Mohnish Pabrai's Q&A session with Doctors Investing Group on February 16, 2022

Tom: Okay, welcome to the Doctor's Investing Group podcast. We have a very special guest for you today. We have Mohnish Pabrai. Mohnish is the founder and managing partner of Pabrai Investment Funds and CEO of Dhandho Funds. The funds of over 500 million in assets under management and are unique in that they have no management fee. He is internationally known in the investment community, not only for his outperformance but for his investment style, which is a value-based approach. Mr. Pabrai is the author of the Dhandho Investor, which is a "Heads I Win, Tales I Don't Lose Much" Philosophy to investing. He has been recently featured in the book: Richer, Wiser, Happier by Financial Author William Green. Last but not least, Mr. Pabrai is an educator. He has been donating his time to business schools and groups like ours to educate and share his investing experience. We're so grateful to have him. Mohnish Pabrai, welcome to the show.

Mohnish: Tom, it's a pleasure to be with you and I'm looking forward to the session.

Tom: Can you start by telling us your story, starting a company, and then transitioning from that to a professional investor?

Mohnish: Yeah, sure. I started my first business in 1990. I was 25 years old at the time. It was an IT services system integration company. About four years after I started, and that company grew very fast. About four years after I started, I accidentally heard about Warren Buffett for the first time. I had picked up a book by Peter Lynch and then he was talking about this guy Buffett in referential terms. Then I decided to look up who Buffett was. I was lucky because the first couple of biographies on Buffett had just come out in 92, 93, so I could read those. Then that led me to the shareholder letters. Then that opened a whole big world for me to try to get my arms around. I was really blown away by a number of things about Warren when I read about him. The main thing that puzzled me then was that his investment approach made a lot of sense to me. But when I looked at professional investors and at that time, the only professional investors I could look at were mutual funds. When I looked at the way mutual funds were run, they were diametrically opposite to the way he was suggesting investing should be. He was saying, "you make very few bets, the big bets, the infrequent bets, and you hold them for a while and you're not buying a stock, you're buying a business et cetera". Mutual funds, most of them had a hundred percent annual turnover, which means the entire portfolio was being turned over every year. They had, in some cases, hundreds of positions and at a minimum, several dozen positions. Then that called into question how they could

know so many businesses so well and so on. Everything I saw about Warren and the way he was suggesting things happen and the way I saw the mutual funds doing, it was different. I had an idea at that time that if someone followed Buffett's approach to investing, didn't seem like a lot of the professionals wanted to go that way, then that person would have a clear advantage because apparently, they didn't seem to be many people doing it. Any kind of idea like that doesn't really have much merit without execution. I said, okay, Mohnish, you have this idea, that's fine, but you need to actually test it out in the real world and prove for yourself that it works. I had just sold a portion of my business the first time I had money. I had a billion dollars in my account after taxes and I said, okay, I can take the million and try to invest it with Buffett’s approach.

I started to do that. That went really well. I think by the time it was like 99, 2000, it had grown past 10 million, it had gone up like 70% a year or something. It worked way better than I thought. Of course, there was a strong bull market at the time, which gave some tailwinds, but it was significant about the market as well. As I pursued that, I got more and more interested in investing and less interested in my IT business. It had become large, a lot of HR problems and I wasn't enjoying it as much as I did, but it was just ramping up. A few friends of mine had suggested that I manage money for them. I used to give them stock tips and they had done well, but they thought that was pretty random. Pabrai Investment funds really started in 99 as a hobby for me to manage funds for eight of my friends. It just started with one million, everyone put in a hundred or 200,000 type money. I put in a hundred thousand. It's really about a year and a half after that when I said, I think I ought to really not treat this like a stepchild and should really try to build a business here because I really enjoy it. In the meantime, I had transitioned out of the IT business, I brought now outside CEO and then the business got sold. That freed me up to just focus on this and that's how I have morphed into an investor professionally.

Tom: You've learned this from Warren Buffett and the kind of value investing philosophy. Can you help define that? What does value investing mean to you? Can you tell us how you approach learning it?

Mohnish: Yeah, I think you either get it in five minutes or you're never going to get it. I think it's basically buying things for well below what they're worth. The first part of the equation is if you're looking to make an investment in an asset, and you had mentioned real estate, let's say you are looking to buy a rental apartment. I mean, you would look at the rent and the expenses and what would be the net amount coming to you every month. If you had a property that was going to give you after everything a thousand dollars a month or $12,000 a year, then the question is "what is that worth?” What do you think that's worth to you? It's worth different things to different people because there's different opportunity costs, but if you're looking

for a 10% return on your money, then you wouldn't want to pay more than a hundred or 120,000 for the property, right? Because that would give you about a 10% return. If you wanted a 20% return, then you wouldn't want to pay more than 60,000, right? The threshold you set determines whether, and for some other investors, maybe 5% of them, and for them, if they got the property for 200,000, they think it's a great deal, right? Of course, if you are going to leverage it, take a loan, then that changes the equation because then you look at the interest rate you're paying there, and then you look at your equity component, then what return you're getting on that. That can make you pay somewhat higher multiple, depending on the loan rates and so on. Investing in equities or stocks is very similar. I mean, basically, you need to have an idea of what the asset is worth versus what's you're paying for it. How long do you think it would take for the market to converge on what you think is the value of the business. Usually, I think what you want to do in investing is go for the complete no-brainers. Where you don't need an Excel spreadsheet, you don't need a calculator, you can do the math in your head, and you know it's going to work great.

Tom: How can you efficiently learn to evaluate a business? Is it as simple as a discounted cash flow calculator? Or how can we learn to find the true value of a business?

Mohnish: Yeah, so I think the first, the first question one should focus on is whether the business is within your circle of competence. If I lived in Des Moines, Iowa and I had expertise in buying and selling apartments in Des Moines, Iowa, then I would have a general sense of when something came up on the radar and the price of being offered at whether it was a good deal or not, just because I could, I'd know how to run the numbers and the equity and the financing and the expenses and all of that, and make a determination. The first question is to ask yourself, is the business within my circle of competence, the same Des Moines investor may have no expertise in London real estate, for example, or even Florida real estate, for example. They may be factors that come in that he may not be familiar with, or it may be very similar, we do not know. First thing you need to satisfy yourself is that whatever business or stock or asset you're looking at is something you understand well. If you understand it well, then you know how to value it. If you can value it, then the next step is, "is there a difference between the price is being offered and what you think it's worth?" If there's a large enough difference there, then you would generally step in. If that difference is negative or minuscule, then you would just move on.

Tom: Can you comment about index funds versus individual stock picking for busy professionals? Is it reasonable to think that someone who has an interest in investing can go out and learn how to value a business and therefore should go out and buy individual equities?

Mohnish: Well, I think index investing is a great way to go for almost all of us. I think that if you venture into individual stocks, two or three things come into play. The first is, the circle of competence. You mentioned you're an ER doctor, so there may be certain things that you're very familiar with or you may like, you may be a frequent customer at Walmart, and you may understand how the Walmart business works or Costco or whatever. There are certain things you encounter in life, or you might be using an Apple phone and you might think you might understand that business. If you think you understand the business well then, and if you had the time, then you could dig in and see whether the investment makes sense or not. But if you don't have the time, then I think you're better off just not going there.

Tom: Yeah, I think that that makes a lot of sense. We're going through a time where diversification seems to be the name of the game as their proposed method, and your funds have the relative concentration to them sometimes just holding a few names. Tell us why this would be the case and give the positives and negatives to this kind of allocation strategy.

Mohnish: Well, I mean the standard way I try to invest is what I call a 10 by 10 portfolio. Typically, if I have a fund that has a hundred million, for example, what I'm ideally looking for is 10 bets that are 10 million each. That's what I'm looking for. If I were able to find 10 bets, 10 million each, if they're in a few different industries and geographies and maybe countries, that's plenty diversified. One can be quite diversified with just four stocks. I mean, I was just listening to Charlie Munger, he was talking at the Daily Journal meeting which is just taking place and he was saying, look, the Munger family has their money in Berkshire, Costco, Chinese investment manager, Li Lu and some apartment houses, right? Within Berkshire, there's like more than a hundred businesses. That itself is then of course the bulk of their fortune, I think is Berkshire probably maybe 80% or something is Berkshire. Yeah, if you had that type of a construction of a portfolio that is plenty diversified, it's giving you enough different things going on there. I think that a know-nothing investor who buys the S&P 500 is getting more than that. It's getting more than 10 stocks. But the S&P itself also is top five or top 10 positions, maybe a third of the fund or quarter of the fund. It's more diversified than you would normally look for, but you don't pay a heavy price for that. It's a simple index. It's a broad index, you can invest in it cheaply and so not a bad way to go.

Tom: Mohnish, you are a self-proclaimed “Shameless Cloner.” Tell us about shameless cloning. What is this philosophy and are you still practicing it today?

Mohnish: Yeah, I think shameless cloning is a good way to go. As a professional investor, the universe of stocks to look at is very large globally, there are more than 50,000 publicly created companies, and there's not anyway, there's no way anyone could

even look at 50,000 companies in any reasonable amount of time, maybe even a lifetime that would not be possible. The first thing you would do is you would get rid of all the businesses that are outside your sales circle of competence, and that might get rid of 90%, 95% of that universe. It's still a large number. You might still have like 5,000 stocks, 2000 stocks, which is a large number. If you said that, "I will look at what other great investors have bought and what are their top positions, investors you admire, who've done well in the past", et cetera, that cuts down the data set dramatically. Not only does it cut down a data set dramatically, but it also gives you a great pool to look at because it's already been through one filter by a great mind. If I say I want to look at what Charlie Munger's buying, or what Warren Buffett's buying, or what Bill Ackman is buying, then those things would call the universe down. I could look at that list and say, Okay, which ones of these are within my circle of competence and not take them out. Then I could also look at the ones in which they have made their highest conviction bets. Usually when you're cloning, you want to look at the highest, the biggest bets individuals have made because they have the greatest conviction, obviously. It's already been through one mind, it's been through all the filters to the point that they actually put real money to work, significant money to work. Then you are coming in to look at it from your lens. You're sending it to a second set of filters, and a lot of things may not get through the second set of filters. I think it's a good way to go, you could bowl without bumpers and bowling might be more fun, but your score is going to be lower, or you could bowl with bumpers and it's kind of cheating, but you do better. When you do shameless cloning, it's kind of like bowling with bumpers except it's all legal.

Tom: Can you tell us about your philosophy with Spawners? This is something we've heard in many of your recent interviews. What are Spawners and how do you find them?

Mohnish: Yeah, I think there are some businesses that have a DNA which allows them to enter new businesses and new markets. If you can look at a business that has done that successfully over some period of time, then that gives you some legs to stand on. The nature of capitalism is that almost everything will eventually mature and die. Very few companies last for 30 years or 50 years, or 70 years and so on. But if a company has the ability to spawn new businesses or invest in new businesses, then they can transcend. Their older bets may make them a lot of money for 10, 20, 30 years, and then by the time they are dying, they've already got four other engines that are doing well. For example, if I look at a business like Amazon, I never like their book business and their retail business, and especially the book business where they took inventory of the books. They have two businesses. One is the marketplace where they're using third party sellers and just providing the logistics and payments

and so on. Or they have their own products and they're both, the marketplace business to me is a lot better because they're kind of like a dig digital intermediary, and the margins are there. I think when they take ownership of the inventory and run it through their warehouses and all that, I've always been skeptical how profitable that is. I mean, if I order some deodorant or something from Amazon or some batteries from Amazon, $5, $10 purchase, I don't believe they can make profit on that delivering it to me the next day or the day after with it's in a warehouse, it goes on a truck, then it goes on a smaller truck and then a delivery guy is coming to my place. I mean FedEx cannot deliver a package for less than 20 bucks, and so that cost is up there. The cost is a double-digit cost, five, 10 bucks at least it exceeds the cost of the product and shipping it's free. That business never appealed to me very much, and I don't think Amazon makes a lot of money on that business, but they use that business as a tool holder to throw stuff against the wall and look at what sticks and what makes money. They had the Amazon fire phone, and they brought it out with a lot of fans fame, and it did not get traction, and they gave it a quick burial and they moved out and they moved on and they stumbled onto AWS and they spent many years keeping it quiet and secret and nurturing and growing it.

Now AWS, I think is responsible for the bulk of Amazon's market cap, AWS advertising and their marketplace, I think is the bulk of the value of the business and their own retail is the same. It's a difficult business as all these extra costs and such. Amazon has proven itself to be really good at spawning new businesses. They've gone into many new businesses and they continue to add new positions. For example, I believe at some point they'll be a competitor to UPS and FedEx. Amazon's truck fleet, I think already, is bigger than FedEx or UPS, and their delivery scope is bigger. I recently drove from California to Texas, and I was relocating to Texas. We just made a road trip out of it. Just to keep myself from falling asleep, I decided to count the number of Amazon trucks I saw versus UPS trucks and FedEx trucks, and I saw way more Amazon trucks all the way.

That's just anecdotal evidence. I think if you look at the numbers, it'll kind of bear itself out because we have deliveries coming to us all the time. They will enter at some point that business, they have a lower cost structure because UPS and FedEx have the unionized workforce and Amazon has a bunch of entrepreneurs running its vans. They own the van and they're kind of paid per package kind of thing, and it's a completely different cost structure. That's a business that didn't exist and it will exist in the future. They have a bunch of other businesses like that they've spawned, or they bought like Whole Foods. They are what I would call an Apex fund. There are lots of other companies, most companies cannot and are not really good at going into new businesses. If you look at company like Google, every other new business they've gone into, they've acquired, they haven't gotten any traction

of stuff coming out from within Google, search came out from within Google, but they bought Android, they bought YouTube, they bought double click, and they bought most of the other pieces that have value and their own initiatives like Waymo, et cetera, haven't gotten traction. I think different companies have different DNAs. If you can find a business that has the spawning DNA and it can do it well, it can give you some great deal wins.

Tom: It sounds like you would prefer the business that is able to design and implement a new technology and venture into new business rather than do it through acquisition. Is that right?

Mohnish: No, both. Both can work. I think when Facebook bought Instagram or when Google bought YouTube, those are like the all-time best acquisitions ever. What they paid was what they made them. Both can work. I think the acquisition is fine too. It's just a matter of whether are they good at it? Are they good at sniffing out businesses that will be great acquisitions, and then scaling them up, and is their hit rate high? Do they understand what their competence is? Like are they better at home growing businesses or better at nurturing acquisitions, right? Different companies have different competencies, so if they're good at those things, that can work out well. Sure.

Tom: The buzzword of the day is inflation, and the Fed has just come out with a 7.5% year-over-year inflation rate. Does that change your investing philosophy, Mohnish, and if so, how?

Mohnish: Yeah, I don't spend a lot of time on macro because I'm useless at it. I don't think I'm any good at predicting future inflation. There's a different school of thought on inflation. There's a very strong view that these things were temporary because of supply chain hiccups and such. We had in Covid and maybe a year, year or two from now we might be in a different place. They're just different views on it. Who knows which way it goes. But I think that if you make investments, whether margin of safety is very large, then I think whether inflation is 1% or 7% would tend to be a rounding error. Also, there are businesses where inflation can be a tailwind. Let's say for example, you own a bunch of apartment houses. You're done, your portfolio is there, you've already made the bets and all that, and you believe a lot of inflation is done. Well, your portfolio does really because your rents would rise with inflation, but your costs would, right? You already spent yesterday's dollars on the capex, and the down payments and all of that, and you're collecting rent in tomorrow's dollars, which are inflation adjusted. You are in good shape, your assets are increasing in value, and your fixed rate loans are actually worth less. The lenders getting screwed not you. In that environment, you do well. Now if you are going to be buying a lot of apartment houses in the future, then inflation can be a

negative because now you'll have to pay up and who knows if rent can keep up or not and all of that. That becomes an issue.

I'll give you an example of an investment I made where inflation is very extreme and I knew it would be extreme and I still made the investment and it has worked out exceptionally well, and it'll keep working out well. I made it, and since you mentioned, I think you guys got started in real estate, I was in Turkey in 2019 my second trip to Turkey, Istanbul, great place. I just spent three weeks there. And I visited a business where the market cap was 20 million dollars. I was told that the liquidation value of the business was more than 800 million dollars. This was a company that had 12 million square feet of warehouse space in 82 different warehouses around Turkey. A lot of it was in Istanbul, because 40% of the GDP of the country is in Istanbul, but it was spread out all over the country. They had a bunch of other business besides this, that 12 million square feet was 99% leased, long term tenure leases. The tenants were blue chip tenants, Amazon, Ikea, Carrefour, just awesome tenants. The leases were inflation indexed. Every year the rents went up based on changes to the CPI. It took about 10 minutes to do the math. I never used the calculator. There was 12 million square feet. The construction cost at that time in Turkey was 140 dollars a square foot. The cost of the land depending on where you were at, was between 20 and 40 dollars a square foot.

A constructed warehouse was between 60 and 80 dollars a square foot. If you took, let's say a $70 average, and then you multiplied it by 70, so that's 840. Without debt, that's the value. A lot of their warehouse for it Istanbul, it was skewed closer to 80 than 70 in terms of the actual price. There was 200 million of debt. Even if you took that 840 million and got 200 billion add, you have 640 million and the market cap is 20 million. Basically, the market cap is sitting at something like 3% of the liquidation value. They were a bunch of other businesses on top of this business, but I didn't even care about the other businesses. But those were harder to value and there was no debt on those businesses. Those were pure assets.

Like they run the largest freight train network in Turkey. It's a large business. They have about 700 containers going back and forth between Turkey and Europe. They have the largest truck in Turkey, and they have a forklift rental business, and they have these vehicle inspection stations that they have like a long-term contract. They're a bunch of different businesses. They're all like Monopoly on your Monopoly businesses. At the time I invested, Lira had just devalued. It had gone from three Lira; I bought a dollar to five Lira and inflation was running rampant. The expectation was that future inflation would be 50% a year, five zero. As soon as I could satisfy myself that there was no fraud here. I spent at afternoon visiting the warehouses and assuring myself that the CEO and Father-Son team that ran it seemed completely above board to me. Once I eliminated fraud risk, I just started

buying every share I could. We owned about 35% of the company. I was shocked that we were able to get that many shares. 7 million dollars bought us about 35% of the company, which we still owe inflation from 2019 to now is about probably 40, 50% a year. But like I told you, the story of the owning a home, if there's inflation in the future, and I'm not building more warehouses, my warehouses are going up in value, my rent going up, everything's going up. I can't lose, I can't go backwards. I said that “I'm buying at 3% and I don't think there can be value destruction because if there's inflation, then the cement prices go up, steel prices go up, land prices go up, everything goes up and rents go up”.

What the company was really good at was in the middle, they got a chance to re-buy at lower interest rates. Turkey is weird. They've kept their interest rates, but inflation is running very high. From 2019 to 2022, the debt went from 200 million to 90 million. They paid off a lot of debt, and the blended interest rate is 14% on their debt. They're getting 20-25% CPI increases because the government suppresses the CPI numbers to show that the information is lower. Inflation's really running at 50% and they only get about 25%, but their debt is at 14, so it doesn't matter, they're still collecting, and debt versus the value of the asset is almost nothing. Most of it is sitting in equity. What they said is that they really get a market rent after 10 years when the tenant leaves, because in the meantime, you've got these suppressed increases in rent. They're getting further and further away from the market rent. Finally, the tenant leaves after 10 years, and then they're able to re-rent it. There's this big shortage of warehouses. Probably 15%, 20% of the footprint is at market rents. A lot of the older leases are way below market. Every year the rents keep going up and, which is great because and the footprint, they're not able to expand it much because the banks are unwilling to lend and things which I like, but I just want them to stay with their footprint. Now 90 million debt and they've spawned a new business. They're spawned, they started a solar business, which has added about 200 million to the intrinsic value. The intrinsic value today in dollars, is higher than it was in 2019. The Lira has gone from five Lira to the dollar when I invested to almost 14. We got clobbered on the lira. The investment is now the market cap is over a hundred million dollars. It's still deeply undervalued, but it moved up about five minutes. It's still got a lot of room to run. What I'm saying is we knew there was inflation. Like, I know already a year from now, the lira will be at 20 and I know two years from now it'll be at 30. I know the investment will still be good, there’ll be no issues. That's an example of where 7% inflation is making up, come play at 50% inflation and still keep your shirt on. That business has done well, and they've been really smart about how they've used the bank debt. I think the banks get host and the depositors get host, you don't want to be sitting on bank deposits, bank paying you 10% or something in that environment, but that works out okay.

Tom: It sounds like a big part of that success was the ability to raise rents for their property and then also just that giant margin of safety. My next question would be, how did you find it? Was this a publicly traded security or was it a private business?

Mohnish: It's publicly traded. It's still cheap. Nobody wants to, every professional investor has exited Turkey. They got freaked out with the back job fiscal policies, they all sold everything, and they all left. I spent three weeks in Turkey. I think it's the most amazing market to invest in. I only look at stuff where I just understand the inflation is there. For example, I'm not going to invest in this company, but just to give you an example. There's a juice company in Turkey, publicly traded, very large package juices, and 98% of the product is exported. Their costs are in Lira and their revenue is in Euro, and Turkey's part of the European common market. All the exports go duty-free all-over Europe. As the lira has depreciated, their input costs actually have gone down versus the euro because the exchange rate that they convert to is so favorable. Wages have not kept up with inflation and other costs have not kept up with inflation. This particular business, for example, does really well in a high inflation environment. In general, in Turkey, if you are in a business where your revenue is in Euros or dollars, and your expenses are in Turkish lira. A high inflation environment is not going to affect you, and a lot of devaluation is probably going to give you tailwinds. If I just limit myself to businesses which fit that equation, even this company I bought: Reysas, the real estate company, a lot of their leases are Euro leases. Then they just automatically, or they don't even need to bother with the exchange rate because in lira it's so high. Basically, but the thing is that professional investors look at it in broad spots. They say, oh, Turkey, bad economic policies, crazy macro environment, whatever else where we are out of here. When you have that type of mass excellence, you are going to get mass mispricing. I found some businesses at Turkey that I think would not be hurt with inflation. They would not be hurt by devaluation. They have a lot of tailwinds that they're really cheap. Life is good.

Tom: Do you just view this as an opportunity then to potentially acquire more shares or find other opportunities in that market?

Mohnish: Yeah, we are buying every day.

Tom: You have a focus on emerging markets in general, like India and, Turkey, for example as well as China. Investors here in the US seem to have some fear over these markets. For instance, China most recently. Can you talk about that and what attracts you to foreign markets?

Mohnish: Well, I think you're better off not being too jaundiced about where the company is based. I think to really look for really well-run businesses with great leaders which

have the ability to withstand any headwinds that their locations were produced, right? This real estate company in Turkey, if its market cap went to a billion dollars tomorrow above its liquidation value, I gave you liquidation value. I did not give you intrinsic value. If it went to a billion dollars tomorrow, I would not sell a single share because I believe that the father son who runs it a really good capital allocators, the son is really young. He's actually very gifted and they're very creative. I think that they will continue to add value. I believe in 10 or 20 years that company might be worth 5, 10, 15 billion. Who knows, right? I own 35%, I just want to sit on that 35%. If it gets to 500 million, that's fine. But we're not selling billion. We're not selling billion and a half today, we'll think about. But below that, we have no interest. Even half a billion, I'm not sure I'll sell, two billion I am out there today, but I hope it doesn't get there because I think it's much longer runway long term and such. I think that what I'm really focused on is finding businesses that have great managements, very protected monopoly like products, great returns on capital and then seeing how that overlay with the country there. Sometimes you'll make mistakes, but in general, you know, humans vastly fear and greed. When you get extreme greed, you get extreme mispricing in one direction. When you get extreme fear, you get extreme mispricing in the other direction. This is the nature of option doing markets.

The warehouse operator, which was sitting at 20 million dollars, they could sell one single warehouse in the next 10 minutes for 70 or 80 million. The largest warehouse would probably get them 70, 80 million like that. I think they had told me that they sold two warehouses, one of the largest one and a second midsize one out 82, 2 out of 82, that debt would go to zero. They could just take the count from 82 to 80 and private buyers will just pay them what it's worth. You're not even going to look at the stock price. Anyway, the whole business is not available. It’s not available for sale. You could buy in the market traction, but you can't buy the whole business at that price. I think that it is in the nature of auction driven markets that they can vacillate quite widely. If you look at any business, look at IBM, New York Times or any publicly traded company, just look at the 52-week range on that stock. It might be like 50 to 120 or 70 to 120, something like that. But if you look at your own home, how much does it change in a year? What's the lowest it goes in a year and the highest it goes in a year. Recently we had some movement, but in most years it's like less than 5%. It's like nothing. But in that home where a stock publicly traded, it would go all over the place. The same asset as a listed company will behave very differently than it behaves as an unlisted private asset. Because of that fluctuation, we can do well, I would not be do well in Turkey if there wasn't a stock market. If I had to go negotiate individual deals. Like if I went to this company and said, “Hey, I'd like to buy all your warehouses”, they'd say, “well, at a billion it's

not for sale”. That'd be their answer to me. Warm regards, so, it's really the option during markets that we’re investing onto

Tom: You talked about auction driven markets and how they can create greed and fear. Where do you think that we are now in general Mohnish with the US markets? Could you peg us on one side or the other?

Mohnish: Well, I don't think the markets are in bubble territory. I think that there are slivers of the market that are in bubble territory at that very weird mispricing. I think the whole crypto thing is a bubble. I think that the meme stocks are bubbles, AMC and GameStop and all of those. I think those are bubbles, but I don't think the bubble exchange to more than like 10 or 15 stocks, you know, it's a small area of the market and maybe crypto is another area of the market that has bubble less characteristics. I don't really need to be wrong or right on that because I'm not going and shorting those. Right. But I would say that it's not clear to me Tesla's overvalued. It's not clear to me, Google is overvalued or anything like that, or Apple's overvalued, those are very strong businesses and they could be strong for a long time. In a low interest environment, those earning streams are worth a lot. I think for the most, but I don't think they're in bargain territory. I would say that the US markets for the most part are not in public territory except for a small sliver. But it's very hard to find things that, that are 50% off or 70% off. I think those are few and far between. That's why I spend more time in places like Turkey because I think a lot of rationality has gone out the window.

Tom: Can it be as simple as PE ratios when it comes to value? What is your interpretation of how, how you can apply a PE ratio for a value of a business?

Mohnish: Yeah, PE ratio is not very useful. They can be a company with trades at four times earnings and it's overvalued and they can be a company is trading at 80 times earnings and it's undervalued. The correct way to value a business is to understand what kind of future cash it's likely to produce over the next 5, 10, 15 years and then discount that back. A four PE company might be declining for that melting ice cube, earning are going down 50% a year for example, and or in negative territory. It may not be worth even one time's earnings, whereas some businesses growing 40% a year and it deserves to be at a hundred multiple because it just got so much strong tailwinds for such a long period. What we want to do as investors is we want to look at no brainers. We want to look at things where we don't need to do a DCF. Where now I'm not going to find things like my Turkey example. I mean, in 30 years or 29, 28 years of investor, I don't think I've found other than that one at like 4% or 3% of liquidation value. It's happened once in 30 years or once in 28 years. Okay. But you don't need it to happen more than once or twice. Okay? If that business gets to be a 3 billion- or $5 billion-dollar business in 10 or 20 years, we're

done. It doesn't matter what else we did and how wise or stupid we were on other bets, this bet alone would carry us. If it's a 10% bet, then that 7 million becomes a billion or something, we're a hundred bagger, no problem.

Tom: Now how does a deal like that come across your desk? Is this you going through filters?

Mohnish: Well, when I went to Turkey, the good news with the videos people like you put out is, there are fans of Mohnish globally. The thing about these fans of Mohnish is like some of these guys like, my friend in Turkey, they are running value funds. They're very well versed in the intelligent investor. They've read about Buffett, many of them have come to the annual meetings and some of them attended my meetings. For example, my friend in Turkey runs a fund and I think he'd visited California, attended my meeting in like 2014. I just looked at things that were going on in Turkey that were look like a lot of fear in 2018. I asked him, "if I come to Istanbul, could we just visit everything you own?" Just visit every portfolio company that's in your portfolio because I know how he thinks. He understands Graham and I know how he thinks. He said, "it'd be a pleasure". I said, "then let's do it". I said, "do you mind if I buy stuff that you want?" He said, "I'm done. You can buy whatever you want". I just went with him and spent a week, and I just visited every company in his portfolio. It's already been through the shameless cloner already went through one filter. The guy is smart, he's a very smart guy, and he is very thoughtful, and he knows these businesses fold, he knows the families. He's giving me history about the cousins and the uncles and everything else, what's been going on for 30 years in that business. I mean, stuff that I would never be able to think, right? I'm bowling with bumpers. It's great to bowl with bumpers

Tom: Bowling with bumpers. I absolutely love that.

Mohnish: Yeah, bowling with bumpers in Istanbul is awesome, man.

Tom: Your website mentions the free lunch portfolio. Can you tell us about that?

Mohnish: Yeah, the free lunch portfolio basically is our take at an index with maybe 15 stocks and just using two or three simple filters, like one part of the business, one part of that freelance portfolio is cloned ideas. Another part is the spawners and the cannibals. I think that when you just don't have much activity, it only, adjusts once a year. There are not many changes that happen even after a year. You just let these businesses go. I think it, it does reasonably well. It's we're not doing stock picking there. It's pretty much like, and it's not a money-making enterprise for us. We don't have that product and we just put it out there for fun and said to some people, if you want to do this, feel free. But there are no reps or warranties and neither are there any fees.

Tom: Well, for a newer investor who's learning it would be a good place to start.

Mohnish: Yeah, I think that's a good place to start. The S&P 500 is a good place to start. Berkshire Hathaway is a good place to start. I mean, all of these are pretty valid.

Tom: You run a foundation called Dakshana. Can you tell us about that foundation, your experience with it, and maybe give us a story that came from that experience?

Mohnish: Yeah, I think Dakshana is now it's about 15 years old. It's worked out way better than I thought. I think in the like 2006, 2007 timeframe. I could tell that the wealth we were building would widely exceed our ability to spend it and the wealth would keep compounding because at that time I was like 40 years old or something, 42. I was very, I would say I was very influenced by a quote of Warren Buffett that he said "I want to give my kids enough money for them to do anything they want, but not enough money for them to do nothing". Clearly large inheritances actually are a disservice to your kids and gene pool where it is going to make their lives worse rather than better. Small inheritances, I think can give them a good boost without being negative. I knew that I agreed with that. I knew that most of the money would not go to kids. If you are not going to give the money to the kids, you're only left with one choice, which is give it back to society. We can't take it with us. I did not want to be writing checks to the Red Cross when I was 85 and drooling with half my brain gone. I wanted to try to do in philanthropy what I was trying to do in investing, which is give the money away thoughtfully. It had meaningful impact on society. Actually, at that time, I started looking for charities that I could write checks to. I was very deeply disappointed. Out of thousands and thousands of charities globally, I couldn't find one that I was so impressed with.

The reason is that the people who run charities have really good hearts. They're not fraudsters. They have good people with good hearts who want to do good in the world, but they have no business mind. They're all heart and no head. To do it properly, you need a Bill Gates. You need a balance between heart and head. You do need to be compassionate, and you do need to care about the world, but you need to understand return on capital. In my case, what I call social return on invested capital, which is if I put money out to a particular cause, if I'm going to pull a homeless man off the street in LA, set him up in an apartment, pay the rent, try to get them a job, try to get them rehab, try to get them off drugs, what is the cost of doing that for one homeless person? What is the impact to society and how does it compare to, for example, giving needles to drug addicts. I could give a set of needles to drug addicts. What is the return to society for that versus taking some homeless people off the street? Each of these has versus let's say, working on climate change. Each of these is good things to pursue. The problem that comes up is measurement is really hard. How do you measure whether needles is better or taking a homeless

guy off the street is better. What I did is, I did what Charlie Munger said, which is, when you face a tough problem, one way to solve it is to invert it. Munger always says invert, always invert. I said, okay, the inversion is, I'm only going to look at areas of philanthropy where measurement is easy.

Anything that is a great cause, which cannot be measured. If something cannot be measured, we cannot actually understand what the return is on the money we're putting out. It may be a great cause, then you're running blind. I said, okay, we are only going to focus on things where the measurements are easy. We ended up with basically a focus on education, which generally lends itself to metrics you can measure and a focus on poverty alleviation in India. We identified that we could, India has a situation where they're really good medical schools and they're really good engineering schools, which are run by the government. They're almost free to attend like a top four-year engineering program in India would be less than $4,000. Same with med school and the 4,000, any bank will give you a loan and your first-year income will be 10 or 15,000. You'll easily cover that 4,000 even in one or two years, you can pay off the loan, right? But the problem is there's a lot of pressure to get seats in these schools. It's very competitive. There's a big coaching industry, which is very expensive to get coached for the entrance exams for these schools. The poor people can never get into these schools even though they're free to attend. What my foundation did is, we set up free coaching for these kids where if they're very poor and gifted, we bring them in for two years. We spend like $3,000 per kid on them, and then we have a 80%, 70, 80% hit rate on them getting to these schools. These kids are coming from families where the income is typically less than a hundred or $200 a month and they finish and they're at thousand or $2,000 a month.

Tom: That's awesome. What a great implant.

Mohnish: We can measure what our success rate is because a third party tells us if the kid got admitted or not. It's not something we can fudge. We can measure how much we spent; we can measure what they're making. We can measure every single thing. If you go on our website, dakshana.org, you can see all our annual reports and the metrics and all of that. Buffett and Munger both read the reports. They have become good friends now. Buffett has told me that the Dakshana annual reports are the best annual reports he's ever read from any nonprofit, which I'm assuming includes the Gates Foundation. I take that as a compliment and it's there because that's what we care about. I care that the money is well spent and I think we get a tremendous bang for that account. I think for about $3,000 we lift a family permanently from poverty, which is incredible. I think that might be a good note on which to end. Tom, what do you say?

Tom: I think that's great. Thank you so much for joining us, Mohnish. It's a pleasure to have you on. Thank you again for coming.

Mohnish: I enjoyed the session and look forward to future interactions.

Tom: Take care.

Mohnish: All right, thank you.