Mohnish Pabrai's Talk with UNC Kenan-Flagler Business School's Investment Management Club on December 05, 2022

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Pramita: Excellent. All right everybody, good afternoon and thank you for joining us for today's special interactive session, Ask Me Anything with Mohnish Pabrai. We're thrilled to have two very special guests with us here, Mohnish and Cam.

My name is Pramita Saha, and I'm the Director of Student and Alumni Engagement at the recently relaunched Investment Management Center at UNC Kenan-Flagler. The IM Center is focused on three main pillars, investment management, ESG, and DEI. The mission of the Center is to integrate and holistically manage all areas of investment management at UNC Kenan-Flagler so we can prepare the leaders of the industry of the future.

We define investment management here very broadly, with three different buckets: Fundamental analysis, so which could be public and private markets within equities and credit, private wealth, capital allocation, as well as emerging areas such as macro and quant. On the ESG side, we're really striving to give our students the tools and the vocabulary to integrate ESG into their investment and or business analysis. Then on the DEI front, we're really looking to attract top talent, including diversifying our student base to be 50% diverse in IM. We're looking to cultivate a culture of inclusion and belonging in investment management through finance (not only at UNC Kenan-Flagler, but in the community at large.)

I wanted to give kudos here to Stokeley Griffin. He is a first-year MBA student and he really made this special event happen. Thank you very much, Stokeley. I would also like to shout out to Stokeley and his teammates for their tremendous performance at the Alpha Challenge last week. UNC Kenan-Flagler placed first in both the equity and credit rankings. This hasn't happened since 2015. We're still in shock, but a way to bring it back home.

Let's turn it back to today's session. We want to make this highly interactive. We are encouraging you to pose questions at any time. You can raise the hand feature on Zoom, you can post questions in the chat, and we will go along that way.

It is my pleasure to introduce our moderator, Cameron Hight. He is the CEO of Alpha Theory, LLC and Center Book Partners LP. Cam is a UNC Kenan-Flagler alum. He's been on the Applied Investment Management Board, and most recently his firm, Alpha Theory, LLC, was a founding corporate sponsor of the new Investment Management Center. Cam and his team have just been instrumental with incorporating their amazing product into our AIM class. It's just been a terrific partnership all around. With that, let me hand it over to Cam.

Cameron: Thank you very much. I am blushing. Thank you Stokeley, for making this happen. Kudos to the Alpha Challenge Teams. That is awesome. Go Hills.

Mohnish, I first learned about you from meeting, The Checklist Manifesto, which I think a lot of people probably learned about you. From what I understand, you are an ardent Buffett and Munger disciple. You have an amazing track record. You're a big fan of checklists. You started a charity called the Dakshana Foundation with the goal of giving back your wealth to society and it's admirable. Thank you very much for that.

You are also a glutton for tough questions, allowing people to ask you questions a couple of times a month like this. Your ask to them is to make the questions as difficult as possible and avoid repeating questions that you've had previously. With that, I will start it off. You are very busy. You have a lot of high ROIs that uses your time, why did you agree to do these ask me anything sessions?

Mohnish: The best way to learn is to teach.

Cameron: Feynman method.

Mohnish: I have an ulterior motive. I find many times that I feel wiser after some of these sessions because of some of the comments or questions, pushbacks and such. That's obviously one direct ulterior motive.

The second is because of the legacy of Buffett and Munger, and especially Ben Graham, this community has a legacy of teaching and educating. Generally, I would say the original practitioners and the best players in the field have laid this ethos down so we can just follow the path. It is just part of the credo of being a value investor.

Cameron: That's great. Thank you. For those that would like to ask questions for me to ask, just raise your hand with the reactions or put in the chat. I will be glad to call your name.

Mohnish, you're famous for checklists. If you were an allocator, investing in a manager, not necessarily investing in a company because I know that you don't necessarily talk about all the items on your checklist, what would be on that checklist?

Mohnish: Actually finding a good investment manager is a lot harder than finding a good investment. It is a challenge. There are a few things you can look for to try to put the odds in your favor. One, I'd be looking for an aligned fee structure where there's kind of a win-win on both sides. I took my fee structure from Warren Buffett, where we don't have any management fees, it's only performance fees. The first 6% every year goes to investors. There's a sharing after the 6%. The first thing I'd look for is a fee structure that is aligned, which itself would be a stumbling block in this industry.

The second is, I'd like to find a manager with a lot of skin in the game. I would look for a large portion of their assets being co-invested alongside me. Not only do they gain from the fees, but they also have upside or downside based on their own assets. That's the second thing I would look for.

The third thing I'd look for is a relatively young person. Basically, I think we need enough years to be able to look back at a track record, but also enough years so that someone could have a 20-year run or thereabout. I would say kind of a mid-40s type age band would be ideal. If they've been in the industry from their early 20s then you've got about 20 odd years of information to look back on. The third will be the age and then obviously the track record of what they've done. That would give you some data points.

One more thing I would look for is where do they go? Where do they go fishing? If you look at the US public equities markets, they have picked over, you have a lot of funds. We have more mutual funds than stocks in the US by some margin. Probably more ETFs than stocks. There are many stocks where they have 30 analysts following them. That is what I would look for, what is the kind of game plan to not be fishing where everyone else is.

These are some of the things I look for. Obviously, we are looking for people with high integrity and people that you align with, and who in their past track record demonstrated that they could do meaningfully better than the market without taking as much risk.

Cameron: That's great. I love to see your process as you go. Your checklist is historically notorious for things being added as you go. You said that your checklist was here, then it got here, and now it’s here. I saw you like thinking as you go. You said three things and you ended up with seven, that’s the way that it goes.

Pramita, I see your hand is raised.

Pramita: I wanted to ask a little bit about ESG. In my intro, I mentioned how ESG is one of the key pillars for our Center here. I'm curious to hear your thoughts on a few things. One, I think ESG means different things to different people. How do you define ESG and do you incorporate it in your investment process?

Mohnish: Yeah, I'm not sure you're going to like my answer. It is a complicated area, and we get to some strange results. For example, I think in the list I saw, they

included Exxon, yet excluded Tesla. I'm kind of scratching my head about that one. We definitely want to look for businesses that are good for the ecosystem. If you look at a company like Exxon, it's an essential, very essential business for us to have the kind of quality of life and such that we desire. We just can't banish every fossil fuel reducing company and say that life will still be great. We have a choice of whether we invest in those or not. That's fine.

I do look at how companies conduct themselves and the choices they make. I don't overdose on it. For example, this is our oldest investment, we've had this investment for about eight and a half years. It's a company that has plants all over the world that provides inputs to the aluminum industry and the stuff they produce is used by the aluminum industry to produce aluminum. It has a lot of discharge of gases and such. This is just part of the process. The company has gone well beyond what is required by law in terms of reductions in emissions and so on. They put in scrubbers and so on that cost them several million dollars a year that their competitors don't do, and they carry that cost. If you just took a glance at that company or that industry, and you were overdosed on ESG, you would just take a pass. When you kind of peel the onion, if you will, then things look a little bit different. I don't take the approach that I have to not invest in certain industries at all because of ESG, I just look at its kind of one more layer deeper in terms of what type of corporate citizens are we talking about.

Pramita: That's great. I love your answer. You said I wouldn't like it, but that's exactly what we're trying to do here. Basically, we need to dig a little bit deeper to incorporate it into the analysis. Thank you so much for that.

Cameron: Great. I see, Love, you have your hand raised.

Love: Hey, Cameron, nice to meet you, and thanks Pramita for organizing it. Mohnish a big fan of yours and have read, *The Dhandho Investor*. My question, I wanted to ask on the psychological side. Let's say you start an investment in a certain position and things don't necessarily go to plan, what are the sort of criteria that you are thinking of internally as you evaluate whether to stick with it or whether to double down? Maybe the second question would be, where are you going fishing these days, I guess? Thanks.

Mohnish: One of the laws of the universe, is everything I buy goes down in price. I'm just resigned to the reality that it'll be going up until I buy it, and then it proceeds to start going down, especially after I've taken a full position. I think it's very common in my portfolio that we'll have recent positions that we've taken, and we have some loss on them. Sometimes even a meaningful loss to them. That's just kind of par for the course. The reality with the investment business is that John Templeton said, "The best investment analyst is going to be wrong one out of three times. You're only going to be right two out of three times, more than likely. It's more likely going to be wrong about half the time." The good news about this business is that even with the 50% error rate, you can do extremely well. Well above market returns and such. We don't want to be using

the stock price to instruct us. We should be using the stock price to serve us. What should be instructing us is the fundamentals of the business to the extent that something declines in price, and we still have some buying power to make it a full position. It would not be the price that would drive that decision. It would be more about what are the fundamentals that have something fundamental changed and that sort of thing. We want to pay attention to all the data. If something's gone through a price decline, we want to understand why that is the case and whether there is some long-term secular issue that we need to pay attention to. If it is something temporary or whatever else, then for the most part, I'll ignore it.

In terms of places to go fishing, I mean, the place that I found most productive the last few years to go fishing in is Turkey. 85% annual inflation and everyone and their brother having exited the market in terms of foreign investors. Local investors are having a very short holding period. The Turkish markets are interesting because 80% of the entire market cap of Turkey is either held by insiders or foreign institutional investors. That portion hardly trades. The 20% that is held by Turkish retail and institutions turns over every nine days. That's kind of hyperactive. In most cases, retail investors in Turkey want to invest at 10 o'clock in the morning, make about 10%, and exit at 2:00 P.M. Buffett says, “The stock market is a mechanism to transfer wealth from the active to the inactive.”

In Turkey, what I find is a lot of the market participants aren't really looking at the fundamentals of the business. You've got a four-hour or eight-hour window that you're trying to hold something, you're not really going to be concerned about what earnings are, even next quarter, that's out the window. In Turkey, there are a few businesses which are immune to inflation. For example, revenues in Euros or dollars, or in businesses where they can pass on costs, kind of like a Coke bottler or something. There's a very small sliver of businesses. Inflation generally is bad news for equity investors, but there's a small sliver of businesses in Turkey which benefit from inflation or at least are neutral on it. Since everything got thrown out with the bathwater, those things got thrown out too. That's the place to go fishing for me.

Cameron: Great question. What businesses benefit from inflation?

Mohnish: For example, there's a company in Turkey, I don't own this company, but they export canned and bottled fruit juices all over Europe. Turkey has access to the European common market. There's no tariffs or duties in or out. This company has all their costs in Turkish Lira, and all the revenues in Euros. In fact, what happens generally in a high inflation environment is that wages don't keep up. One of the unfortunate effects is that the Turkish people, and we see the same thing here in the US because we are not seeing wages keep up with inflation. We are at eight or nine percent inflation. Last I looked wages were going up like four or five percent.

In Turkey we have a similar situation where the wages aren't keeping up. In euro or dollar terms, every 10% decline in the Lira increases the company's profits by three or four percent.

We own a Turkish airport operator. They operate airports in eight different countries, 15 different airports. Even the airports in Turkey, revenues are all in euros. Basically, even there, their staff and some of the expenses are in Lira and they have no impact from these types of things. We also own a warehouse rental company in Turkey. Steel prices have an international price and concrete has an international price. City centered real estate in a major city like Istanbul has an international price. It's kind of auto inflation index in the sense that those prices of those warehouses keep moving up, probably in lockstep or ahead of inflation. Their rents go up with inflation as well. It's written into the leases. There are a few places to play, probably I would say 95% of the market is not investible. We just need a couple of ideas a year and we are good.

Cameron: That's right. You mentioned earlier the fact that there are more ETFs and mutual funds than there are stocks in the US. That's a sign of the move towards passive over the years.

There was a good question from Jim Jones, who is the actual founder of the Alpha Challenge. He asked, how much more inefficient does the market get for each point of market share that goes to passive versus active?

Mohnish: That is above my pay grade. I have no idea. John Bogle was asked this question about the move towards passive and at what point does it cause distortions? His answer was, we are still far away from those points. When we start looking at some of the larger names, the amount that is held by the different large fund houses, and in ETFs or index funds, it is sizeable. You can add deposit indexes and such, adding to it as well. It's just not an area that I pay a lot of attention to. I don't have too much insight that I can give you on that.

Cameron: It seems like it'd be an advantage for folks like you, where you mentioned the difference between how active traders are in Turkey and there's an advantage that you get to take because you are long term and inactive, same kind of thing, right? That passive creates price and efficiencies that you can then arbitrage.

Mohnish: It does create that. Though, I would say that my general sense of the United States at this point is that it's quite an efficient market.

Cameron: You say, inefficient or efficient?

Mohnish: No, it's quite an efficient market. It's a very picked over market. Even though we have large amounts of passive investments and such I don't see mispricing in the direction of undervaluation. I do see mispricing in the direction of overvaluation sometimes. But so far, at least I haven't seen anything that is helpful to the active investor in the US with what's been going on. Not that much help so far.

Cameron: That's great. Quincy, I see you have your hand raised.

Quincy: Yeah, thank you. I think this kind of goes with what you were just speaking about. In school we're taught about efficient market theory, but then we see kind of these 100 plus bit movements by the market caused by a fat announcement, macroeconomic data coming out. It kind of seems like the market is almost pricing stuff on its toes or reacting more than pricing a lot of stuff in. I was just kind of curious, do you think that this current generation of investors, those who started managing money in the last 10 to 15 years have been kind of blindsided by your prolonged period of free money and low rates? Is it not underestimating kind of what lies ahead, maybe a period of prolonged inflation or whatnot?

Mohnish: The way I look at it is that I don't particularly care about the market and what's going on at the index or market level. Most investors are better off if they focus on a lot more on individual businesses and what's going on with the individual businesses. That's where you can find some inefficiencies. For example, if you picked any random stock on the New York Stock Exchange, just throw a dart at all the stocks in the New York Stock Exchange. Look at a 52-week range on any random stock, it'll be a wide range. It might be like 50 to a hundred. This will be like 50 to a hundred in a benign environment with nothing going on. The index has moved two percent a year or something. It'll still be a range, which is very wide. If you see another stock, it'll be like 60 to 130, or that sort of thing. When you compare that to, let's say for example, the price of a home across the street, and if you had a realtor friend who gave you a quote on that home every day, and you ask them, "Hey, what's this home worth today? And then, what's this worth tomorrow?" The change in a year would be maybe five to 10%, max. It might be less than five percent in most years. But if that home were listed on some equity exchange, we would see much wider price ranges on that over the year. It would behave like the NYC stocks behave.

Because of this larger degree of fluctuation, that's the reason people like me can make a living in the market undershooting or overshooting all the time. The fact that we have such wide ranges, it's in auction driven markets to serve us. Serving us this wider range of prices on assets that shouldn't really move that much in a year. Google is a certain kind of business and six months ago it was a certain kind of business, and six months from now it's a certain kind of business. Why should the value be 50% to 60% off in those short periods? Especially when you're looking at long term discounting cash flows over the long horizon to get the value of that business. It just doesn't make much sense.

To the extent that the market prices are underpricing a business significantly, we can benefit from that by buying it and take it from there. Auction driven markets can serve up really, incredible valuations from time to time. I have mentioned Turkey, and I mentioned the warehouse operation, when we invested in 2019 the market cap of that company was $20 million. You could have very quickly liquidated the entire portfolio for $800 million or more and

paid off the $200 million of debt and you'd end up at least with $600 million. We were looking at something that was priced at less than four percent of liquidation value in a negotiated transaction. I'm never going to be able to pick up a piece of real estate, even some of the most distressed situations, at four percent of what the market priced three and a half years ago at $20 million. It prices today at $270 million. For whatever reason, the market decided it's worth 13, 14 times that now. It is the same warehouse and such.

Cameron: But still undervalued.

Mohnish: In fact, recently what's happened is because of all these Russians and Ukrainians that have come in, I think that if they were to sell their footprint today, my guess is they've paid off most of the debt, they would probably get somewhere north of a billion maybe a billion and a half, somewhere in that range. $1 to $1.5 billion. We are at $270 million, not at 3% anymore.

Cameron: But you're 25%?

Mohnish: We are 25%. A lot more efficient. But there's still some skin in the game there. That's particularly a fun example for me because I think that the people who run that business are good capital allocators. They've done a bunch of smart things. For the last three and a half years, they keep doing smart things. Fast forward 10 or 20 years and that business probably be in 2040, it would not surprise me if it's got a market cap of $10 billion. That would not surprise me at all.

The focus I have is to spend all my time speaking to the UNC-Flagler students and not touch the stock.

Cameron: Awesome. That's great.

Mohnish: Just twiddle my thumbs for the next 18 years. Like Rip Van Winkle, I just need to go to sleep.

Cameron: Put your feet up on the desk as they say. That's an interesting point about how the market is pricing securities very often. But that's not a true reflection of value. How often do you look at your P&L? How often should managers on average look at their P&L? Does it cause bad behavior when they look at it daily?

Mohnish: One of my principles is that when you find yourself at the bottom of a deep well, you need to have a rope to get out. What I mean by that is, if I go back to 2008 and 2009, I think Pabrai Investment Funds was down like 65, 67% on the peak. The peak in 2007 to the bottom in March 2009, we brought it down two thirds. I used to be managing like $600 million in 2007. I was managing less than $200 million in 2009. Everything looked beat up, right? The rope I used at that time was I created in a spreadsheet that showed me what these businesses were worth. What the portfolio was worth? The portfolio is worth more than $600 million. I didn't kind of fixate on the market value as much. We

are not looking for the market to instruct us. We have another place to get instructed by. From March 2009 to December 2009, the funds were up like 135% and they kept going after that. We could see the businesses and we could see what it's worth. Even when we looked at this business in Turkey, Reysas at $20 million, I did all the due diligence I could. I couldn't come up with a valid reason. I asked myself whether the guys were crooks, whether everything was fraudulent, whether those places existed. I went and visited all the warehouses. I met the management, and they looked like perfectly honest people to me. I couldn't find anything wrong with it. We are not going to use the stock price to instruct us. We're going to use fundamentals to instruct us.

Cameron: How often do you look at your P&L?

Mohnish: I don't fixate on stock prices. If I'm not traveling or something, I'll probably look at stuff once a day or couple of times a day. Sometimes I may not get to looking at valuations or whatever, or even stock prices, for one or more days at a time. I usually try to at least peek once a day. We don't have too many positions. Most of our funds have only eight or nine stocks. It's easy to tell what's going on.

Cameron: Got you. You are a philanthropist. I would say that one of the more valuable things that you have beyond your net worth is your checklist, which you are protective of. When does that go into the public domain? Is that the thing that you're giving away to society?

Mohnish: We may publish it at some point. There's no special secret sauce to my checklist. I think if you saw it, you might be a little bit disappointed for its simplicity. Basically, the way the checklist was created was I looked at investments that did not work out for great investors. This is a relatively easy exercise to do because in the US we have 13F filings. We can tell when somebody buys something, we can also tell when they sell something, and we can come up with some average buy price, an average sell price. It happens during the quarter. You can come up with approximately what somebody may have made or lost when they sold an investment.

If I have someone like Warren Buffett, for example, it's relatively easy to come up with a list that says, "Okay, look, these are all the businesses that Buffett invested in that were actually a real-life loss at the end." The question, I asked myself let's say, US Air was a company that Buffett bought many, many years ago. US Air, in the end did work out because they had a preferred stock. Let's say they lost money on US Air.

IBM might be a better example. IBM was an example of what Buffett bought and had a realized loss on that. The question I would ask myself is, "Okay, when he made the investment in IBM, what was the thesis, and what was visible or easily visible at that time that was somehow missed by this great investor?" When you start looking at these companies and asking these questions, it becomes obvious. If I just kind of stay on IBM for a second, what IBM had done at the time Warren bought the stock was that they had published five-year

advanced guidance clearly stating what their cash flows and revenues and amount of buybacks were likely to be over the next five years. I think the mistake Warren made was he relied very heavily on the document. He had no reason not to rely on that document because the people who put that document up were very high-quality people. They believed that document. They weren't trying to snow investors or something. But if one paid more attention to what was going on with the business, there were some tread marks there that one could look at and one would've seen that there were some issues there, which later became a lot more significant as they went along.

In that case, for example, there was a very strong probability put on the guidance given and not as strong a perspective on some of these other things that were relevant to the company and so on.

When I did a checklist, for the most part, we could tell relatively easily what was the factors that a great mind had missed, and then added that to a checklist. Once I had all these different factors from all these different investments by great investors, I re-sorted them by category because they fell into a few different categories. The single largest reason for investment not working out when we looked at all the different failures was leverage. We have probably about 30 questions related to leverage in the checklist.

The second reason why the investment didn't work out was some type of error or misunderstanding on the moat or competitive advantage of the business. That was another big category, another probably 20, 30 questions.

The third was something related to the management of ownership, some nuance on that front. Then you get to unions and environment and other things which are lower down. But basically, the two or three things that really stood out was leverage as the biggest issue. Capitalism is creative destruction and so all businesses are under assault all the time. The ability of a business to withstand those constant attacks for a long period of time is more the exception than the rule. People tend to misunderstand or misjudge.

If we look at a business like Apple, for example, it looks bulletproof, right? It's such a strong franchise, with such a strong following. I mean they could raise prices significantly and people aren't going to switch to Android or anything. There's very strong loyalty there. When I look into the future, I don't see anything affecting their competitive advantage for 10 years. I think I can make a fairly strong case that it's unlikely Apple goes into decline by 2032 and such. I think it might be cranking till then. But I can't make that statement about 2042. What looks stable for five or 10 years, I have no idea what happens in 15 or 20 years. The thing is if Apple has a real problem by 2037, where it's already gone into significant decline, that's an issue for people investing today. That's a real issue. These are difficult questions to answer. That's why I think assessing the durability of a moat is a tough question.

Cameron: Mohnish, that was a fantastic answer.

Mohnish: Thank you. Now you have the whole checklist. You are all set.

Cameron: Don't think I wasn't taking notes. Question from Jared.

Jared: Thanks Cameron. Appreciate you taking the time on this. I think a question that I have, when we think about investment management in particular, alternative investments. I'd love to get your view on what is an alternative investment. It's a broad definition. In terms of understanding where companies that are alternative asset managers currently are really concentrated on growing that asset base through retail distribution channels. I would love to kind of get your viewpoint on, is that a positive, is that a negative? Ultimately, if you're a retail investor, how should you be thinking about where you're putting your money from an asset management perspective?

Mohnish: Yeah, that's a good question. People lose me when they say, alternative investment. Because I think that's a big tent. It doesn't really say much. I would say that some of these efforts to move some of these investments into the hands of retail investors may be good. If the manager is good and the quality of the assets are good, if a retail investor historically did not have access to infrastructure investments or class A office buildings and different things like that, it was much more limited. I don't think it's right or wrong to direct these at retail. I don't think that's so much the issue.

I think the bigger issue I have is, is the manager good? Are the assets good? And are returns likely to be good? If those factors are directed, I think in our regulatory frameworks there are a lot of checks and balances to protect the individual retail investors. There's a lot of pieces in place there. The more important thing is how does the manager think and how's he likely to do? Is the risk muted? If those are in place, then it's perfectly fine. I don't see much of an issue. Even when retail investors invest in mutual funds, which are holding a hundred stocks, how much do they understand about those holdings? I think the difficulty is not in the disclosures. I think the difficulty is that people don't do the work. It's not so much an issue on the investment manager side. There's more education needed for the retail investor that if you are going to step away from passive and such then you really need to roll up your sleeves and do the work. Most retail investors aren't willing to do that. They end up in places where they shouldn't be.

Cameron: That makes sense. Thanks for that question, Jared. Arvind, I see you have your hand raised.

Arvind: Hi, Mohnish. Really great to meet you. I'm also a Clemson alumnus, so Go Tigers! My question to you is going back to when you were talking about the Turkish bottle manufacturer. I'm just curious, when you're looking at firms, looking for some of these hidden gems and emerging markets, is there a specific strategy that maybe you use personally to try to uncover some of these companies that are good to invest in the long term?

Mohnish: Well, what I did in Turkey was that I have a good friend who's an investment manager in Turkey. He's overdosed on Graham and I'm trying to get him to overdose more on Munger. He comes to Omaha and he's from our side of the tent if you will. I understand how he thinks because he's following those similar frameworks. I basically just said to him in 2018, "Hey would you mind if we just visited companies that are in your portfolio?" I wasn't interested in visiting any company in Turkey that he didn't have an investment in because I wanted to look at businesses that had already gone through one filter that he had put dollars against. Not some business that he thought might be good, or he was researching or something.

I found that exercise very useful because he was very knowledgeable about the business. I could look at the businesses and draw my own assessments of them. I continued that in 2019. We again went and visited more businesses in his portfolio. That's when we met the warehouse operator and other businesses like that. When I step out of the US, when I go outside the US shores, governance becomes important. Integrity becomes important. A bunch of things that I take for granted in the US just don't apply, you know? The odds that I would lose money in the United States public markets from outright fraud are minuscule. It's happened in the past, but it's never happened to me and it's unlikely to happen to me. The odds I would lose money in the US because I'm stupid, is very high. I think here in the US we need to protect against stupidity. We don't need to protect so much against fraud. I think when we go into places like Turkey, we have to first make sure that we have eliminated fraud risk and governance risk, and then we can go into the business and such.

Cameron: Yep. How hard is that to do due diligence?

Mohnish: I took the stance of going in and looking at businesses that my friend already owned. I knew that when I talked to him about different management teams, he's got like 20 years history on the person. He knows the community and different things, things that I would never uncover no matter how much I worked at it. It made it relatively easy because I could get a lot of data on these businesses. I would not have the wherewithal to go into a place like Turkey and just start running screens. I mean, that just is a recipe for disaster.

Cameron: That's great. If anybody has another question, please raise your hand. I will ask one while we wait.

Buffett has chosen to compound capital and then give it back at some point. You've chosen to start your philanthropic endeavors while you're still alive. Why the difference?

Mohnish: I thought that giving money away is a lot more difficult than making it. This was a notion I had about 16 years ago when I started, and it's proven out. I agree with that statement even more now than I did earlier. I didn't want to get to being 80 years old and then must figure out what to do. The only thing I could do at that point was write checks. If my brain was still functioning, that's all I

could do is just write checks. Probably those checks might not go to the right places because I hadn't spent enough time looking at things. What I wanted to do was start early, not with very large amounts.

I committed when I was like 42 or something to give away two percent of my net worth every year. I mean, two percent is not going to put me in the poorhouse. Hopefully we are compounding it more than two percent. The network is actually going up every year. I expected probably because I was doing so much work in India that I'd probably get my head handed to me for the first 10 years and that would be fine. That'd be the tuition bill to pay. Then in the 11th year onwards, I've been able to make a difference. What ended up happening is we got traction in the first few weeks, and we hardly got our head handed to us. It was fast. The ROI, the social return invested capital that Dakshana now gets in India is off the charts.

It's just actually worked out 10x better than I ever thought possible. So basically 15, 16 years have given me a lot of direct experience and knowledge. Now we've been looking at scaling it up. I still am looking at scaling it to a quarter of my net worth. It is going into charity next year or something. We still kind of keep ramping it up. I'll keep increasing the amounts as my expiry date approaches. I used to think that I was going to leave Planet Earth on June 11th, 2044. I recently I found out that I'm leaving on June 11th, 2054. I suddenly have like 10 more years. If it's 2054, I have like 31 and a half years left.

The good news with knowing when you're going to exit planet Earth is then you can plan backwards. Now that I know my expiration date, I know what I got to do in the next 10 years and the next 20 years. Then by the time I'm getting close to six, seven years left, it needs to be on the Chuck Feeney Plan. If you've ever heard of Chuck Feeney, you know the idea is that one day before departure, if I do this right, June 10th, 2054, there should be a hundred dollars left. That's the plan.

Cameron: I know Billy has a question, but I can't ask, how did you come up with June 11th, 2054?

Mohnish: Anytime you want to know answer to any question like that, you just go to God Google. And you go to God Google and say, "Hey, God Google, can you tell me when I'm going to die?" God Google will tell you when you're going to die. And if God Google doesn't tell you a good answer, then go to the MetLife website and they'll tell you. My birthday is June 12th, I think it should be poetic, it's exactly one day before my birthday. You can add the exact day, but the year, they'll give you the year.

Cameron: Yeah. That's great. Billy last question is yours.

Billy: Thank you Mohnish for a wonderful conversation. Even at my experience in age learned quite a bit. My question really focuses on defining value investing versus growth investing. With a lot of students here, you hear that phrase, the

couple of Carlyle was at, is, doesn't matter whether it's growth or value? Considering Bill Miller, one of the great value investors was one of the early investors in AOL, which was questionable as to whether it's a growth stock as it is identified. Does that matter to you when you break that down? What would you call your evaluation and your long-term prognosis for the company?

Mohnish: Well, there are two sides of the same coin. I think the ideal investment is one that has a long growth runway. Even if you were to pay an expensive looking price, if you are right on the runway, and the growth rate and the length of time the business can grow and compound. Walmart would've been a great investment at 50x earnings in the 70s, even 100x earnings in the 70s. The runway was so long and you would've still had double digit returns paying a very high multiple for a business like Walmart when it was really growing a lot. Of course, the difficulty is that it's very hard to look deep into the future. Like we saw with the Apple example, how can we know in 1975 what Walmart looks like in 2000, for example? Those are tough questions.

The way we kind of hack that is we demand a large marginal safety. We say, "Okay, we know that this thing could go on for a long time. But if it only goes on for 10 years, I still don't lose money." That's kind of how you kind of hack around it. But the number one thing to look for is great growing businesses. That's really the holy grail.

Even the business I invested in Turkey, the warehouse operator at less than four percent of liquidation value. What I'm most excited about that business is that when they reinvest capital in dollars or euros, they are not willing to do it at below a 25 to 35% return. Their reinvestment, I've seen it from the beginning, I looked at all the things they do, these guys don't do dumb things. The father/son that run it, the father never went to college. He just says, "If I can't get my money back in three years, I'm not interested. I prefer getting it back in one year and maybe two years, but three years is the outer limit." They made an investment. They put solar panels all their rooftops. It was $50 million investment with $10 million a year coming back as what they were getting back in terms of the energy produced.

I questioned them. I said, "You disappoint me. What went on here?" They said, "We really struggled with this. We knew it was five years, but we also know that those rates are going up quite a bit because Turkey has no energy source. They import everything." They said, "This was on the edge, and it really kind of hemmed and hawed. We hemmed and hawed about it, but we finally went for it." Actually, it's a great thing. That business that they spent $50 million on, they could sell it for $200 million today. The solar panels that were deployed 35, 40 years ago are still producing power. The ones that are being deployed today, which are much more advanced than the ones 35 years ago, maybe around 60 or 70 years from now. I mean that runway is incredible. I told them, "Well, I'm glad you lowered your bar a little bit and got that done because that was a good deal." They said, "Well, you know, it was just right on the edge, but we are okay."

Cameron: Mohnish, you have been gracious with your time. We appreciate you spending the time with us today and giving us great insightful answers. Appreciate that. Appreciate what you've done with Dakshana and any time you want to practice the Feynman method on us, where you must teach people to make yourself better, we're here.

Mohnish: All right. It was a lot of fun to speak to all of you. I spent three wonderful years in the Carolinas. It's really an amazing part of the country. I never realized how awesome it was until I left the Carolinas. You are in a very nice place and it's in a great part of the world. I think UNC is just a great school. It's awesome.

Pramita: Awesome. Thank you so much, Mohnish, it was great to have you here. Cam, thank you for moderating a really engaging discussion. To the audience, thank you all for being here. Hopefully, we'll have many more events like this. If you want to stay connected with us, I just dropped in a few things in the chat. But please, stay connected. Again, Mohnish and Cam, thank you so much. Really appreciate your time today.

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