Mohnish Pabrai's Presentation and Q&A at the University of Omaha on May 5, 2023

The contents of this transcript are for educational and entertainment purposes only, and do not purport to be, and are not intended to be financial, legal, accounting, tax, or investment advice. Investments or strategies that are discussed may not be suitable for you, do not take into account your particular investment objectives, financial situation, or needs, and are not intended to provide investment advice or recommendations appropriate for you. Before making any investment or trade, consider whether it is suitable for you and consider seeking advice from your own financial or investment adviser.

Mohnish: I have a selfish reason to be here in front of you, and the selfish reason is that the best way to learn is to teach. What I'm really trying to do here is teach myself. Thank you for trying to educate me. It's great. I haven't made this presentation before, so it's relatively new and I'm still trying to figure out some of the bells and whistles, and I don't have all the answers. I'm hoping I get more clarity as we go on. Some of you might have seen Yellowstone. Who's seen Yellowstone? We've got a few Yellowstone fans. I think I was watching the 1889 or something. The second?

Audience: 1883

Mohnish: 1883, right? The second one. They're heading west. There's one particular scene when the Native Americans are attacking, and then they say, "Circle the wagons", right? You guys might not remember that, but there's a particular point at which they actually circle the wagons. "Circle the wagons" actually is a term that comes from the 19th century. We had these large wagon trails going west, claiming land and conquering the frontier, if you will. When the Native Americans attacked the most, the best defensive posture was to put the wagons in a circle and then try to defend as best as you can with that configuration. I thought that analogy might be a good way to think about investing in terms of circling the wagons. I'll just go through a few slides and then we'll go through what you guys want to talk about. This year, in Buffett's letter, he had a couple of very candid and great quotes. He said, "Over the years, I've made many mistakes. Our extensive collection of businesses consists of a few enterprises that have truly extraordinary economics, many that enjoy very good economic characteristics, and a large group that are marginal". If you look at the 80 plus acquisitions that Berkshire has done, Warren and Charlie, probably themselves would acknowledge that probably at least half are outright mistakes. (The best practitioners of the art). Then he goes on to say, "in 58 years of Berkshire management, most of my capital allocation decisions have been no better than and our satisfactory results have been the product of about a dozen truly great decisions, and which he's saying is about once every five years". I tried to basically look at this period from like 65 to 22., Let's say you have 80 acquisitions. In this 58-year period, he probably bought at least 210 stocks. (I used 210 for my convenience so I get to a round number). I like to work with round numbers, but it's probably a larger number than 210. His key hires, I'm expecting that in the last 58 years, he had at least 10 key hires which were very important to Berkshire. If you look at these decisions, there are about 300 important decisions, and he's saying that 12 move the needle. Basically, it ends up being something like 4%, and we have 4% from the guards of investing which doesn't give us a lot of confidence. I took a stab at what the 12 businesses might be, or the 12 decisions might be. One of them we know

is Ajit. We put his picture up there and because they've always pointed out that the single best decision, they made was the search fee they paid to hire Ajit Jain. There's a guy who used to, I think theoretically, still works at Berkshire, Michael Goldberg, and Michael Goldberg, I think now must be in his eighties. Michael Goldberg was the guy who hired Ajit. He hasn't really been active in Berkshire for probably more than 20 years, but every year, Warrens kept him on the payroll, and every year he gets a million dollars from Berkshire, and if he lived to 150 years, they would keep paying him the million because it's still a great deal. If you look at the other candidates, GEICO's probably one of those. Then Coke, Amex, See's, Apple, BNSF, mid-American National Indemnity, Gillette, Washington Post, and then Cap cities, ABC. I think it might be that one or two of these might be off, and Warren or Charlie might say, well, you got maybe 90% or 80%, but most of it are directionally correct that these were the large or the most important decisions that happened over almost 60 years. What was really important, if you go back to these decisions, the important thing was not that they bought these 12, or they hired Ajit, the important thing was they kept them all. It wasn't the buy. That was because they had 288 mediocre to poor decisions. They kept those two, right? Basically, in effect, they kept all 300, they lived all 300 decisions, and it was really important for these 12 not to have been deleted or sold. Basically, when we look at this kind of statistic, what we find is that investing is a very forgiving business. But it is forgiving if you don't cut the flowers and you don't water the weeds. The difficulty comes when you start cutting flowers and watering weeds. But we see this pattern. When we go and look at his record, with just a dozen decisions, he's completely trounced the S&P. Even with these 4% great decisions, they are at almost 4,000,000% in annual returns. Basically, the S&P is just a very small fraction of that. I want to go over a few other examples because I want to show that it wasn't that Warren and Charlie were anomalies here. I think Warren and Charlie are more kind of par for the course in terms of how things work.

Many of you may be familiar, there's a South African company called Naspers, and Naspers used to be a newspaper publisher, and they've been around for about a hundred years. I think in 1999 or 1998, they brought in a hired gun CEO Koos Bekker. When they brought in Koos Bekker, basically at that time, Naspers had a 500 million market cap. Koos, in 2001, took $32 million of that and bought an obscure Chinese company called Tencent. He got a 46% stake, 46 1/2% stake in 10 Tencent for the 32 million. In fact, interestingly, they bought the stake from Li Ka Shing, who's a billionaire in Hong Kong, who's a very savvy investor. It actually was a private transaction with Li Ka Shing selling, who was probably, kicking himself or selling. If we look at what happened, Naspers has a $500 million market value. In 2004, when Tencent went public, the value of Tencent was about $900 million at the IPO. The Naspers share was almost like north of $400 million which would've been most of the value of the company. The company was about $500 million. It was now approaching like half the value. They sold a little bit of a few shares at the IPO, but they pretty much did nothing after that. From 2004 to 2018, they never sold a single share of Tencent. If you look at it in 2018, the market cap of $530 billion went from $900 million, $10 billion, $50 billion, hundred billion dollars. They're not touching it at this point. When Tencent is a hundred billion market cap, it's like 99% of the value of Naspers is sitting in Tencent. It's basically almost the whole thing. It's sitting in a company that they do not control, and it's sitting in a company that is in in China. Through

all of that, Koos Bekker doesn't sell. Amazingly, because he's not from the family, the family with the hired gun lets the hired gun do what he wants. I just want to give you a story about Koos Bekker. When he was being hired, he told the family, “I do not want a salary. Please make my salary zero. I also don't want any bonus. Please make my bonus zero. All I want is whatever value creation occurs on my watch, just 6% of that comes to me.” The family said, “Where do we sign”? It was a great win-win for both sides, right? I mean, everybody won. To their credit, even when it got to a hundred billion or 200 billion dollar of Tencent market cap, they just sat there. I think the reason they had the comfort to sit there was that Koos Bekker was on the board, and he had a chance to spend a lot of time with Pony Ma, the founder of Tencent, who was a very unusual probably one of the best entrepreneurs we'd ever had in the history of entrepreneurship. They kept it anyway. Even in 2018, when it was a $170 billion valuation and they started in 2018 to close the gap between the Naspers NAV and the look-through value they started to sell. For the most part, they’ve held the position, and it's like a 50% compounded over like, 20 plus years. Again, the important thing was not that they invested in Tencent, because they invested in many other things, the important thing was that they didn't touch it. Even today in 2023 Naspers is the largest shareholder of Tencent on a per-share basis. If you look at each Naspers or Prosus, share their look through ownership of Tencent has only gone up. Even as they're sold, the look through ownership per share has gone up because they've done buybacks.

Again, circling the wagons around Tencent was really key. Then we have Rakesh Jhunjhunwala from India. Some of you may know him, he passed away last year. Unfortunately, he was only 62, and Rakesh was an exceptional investor, but he never managed money for others. He only managed money for his own account. Until maybe a year or two before his death, he really never started any businesses. All his wealth was created organically from his investing. He started with $400 when he was 25 years old. When he passed away, it was $5.8 billion. That was a tremendous 56% compounded over 36/37 years. In 2003, Rakesh bought 5.9% of a company in India called Titan Industries, which has a brand called Tanishq. Tanishq is basically a jewelry and fashion retailer. He owned 5.9%. Then by 2011, he had increased his stake in Titan to 11%. The second 6% or so that he bought, or 5% that he bought, he paid almost 20 times what he paid for the first 6%, which is psychologically really hard for us to do. We investors get to anchoring, I bought something at $10, and I'm not going to pay $200 for the same thing, but he amazingly kept adding to his Titan position at higher and higher prices. Basically, that's very difficult to do psychologically. When he passed away, he sold some as he went along and so on, but he passed away. He still owned 5.2% of Titan valued at $1.4 billion. I'm excluding all dividends. There were some significant dividends over the years. Basically, the $3.7 million became more than $1.4 billion. If everything else had gone to zero after 2003 for him, he would still be $400 to $1.4 billion. It would still have been a tremendous record. The amazing thing about Titan is that it's still firing on all cylinders. It's even today, in my opinion, still embryonic in its growth and development. It's just a remarkable, amazing company. Been a great journey for Rakesh and his wife who now looks after the portfolio. I'd be really surprised if she trimmed Titan. I think she probably understand it better than he did.

Most of you are probably familiar with Nick Sleep. Nick Sleep is a good friend of mine, and he ran the Nomad partnership for about 13 years with his friend Qais Zakaria. When they shut down the fund in 2014 it had about 3 billion under management at the time. I remember one of Nick's LP calling me at that time in a very panicked mode. This was a very large university endowment. They're saying, "oh, Nick is returning our money and we don't want the money. We want him to keep running it". I told them, I said, "he told you what to do. He told you to take the money and just put it in three stocks equally Amazon, Costco, and Berkshire. Now he's telling you that you don't need to pay me any fees anymore, and you just buy these three stocks, and you don't touch it for 10 years. "They said, "yeah, but we can't do that". I said, "why can't you do that?" He says, "we are not allowed to buy stocks". I said, "change the mandate, but this is the way the world functions". They were so distressed, and they never bought these companies. Amazon, before the split, it was 1/15th of the price it is today. I mean, it was a radical change.

Anyway, what Nick and Zack did for their own portfolio is they allocated a third each to these three companies. Then Amazon became 70% of his portfolio, which he was getting uncomfortable with. He sold half to buy a digital retailer. Retail is terrible, it's not good. Asus has not done well, but I don't think Nick is suffering, he's okay. I think I met him last October. He still has the one-third Amazon, which keeps going. That's worked out very well. In 2004, they had put 20% of their portfolio into Amazon when they were running the fund. Several of his investors exited at that time because they thought it was too concentrated. They said, "oh, we are very uncomfortable in this concentration". They left the fund then later when it became about 33% or something, even more left because they were very uncomfortable with the whole situation. But if everything else in his portfolio had gone to zero in 2004, they would've still beaten the S&P by six percentage points with just the 20% in Amazon alone. Nick and Zach had many mistakes along the way. Many investments they made did not work, but it didn't matter. In their case, you could have been wrong 80% of the time, and it didn't matter. It still worked out very well. It's really funny just to go back. They still have their office in London, and they've given part of the office to some friends of theirs who basically, I think run a commodities fund that had not done well. Nick was always telling them can you just put like 5% of the fund in Amazon? They say we are not allowed to do that. They keep suffering, and that's the way the world works.

Then we have Ben Graham. Ben Graham's very famous for Net-Net investing and deep value and so on. But in 1948, he bought half of Geico for 712,000. Ben's cornerstone of the Grahamian approach to investing was that you buy things well below liquidation value and definitely well below intrinsic value. As it gets, when it starts approaching those valuations, you sell them, and then you go back and find something else. He applied that to all his other stocks but the never applied it to Geico. When he passes away in 1976, that $712,000 is $95 million excluding dividends. He never wrote about it. All the Ben Graham books never talk about the fact that the biggest success came from buying a great business. It did not come from all the great mathematical games of Net-Net investing and all of that. The other thing is that he would be very diversified, but he put 25% of the portfolio into Geico. Basically, if everything else again, had gone to zero, he would've still been done twice the S&P, 12.9% versus 6.9%. Like I said, it's never been mentioned,

and when he passed away, it was more than half of his net worth. We look at this concept in the late sixties and early seventies. Some of you may remember the Nifty 50. The idea at that time was that there were these 50 great businesses, blue chip companies in the US and you would invest in all 50 of them, like 2% into each one. Valuations didn't matter. It didn't matter what price they were at. These were like McDonald's and Coke and P&G and Polaroid and Xerox and all these companies.

There is some controversy about whether Walmart was part of the Nifty 50 or not part of the Nifty 50. We'll consider both cases. If you consider the case that Walmart was part of the nifty 50, Walmart went public in 1970, and you assume that Walmart is 2% of the nifty 50 in 1970, and the other 98% goes to zero, it just, all of it, 98% error rate, you would've compounded at 13% versus 10.7 for the S&P. With 98% error rate where they have gone to zero, where you are only left with one stock, which was 2%, you significantly beat the S&P. Basically, just highlights how some of these amazing decisions can work out.

Now, if we take the other case, which is that there's no Walmart in the nifty 50. In 1972, just before the great crash of 1973/1974, these companies were trading at crazy numbers. Xerox was at 49 times trailing earnings. Avon was 65, Polaroid was 91 times trailing earnings. Xerox fell 71% in the next two years, and Avon fell 86%. Polaroid fell 91%, and eventually, they all went to zero. They disappeared eventually. The Nifty 50 as a group lost half its value in that 1973/19 74 period. If you look at these highflyers in 1972, you see really high PEs for like McDonald's and Disney and so on. But even if you bought the Nifty 50 in 1972 at those peak valuations without Walmart in the picture, from then till now is 10.2% annualized. It's just 0.1% a year below the S&P. Even with no price discipline, and even with a lot of zeros, and even with no outlier like Walmart, you almost go toe to toe with the S&P and it still works out. But the reality is, when the Nifty 50 dropped 50% in 73, 74, by 1975, no one was in the Nifty 50, you know, they had all moved on, badly bruised and so on.

Again, staying with it would have still worked out quite well. Then we have the example of Coke. In 1988, amazingly, Berkshire put a quarter of its book value into Coca Cola, 25% company they didn't control. From 1988 to19 98, they had a just a spectacular 32% annualized return. Coke in 98 was trading at a nosebleed valuation. It was trading like the Nifty 50 and in the meetings in 1999 and in 2000, Warren couldn't praise the company enough, there was such a great company. Then if you look at it from 98 till today, it's been just 4% a year. It's been positive, but it's just 4%. Actually, it went through a long period of time where it was just flat and actually declined quite a bit. Warren mentioned that in hindsight, he should have sold Coke in maybe the 99, 2000 because there was really difficult to justify that valuation. Even when you take the suboptimal decision of not selling Coke at this really high multiple, when we look at it over the entire period, we are still ahead of the index. It's 12% versus 10 1/2 percent. This is one of the things that is a dilemma for me that I'm still trying to figure out, is basically what happened with whether the Coke decision to keep it or not keep it, which way is it? Is it better?

There are some key lessons that I've been able to figure out. The first key lesson is the error rate is going to be huge. If we have Warren and Charlie having these big errors, mere mortals like us, we are just going to have a big error rate. The second is, don't cut the flowers and don't water the weeds,

and hold on. If it's a great business, hold onto it for dear life. Third lesson is do not pay fancy prices for great businesses. If you look at all these examples of Titan and Coke and Amex and Geico and Amazon, Tencent, Ajit Jain, and so on, Warren says about Ajit that every year, when he pays him his bonus, he thinks he left a zero off. You He said, I'm aware that Ajit is part of the board and all of that, we get to look at his comp and him, and I think last time I looked was like 20 odd million for him. Greg Abel, if we didn't leave the zero off, should be close to $200 million, but that's okay, Ajit is still happy. We focus on great businesses with great people and long runways. Actually, last night I had dinner with Chuck Akre, who's a wonderful guy.

Some of you might have heard of Chuck. Chuck lives in a town in Virginia called Middleburg, which has one traffic light. I was really interested in seeing this one traffic light town because, when you hold these great businesses, you have nothing to do. I wrote a letter to Chuck; I didn't know him. I said, "dear Chuck, I really want to see the one traffic light and would it be okay for me to visit and you can show me the traffic light and so on?" Amazingly, he responded, he said, "yeah, we'll go take a look at the traffic light together". I made a very nice trip to rural Virginia last, I think November, great weather, and it was a great very nice drive. Chuck has this concept of the three-legged stool. I went with them, when I went to his office, there were a number of three-legged stools in the conference room. They've really made sure that they never forget about the three-legged stool. The three-legged stool is usually used for milking cows. One of the things, chairs should really not have four legs. If you don't want a chair to wobble, it needs to have three legs. It was really stupid whoever came up with the four-legged chair. If you look at all the furniture that Frank Lloyd Wright created, the chairs are all three legs, and you don't have the wobbles. It's great. The three-legged tool that Chuck has; number one is, he wants to invest in businesses that are run by people with the very highest integrity and who have skin in the game. They've got ownership in the business and their integrity and abilities are unquestioned. He doesn't ever want to compromise on the human aspect. The second is that it must have very high returns on equity, on invested capital with an ability to reinvest at that high rate for a very long period of time. We want great integrity, we want a high return on invested capital, and the third is a very long runway. He said that when we have these three elements, we're done. and so I was listening to a podcast the other day and someone was talking to Chuck Akre. Chuck's number one position is American Tower. They've done extremely well with American Tower. It's a great business. He tells Chuck, "Chuck, I found the next American Tower". Chuck says to him, "son, the next American Tower is American Tower in a way that only Chuck could say it". He's not going to cut the flowers there.

Compounding is the eighth wonder of the world, which Einstein tells us. If you really look at the magic of compounding, there are three elements that come in, right? When you're looking at compounding your starting capital your annualized rate of return and the length of the runway, and there's the interplay between these three factors. For example, if I have a 7% return a year applying the rule of 72, it'll take 10 years for my money to double. If I have a 10% rate of return, again applying the same rule of 72, it'll take seven years. Basically, you can switch and change one variable for the other. If you are interested in the final outcome being a really large number, it could be a really large number by starting with a large number and having a short

runway and even a small, annualized rate. Or it could be you start with a small number and some kind of a rate of return and then the runway. Whenever Warren is asked, “some genie comes to you, offers you one wish Warren, what would you like?” Warren's answer always is, “I want it to be such that when I die, and they look at my corpse, they say, man, he was old and he doesn't want to live long because he likes to hang out with us, he wants to compound for as long as possible so that that runway needs to be as long as possible”. Warren really understood. Warren was 56 years old when he became a billionaire. If he had not given money away to the Gates Foundation, et cetera, it would be like 230 or 240 billion views of the wealthiest guy on the planet. Even when you look at the journey over the last 30 odd years for him, maybe 35 years, it's like 99% of his wealth has come in the last three decades. The interplay is really important. One of the things that we have the most control over is the length of the runway. When we invest, we may not be able to precisely tell how well the company does, but we have the runway for sure. Some other lessons, “do not sell when things appear fully priced”. Great businesses have a way to surprise on the upset, but when things are egregiously priced, selling may make sense. When you figure out the difference between overpriced and egregiously overpriced, call me, collect. This is where it gets confusing. At what point do we flip from overpriced to egregiously overpriced, and a single great business if we apply this math and methodology could become 60%, 70%, even 99% of the portfolio as we saw with Naspers.

I think Naspers had conviction because Tencent itself is very diversified in its income streams. Berkshire, Buffett had 99% of his wealth for a long time itself, is very diversified.

But when I started my fund, the very first investment I made July 1st, 99. The first day of the fund was Silicon Valley Bank, some of you might have heard of it, some obscure bank in California. At the time, I was interested in Silicon Valley Bank because anytime they made a loan or they got a client in Silicon Valley, if you're a masseuse at Google, you get stock options, and everybody gets stock options. Your server at the restaurant gets stock options. When the bank would make a loan to their Silicon Valley clients, they will always get warrants. They would collect the interest; they always get some warrants.

At that time, in 99, they were sitting on this huge basket of warrants with no disclosure, except that we have a lot of warrants. I realized that the bank was trading at that time, slightly above book with no valuation given to all the warrants that they had. All these companies at that time were going public. I was able to see that there was a bubble, but I was trying to find a way to play the bubble with an upside, with no downside. I said, Silicon Valley Bank is a perfect way to play this because it's not in the price. If all those warrants are worthless, we still have a decent bank of what we thought was a decent bank. About a year later, it had gone up 150% because they started to monetize. Then in their quarterly earnings, what was happening is the monetization of the warrants was dwarfing their banking income. There was so much coming out. In a moment of brilliance, in 2000, I sold Silicon Valley Bank and said, well done Mohnish. This worked exactly like you wanted. In a year, you doubled your money. Then I watched for the next 23 years, they compounded at 25% a year, you know because it was a tremendous franchise. Even today, in many ways, it's a monopoly, because they're good at understanding the needs of the tech business. But then, we come to the

23rd year, and goes to zero, any number multiplied by zero is zero, no matter how big that number is. This makes it really hard that if I was very enlightened and I said, no, this is a great bank with a great franchise, and I had just kept it. There would've been very few warning signs in, I mean, some people saw it where their book value was upside down and so on and so forth. But maybe the answer there is, you keep it to 50% or something, and then I have a real-world situation.

This is why we get to the core of the matter of why I'm here, which is that I need to learn, not teach. I need to learn. One of my funds, the Pabrai Investment Fund, which is an offshore fund, has about $200 million in assets. There's a company in Turkey called Reysas, which makes up 40% of this fund. I didn't invest 80 million in Reysas, I invested single-digit millions in it. It just went up a lot. Two of the buts are about 30% together. If we look at the fund 70%, about $140 million out of the $200 million is three bets, right? Reysas has already been a 10-bagger, but it's still cheap. It's not even fairly priced. It's actually probably today sitting at something like one-third of what its liquidation value is. Reysas went to its full liquidation value, it would be $250 million in the fund that today has a value of $200 million, and it would become like close to 70% of the pie. I love the business. We see all these lessons and what am I supposed to do? I have no idea what I'm supposed to do. But these are happy problems. They're not sad problems, they're happy problems. I'm hoping at some point I will get enlightened on some good answers on how this should be handled. So far, I don't have a very good answer, but we'll try to figure it out. That's pretty much the song and dance, so thank you very much. You had a question?

Speaker 2: Can I ask for another one instead?

Mohnish: Oh, you've given up on that question. It was such a beautiful question. But now, it's chopped liver, let's go to the next question.

Speaker 2: Well, you get to pick either one, but those three, the many companies you talked about; this was a fantastic presentation.

Mohnish: Oh, thank you.

Speaker 2: Thank you very much. You talked about Titan, Rakesh Jhunjhunwala, amazing Tencent, Amazon, Walmart. It looks like it comes down to Pony Ma, Sam Walton, Jeff Bezos. How many of them are there really? I mean, of those type of people, it looks like it comes down really to those guys, I mean, executing. It seems like it's extremely important to find those people.

Mohnish: Actually, you are right. It comes down to them, but we don't need to identify them upfront. We do well with a 98% error rate, as long as we have Pony with 30 other yo-yos in the portfolio, we are okay. We don't know which of the 30 is Pony Ma, but over time we will know that. The funny thing is that guy was in Turkey a few, a few weeks ago, and I've now owned Reysas for four years, and something that always puzzled me was they repeatedly enter kind of brand-new businesses in which they have no competence. In a few years, they're number one in the country in that business. From a standing start, they go into these areas where they have no expertise. I couldn't understand, I said, "is everyone else idiots? Like, what's going on here?" I realized this is the first time when I met the guy, I realized that he's the Energizer bunny, so he probably gets like 72 hours of work done in 24 hours. I never saw that trait

in the last several meetings and interactions. I mean, I could see it in the numbers that they hardly ever failed, and they were able to enter these things and they were able to do all that. Warren has made the same statement about Greg Abel, recently I think he was talking, and he said, I just see what gets done a day with Greg, and it would take me like three or four days to do those things. My perspective is that I don't think we can tell in advance. I mean, I think very few of us have, would have the gifts to look at somebody, but I think what, what you can tell easily is after the fact.

Obviously, when we are going into a business, when we are investing in a business, we have to look at the historic trademarks, and we can look at the numbers, we can look at return on invested capital, we can look at a few metrics which would point us to businesses that are likely to be great businesses. I think after that, separating the wheat from the shaft will happen automatically as we only get to know a business after it drops about 40% in our portfolio. That's when you really get to know the business. The same thing with the companies we invest in. I think we may have an idea about these businesses, but we really will get to know them far, far better after we've owned them for a few years. I would say that basically as much as we would, we might like to try to have a portfolio filled.

Now think about a portfolio at Walmart and Amazon and Costco and Tencent all together never happened. That might be superhuman capability. We haven't seen that happen with any investor so far. We've been seen with Warren and Charlie with incredible temperaments and incredible brain power and really good at the art, but still a lot of errors. I think the best way to answer that is to accept that we'll make errors but to really study what we've got. I can point to many investments I made in the past where the buy decision was exceptional, and the sell decision was horrible. It's happened so many times and I know it'll keep happening. I'm trying to, make amends yeah, go ahead.

Speaker 3: How do you differentiate when you're concentrated, let's say it's 50% of your portfolio, how do you differentiate between just normal business problems or like things that come up and the completes and the opposite of completes Tech Nation? For example, the IBM they complete is stagnated for 20 years, but before they were a great business, or GE is, well, it nearly died. How do you differentiate between there? Because that's very hard then,

Mohnish: Like Charlie says, why should it be easy to get rich? These are difficult. I mean, I agree with you. I think that separating the signal from the noise is not easy, but I would say that you should err on the side of patients. Businesses are going to go through cyclicality. They're going to go through ups and downs. Some things will work, some things won't work. You need enough time to be able to tell that. The risk is, we will not be able to sell optimally, but the risk is even greater if you are to trigger-happy. Yeah, go ahead.

Speaker 4: Hi Mohnish. Thank you for a wonderful presentation I've been a big fan and I've been following your work. The interesting thing about this presentation is, I think it's quite paradoxical from what, I mean many other great investors have also spoken about. I remember reading one of your very old write-ups or one of your presentations where you met Charlie Munger and asked him if he still advocates buy and hold approach, or like, let's say if he was running

a smaller pool of capital, would he still buy and hold it forever? I think the sort of answer that Charlie gave, which I recall is, he said, if I was running a smaller pool, I would do something which I was doing during my partnership days, buy something which is at a discount when it goes to a full value, sell it and then do it all over again. The only problem is, at this point in time, we are at this situation where our size is so large, we cannot do this any more effectively on a very large-scale basis. On a smaller scale, probably that makes much more sense than doing something like buy and hold forever. But where we are talking about like today is the circling of the wagons. I mean, this is something that is very different and very opposite to what that sort of thought is. What are your thoughts on this?

Mohnish: Well, I would say what you are describing is more Warren than Charlie.

Speaker 4 Yes.

Mohnish: Okay. I think this was more Warren's approach. Charlie did similar things, but I think Charlie was much quicker than the two of them to understand that you really want to get great businesses. One of the interesting things about investing is, we have like 50,000 stocks around the world. If you said that I only want to buy businesses at is PE of one, you can find those. If you said PE of 0.1, you would find those too. Pretty much, you could set whatever criteria you want. Because the pool is so large, as long as you are willing to dig in you would find all those things. What I realized recently is, my favorite place to visit is Turkey. I wonder why, but I really enjoy my time there. What I realized is that I get to invest at Grahmian prices in Mungeresque businesses. What could be more orgasmic than that, that you buy at Grahmian prices and then it's actually a Munger business. The thing that made it really easy in Turkey, I think, was that the business qualities were so high, and then the prices were so low. The dilemma will come later, like I described, but those are good problems. At the back there. Yeah.

Speaker 5: Thanks for taking our questions. I have one question. What do you think about the US debt level and the US dollar as a reserve currency, and how do we factor that for the next 10 years in your investing style? Just your thoughts?

Mohnish: Far outside my circle of competence. I will duck that question because I have nothing intelligent to say about it. Go ahead. Yeah,

Speaker 6: Thank you very much for the presentation. At the risk of being turned down, because I'm not sure if you still hold this position. Could you please talk us through the story and the lessons learned, from Seritage?

Mohnish: Oh, Seritage, sure. Yeah. I think the logic and idea there was that we had this large amount of prime real estate all over the place. Some are not so prime. I think Seritage is a case where it's kind of a 80/20 ruler, maybe it's a 90/10 rule where 10% or 5% of the prime properties have most of the value. The bet was that the liquidation values, et cetera, were significantly above where the stock was. The stock used to be in the thirties, and then suddenly it was $6, and it appeared that the $6, $7 price was too low. In hindsight, when we look at everything that’s happened so far, especially now with rising interest rates, et cetera, and a lot of distress in real estate probably the 30-odd dollars price would be too optimistic. My best conclusion on Seritage is that there's no need to circle the wagons. We can let it go. Yeah, go ahead.

Speaker 7: First of all, thank you for all your teachings.

Mohnish: A little louder.

Speaker 7: Thanks for all your teachings. I feel like coming here is the Dakshana to you. I can't afford to $600,000 dinner yet. My question is, you mentioned multiple times that we have age between our teenage years, 11 to 19, where we develop a and specialize, or primarily optimal to specialize in, you were lucky enough to specialize in business during that time. What would you tell the other mortals who didn't get that education and still want to pursue finance or a business type field?

Mohnish: Well, I think if as parents, we are aware of the fact that the human brain is set up optimally to specialize between, let's say 11 and 20, and the traditional education system in especially the 11-to-18-time window, makes you a jack of all trades, right? It's not set up to make you specialize. But the kids and the parents can do things outside of school, extracurricular, different things to hone in. I would say that they should be more of an education to parents to try to understand what the aptitudes and leanings and interests of their kids might possibly be as they're getting 10, 11, 12 years old. To see if it's possible to increase time in those endeavors and those areas. I think basically, with Warren and with Bill Gates, et cetera, it happened outside the school system, right? I mean, they were going through a jack of all trade school system, but they were able to specialize as teenagers. It's possible, but I think you need kind of a team around you to help you do that. I think that's, unfortunately, it's not well known. I mean, most parents just assume the school system will take care of things. But you are aware, and so you guys can do that for your kids, which is great. Yeah. Behind you. Yeah, right there.

Speaker 8: I'm 16 and my question is similar, but the idea, you want like a long runway how do you figure out like parts of businesses that you're like better analyzing? How do you start developing your circle of confidence I think you need a really strong, circle of confidence, know your boundaries as you start. How do you start developing your boundaries and how do you know if I should stay in certain spots at like, around this age?

Mohnish: Yeah, so the good news is that we can do very well with very narrow circles of competence. We don't need to have large circles of competence. The initial starting point of things that we are likely to understand are things that we consume, the products we buy, and the services we buy or use. For example, you might have an Apple phone, you might buy Levi's jeans and you might buy Nike shoes and so on. You're doing those for certain reasons, and you already have some understanding of those businesses.

Probably that's the initial starting point is to look at things that you're familiar with, you've got some understanding of these companies because it's a very big leap for a company to be able to get even a dollar from you. I mean, for a company to get a dollar from you means that they've got some tremendous mote. Because as humans, we are going to be very careful about optimizing. If someone is actually able to get your interest or get you in their store or get you to buy their products, that means you might not be the only human who might have that interest. That might be the way to get going. Yeah, right here. Go ahead,

Speaker 9: Mohnish, thank you so much for your presentation. I only have a question. Of the 12 successes that Mr. Buffet rolled in, Ajit Jain is the individual. Just what is it so special about Ajit Jain given your closeness to Warren or Charlie he just seems to be the will that rest the Facebook, what was so special about him that you can learn from?

Mohnish: Ajit is a very good bookie.

Speaker 9: Good bookie.

Mohnish: Yeah. If he wasn't an insurance, he'd be a great bookie. One time, I got to hang out with two of Ajit’s direct reports many years back in Omaha. I asked them this question, I said, “how come you guys do so well? Like, what's going on?” They said, “Mohnish, we're going to play a game with you, which is going to explain to you, so now I'm going to open the Kimono for you. It's never been opened before”. Definitely, Ajit is never going to talk about this, okay?

They said, well, we are going to bring up to you certain deals that were presented to us, and we want you to tell us the premium that you would charge to ensure this particular risk. Okay? The first thing they said is that “there were two Chinese satellites that were going to put up when we sent up into orbit. Each one had a cost of 1 billion. Berkshire was approached to ensure so the insurance policy was that the satellite just gets to the right orbit distance on the earth. Beyond that, if it works or doesn't work is irrelevant, it just has to clear the tower and get to the right geostationary orbit. They asked me, “so you got these 2 billion pay-outs you would have if it didn't make it, what would be the premium? And I said, “well, what are the odds?” They said, “yeah, maybe like one in five or one in ten or something doesn't work”. Maybe you can say like 10 or 15% might be the risk. I said, “oh, maybe you can collect like $400 million”. They said, “we collected $800 million”. I said, “did you ring the register?” He said, “absolutely, the satellites went up, no problem”. We just sent the money to Warren to buy more Coke. They went through a bunch of these different things with me and what I realized when I was looking at the economics or what they were doing, because the thing is like, I think one time the California Earthquake Authority came to them, and it had been like a hundred years since the 1906 earthquake.

Basically, San Francisco blows about a hundred years or so, or the San Andreas with a significant earthquake. They wanted a policy that would cover 8.0 and above. The California Earthquake Authority was looking for that policy for five years. We want a five-year coverage of 8.0. First, Berkshire said, we're not going to five years, we'll give you one year or two years. It was several billion in premium. Basically, the situation there was nobody else was going to write that policy. They did some calculations, they probably charged about four times what the risk was or something. Because there's nobody else in the game and California wanted an assurance that the state has the money, they paid the premium. What I realized when they were just writing these things, and that's why Ajit is so exceptional, is that Berkshire has an appetite to take on significant pay-outs and because they aren't in a field where there's a lot of people who even be trusted because the person buying the policy wants to make sure the guys around to pay you when the thing happens. When we finished the exercise, everything was priced at like three

times what it should have been priced at. That's why Ajit's picture is up there. But we are at 9:11, so should we call it a day? What do you say?

Speaker 10: One more.

Mohnish: One more. Okay. Right here. Okay. Alright.

Speaker 11: Well, I consider myself a fairly well-educated person, I read the Wall Street every day, but I don't have the slightest clue on which wagons to pick and circle, therefore I default to index investing. If my goal in life is to secure a upper middle class retirement, would you endorse that approach?

Mohnish: Yeah, because you've circled around 500 great wagons and you know for sure some of them are the Walmarts and the Costcos and so on. That indexing is a great way to go. I think you've made a very wise choice. The more important thing is the savings rate and healthy lifestyle, long runway, and everything else will take care of itself, and you will end up an extremely wealthy man. Congratulations. All right. Thank you.

The contents of this transcript are for educational and entertainment purposes only, and do not purport to be, and are not intended to be financial, legal, accounting, tax, or investment advice. Investments or strategies that are discussed may not be suitable for you, do not take into account your particular investment objectives, financial situation, or needs, and are not intended to provide investment advice or recommendations appropriate for you. Before making any investment or trade, consider whether it is suitable for you and consider seeking advice from your own financial or investment adviser.