

Mohnish Pabrai's Q&A Session with Radhika Gupta on May 29, 2020

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Radhika: Edelweiss Asset management. It's my pleasure to welcome you to another edition of Edelweiss Connect. Over the last few weeks in the lockdown, you've joined us for connects with speakers across various domains right from Prahlad Kakkar to Viswanathan Anand. Today, I think we have a very special personality with us, and I'm so delighted that he's taken the time to join us. I think Mohnish Pabrai needs no introduction, but because I've got the pleasure of doing the introduction, I can't resist doing an introduction. Mohnish Pabrai is a well-known investor. He is a managing partner of the Pabrai Investment funds. The Pabrai investment funds as many of us know was inspired by the original 1950s Buffett partnerships and in many senses are a close replica of the original Buffett partnership rules. Mohnish clearly and closely follows Buffett's principles on value investing in capital allocation. I was looking at some data. From 1999 to 2018, March, a hundred thousand dollars investment in Pabrai Investment funds has grown to over 1.8 million after fees and expenses.

That's well ahead of the Dow, NASDAQ and most mutual fund managers. Mohnish started his career as an entrepreneur, which we'll talk about. He's also the author of multiple books on value investing. Of course, The Dhandho Investor is a book all of us have known and loved. He's a member of YPO. I find that we have one thing in common, which is that Mohnish loves playing Duplicate Bridge. Also, very interestingly, he received his first lifetime ban in 2019 from playing blackjack at a Las Vegas casino because of his ability to win again and again. Found that super fascinating. He's been very kind to do this for us sitting out of California. I think perhaps the most interesting thing is that, in all the wealth that he's created, he's also the founder of Dakshana Foundation, which is doing a lot of good work on alleviating poverty in India through education, providing intensive coaching for IIT and IIM students. I found that very fascinating. Mohnish, thank you so much on behalf of Edelweiss Asset Management for doing this for us. We are so excited to have this conversation.

Mohnish: Well, Radhika thank you for that very flattering introduction. A pleasure to be here and hopefully, we can add some value.

Radhika: Thank you. Just for everyone, the format of this conversation, you're used to this, if you've attended editions of Connect, I have a bunch of questions to ask Mohnish, and then I know we'll continue that session for about 30-35 minutes.

I know many of you are posting questions on the chat window. I encourage you to post them. I'll try to take some of those questions as well. Please do refrain from asking questions on single stocks. That's the only rule. But Mohnish sir, I wanted to kick off this conversation with a quote I heard from you. This is something very close to me. You said that "the good news in investing is, there are no HR problems because if there are no humans, there are no problems". I wanted to know why you chose investing as a career, because I think you actually started out in sales and marketing did entrepreneurship and then turned investor, and I wanted to know about the thinking in the journey.

Mohnish: Yeah, I think that's a really good question. It could be a long answer, but I'll try to keep it brief. Most of us, when we grow up, we basically tend to conform to what the world expects of us or how the world expects us to act or behave or things to do and so on, so forth. Each of us as humans has a kind of let's say core map of who we are on the inside. Then there is how we act on the outside. The problem with the map that we have on the inside of who we are, the theory is that it's hard coded at the age of five between your genetics and first five years of life experience. After that, it's not going to change for the rest of your life. It's pretty much set in stone. The problem is that most of us do not know ourselves well enough to know what that inner map is. Most of us go through life what I would call misaligned. For example, if you have this as your inner map, and this is your outer map, this is typical of most humans. There's a misalignment. If you can get to inner and outer aligning really well, which happens in a sliver of humans, you can go really far in life because then you are maximizing all your capabilities and your preferences and what you love to do and so on. In my case I got, what I would call 'my owner's manual' through a couple of industrial psychologists in 1999.

I was 34 years old, and that's when I actually got a document, which gave me my inner map. A lot of things that I had been doing until then were not in sync. You cannot change your inner map. It is what it is, and the best that you can do is make the way you go through life as closely aligned as possible to that inner map. One of the first things that two psychologists told me, because I was just about to start Pabrai Investment Funds, it was about three months before Pabrai Investment Funds started, and I was running an IT company with about 160 people. They said to me that we actually don't even understand how you are able to function in this environment with all these people because it's so far away from where you are.

They said that and then I described to them what Pabrai Investment funds was going to look like, and they said that looks perfectly aligned with what your inner map is. In fact, one of them became one of the original investors in Pabrai Investment Funds, I didn't even know him very well, but he said, Look, I've looked inside your head, I know the way it works, and I'm very confident I'll do well with my money, and so I'm fine. Actually, that was a priceless exercise. It gave me a very crystal-clear view of who I was. For example, I would not be very happy if I had to spend my day meeting a lot of people and having a lot of

social interaction and so on and so forth. I think that would be quite significantly out of alignment. In a typical week, I don't have any scheduled phone calls. I don't have any scheduled meetings. Something like what we are doing today is unusual because I usually keep my calendar completely empty. That weird approach to life fits well with the weird inner map that I have.

Radhika: That's absolutely fascinating. I'm glad you gave us time on your calendar. There is another thing, and Mohnish, you were an entrepreneur. Incidentally, many people listening on this call are also actually entrepreneurs. You've had this belief that entrepreneurs take risk and people think they take risk, and they get rewarded because they take risk. But in reality, an entrepreneur wants to do everything to minimize risk. They want free lunches if they can get them and go after them. Mohnish, is this the whole Dhandho investing framework that you talk about in the book? Actually, what is the story behind the framework and the name?

Mohnish: Well, first, let's unpack the number of questions in there, but first, let's just talk about entrepreneurship and risk, and then we'll go to Dhandho, which will just dovetail into that. The common misconception is that entrepreneurs take risk. If we ignore venture back startups, which are a completely different animal, they represent less than one tenth of 1% of all startups. We can ignore venture back startups. They don't represent the reality of how 99.9% or more of businesses get started. If I take the example of a dry cleaner, they're two towns, they're like 20, 30 miles apart, and they have dry cleaners in both those towns. Then there's a new township coming up between those two towns, let's call it town C.

Town C is coming up and there's one dry cleaner notice that some people are driving quite a distance to come to him because there are no dry cleaners. He starts questioning the people there and so on. He finds that basically there's an opportunity because there's no dry cleaners there. He might open a small shop there, it might not even have any facilities, just might be a place to take in and deliver clothes, but still keep the back end at his main place. He could minimize the risk of doing that by keeping the lease short and keeping the space small and so on and so forth. Then once it gets going, he can scale that up. If it doesn't work he can pull that back and just go back to the way he was operating.

Basically, the idea is that entrepreneurs, and it doesn't matter if you're running a restaurant or a gas station or whatever, basically, the idea is that entrepreneurs look for arbitrage opportunities. As we understand arbitrage in markets pure arbitrage is risk free. Entrepreneurship is not risk free, but it's pretty low risk in the manner in which most entrepreneurs approach it. They try to do all kind of things to make sure that the downside is limited. Coming to the word Dhandho. my roommate in college was a Gujarati guy, and we are still very close friends. I went to college in South Carolina. He had a bunch of relatives, uncles who had different businesses, motels, laundromats, you know, 7/11, so on.

Several times on the weekend, he would disappear to meet different family members. Then he'd come back Sunday night, he'd be like, "Have all these stories of all these deals, his relatives, a dumb son uncle had bought a new motel or whatever out". Then the end, when he finished telling me all those stories, he would say, Mohnish Dhandho. Dhandho is the word, Gujarati word, that the direct translation is business. But we know that what it really means is approach to doing business, which gives you upside without downside, which is similar to what I just talked about with entrepreneurs.

Radhika: Mohnish, when you practice an approach that's upside with no downside, and you've said heads I win tails, I lose. I think it's very relevant for a market like India, which is so chaotic. I mean, it's economically chaotic, it's also politically chaotic. Now, how do you actually practice that kind of investing? Do you have a checklist in mind? If you had to give people a lit because that's what everyone's trying to achieve in a market like India, how do you practice that? Is there a checklist that you have? What are the few things that you tell people who want to practice that kind of investing?

Mohnish: Yeah, the checklist comes in a little later in the process, in the sense that you're trying to make sure you've thought about all the things you should think about before making an investment. But when you first encounter a business as a potential investment, the first question you should be asking yourself is, "How would I lose money on this investment?" Not how I would make money, but one of the ways in which things can go wrong. After you can satisfy yourself that, you can't easily come up with a scenario where things can go wrong, kind of focus on the downside. You really focus on the downside, the upside cannot take care of itself. What we really want to do in investing is, we want to look for investments where the downside is very muted.

I'll give you an example. I think this is an example that goes back maybe 20 or 21 years, but it's very relevant today. In early 2000, when I had just started my funds, I had a former executive at Microsoft who had joined my funds. He had retired. Pretty senior guy used to work with Bill directly. He had joined the funds, and he told me, "Mohnish, if you're ever in Seattle I can introduce you to a bunch of current and former Microsoft employees, and they might have an interest in putting some money with you". I told him, "as a matter of fact, day after tomorrow, I'm going to be in Seattle". He said, "Okay". I cooked up my Seattle trip so I could go meet him. At that time, Pabrai Investment funds was just managing, I think, a few million dollars, 3, 4 million under management. It was very small.

I met a bunch of folks at Microsoft, and a number of them became investors in Pabrai Investment Fund. When I talked to them, what I realized was that something like 90% of the net worth was sitting in Microsoft stock, and their livelihood was coming from Microsoft. At that time, Microsoft was the most valuable company in the world when I met them. It had a \$600 billion market cap. The trailing PE was something like 75. I was trailing about 75 times trailing

earnings. I told them that, "look, I know it's a great business. I know you guys had a great run, but you would be better off not holding or definitely trimming down eventually the position you own". They looked at me like I was from Mars.

Like, what are you talking about? All the company has done is gone straight up and earnings and grown, everything's gone. It's a monopolist in many ways and such. What happened after that, from 99 to about 2013 or 2014 it was a 600 billion market cap in 99, and it was 600 billion market caps in 2014. It was completely flat for the next 14 or 15 years, but it wasn't just flat, it went down a lot more than 50%. You had a pretty serious drawdown. Then subsequently you came up over that 14 or 15 year period, and in fact, even if you go till today, because Microsoft's had a great run in the last few years. Today the market cap is 1.2 billion, which is about 20 years later. If I exclude dividends, about three and a half percent a year, even with dividends is about 5% a year or something.

The company has done really well. The business has done really well, but the investor did not do well. And the reason the investor did not do well is because in 1999, if you were looking at investing in Microsoft, you would be paying \$600 billion for something like 6 or 7 billion a year in earnings. How long would it take you to earn that 600 billion back? It's a very long time, no matter what growth rate you take. The first question, I mean, it was very obvious that if you invest in a business like Microsoft, it was obvious to me then that would not be a great investment. If we look today, if you look at the US, we look at the fangs, Facebook, Apple, Amazon, Google Net, Netflix and so on, these are great businesses, unbelievable businesses. They have incredible moats and pricing power and franchises, but all that is baked into the price. If you look at their trailing earnings and the trailing P ratios, they're ridiculous. They're what's driving the S&P where it's going. It is possible that you could invest in Amazon, and 10 years from now you look great, but the odds are against you. It's not a good bet to make.

Radhika: But one question I had is, and this is the obvious question about crisis. Obviously, you've seen 2008 you're seeing the current crisis around COVID. What are mistakes you made in 2008 that you learned from, and do you feel that you've held up better because of those during this period?

Mohnish: Well, we are still going through the period, so time will tell, but yeah, I think the number one area where I have had trouble in my portfolio has been making investments in leverage businesses and buying leverage financial institutions. In 08, 09 in that period, I had run a concentrated portfolio. Typically, 10, 10 investments would make up more than 80% of our assets. But I had one investment which went to zero, that was a mortgage lender and had another one that almost went to zero that was also in the finance business. Those really hurt because those were significant hitch to the fund. We came back but it took us a while to recover from that.

The lesson I took from there is to stay as far away as I can from levered institutions and from, in general, leverage, just stay away. I don't have any leverage in my portfolios and personally, we have no margin or anything like that. We don't go there. But I want to make sure that even the businesses we get into typically are not in that in that space. We talked about the checklist earlier, you brought it up, the number one reason that value investors don't do well on their investments is leverage. There were like four or five large reasons why investments don't work out. Leverage was the number one, some aspect of management or ownership, and their ethos was another one. Then some aspect of the moat, misunderstanding the competitor advantage was another one. These are three big ones but leverage is the biggest one to be very off.

Radhika: Do you see the COVID pandemic and this crisis as different from 2008? How do you see it as differently? I mean, is there a post COVID investing world, or is that too big a phrase, ascribing too much to this current crisis?

Mohnish: Yeah, I think that most people listening to this would probably not agree with me on this, but 10 or 20 years from now, history will judge our leaders very poorly on the way they have reacted to COVID. What the world has done, with the exception of a few places, is shut everything down. India shut everything down. Most of the US got shut down. Most of Europe got shut down and so on. I think the Indian stats I've read is not of a hundred million people have lost their ability to earn money. It's probably higher than that in the US. We've had more than 35 million people lose their jobs.

The thing is that yes, we are trying to save lives and social distancing is a very good thing, and wearing masks is a really good thing. But when we do shutdowns of the kind that India did, or the kind that the US did, I didn't see people do a proper analysis of what it means. When you take away jobs from 35 million people in the US, the suicide rate is going to go up, the depression rate is going to go up, the divorce rate is going to go up, the violence at home is going to go up. Abuse of children is going to go up. Nobody, I have not read a single article anywhere where anyone even talks about this, what's the equation? I mean, the US we've lost a hundred thousand lives and you have 35 million unemployed on a hundred thousand lives.

They are counting death as a COVID death regardless of what other conditions the person was suffering from. Large number of the people who have died are in nursing homes where your mortality rate is pretty low if you're in a nursing home in the US. My take is, first of all, I think that most governments did not, in my opinion, make the right call-in terms of how to deal with it. Again, maybe 10 years from now, we'll get a more balance view of looking back. The second part of it is now what's done is done. We can't really undo it. I think from the Indian context, if you are trying to create social distancing, how do you create social distancing when you've got these mass migrations?

How do you create social distancing when you go to mass move people hundreds of miles and the railway stations are jammed and the buses are jammed and all of that. I just don't understand how you create social distancing when you're basically in to all those kinds of things. But let's ignore all that, that's war on the bridge. We really can't do much about what's going on the COVID impact. I think that capitalism and businesses are very fragile creations. I told you about the dry cleaner who starts a shop in a new town. He needs everything to be steady state for that business, to have a chance for that town C thing to make it, if anything goes out of the ordinary, another cleaner comes in or anything else happens, you probably won't make it.

It'll just be too hard. Businesses are very fragile creations. We are going through creative destruction and capitalism all the time. In the United States, every week 1600 businesses go out of business. We lose a hundred thousand businesses a year. That just happens normally in a normal economy in the US and we create more than a hundred thousand businesses. That whole creative destruction is what makes the economy go. What we have done now is we have destroyed way more than 1600 businesses in a week. We've destroyed, in my opinion, probably hundreds of thousands of businesses. Many of those will never come back because they're very fragile to begin with. You take some restaurant or some barbershop and such, I mean, these are difficult businesses. They're surviving in a steady state, in a very competitive environment. It's hard to pull the rug out from under them and have them come back.

I think that the recovery, even though governments have taken very good action in terms of supporting it and supporting the financial system and all of that in the US, we were at three odd percent unemployment. We had the best job market in January in the history of the United States. It was just the most amazing economy more than 160 million people employed. We will probably not see that again, in my opinion, at least for at least five years. It may be beyond that, might only be 10 years. I don't know how long it'll take the United States to get back to 3% or for India to get those a hundred or 125 million people back to work, but it's not going to be this year. It's not going to be next year. It will not be when everyone's vaccinated. We have created serious permanent damage to the global economy.

Radhika: Well Mohnish, you made some beautiful points there. I wanted to ask you a related question from an Indian investor's point of view. One of the things that the Indian investor has been looking at, and many people listening on the call is they've been looking at the US market, and you've talked about the economic damage. How do you see the US market and the way it's moved? It's hard to talk about this given what has happened to the economy and the economic impact. For someone sitting in India who's looking to invest in the US also, which is a lot of people today.

Mohnish: Yeah. the US markets for the most part have brushed off COVID as a normal event. I mean, if you look at the decline in the stock indices and such, I think

March 23rd was low, but the economies come, I mean, the stock markets come roaring back. A lot of good news is priced in and to some extent, some of that may be justified because markets are forward looking. I think the United States is a superhuman economy. It's a superstar economy. It's the best, most amazing economy on the planet with all the factors set up to unleash all the entrepreneurial energies of the country and such. It's an amazing creation. This amazing creation will bounce back. I think at the American spirit, they will try to bounce back as quickly as possible, but I think even two years from now, we will still be maybe at 7, 8% unemployment. Then from there to get to 3 or 4% will take a while. That's my best guess. I mean, I don't do macro or anything. I'm just saying that my best guess is it'll take a while. Markets don't seem to be pricing in a lot of bad news. I think the markets assume we are going to have a vaccine in some finite time.

Historically, humans have not produced these vaccines this quickly. That's an assumption being made. The markets are assuming that any subsequent waves that come off the virus doesn't lead to more shutdowns. That's an open question. We don't know what the answer to that is. I think that definitely when I look at US markets so in many ways the market is very similar to 99, 2000 in the sense at that time, the market had very heavily polarized, where everything had gone, all the money had gone into the dot coms. The non-dot coms are brick and mortar businesses are just languishing evaluations. We see something similar now, at least in the US markets, where the fangs there's a lot of money going into the fangs and the Tesla and such. Some normal brick and mortar businesses. Even now, I think they're decent values. I don't think that markets have accurately discounted the macro COVID events.

Radhika: As someone sitting in the US, how do you look at India? I think India obviously is an economy that was probably in tough shape going into COVID. We've been in the midst of a credit crisis since 2018. Are there bright spots that you see in India? How do you see India kind of coming out of this?

Mohnish: Yeah, I feel India does a lot of self-inflicted wounds on itself. For example, we know that there's an exodus from manufacturing in China that started happening after the US government started imposing tariffs. There were lots and lots of companies that were looking at alternative places to China so they could continue to manufacture at competitive rates. Vietnam, for example picked up massive amounts of manufacturing from China. India, for example, picked up very little. The reason India picked up very little is we make it really hard to attract foreign investment. We have so many rules that are backwards and laws that are backwards, and they defy Ricardo, they defy Adam Smith. I mean the mantra for how to make a country rich is extremely well known.

You can study Lee Kuan Yew and you'll get there. You can study Augustine Pinochet, you can study the Chicago Economic School, you can study Adam Smith, and you can study Ricardo. None of these models is what India follows. It blows my mind that it's not like we have a lack of brains or at the center we

have a lack of understanding of what makes an economy tick and how to make an economy like India work really well and grow at very high rates. Some of that gets to vote bank politics where once you start focusing on those types of factors, then you can forget about great economic results or great growth growths. I feel very sad when I see what is happening in India because we could be lifting tens of millions of people every year from poverty, and we are not doing that. Shame on the Indian government for going down that path.

Radhika: Mohnish, I wanted to switch gears a little with and talk about behavior. In a market like this, there is so much of temptation to just take action. I think I heard you say once that you don't make money when you buy stocks. When you sell, you make money by waiting. In fact, one of the individuals asked a question that, how do you appear so calm? How do you practice patients during a crisis like this when you see so much happening?

Mohnish: There's a saying we all know as school kids in India, "if wealth is lost, nothing is lost. If wealth is lost, something is lost. If character is lost, everything is lost". When you are talking about wealth you really shouldn't be concerned too much unless you're one of those migrant workers without food or anything else. I mean, if you don't have food, then yeah, you need to be concerned about that. But once you have the basics taken care of, and your roof over your head, and have three meals a day, then it's really kind of dumb to focus on that. One needs to keep perspective and the drivers of happiness and the driver of good health is not getting hyperactive about, wiggles in the stock market or what's happening to your bank balance or brokerage balance and so on.

Radhika: Finally, I have to ask my set of last questions because everyone wants to know the Buffet dinner is of course, famous. How did it happen and what are sort of the lasting memories that you have from that?

Mohnish: Yeah, I think that for most of us, if we lived in the time when Gandhi was alive, or Newton was alive, or Einstein was alive, Rabindranath Tagore was alive and there was a way to bribe them and have lunch with them, I think a lot of humans would want to do that. It just so happens that Warren Buffett is willing to take a bribe once a year from the highest bidder to sit down for a meal. My take was, okay, he's going to go down history as an icon, and he's alive, and I'm alive. He's in the United States. He's not very far away. He's willing to take a bribe. The bribe I had made so many tens of millions of dollars off his intellectual property. I said, we can bid for the lunch, and if we win it, then that's just a guru dakshana and I just wanted to meet him to thank him. That was the only objective I had, the lunch auction was to look him in the eye and just thank him for how grateful I was for all the knowledge and information he so openly shared. Of course, the reality of the lunch is that Warren wants to make sure that whoever wins the lunch thinks they got a bargain. He tries very hard to make himself fully accessible. For example, when he came to the lunch, I went with my family. My friend Guy Spier came with his wife, and the first thing he told us is "look, there's no time limit on the lunch. I have nothing going on all afternoon. When you guys

are sick and tired of me, let me know and I'll leave". But we don't have a limit of any kind. The lunch went on for like, more than three hours. We covered a wide range of subjects. And, my daughters were 10 and 12 years old at that time, which was great for them to absorb many lessons and many things he said to them. It was just wonderful on all fronts. It was wonderful. It led to a friendship with Warren. It led to a friendship with Charlie. I've had many bridge games with Charlie and many dinners at his place. The lunch has paid so many dividends, it keeps paying dividends. It turned out to be a great bargain. Warren was right that we got the better end of the bargain.

Radhika: This is a personal question I have to ask you because I play the game. What has Bridge taught you about investing, if it has?

Mohnish: Yeah, I think yeah, I was very intrigued to learn, Radhika that you play Bridge. Maybe we can play sometime. You play on Bridge Base, or do you play live?

Radhika: I play live. I started playing when I was 13 because we had nothing to do in Nigeria with my family. I play with my family.

Mohnish: Yeah. Unfortunately, Live Bridge is now in trouble with COVID because it's, in fact, there was an article about how in Colorado they had a massive spread of Corona from One Bridge Club which had a 299 games. It was very sad. Anyway, in the US at least it has exploded in terms of online, in fact, by the platform. I use Bridge Base to play online. Right after things went into lockdown, the site was crashing because it got so overwhelmed, with the number of Bridge Players. But anyway, I think that bridge is an incredible game. It's an amazing game. I am deeply saddened by the fact that it's a dying game, that there are more people who die who used to play Bridge than new young guys who pick it up, or young girls who would pick it up. But I think that it's a game of probabilities and investing is a game of probabilities. Warren plays Bridge, Charlie Munger plays Bridge, a lot of value Investors play Bridge. They may be a correlation because I think in investing, we have to think probabilistically. There's no such thing as absolute, sure probability of anything because COVID showed you what can happen in terms of fat tails. Yeah, it's a great game. I'm grateful. I get to play maybe like five or six hours a week. I think Warren plays even more than that maybe around maybe more than 10 hours a week. I even played with him once online, which was quite a bit of fun. We were trying to be kind of on the fly. I was trying to figure out his conventions. But it went pretty well.

Radhika: Fabulous. I'm going to take a couple of audience questions now, and to the audience, if you do have questions, please post there, lots of them. I'll try and pick some of the more interesting ones. This one is really nice. It comes from one of our advisors in Delhi, Ravi Coley, what does success mean to you now having achieved so much?

Mohnish: Well, I think that there are different ways you can define success. To me, on a day-to-day basis for me, what is important is, am I leading an aligned life, which

is, am I acting out externally in sync with my inner map? That I think is kind of a base level to try to get max model output or whatever engine you have. I think Buffett uses the example of this girl in World War 2, this Jewish girl who's trying to hide. The question was, will they hide you? Will your friends hide you when people come to get you?

If you are the kind of person that they look up to, then yeah, they'll be a lot of people willing to hide you or who shows up at your funeral. I think the definitions of success are more along those lines. I think my own definition, I think is that I like to play math games, bridge, blackjack, and investing. They're all math games. Even in many ways Dakshana is a math game. I like to play them in a, I would say, elegant way. If the output shows that I've been successful, then at the end a lot of people would've been helped through Dakshana. That would be one way to look at success. But I think the best way to just look at it is that on a daily basis, are you happy? Are you aligned? Do people like, admire, and trust you? Those are the kind of things you should focus on.

Radhika: There's a second question that if you had to, knowing all the chaos in India, sort of take a tenure outlook on India, how would you invest in Indian businesses? I mean, what are the great spots for you?

Mohnish: Yeah, like they say that India grows at night while the government sleeps. I think at the end of the day, it's not so much India versus different parts of the world, it supplies anyway, anywhere. It's the same mantra, is we want to find management teams with businesses where the businesses have great tail width, and they've got a great runway ahead and a management team that's very aligned with great core principles to drive that with great principles and competencies. I think the combination of great moat with great management with the right incentives is what we are looking for. We are looking for that anywhere in the world. If the macro environment is not giving you tailwinds which has been the case in India for most of its history since independence, there are still many entrepreneurs which will transcend and do well regardless of that, but it would make life a lot easier if we were not trying to or try tie all the tie one hand behind the back of most entrepreneurs by making their life difficult.

I think that's what we want to look for is you want to look for models in India where you're not relying on the large yes, of the government, or you're not relying on the government doing X or Y or Z. Just assume the government does not much, and can the business still do well in that environment? There are many businesses in many sectors that would fall in that space. I mean, if you look at a company like Gio for example, Gio is just executed incredibly. I mean, for an upstart to come and take all this market share become number one, change the pricing models, put a lot of other players in a very defensive position in many ways. I mean they've got a lot of tailwinds. I'm not recommending that

it's a good stock or not, but definitely from a business point of view the execution has been amazing.

Radhika: Mohnish, one question that I wanted to ask you that came up a lot, because a lot of people here are from the asset management industry, in the mutual fund industry. How do you foresee the future for asset management, especially from an Indian point of view?

Mohnish: Well I think that when I look at asset management around the world, and when I look at it in the US, which is the place I'm most familiar with, and then I look at it other places, what I find is that in the United States with the extreme leverage of technology and scale the frictional costs of asset management has come down quite a bit. When I look at that same scenario in other countries, I mean, just when I look at our own trading costs in the US versus trading outside the US or what asset manager charge in the US versus outside the US, the US is far more efficient and competitive. Partially because of the leverage of technology. I think India will get there. I think India is moving down that path. But I still find today that frictional costs are high for asset management. In many ways, investors do themselves a lot of disservices both in the US and India and elsewhere in terms of the results that they end up getting partially because of hyperactivity. But I think that the Indian asset management. India used to be a place where people used to only invest in three things. They used to buy gold, they used to buy real estate, and they used to have fixed deposits, and that was pretty much the, or maybe the fourth was under the mattress. Those are the four options that were there. I think that people, at least I think enough people are realizing that gold is not going to get you to the Promised Land, and real estate is not going to get you to the Promised Land.

You should buy real estate if you're going to live in that home. But I don't think it makes so much sense. We are buying a bunch of homes and expecting high increases in prices in the future. I think that the natural place for the money to go is in the asset management space, in the equity space, in the markets and such. I think that space has incredible tailwinds for a very long time. I think your business, I'm a shareholder Edelweiss, and one of the areas Edelweiss excites me the most is the wealth and asset management part of the business. Those are incredible franchises. If we have a conversation 10 years from now, or 20 years from now, that industry in India will look so different, so much larger and so much more efficient, it's got incredible growth ahead.

Radhika: I'm going to ask you the last two questions. Because you've had such an interesting approach to philanthropy, and I think it's probably a great way to end this conversation. You've talked about the problem of income and wealth inequality in the global economy. What are you doing? What do you want to see happen to bridge this gap?

Mohnish: Well, I think that it is very natural in a capitalist society to end up with haves and have-nots. Capitalism is a great system for overall wealth creation. It is not

a great system for balanced wealth creation. The government and philanthropic organizations come into temper some of the animal spirits of capitalism so that it doesn't lead to, 2% of the country, 1% of the country controlling 98% of the wealth and assets, because that's the general outcome you get. It is right for societies to be capitalists because it is the way to maximize the wealth of society. But you must counter that with ways in which the pie can be more equitably distributed without, and this is the most important thing without affecting the engine that creates wealth.

In India, we are good at redistribution, but the way we redistribute, we mess up the engine that creates the wealth to begin with. Basically, we have taken our wealth creation engine and clobbered it, and then we become good at redistribution. If you redistribute a pie that is not growing, that's not going to help us get to the Promised Land. The United States to me, I think it has been an incredible experience because Americans are the most generous people on earth. They give the most money as a percentage of their compensation and salaries and the richest Americans have been extremely generous in terms of give back. Those give backs are way more efficient than having the government do them. The philanthropic arms that we have, like the Bill and Melinda Gates Foundation and so on, those entities do extremely good work far better than the government scale.

Radhika: Mohnish, my last question, a lot of people know you are an avid reader, so do you have any book recommendations that you are reading that you could leave with people?

Mohnish: Yeah, actually I'm reading a book right now, which I'm really enjoying a lot. It was recommended to me the last time I met Charlie for dinner. I think the last time I met him for dinner was March 7th, which was just a week or so before things started to lock down in the US. It's called Capitalism in America, and it's by Alan Greenspan, who was the former chair of the Fed. It traces the history of the country in just an amazing way. Actually, there are a lot of lessons for India in there, I think, in terms of what works and what doesn't work and such. I've really enjoyed reading that book. Then there's another book, which Li Lu recommended to me, he manages money for Charlie, it's called The Other Half of Macroeconomics. The author is Richard Koo. That's also a good book, kind of explains why we didn't get any inflation after we pumped all this money into the economy. Kind of people are left scratching their heads as to how you can print all these trillions of dollars and drop them from helicopters and not get inflation.

Radhika: Thank you so much, Mohnish. I feel like I'm the smiling one and I got the better half of this which is your generosity. Thank you so much for doing this with us. I must tell you, we had multiple thousands of people log in, so this is one of the biggest events that we had. I can't thank you enough for doing this on behalf of the team at Edelweiss and the team at Edelweiss Asset Management. I think

you've got more and more fans in India, that job building day over by day. I really look forward to playing that game of bridge.

Mohnish: Yeah, actually, it'll be fun anytime, maybe when I'm in Mumbai if you have a game that'll be fun to try it out. It was a fun hour. I enjoyed the questions and I wish everyone the best. I hope the lockdowns come to an end quickly and we can try to get back to a more normal world as soon as possible.

Mohnish: Thank you so much again.

Radhika: We are looking forward to welcoming you to Edelweiss when you come.

Mohnish: Okay, thank you.

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