Value Investing Masterclass with MBA students at NUS Business School on January 19, 2022

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Mitun: Good morning everyone. My name is Mitun. I would be doing the introductions for today. It's my pleasure to introduce our speaker, Mr. Mohnish Pabrai. He's the owner and managing partner of the Pabrai Investment Funds. The fund manages more than 400 million assets and uses our value focused approach today. The Investments Fund; Pabrai Investment Fund, is globally renowned, not just for their performance track record, but also for their fee structure, because it's one of the few funds globally, which does not charge a management fee and only charges a performance fee an approach that has been inspired by the Warren Buffett partnerships, which ran in the 1950s and 60s. Mr. Pabrai is also an author, and his book The Dhandho Investor, is a fantastic leap for pairing entrepreneurs amongst us. He has more recently been featured in the book, Richer, Wiser, Happier by Celebrated and renowned financial journalist, William Green. We are very happy to have Mr. Pabrai with us. The floor is all yours, Mr. Pabrai, thank you so much.

Mohnish: Thank you Mitun. I am a huge fan of Singapore and of course, being a student of Lee Kuan Yew for a long time and the amazing miracle that he created in Singapore. I know that NUS is up there, so very few times, I get to speak to such an honest audience. It's a pleasure and an honor to be with all of you. It's an interesting format that I was given to follow. I'll try to follow the prescribed format where we'll go through about 40 minutes of a monologue, where I go through maybe one or more investments and kind of what was the journey and trajectories and all that like. What I thought might be useful for all of you is, it will kind of go into how do you expand or think about your circle of competence and how that can affect and over time improve you as an investor. I've got four different investments that I want to talk about. I am not very optimistic that in 40 minutes we'll get through all four, we'll see how far we can get down the list, but I know that we will hit 40 minutes before we hit the four, so I won't be having empty time. I kind of planned for a little bit more than I needed. Going back all the way to maybe around 33, 34 years ago, I had just started my first business; IT services company. I had just gotten one of my first clients, I used to live in Chicago. The client was in Wisconsin, it was called JI Case, which is a manufacturer of farm and construction equipment. They are now part of C&H, which is based in Europe. But the JI case was a company based in racing Wisconsin. I had gotten a fairly large contract for them, for a

variety of IT services. The company had been doing very poorly for a while. They'd been losing money for a while. They were very tight fisted in all the amounts they were willing to pay and the negotiations and all because they were just kind of scrambling on their end. But there was one part of the company, which was their finance arm, where whenever I did work with that group, they never tried to negotiate with me, and they always seem to have a lot of cash. It was almost like I was dealing with a different company even though it was a subsidiary. I asked the CIO, I said, "Well, James,why is this that, all the rest of your guys beat me up on price and everything else, but these guys, they don't". He said, "Oh, they have a lot of money and the rest of us don't, but they have a lot of money". It prompted me to look into why is it that the finance arm of Case was doing so well when the equipment arm was doing so poorly? What I discovered is that captive finance companies, like if you have Ford Motor Company and there's Ford Credit, or Toyota and Toyota Credit and that sort of thing, where they are kind of financing their own vehicles, et cetera, those businesses are extremely good businesses. Normally, lending is not such a good business. In fact, I've had a lot of permanent wiped out and losses in investing in levered financial institutions. Actually, I don't invest in them anymore because I think I'm very bad at them. But captive finance arms are very different. The reason they're different is, if you think about, like the certified pre-owned Lexus, for example, right? You go to a Lexus dealer and they've got the Lexus cars, but they also have the certified pre-owned ones. Certified pre-owned is only possible with Lexus. You can't have it with anyone else because they will give you a Lexus warranty. They can tell you we've done all the checks and inspections and it gives the brand halo. It has a similar halo to buying a new car, right? In the sense that they're giving you a lot of assurance that you're getting a great car. When Lexus Finance is one of their cars, let's say it's a three year or five year or seven year finance deal, and let's say the borrower defaults doesn't make his payments, et cetera, they can repossess the car. When the car comes back to them, they are in a very privileged position versus a typical lender. If I'm just like Citibank or Chase or someone who made a loan and the borrow defaults and an asset comes back to me, I have so many different assets I am dealing with that I don't have particular expertise or competence in Lexus. Lexus, BMW, Mercedes, they all look the same to Citibank. There's no difference for them, right? When these cars come back to Citibank, and there's been a default, Citibank will just send it to an auction or whatever and try to get rid of it quickly and try to salvage and get as much money out of it so that they minimize their losses or come out ahead or whatever. But in the case of Lexus, it's a little bit different. When they repossess the car, they have the option of refurbishing it, making it part of Lexus pre-owned, bringing it back into their deal channels for sale, and getting a good price for it. Their ability to work with that asset is very different than the ability of a city or someone. When you go to like equipment finance, like tractors and all of that, now those are business tools, right? The critical business equipment you need for your business. First of all, default rate will be lower because you will let the

house go. You're going to let many things go before you're going to let the tractor go because if they repos the tractor, you're in trouble. First of all, default rates are lower, but secondly, if there is a default and it comes back to them, they again have the same abilities like Lexus, they can refurbish and they can sell it to a dealer network, et cetera. I found out that, what I learned from that experience when I was running my IT company is wow, these captive finance companies are really interesting. It's just something I kept in my head. In the financial crisis when all the auto companies were facing severe issues and they went bankrupt, GM and Chrysler went bankrupt. Ford did not go bankrupt. The reason Ford did not go bankrupt is because of Ford's credit. Ford credit was so strong that it carried the company even when the rest of it was just as bad as GM. GM had taken their GMAC and they had gone into mortgage lending and a number of other things, which hit them really hard. They kind of left the reservation and went off the reservation basically, and they paid the price. The captive finance arm of Lexus should not be financing BMWs. You want to keep it to Lexus because that's where it has real power and competitive advantage. This experience I had was in the early nineties just observing this, right? In 2012, which is 30 years after I made that investment, I made an investment in Fiat Chrysler in the fund. In 2000, when I learned all about this chapter finance, I was running an IT company and wasn't running a fund or anything, but when I made the investment in Fiat Chrysler, one of the things I looked for was their chapter finance because I knew that, that piece is really good and it did not exist. They had been so decimated, the capital had been so decimated, they had sold everything off, including the capital, captive finance on, of course, a number of things changed in that business where it became a lot better business after the financial crisis because they redid their union contracts, their cost structures went down. Detroit actually went from being one of the worst places on the planet to build a car in 2007, to one of the best places on the planet to build a car in 2009 and beyond. It actually became very competitive. My interest in investing in Fiat Chrysler was because I think the world still thinks of auto companies as terrible, high Cap Ex unionized subject to consumer taste is everything you can think of that's terrible in making an investment. What they didn't realize is when these companies went through a bankruptcy, they got cleansed. A lot of their retirement liabilities went away. The pension liabilities went away. They went and redid their union contracts and a number of other things came in their way. The valuation was really off. Like the market cap of your Chrysler was 5 billion, and its annual revenues were 130 billion. It was trading at about 4% of revenues. If they could write the ship and make even modest profits, I felt that they could make 5,6, 7 billion in a single year. Basically it'd be less than a PE of one against future earnings. The other thing that was interesting to me which is the main reason I made the investment was that, Sergio Marchionne was a CEO of Fiat Chrysler. I'd done a lot of work looking into Sergio and news as an off the chart exceptional leader. Anyway, we made the investment, and from 2012 to 2022, it's a 10 x. Unfortunately, I didn't capture the whole 10 x because, in the middle, Sergio died, which was a

big shocker, but we made several times the money, we made like four or five times our money and such. But the thing is that, in the process of owning Fiat Chrysler, I got to know John Elkann, who was the chairman, and he's part of the Nelly family in Italy, which controls Fiat Chrysler. I had many conversations with John, and I said that, the finance arm, which doesn't exist because they had a deal with Santander Bank which was doing all the financing for them. I said, the finance arm is one of the most important things to put in place. I said, "Why aren't you guys putting resources behind it?" I think the answer he gave was that we just don't have the financial strength. What I also observed is, while he was saying we didn't have the financial strength, they were pushing out very large dividends, and that made no sense to me. I felt almost like the Fiat Chrysler owners, they had been through so much trauma before that. They wanted to pull chips off the table. Whereas I felt if that cash had gone into the finance arm, and I tried to explain to John that, look, these captive finance arms are really exceptional businesses in Santander bank, they finance everything, they don't have the same wherewithal as you guys would have. They never went down that path. I wonder whether either they didn't understand it or there was something else rather they didn't understand, but our investment still worked, but I think it would've worked even better. This is an example of how something happens in life, you cannot connect the dots looking forward, but you can connect them looking back, and then later something comes up, which is way in the future, 30 years in the future, and the dots connect and you can do something about it. That's something that I learned about captive finance arms that I just wanted to share and that's a data point I always have. Like recently, I was looking at John Deere and I went straight to looking at their captive finance. Of course, in John Deere equipment, you see a lot of cyclicality, you see ups and downs and all that. But when we look at John Deere finance, it's just a straight line. There is no noise, there is no hiccups because you're financing for five or seven years, you really don't have high defaults. It's just a very smooth, beautiful line, and it's a great business, and I think they understand how good that business is. I think that's an example. But another time, I think this was in 2002 or 2003, I had read somewhere a long time ago, probably in the nineties, there was an article about the failure rate of different businesses in different SIC codes, what we use in the US for different industry classifications. There was this article about the failure rate of businesses by SIC code, and I noticed in the article that the lowest rate of failure of any type of business was funeral homes. Funeral homes basically pretty much never went out of business. I found it really interesting, and I thought about it for a while. I think the reason funeral homes don't go out of business is multiple reasons. Number one, when all of you graduate, not one of you is going to say, I want to be the king of funeral services, or I want to join a funeral services operation. It's a morbid industry. Young people aren't looking to go down that path. First of all, they're not a lot of entrance looking. Whereas if you look at something like Bitcoin, everyone and their brother wants to create something, a clone of Bitcoin, right? Be the first guy and have a bunch of them at 1 cent or whatever. But no one does that

in funeral. You don't have a lot of intense pressure for people wanting to go into that business, which is not the same with airlines, right? Everyone wants to start airlines because they think it's fun and flashy. The second is that when we are looking for a place to do the last rights of our beloved uncle or aunt or father or mother or whatever, we are not going to take the low bit. We are not going to call six places and compare prices, okay? We are going to probably look at a place that the family has worked within the past where they may be some history and then go down that path. We are not really going to be focused on price and such so it's a morbid time, et cetera. It's not a business that faces intense pricing pressure. They can price however they want. They can even overprice it, if you will. You may not even understand whether you were ripped off or not, because you don't have a benchmark. What should a funeral cost? How do I know? I deal with one every single 40 years or something. Basically it doesn't face those type of pressures. The other is that the brand and the traditions of places that have been there for a while, they tend to have a following answer. I just noted that it's interesting that funeral homes have a very low failure rate. Then I think in 2002, when I was running my fund, one of the things I do is I have a subscription to Value line. I look at Value Line every week. One of the things in their summary document, one of their lists is out of the 1700 companies that they follow, maybe the 50 companies with the lowest PE's, then they have another 50 companies with the highest PE's. They just give you a list. I always look at the low P list, and usually you'll find some companies PE of two, PE of three, and those are like real dogs, you should just avoid them like the plague. Usually what that means is, if something's straitening for two times earnings is basically that's in the past, there's no more earnings left. That engine has run out of juice, okay? But I noticed in 2002 that there were two funeral services companies sitting amongst the lowest PE. One was sitting at a PE of two, and the other was sitting at a PE of 2.3. I said, it cannot be that these companies can't make money. If anyone can make money, they can make money. I mean, I don't know who all are going to die in Singapore in 2022, but I can tell you how many are going to die. Okay. You can come up with that number with a lot of precision. There is a recurrence in the sense that humans are going to die and certain percentage of population going to die and the revenue's going to show up and all of that. I said, this is really strange, why would a funeral services company treated two times earnings, right? I mean, they should be at 20, 30 times earnings because they're just so stable. Even if they have no growth, they're so stable in a low interest environment, it should be at least 10 times earnings, Right? At that time, interest rates weren't so low, so I decided to dig in. One reason I'm giving you this data is to just say, what is the trigger? There needs to be a trigger to dive in. There are 50,000 stocks, the data set is too large, we can't look at all 50,000 stocks, so we have to have a way of short shortlisting. One of the things I'm looking for shortlisting in is, I'm looking for anomalies. This was something weird that made no sense, right? I said, let's dig in and find out what's going on. When I dug in, what I found with these two companies, two Enterprises, and Service Corp, is they were very large

publicly traded funeral services operators. They had been doing a roll up for more than 10 or 15 years where they had been buying mom and pop funeral services, paying 8, 10, 12 times earnings, and then their own stocks were worth a lot more. They just kept doing that. They had bought like thousands of funeral homes. Then what happened is they got too levered. Like in the case of Stewart Enterprises, they had bought a large number of funeral homes in Europe, but they were having trouble managing them. None of those funeral homes were producing any cash flow. They had paid all this money out, but they were not making any money. They were kind of upside down where the debt service was difficult. I said, “this sounds like a great business with a bad balance sheet” I mean, basically the business is fine. It's the balance sheet that's stupid. I said, can they get out of it? What would happen here? I looked at the situation and they were trading at two times earnings. I said, look at all these people they bought these funeral homes from. What student Enterprises had done is, let's say they bought John Hardy funeral services, in Kansas City, for example. They made no changes to the business. It was still called John Hardy because it had brand recognition. The people who were the clients never realized the business had been sold. They still had the John Hardy family running it, and they tried to keep everything the same. Because the value was in the long longevity of that brand and that, this was not one business like McDonald's with 1000 locations. It was each individual place running with its own brand. Because if you kill that brand, you would really take away value and such. I said, Look, they bought John Hardy for maybe 10 or 15 times earnings. If they go back to John Hardy and say, Listen, would you like the business back for five times earnings? John Hardy would say yes, because they know how good a business it is. They would say, these dumbasses paid me 3 million and I can buy it back for a million. Here's your million. Goodbye. Right? I felt like if they had to raise cash to take care of their bank debt, et cetera, because there were so many of these funeral homes, they could easily sell a few hundred relatively quickly and they would raise more enough cash to get their situation. I said, I don't think this can go bankrupt. I think they've got many different levers, and they had some cash and they had about 18 months of breathing room, and the markets don't like uncertainty. They had punished a stock because of this. Then what happened in a few months is, they actually did something better than I thought. They made a deal to sell all the European funeral homes. The total cash flow those European funeral homes were generating was a big fat zero, actually was negative. They were losing money, and they made about four, 500 million when they made that deal. When they sold it off, an asset which was stranded, suddenly gave them a bunch of cash, and the stock started moving, it doubled, then it doubled again. Eventually we moved on. But it was a very nice home run for us. Again, it was just something I had read a long time ago, which I understood about funeral homes. Then you have this other understanding, which is good business, bad balance sheet. Can you work with that? Then, kind of confluence of factors coming in and that works out. Another example, it was a Canadian tubular steel producer. They made these,

pipes and such that go into pipelines and waterways and that sort of thing. IPSCO made these steel pipes, like, if you were laying pipeline from Canada to the Gulf Coast, you would contract with someone like Guess IPSCO to create all the piping, and you'd give them like a two or three-year contract to do that. The nature of their business was that they had a lot of visibility into future earnings and cash flow, because these were contracts, the people building the pipelines wanted surety of delivery, surety of price. They signed these guaranteed contracts with companies like IPSCO. IPSCO was a company that was trading at about, I think 40 odd dollars a share, or maybe 42, 43 dollars a share. They had no debt. They had about $14 in cash per share on their balance sheet. They had publicly stated that the next two years of earnings were $14 each in each of the next two years. The stock was like 42 or 43. I said, Okay, they are saying the future earnings because they have those contracts locked in. If you just take the current cash plus the next two years' cash coming in, it's equal to the stock price. They've got all these plants, equipment, inventory brand, and everything else, all that is available for zero. I said, now markets don't like uncertainty. After two years, there was absolutely no visibility of what earnings would be. It could go to $1, it might even go negative. We have no idea, right? Because of that uncertainty, the markets were not willing to give this a 10 multiple or something because they felt this was like peak earnings. My take was why don't I just buy the stock and watch this movie for two years? Get some popcorn, turn on a big-screen TV and just watch the movie for two years, and see how it unfolds. I did that. I put about 10% of the funds asset, (I think was in 2004 or something), into IPSCO, about six, seven months later, they announced that we have one more Euro. We are again going to make another $14. I said, Hallelujah. God loves me. The stock is now at 60 and change because markets can now see that, okay, 42 is too low because they're going to make so worth 60 or 65 by then. Then markets got a little bit more bullish about them and the stock was trading at about 85 or 90 a share. They had not made any more announcements. We just had the $60 guaranteed. I was thinking, should I take my chips off the table? I don't know what happens after three years, just like anyone else. Who knows what the situation looks like. While I'm running through all these kind of mind games in my head, the stock suddenly goes to 148. Like I wake up one morning and I see IPSCO that 148 and just a straight vertical line-up. I said, Whoa, what's going on? It turned out that some Swedish company offered to buy them for like 155. I said, God truly loves me because I was happy to take my chips off the table at 90 and move on. I did not wait for that deal to close. I didn't even wait for IPSCO to respond to that offer or any of those things. I just immediately place bio cell orders. We were done with IPSCO and I think eventually that deal closed for 160 or 165 or something, and it became a private company under the Swedish company. There again, I think the thing is that, sometimes Wall Street gets confused between risk and uncertainty. This is an example of getting confused between risk and uncertainty. IPSCO was a business with very high uncertainty, but the risk was very low. When you generally run into a combination of very high uncertainty, very low risk, the

end result is usually going to be a very high return. That's a good formula to keep in mind. Amazingly, we have gotten through three examples, and I haven't run out of time yet, which is great. We might even make it through most of the fourth example, Fingers crossed. The fourth example is actually the very first investment I made on July 1st, 99 when my fund started. It was a company called Silicon Valley Bank. Silicon Valley Bank at this point might have a branch in Singapore. I'm not sure, they've expanded a lot. At that time in July 99, one of my concerns was that valuations were getting pretty crazy. I mean, we were about, (I didn't know it at the time), but we were about eight or nine months away from a massive implosion in the NASDAQ, the collapse of that dotcom bubble. But I knew that we were in a bubble. I myself, had a private dotcom. I was able to see things that had already blown up. I could see things about maybe four or five months ahead of other, what others couldn't see. I recognized because I was a tech guy, that the internet was transforming, but I also recognized that the valuations that we had in a bunch of these pets.com and whatever else were ridiculous. But I was trying to find a way to play that arena where I have upside without downside. I found a way to play that with Silicon Valley Bank. Silicon Valley Bank is actually what I would've run really well if I just held it from then till now, I actually held it for just about a year. I got more than doubled or tripled of my money and I moved on. But it's compounded at 20% a year for like 20 years. So far it's done really well. It's a very unusual bank. It's headquartered in Silicon Valley, and their clients are mainly venture backed tech companies. Their main clients actually are the top flight venture capitalists. If you're Sequoia or Anderson Hardwoods or Grayloc, whoever, when you fund a company and you're the first venture capital going in, you're probably going to tell the company to open an account at Silicon Valley Bank. The reason you're going to tell them to open at Silicon Valley Bank, because Silicon Valley Bank has got a lot of expertise in dealing with tech companies. The VCs know that they can get reporting from them, which is better than what they can get from other places because they understand what the venture capitalists are looking for. The VCs and their term sheets would say, you need to send us these reports, show us the balances, whatever else. They've got great reporting to them. The other thing they've got is that, because it's almost like the captive lenders, when a company gets venture capital, they don't want to spend that money buying servers and furniture and so on. Those things they would rather finance, right? The money they raise goes further. Silicon Valley Bank is really good at financing those things. If a company is looking to buy a quarter million worth of servers, for example, computer equipment, they'll make that loan. Again, for them, it looks like a captive because if the company goes under and they get titled to those servers, they're financing those every three days with some other, so they could go to some new start-up and say, "listen, I can give you all the servers at half off, 70% off and they're brand new, come and take a look at them". A lot of people would take them up on that. They have a way to recycle that asset in a way that most of the lenders would not have because they're so homogeneous in, or some company just bought a

software license and that license is valuable and they can again, recycle that license and so on. Their business is really good. But the other thing that they were doing in Silicon Valley is, when you go to a restaurant, like Il Fornaio whatever, and the waiter serves you, even though the waiter gets strong options, the masseuses at Google got stock options. Everyone gets stock options. What Silicon Valley bank did is whenever they made loans to these companies, they collected warrants from them on the side. They made the loan and said, you also have to give us warrants. They would collect these warrants and they had hundreds and hundreds of these companies, which were their clients, and they had a huge amount of warrant, but there was no disclosure on how many warrants, which companies, whatever. But I knew that they were sitting on this huge stockpile of warrant and these companies were going public, at that time the bubble had burst. I was only paying 10 times earnings for the business because no one was interested in these regular companies. Everyone wanted like, sexy businesses and all that. In a few months after I invested, they started announcing that we monetized eight of these and we made so much money and there was dwarfing their earnings. The amount they were making on those, when they started gradually and as it's coming public, they started looking through that treasury and saying, Okay, what do we have? They started unloading those and then the stock started reacting to that because they had this huge thing and eventually we tripled our money and it was like the bubble burst. But I think August of 2000, which was just a little over a year or 14 months after I made the investment, we were out and I think we made a three x on it. That worked out pretty good. That was a case where you had this unknown basket, but I'm not paying anything for it, right? I didn't know what was in the basket, but again, it was low risk, high uncertainty, right? We weren't paying for it. The basket was utterly useless. I still have a well-run bank and now they've expanded all over the place but they've kept to their knitting, they only deal venture back companies and I think they have a very great niche in banking and that's why they've done so well over all these years. That gives you some sense of kind of four different investments, which is somewhat different from each other in different times. What I’m looking for is, I have no interest in some business that's trading at $10 and it's worth 13 or 15 or 17. That's not of interest. What I'm looking for is wide list pricing. We don't necessarily need an information edge, We usually don't have an information edge, but we can easily have an analytics edge. In these situations, I had no information edge on Silicon Valley Bank. I don't know what's in that basket, but I can analyze it from a high level and say I can't lose. I know that it's uncertain, but I can't lose. It's okay, I can go in there, take it from there. With that, I think we'll turn it back to Mitun and take it from there. Let me turn the volume up here. We'll try to go back and forth with the volume. Thank you.

Mitun: Thank you so much, Mohnish. We enjoyed the session. Over to Hashim for the Q and A moderation. Thank you so much.

Hashim: Thank you for the insight full session. One of the interesting questions that I saw in the registration form was that if somebody who has just entered the fund management industry wants to open their own fund at a young age without any track record on big institutional funds, how can they do it?

Mohnish: If you don't have a track record? I think that's almost somewhat dishonest if you will. I would really encourage you to have something before you take other people's money. But if you're hell-bent on doing it, then focus on friends, family and fools. Hopefully the fools don't lose money, but go to your mom, go to your brother, go to your sister and take it from there. But I also feel that if you have got the chops to invest well and you are young, even with a very modest amount of money, it is going to grow. I mean this is the power of compounding. If you're doing mid-twenties a year, you're going to double every three years and 30 years, you're going to have thousand times what you started with. You don't need large sums. In 10 or 15 years you can have a decent amount of money and a track record and then actually have a legitimate reason to get others to give you money.

Hashim: Absolutely agree with you. People tend to underestimate the power of compounding nowadays. The next question is, what do you think about people who think that value investing is debt in the modern era?

Mohnish: All intelligent investing is value investing. People have this misnomer that growth investing and value investing are two separate things. It's two sides of the same coin. What we are trying to do with investing is, we are trying to put out a dollar today with the hope that we get more than a dollar in the future back. How long it takes to get $2 back or $3 back and such will determine our rate of return. Definitely, you're going to do better if you invest in businesses that have strong growth prospects, as long as you're not paying too much for that group. It took me a long time to get there, but if you buy a dollar bill for 25 cents and it's not going to change much in value, and you're correct about that, it's worth a dollar, you'll make four times your money and depending on how long it takes to make four times the money is whatever you analyze your return is. But if you are able to invest in a Starbucks relatively early, they could have almost an infinite number of stores globally. The unit economics are so good in the US that when they open a Starbucks in 18 to 24 months, they get all their money back that they put into a store. Internationally they get it in 12 to 15 months. It's an incredible business. I mean your ROEs are off the chart. This is unlevered returns of like 60, 70% unlevered and with an ability to create an infinite number of coffee. I mean in Manhattan; they would put four coffee shops and four corners and none of the businesses went down. They all did well. The holy grail is to find the great compounders where the dollar becomes much more valuable. You don't necessarily need to even pay much less than a dollar as long as you are right on the road prospects and you can run that, then that can work out quite well. Value investing is not dead because investing is not dead. Anything that is not intelligent in terms of investing is not value investing. That all falls into the category of speculation.

Hashim: Right. Thank you. This is the last question from the phone and I think everybody wants to know the answer to this. In your opinion, what do you think is the most important asset class or investment for the current period, short term, long term, and medium term, which will provide the highest returns?

Mohnish: Well, I think the thing is, I said that we look for anomalies. Generally speaking, they always show up in different ways. I think it's the wrong way to approach it. I don't think you should approach investing top down. I have never approached it top down. I haven't said I need to invest in tech and now let me go find the best tech play or I need to invest in block chain and let me go find the best block chain, a bet and so on. I think, for me, it's a lot more opportunistic where you are reading a value line and you suddenly see some funeral services at two times and you had no plans until then to ever invest in funeral services ever in your life. Then you go on a journey that you never thought you'd be on. I talked about this a few times in the past, in 2018, I was visiting Turkey, visiting a bunch of companies. I have a good friend there who's kind of like a Ben Graham type investor. I just told him, "listen, I'm coming to Turkey, can you just go meet all the businesses in your portfolio?" He said, "Oh, that'd be so much fun, Mohnish, let's go do it". He took me to this one company where they were the largest warehouse operator in Turkey, the liquidation value of their warehouses, which was really easy to calculate. They had about 12 million square feet, it was close to a billion dollars and they had about 200 million of debt on it. 800 million book value if you will or market value. The stock was at 20 million. They had a bunch of other assets besides the stock, I just asked my friend, "are these guys frauds?, like are they crooks? What's going on here?" He said, "I've never heard anything which is untoward about them". I said, what's going on here? He says, "Well, they just never really explain their business. They don't really have an IR department, 20 million, most fund managers don't even take a look at them, it's just flying under the radar. I kicked the tires quite a bit, I went and visited the warehouses and their clients were like Amazon, Car 4 and Ikea and then 99% lease 10 year leases, inflation index, really prime properties. I couldn't find anything wrong with it. Then I met the father and son, I find them with tremendous capital alligators. I found them to be exceptional. Then I thought, "how much stock can I get here?" It was like so thinly traded because Turkey is such a hyper traded market, we end up owning one third of the business. I bought one third of that business for 7 million dollars and then it went up like six, seven times in value in the next couple of years. It's still undervalued, still big gap from 800 million, but we are not in any hurry. What I'm saying is that, it's bottoms up. I didn't go into Turkey even thinking I'm going to make an investment in Turkey. I just said, let's go check out, the tea is great, the coffee is great, the Baklava is great and on the side we'll see if you have some good meetings as well. I was always focused on the meetings to get some good tea, ask them if they have Baklava and then whatever else happens in that meeting, it's all okay. Then the food was great. No, dining on the blue fish on

the Bosporus was just great. There was nothing to complain about. Then also made some money on the side. It was all fine. But yeah, I think the short, medium, long term all that doesn't mean much to me. To me it is all about a treasure hunt. This is a treasure hunt and we don't know where the treasures come from. I have no idea where the next investment I make will come from. We want to read a lot, we want to have a lot of inputs coming in. Serendipity has a way to happen. Then sometimes we make bets and they don't work, that's fine too because Templeton said , if you're wrong, even 30, 40% of the time, you're still okay. It can tolerate a higher rate. That's how I would suggest you approach it.

Hashim: Thank you. Now we'll take questions from the floor. Martin, can you unmute yourself and go ahead?

Martin: Yes, thank you. Well, hello to everyone. It's a pleasure. Mohnish, thank you so much for the opportunities, a privilege, also thanks to the MBA's Finance Club for doing this event. Here are my questions. I would like to know, “how do you differentiate your investment approach relative to, for example Warren Buffett. Both of you are intelligent investors, but what are the difference that still allows you and him to achieve high returns. Also, I would like to know if you have any insights that you can give as relative to Alibaba and the Chinese market. Thirdly, if we're possible to reach out to you, if sometime we have some business opportunity that might be of your interest.

Mohnish: Well Martin, thanks for those questions. You can reach me at mp@pabraifunds.com. I need ideas. When you find things that are widely mispriced, please call me collect and please send me an email that'll be very appreciated. Well, Warren Buffett is good, His way at a level of performance and practicing the art in a manner that none of us will get to in our lifetime. In many ways he's like a Swiss Army knife, he can invest 20 different ways, 20 different formats in a variety of businesses and industries. Sometimes it's compounders, sometimes their liquidation plays different ways. I think Buffett is exceptional on a number of fronts. The good news with him is that he's an open book, he's a teacher, he wants to teach and he is an exceptional job teaching. He's been very generous with his teaching and his lessons are available to all of us. It's open book. In fact, all the Berkshire annual meetings are on CNBC's website for 20 plus years. Those are great resource. The annual reports are a great resource. I think that even if we figure out 3% of what Buffett has figured out and even if we operate in a very narrow circle of competence versus his much broader circle of competence, we can still do really well. We don't need to be a Swiss army knife like Buffett is. If you only understood captive auto finance for example, or captive finance and you only invested in that area, you could still do very well just with that understanding. We don't need a lot of bells and whistles to do that. Regarding Alibaba, I think that I used to have a large position in Alibaba, we have switched most of it over to Prosus. I thought that's a somewhat better bet, which owns Tencent. I think both Alibaba and Tencent are amazing businesses. There is a lot of

uncertainty and even probably a lot of risks related to the CCP, (Chinese Communist party), if they decide they want to Kibosh these businesses, they have the power to do that. I don't think they'd want to do that. But clearly, China has gone down a path and in fact the whole world is going down a path. They're trying to define rules for the big tech companies. The big tech companies have run their affairs like the Wild West. They are going to face more regulation and they're going to face more restrictions. But the history of this arena is that in the US, when the government went after businesses for antitrust, like when they went after Microsoft or ATNT or IBM or any of these companies if you invested right after those investigations were launched or announced, you did really well as an investor. The reason is that, when the government finally realizes that a bus business has an unfair competitive advantage, it means that's a really strong advantage. The second is that, the companies usually are able to run circles around the regulators in terms of how they leverage them. I mean just look at Google in Europe, right? I mean they have it out for Google in Europe. They want to really slam Google and Apple and all these companies really hard and they've been trying to do it for so many years. But even if Google pays a 1 billion, 2 billion, 3 billion fine, it is meaningless. That engine is so strong and so powerful that what looks like a big victory to the regulator is just a pimple on a camel's spot. It's irrelevant to Google. I think that in China, maybe something similar where the regulations are coming in, but what that demonstrates is the power of these models. These models may have some wings getting clipped, but they may continue to do well despite that.

Martin: Thank you. Thank you,

Hashim: Thank you. I think we'll have time for only one last short question because we've got some questions in the chat as well. I mentioned Mohnish's email address in the chat. If anybody needs to have their own questions answered so they can email them directly. One last question, can you please unmute yourself and go ahead.

Mitun: Thank you so much, Mohnish. Yeah, I've always been a proponent of cloning like crazy. Would you recommend any managers or professionals whom we should sort of follow and clone like crazy? Thank you so much.

Mohnish: Yeah, one person I think that you should really study is Chuck Akre. There's a Google talk. If you just go on YouTube and just do Google talks, Chuck Akre, will pull up. He also did another interview with a podcast called Invest Like the Best. I think you can pull up a bunch of other interviews about Chuck Akre. I think Chuck Akre is very interesting to study because he's the opposite of Buffett in terms of a Swiss army knife. He's one trick pony. But the one trick he has is so powerful. He talks about this three-legged stool I'll just go a little bit to complete the point. The three-legged stool is basically a tool that's used by farmers for milking a cow, a little stool that they sit on before everything is automated to milk the cow. He has a bunch of these three-legged tools in his

office and he says when he invests in a business, he's looking for the three legs of the stool. The first leg is he wants the business to be generating very high returns on equity and assets, high ROE businesses without much leverage. The second leg is, he's looking for great people. He says great people who care about enriching outside shareholders whom they don't even know and they're great managers, high ethics and understand capital allocation. Great business, which has high ROE and great people. The third part of the leg is the ability of the business to reinvest its earnings at similarly high rates. If you find those three legs, the third one is really hard to find. For example, if you look at a business like MasterCard, which has very high returns in equity run by Ajay Banga, great guy, they have no ability to reinvest the money because the business needs no capital. It's so efficient. Whereas a business like Starbucks for example, has all three legs because they could eventually have an infinite number of stores and tells you how dumb I am where I've known this for a while, I still don't own Starbucks, so stupid. But the thing is, all Chuck Akre has done is focus on these three-legged tools and sometimes he makes an investment and it doesn't work out. They end up compounding at 7% or something and he eventually takes his chips off the table. But he's had 200 baggers in his portfolio, several of 10 baggers. He's beaten the market very soundly over many decades and that's, I think, is a tremendous amount.

Mitun: Thank you so much.

Mohnish: I think there was a question about the last name of Chuck. It's Akre, A-k-r-e.

Hashim: Thank you. Now I'll hand it over to Shreyas to end the session.

Shreyas: Yeah, on behalf of MBA finance club and new MBA club ecosystem, I would like to thank you Mr. Mohnish for sharing your insights with us. It was a privilege having you here. We have something to take back home. Although we are at home, what was most intriguing for me at least, was how you picked on these and also the industries which are usually over something like captive finance or funeral services. It has also motivated me to look for these industries and hopefully make money out of it. Mr. Mohnish, I hope to see you in future events organized by NUS and to all the participants, thank you for joining in and showing your enthusiasm. Have a fantastic week ahead everyone.

Mohnish: Thank you. It was a pleasure to be with all of you. Yeah, I would love to be back at NUS. It was a lot of fun. I think all of you will do really well and I'll be glad to see you all. Covid is in the waning ending phases hopefully, and we can get back to our lives, which will be great. Thank you.

Hashim: Thank you.

Mitun: Thank you.

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