Mohnish: We should not believe everything Buffett says. Sometimes he just makes us feel good. But what has surprised me is Warren reads the Dakshana annual report every year when I send it to him. Sometimes he will tell me, to send him 20 copies and he will send them to his kids and his board members and his friends, and so on. There have been two or three things that I think have been ... I will take a step back. I think you guys have heard of Peter Thiel, some of you may have heard of or read his book Zero to One, which is a great book on entrepreneurship and startups, and so on. One of the questions Peter Thiel asked in interviews, he says, "What is the one truth that you know to be true that most of the world disagrees with you on?" If you ever go in front of Peter Thiel now you already know the question, so please prepare so you don't blow the question. Okay? This is a great question, right? If he asked me that question, I would say the mental model of cloning. People think cloning is somehow like copying and it is beneath them and whatever, and they want to come up with things on their own. It is very dumb. I would say that let us leverage all the great giants who have come before us. Let us stand on their shoulders and let's go as far as we can by being on their shoulders. Let us not try to rise on our own because that is hard. What I have noticed through the decades that I have tried to do this is that humans have an aversion to cloning, just like they have an aversion to buying Turkish stocks. I realize that you get irrational behavior when you have these aversions. Go all in on those because you are going to

have some good advantages. Cloning has helped me a lot in many different areas. Dakshana has done well because it is a cloned model. In 2006, I was reading an article on Business Week. There is a guy in India who runs an organization called Super 30. He takes 30 really poor kids who are like 18 years old. He is a gifted mathematician and he preps them for about 10 months. He operates out of a slum in Patna in Bihar, which is a pretty desolate place. I visited him there in 2007. He had a kind of coaching tutoring business and he would take some of the proceeds from that to fund these 30 kids. His mother would cook for them and then he would rent a few rooms in that slum for the kids. They lived there. Then after about 10 months of prep, they would take the IIT entrance exam, which has a 1.3% admission rate, and between 90 and hundred percent of the kids would get into IIT, which is a stunning statistic. These kids came from really poor backgrounds. They had illiterate parents, farmers, laborers, and so on. They were very poor. When I looked at that model, I said, "Wow." He was spending about \$800 per kid. That is a tremendous bang for the buck because once you get out of IIT, it is willing to hire you. You pretty much can join a global workforce. I contacted him, went and met him, and I said, "Happy to fund you. Can we take 30 to 300?" He said, "I have no interest in scaling. I don't want any outside money. I like it the way it is." Then I knew that cloning works well. I said, do you mind if I copy your model? He said, "No, that will be a really good thing, I will help you." I know what his model is. I know that there is a large need. And so now Dakshana takes about a thousand kids a year. We are not doing 90%, we are probably in a 60 to 80% admit rate and it has worked out well. Our costs are not 800, it is about 3000 because we are not operating with my mom cooking or whatever. We have got a little more industrial scale to it. Warren has seen that journey because when I met him for lunch, the first Dakshana annual report had just come out and I had sent it to him. The input-output ratio we have on Dakshana is infinite. Recently there is a girl who was with us from 2010 to 2012, and then she joined IIT Guwahati in 2012, as a math major. She finished in 2016. Goldman Sachs recruited her, in their Bangalore office. She worked there in 2019 as an analyst and then she started a Ph.D. program at Stony Brook University, which is where all the quant mathematicians are. Stony Brook is the epicenter of the quant fund's renaissance there and all these things. She has been interning at a quant fund there for the last three years. She is going to graduate in May and I think she will be heavily recruited. She came from a family making \$75 or \$80 a month and she may be in seven figures when she starts. It is just a huge delta. We only invested less than 3000 in her. If you take us out of the picture, because she came from such a remote rural area, these things wouldn't happen. It has worked out well. The reason Dakshana has done well and why I look good is we cloned a great model and I lucked out. I got a great team in India, so I don't spend a lot of time on the foundation. I enjoy my visits, but I usually just spend time with the kids and I still enjoy the Istanbul visits, so I have to balance the two. Thank you for having me. A pleasure to be with all of you and good luck with your stock picking. Try to focus on the cloning, look at Dataroma, look at Value Investors Club, look at what other smart people are saying, and try to find some anomalies and go from there.

Professor: Wonderful. Thank you very much.

Mohnish: Thank you very much.

Professor: It was very inspiring. Thank you so much. We hope to continue the collaboration in the future.

Mohnish: Yeah, I am right in your backyard, so it is easy. Thank you very much.

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