PABRAI WAGONS FUND - SEMI ANNUAL INVESTOR MEETING
MARCH 14, 2024

OPENING REMARKS

OPERATOR

Good afternoon and welcome to the Pabrai Wagons Fund Semi-Annual Investor Call. At this time, all lines are now in listen-only mode. Following the opening remarks, we will conduct a question-and-answer session. And if at any time during this call, you require immediate assistance, please press *0 for the operator. I would now like to turn the conference over to Mr. Canh Tran, Fund Distribution Manager at the Pabrai Wagons Fund. Thank you. Please go ahead.

CANH TRAN

Thank you. Good afternoon. Welcome again to the Pabrai Wagons Fund Semi-Annual Investor Call. We're glad that you could join us. Before we begin, let's start with the usual disclosures. Mutual fund investing involves risks and the potential loss of principal. The Fund is non-diversified, meaning it may focus its assets on fewer individual holdings than a diversified fund; therefore, the Fund is more exposed to individual stock volatility than a diversified fund. The Fund invests in small- and medium-capitalization companies, which involve additional risks such as limited liquidity and greater volatility than larger capitalization companies. The Fund is new with no operating history and there can be no assurance that the Fund will grow to or maintain an economically viable size. Opinions expressed are subject to change, and are not intended to be forecasts of future events, a guarantee of future results, nor investment advice. The Fund's holdings and allocation are subject to change at any time and should not be considered as a recommendation to buy or sell any security. On the call today we have our portfolio manager, Mohnish Pabrai; our Senior Vice President and Senior Analyst, Fahad Missmar; and our Vice President, Jaya Velicherla. Now I'd like to hand the call over to Mohnish Pabrai.

MOHNISH PABRAI

Thanks, Canh, and welcome to our first semi-annual investor call of the Pabrai Wagons Fund. I am excited that all of you have joined us as partners and investors on this journey. Before we get to your questions, which are my favorite part, I'd first like to give you a bit of background on the Fund and how it is positioned from here. The Pabrai Wagons Fund was launched on September 29, 2023, and completed its first quarter on December 31, 2023. The Fund seeks to invest in durable, growing businesses with robust reinvestment engines and aligned high-integrity teams. We seek businesses that we would be comfortable owning for a very long time. And we want to acquire fractions of these businesses when they are being offered at meaningful discounts to their underlying intrinsic value. From time to time the Fund will also invest in special situations like merger arbitrage, opportunities that we believe the larger success weighs heavily in our favor.

Our principal focus in the first three months was to deploy the Fund's capital in the highest-conviction investments that we believed would deliver the best returns. To this end, we have been very pleased with the portfolio that we've put together. As of December 31, 2023, the Fund was invested in a collection of 20 exceptional businesses in the United States, Turkey, Canada, and Europe. The Fund investments reflect four core allocations, which account for 76% of the portfolio as of December 31, 2023. These were, first, the Turkish workhorses like Coca-Cola İçecek, which is a global Coke bottler based in Turkey and operates in 11 countries; Anadolu Efes, which is Turkey's biggest beer brand; and TAV Airport, which is a Turkish airport operator that operates airports in eight countries. The second bucket is US coal, which includes thermal and metallurgical coal plays like CONSOL Energy, Alpha Metallurgical Resources, Warrior Met Coal, and Arch Resources. Third is US car dealerships, including Asbury Automotive, Lithia Motors, and AutoNation. And fourth is North American and European tech which includes Microsoft, Amazon, Constellation Software, Topicus, and Tiny.

A common theme amongst the businesses of all four groups is the exceptionally high quality of their underlying franchises. In addition, the first three buckets, which are Turkey, coal, and car dealerships, represent corners of the market that are misunderstood. The misunderstood status of these industries has resulted in these businesses being mispriced by the market. We love businesses that are hated and unloved and I'm excited to circle the wagons around these three buckets.

Although our track record since inception is only five months old, and this is a very short period of time to make any intelligent assessments of performance, we are off to a good start. Here are some of our performance numbers since inception. On September 29, 2023 through February 29, 2024, the retail class was up 18.33% and the institutional class was up 18.45% versus the S&P which was up 19.63%. We were slightly behind the S&P there. In 2024 year to date through February 29, 2024, the retail class is up 9.74% and the institutional class is up 9.75%[1], ahead of the S&P 500, which is up 7.11%. You can find standardized performance numbers, including quarterly performance, on our website Pabrai Wagons Fund.

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[1]For standardized performance visit our website- //www.wagonsfund.com/. Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. To obtain updated performance information that is current as of the most recent month end, please call 1-800-501-1792. The Fund imposes a 1.00% redemption fee on shares held for 90 days or less. Performance data does not reflect the redemption fee. If it had, returns would be reduced. Performance would have been lower without expense limitations in effect. The WAGNX gross expense ratio is 4.74%. However, the net expense ratio is 1.25%. The WGNIX gross expense ratio is 4.22%. However, the net expense ratio is 1.00%. Dhandho Funds (the "Advisor") has contractually agreed to reduce its fees and/or pay Fund expenses (excluding acquired fund fees and expenses, interest expense in connection with investment activities, taxes, extraordinary expenses, shareholder servicing fees and any other class specific expenses) in order to limit Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement to 0.90% of the Fund's average daily net assets (the "Expense Cap"). The Expense Cap is indefinite, but will remain in effect until at least October 31, 2025 and may be terminated at any time by the Trust's Board of Trustees (the "Board") upon 60 days' notice to the Advisor, or by the Advisor with consent of the Board.

The S&P 500's recent performance is significantly above its long-term average, driven by huge gains in the so-called magnificent seven of Nvidia, Meta, Apple, Alphabet, Microsoft, Amazon, and Tesla. These seven make up approximately 29% of the index today, so the S&P 500's future performance is highly dependent on them. We believe all seven businesses are exceptional, but they appear to be fully priced or, in some cases, overpriced. In contrast, the Wagons Fund owns just two of these seven, which is Microsoft and Amazon, and together these two make up approximately 7% of the Fund. Despite this, the Fund is doing better so far this year than the S&P. This is a very short period of time but we believe our ship is pointed in the right direction. Our mission is to beat the S&P 500 over the long term.

I am excited about the Wagons Fund's future. Our investment philosophy is rooted in the belief that exceptional investment performance is usually the product of only a few great investments held for a very long time. The trick is not only to find the great investments but also not sell them. Evoking the defense maneuver of American pioneers in the 1800s, the Fund will circle the wagons around its highest-conviction holdings, which we believe will have the highest potential for investment returns. I hope we are smart enough to hold on to the businesses in our portfolio today for a very long time. Now I'll pass the floor over to Fahad Missmar to take us through our pre-submitted questions. Fahad?

FAHAD MISSMAR

Thanks, Mohnish, and thanks to all investors who pre-submitted their questions. The first question is about the Fund's exposure to coal. The coal industry is out of favor and presents an opportunity. Why are we specifically invested in Alpha Metallurgical Resources, Arch Resources, CONSOL Energy, and Warrior Met Coal? How long do you see the coal industry continuing to outperform and continuing to make a positive contribution to the Fund?

MOHNISH PABRAI

Thank you, Fahad. Yeah, that's a good question. We don't so much view things as in favour or out of favour. What we're trying to do is basically look at the intrinsic value of businesses versus where they are priced by mister market. And just for illustrative purposes, these are not real numbers of any company but just to illustrate kind of how we think, is if we had a business that was going to be around for, let's say, 40 or 50 years and at the end of that 40 or 50 years it would cease to exist with zero terminal value, and let's say that over that 50-year period on average, the business would generate about $1 billion a year in cash flow, it might be $0.5 billion some years and $2 billion in some years and $200 million in some years but let's say on average it ends up being $40 billion or $50 billion over that time, if such a business were available for purchase at $3 billion, $4 billion, $5 billion, we would like to back up the truck. And we don't want to specifically discuss the names in the portfolio beyond that, because we are continuing to buy them every day as assets come in. We'd prefer to buy them at lower prices rather than higher prices. These businesses, most of them are buying back their shares. We prefer that they buy back these shares at lower prices rather than higher prices. And if they were ever a no-brainer, I would think these coal names are a no-brainer.

FAHAD MISSMAR

Thanks, Mohnish. The next question is about our positions in Turkey. Why Anadolu Efes and why not Reysas for the Fund?

MOHNISH PABRAI

With regard to your question on specific positions not in the Fund, as we have disclosed in the Fund's document, including its statements of additional information, in addition to the Pabrai Wagons Fund, I manage various private funds. I am restricted by SEC rules of discussing any information on private funds in this type of forum, so I won't. I won't go there. But what I will say is that, for regulatory purposes in various countries that we invest in, typically our ownership in a particular company is aggregated across all the accounts that are managed, so when it comes to smaller companies we may have reached the maximum ownership limits long ago with the accounts that existed at the time and so the Wagons Fund may be limited from investing in them today. We may also have a situation where, if I look at a business like Reysas, for example, in aggregate, across various funds, we own around a third of the business and the promoters of Reysas may not be very comfortable with our ownership going beyond that.

And regarding Anadolu Efes, Anadolu Efes is the dominant beer brand in Turkey, Russia, Ukraine, and a bunch of other countries. When we look at the prospects of that business and the future cash flows of that business versus where it's priced, we like the risk/reward, which is why we invested in it.

FAHAD MISSMAR

Thanks, Mohnish. The next question is: I'm curious about the strategy behind investing in large corporations like Microsoft and Amazon with relatively small stakes. Given their size, a 3x to 5x over the next 10 to 20 years seems plausible; yet, with a modest 3% allocation, their overall impact on the portfolio seems like it'll be limited. Could you share your rationale behind these decisions?

MOHNISH PABRAI

Yeah, that's a good question. Mutual fund investing rules restrict us in terms of how large positions can be and how diversified the fund has to be. And these are really good rules, I think, because these funds can be bought by Joe Public and I think they're good rules to protect Joe Public. So we do not have open discretion to willy-nilly make any position any size we want and within those constraints, I think we did what we could with Microsoft and Amazon.

FAHAD MISSMAR

The next question is on circling the wagons. The question is: The concept of circling the wagons implies an intent to hold those stocks found in the center of the circle for a long period. In this context, what does long mean to you? I ask this because three of our current investment buckets are centered on currently, quote-unquote, out-of-favor sectors. Two of those buckets, thermal coal, and car dealerships, are inevitably going to see their top line stagnate in the future due to the inherent forthcoming changes in their industries. If those stocks are held for too long, they may be in danger of being melted ice cubes. So, on these types of bets, how do you characterize the idea of a quote-unquote, long holding period?

MOHNISH PABRAI

Yeah, that's a great question. We are not convinced that these are melting ice cubes. There is a distorted view of car dealerships and there's a distorted view that car dealerships are going away. From all the work we've done, we don't think they're going away. We don't think parts and service is going away, even in a world where it's 100% EVs (Electric Vehicles). And we don't think there's a world with 100% EVs for decades. So we don't see the car dealerships in any sort of decline in any sort of 10 year or longer period. We are very comfortable circling the wagons around those, especially given the valuations and some of them are buying back shares and so on.

Thermal coal, we have only one position in thermal coal, which is CONSOL Energy. Most of its coal is exported and a large portion of that exported coal is not used to generate power. Thermal coal has many uses. Many of those uses are industrial uses and many of the industrial uses have no alternative or no good alternative. CONSOL has some of the highest-quality coal assets, thermal coal assets, anywhere in the world. They have an exceptional management team, really impressive. They forward sell at least a year to 18 months in advance of their production with bands around what the minimum and maximum price is that they will receive. For example, in 2024, we already knew before 2024 started what would be the low end and high end cash flows that CONSOL will generate. We also already know in 2025 almost 30%, 40% or more of their production has already been forward sold and, before this year is over, most of 2025 will be forward sold. CONSOL has no meaningful debt. They are following a very simple philosophy of taking all cash flows that are not required by the business and buying back their shares. Given where the shares trade and given the stability of cash flows and given the duration of those assets and given the fact that these are not melting ice cubes when the usage is not in power plants, we are very comfortable with CONSOL.

FAHAD MISSMAR

Thanks, Mohnish. The next question is: Was the Spirit Airlines bet based solely on the potential merger with JetBlue? Do you still see something in Spirit now that it looks like the merger has been called off?

MOHNISH PABRAI

Yes, that's a good question. It was a merger arbitrage bet. It looked at the time that we made the bet that the odds were in our favour that the merger would go through. After the merger was called off, the Spirit shares went down quite a bit, and we were well below what we paid for them and of course the thesis was no longer valid. What we did is we switched the Spirit stock into a position in Spirit bonds. We basically just swapped that investment with the bonds. In any case, the bet was, it was a relatively small bet I think at around 4% of total Fund assets and now, since we haven't added to that bet in a while and the assets have gone up, it represents a very small portion of the pie.

FAHAD MISSMAR

The next question is: Why did you decide to start a mutual fund and how did you decide on the fee structure? Can you explain the fee in layman's terms?

MOHNISH PABRAI

Yeah, sure. We've been approached for many decades by lots and lots of people who wanted to invest with us but they couldn't because of the nature of the private funds and the high minimums and so on, so I was looking for a more democratic vehicle and that's why we decided to go with a mutual fund. The fee structure is pretty straightforward. We have two asset classes in the fund, a retail class and an institutional class. The retail class has an all-in fee of 1.25% a year and the institutional class has a fee of approximately 1% a year. We decided on these fees by just looking at where the industry was, what our costs were, and what was reasonable. The reality of mutual funds is that it's a very regulated regime with a lot of expenses, a lot of regulatory compliance expenses, and pretty much all of the fee we collect will be going towards those costs, not really coming to us in terms of any kind of profits if you will until the funds have some level of scale. The funds need to get to something close to north of $150 million or $200 million before there are meaningful fees that will flow to the investment advisor. We decided on the fee structure because we thought it was a fair structure and we thought it would be a win-win for everyone.

FAHAD MISSMAR

Next question is: How should an investor with a long-term view, like a 10-year horizon, be prepared for the impact on the Wagons Fund when the market enters bear territory or if there's a correction?

MOHNISH PABRAI

Yeah, that's a good question. Our fortunes are very much tied to the top 12 or 15 bets that we've made and these bets are, like we described earlier, in a few buckets. So if we end up being right in most of those or a good majority of those, then I think we will do fine. We may go down when markets go down, but over the long run basically the funds will perform based on the underlying businesses.

FAHAD MISSMAR

Thanks, Mohnish. Now we will open up the floor to a few questions from the audience for the remaining time on the call. I will hand it over to our operator.

LIVE QUESTIONS:

OPERATOR

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press star followed by the one on your telephone keypad. You will hear a prompt that your hand has been raised. Should you wish to cancel your request, please press star followed by the two. I would like to advise everyone to have a limit of one question each. If you are using a speakerphone, please lift the handset before pressing any keys.

Your first question comes from the line of Harry Woo. Please go ahead.

HARRY WOO

Hi, Mohnish. This is Harry. Thank you so much for hosting the call and thank you for starting this fund. As a retail investor, I've been following you for a while, and so very grateful for the opportunity. My question would be regarding the top two positions. There's Anadolu Efes and there's also Coca-Cola İçecek. And I guess the question I have is, what is your thought process surrounding both of these? With Anadolu I feel like you get both, you get Coca-Cola and you get this very cheap beer business along with it, so that seems like a more value-oriented play in isolation. So could you just maybe give us your thought process surrounding owning both of these stocks and you kind of see them as different?

MOHNISH PABRAI

Yeah, that's a very good question. You're absolutely right that Anadolu Efes owns 50% of Coca-Cola İçecek and so if we owned just Anadolu Efes we would have exposure to Coca-Cola İçecek. But that exposure would be a little bit diluted because it wouldn't be a full bet on Coca-Cola İçecek. Both these businesses have truly exceptional characteristics in terms of quality of the business. Not only is the business quality very high, the family that owns a controlling stake in these businesses or a large stake in these businesses has one of the most pristine reputations in Turkey. They have many global partnerships with world-class companies around the world and these companies, when they chose their partners in Turkey, went through a pretty vigorous diligence process. For example, all the McDonalds franchises in Turkey are owned by this family. It's not a listed business, it's a private business owned by the family, but McDonalds went with them.

To give you another example of a deal that took place recently is Anadolu Efes, their largest business on the beer side is their Russia beer business, and the Russia beer business is a 50-50 joint venture with AB InBev, which is part of the Budweiser people, 3G Capital and all of that. A number of American companies in Russia have a lot of pressure to divest all their holdings and AB InBev needed to divest their stake in the Russia business. So, just to give you an example, Heineken sold their Russia operations for $1 to exit that business. What happened recently is that AB InBev sold the 50% of the business they owned to Anadolu Efes. There was no money that changed hands and they ownership of the 50% went to Anadolu Efes with an undisclosed future payout to AB InBev over the next few years based on how that business performs. There were no disclosures given on what that formula is or what those payments would be over time. The only thing that AB InBev disclosed is that they estimate that their portion of the Russia business had a value of around $1.2 billion or so. Now if you just take a step back and think about it, a seller sold their business to a buyer with no money collected, money to be collected in the future. The seller would only do that if they had absolute faith in the reputation and ethics of the buyer, which is the case here. And they basically left it into the future on that thing.

Now the other thing to note about this particular deal was that this deal took almost a year or 18 months to work out. And I think what happened in the negotiation, this is just my speculation, I have no information from inside the company or any of that. My speculation is that the way Anadolu Efes and the owners of Anadolu Efes run their affairs is that they are interested in long-term relationships and long-term partnerships with these players, so they would not have wanted to negotiate this by trying to squeeze the last dime out of AB InBev. They would have realized that AB InBev is in a distressed situation and they, in my opinion, acted very honourably to AB InBev saying, yes, we understand you have to sell, we understand that logically we are the buyer, we understand that you are being very gracious by not going to an auction, and we will treat you well. And AB InBev accepted that because the two companies have had a long relationship together. And AB InBev owns 20% of Anadolu Efes and they sit on the board, so they have some upside on the other side as well. So it's not like it's a one-sided transaction.

In all the different businesses we have seen, now this to give you, so you know, I will give you two more anecdotes which will then maybe hopefully explain to you why we wanted so much exposure to these two businesses. So, on the Coca-Cola İçecek side, they do bottling for Coke in a number of countries. One of the countries which İçecek did not do the bottling was Uzbekistan and in Uzbekistan, the bottler of Uzbekistan, the Coke bottler of Uzbekistan was a 50-50 joint venture between the Coca-Cola company and the Uzbek government. The Uzbek government basically inherited that state from soviet times and they rammed that plant and that business or those plants and businesses like the former soviet union. So basically the way that business was run was that the government had a monopoly on the bottling, they're the only authorized bottler of Coke in the country, and they sold everything at the factory gate for cash. So they did not have a truck network. They did not advertise in any way. Coke might advertise, but they didn't put any money into advertising or anything. And they've sold a very small sliver of Coke products, like three or four products. And basically you wanted Coke products, you showed up at the factory gate with cash and you picked up the product.

Coke was very unhappy with this situation. They had been trying for a very long time to try to get the Uzbek government to divest that stake so they could get a better bottler in place and the Uzbek government was not interested. Finally, the Uzbek government contacted them and said, We have decided to sell the stake but we're not going to sell it to you. We're going to sell it to the highest bidder, because that is in the best interests of the Uzbek citizens. And Coke tried to tell them that it was very important for them to have a good relationship with the bottler and to be able to select the bottler, but the Uzbek government didn't care. So, what the Coca-Cola Company did, and the Coca-Cola Company owns 20% of Coca-Cola İçecek and they sit on their board, they told Coca-Cola İçecek to please bid in that auction for the business in Uzbekistan and to pay whatever price was necessary to win that auction, regardless of the multiple. And Coca-Cola İçecek told them that, you know, we have a business to run, we can't be paying any price, so Coke said, listen, we will sell you our half at a very low price and make it work for you, but please do not let that bottler go into any other hands.

So the Coca-Cola Company also only made this approach to one bottler out of all the bottlers they have globally, which was Coca-Cola İçecek, so for whatever reason they picked them, and we know the reason they picked them, because it's a very high-quality team and a high-quality operation. Coca-Cola İçecek won that bid at a very high multiple, something like 25 times EBITDA. Coke sold them their portion at a very low multiple, single digit to EBITDA I think, but even when you blended the two it was a very rich multiple and the analysts who follow Coca-Cola İçecek were upset with the company for paying so much for the business. In the first year that Coca-Cola İçecek ran the bottler in Uzbekistan, they quadrupled the net income. And they were asked, you know, what did you do? What did you do to quadruple the income? And they said, quite frankly, we

didn't do much. All we did is we bought a few trucks, we painted those trucks red, we went into town, we shook the hands of the various merchants, we started to give them some refrigerators with glass fronts so they could put these Coke products in, and that's all we've done so far. We haven't broadened the product line out, we haven't updated the dilapidated old plant yet, we've got a long way to go. And the Uzbekistan bottling operation now looks like the deal of the century. And they still haven't fully flexed.
So what I'm trying to say is that the Coca-Cola Company handed this to them on a platter. They handed it to them because they were very, very happy with the way Coca-Cola İçecek ran the other bottling operations. Recently, just a few weeks ago, when the Coca-Cola Company gave Coca-Cola İçecek half the country of Bangladesh, the bottling rights of half the country. Bangladesh has a higher per-capita GDP than India. It's a pretty big market. It's a big deal that they got it. They didn't pay much for it. They were again, you know, not too happy, it was Coca-Cola themselves who was doing the bad bottling. And I don't think Coca-Cola is a great bottler. They're great at selling concentrate. And I think that we will see it play out in Bangladesh, maybe not to the extreme extent that we saw in Uzbekistan, but I would expect Bangladesh volumes to go up.

And just to continue a little further, Coca-Cola has a published list of problem bottling regions and problem bottlers, which is visible on their website. There's a big problem that they have in India. A number of the bottlers in India are significantly underperforming Pepsi and Coke is unhappy. I don't know if Coca-Cola İçecek will ever get any part of India or not, but the odds of them getting some part of India is above zero, maybe significantly above zero. So the way we look at it is that it's now, Coca-Cola İçecek is now the third largest bottler in the world for the Coca-Cola Company. I think it's an exceptional leadership team. It's obviously a great brand, great partnership with Coke, and with just having the Anadolu Efes position and getting the Coke ownership through that did not, from my perspective, give us the exposure that we were looking for. I think this is a very unusual business that will be doing well for many, many decades and we wanted to circle the wagons around both of these businesses.

So, sorry for that long answer, but that is why one fifth of the Fund's assets are sitting in these two beautiful businesses.

HARRY WOO

Thanks, Mohnish. That's awesome.

OPERATOR

Thank you. And your next question comes from the line of Claudio Aragon. Please go ahead.

CLAUDIO ARAGON

Hello, Mohnish. Thank you very much the opportunity. Fascinating anecdotes about Anadolu. It reminds me of anecdotes you told in the past about how BMW would always be calling Rain Industries. My question is regarding the positions in Amazon and Microsoft. One of the three principles of the Fund is don't pay high prices for great businesses, and I've heard you talk about optical, you know, businesses that are optically overvalued, and I just wanted to ask about your thought process about, generally, if you can't talk about the specific positions, companies that have sort of nosebleed P/E multiples like Amazon and Microsoft and others in the big seven and how you think about them, if you go through a process similar to what Adam Cecil talks about and redoing the financial statements in your mind to strip out the growth expense and to realize what just the raw earning power of the business is if they weren't plowing so much and reinvesting so much into growth or is it more about what Warren Buffett talks about and being able to look out 10, 15 years into the future and how reliable is the growth and, you know, over the long term? That's the question, in essence.

MOHNISH PABRAI

Yeah, that's a good question. I would just say that when you look at the allocations we have to Amazon and Microsoft it should be obvious that they are relatively low-conviction ideas in the broad scheme of things. I would say that it would be relatively low on the list when we go from top to bottom in terms of highest to lowest conviction. Having said that, these two businesses are truly exceptional businesses.
In the case of Amazon, one really cannot look at a trailing P/E multiple to get any sort of an idea of what that business is worth. They are always investing so much ahead of the curve. That would give you a very different picture of reality versus what is actually going on.

And in the case of Microsoft I would say, if you excuse my language, they kind of have like diarrhea in the sense that revenue, in many cases, is equal to net income. It just goes straight from revenue to net income with almost nothing in the middle. So it's a very exceptional business in the sense that I think Microsoft is one of those almost indestructible franchises because of the recurring nature of their business and how deeply entrenched they are and how more entrenched they are getting. When we moved to software as a service, they went through a massive increase in earnings and cash flows. I mean I just remember myself that if I would buy a copy of Outlook or Office or something, I really wasn't interested in upgrading or going to the next version even five or seven years after I bought it. With the current situation, I just don't have a choice. I have to ante up every year. And what I'm anteing up every year is a multiple of what I used to ante up. So it became a great business going towards like a truly exceptional business. They've executed very well so far on the AI side and I think that Satya is a very gifted leader.

So I did not get the view, I did not arrive at a conclusion that these businesses were fully priced or over-priced. I also didn't arrive at the conclusion that they were screaming bargains. But I thought the truth lay somewhere in the middle, so we took a relatively small position. And I think that if things show up on the radar that are more compelling, we will see whether it makes sense to switch out of them or not, but that's where we are with these two businesses.

OPERATOR

Thank you. And your next question comes from the line of Jason Muhlenkamp. Please go ahead.

JASON MUHLENKAMP

Thank you, Mohnish, for this Q&A session. I really appreciate it. I'm going to tie together two related questions really quickly. Any specific reasons why the Wagons Fund was launched as a traditional mutual fund rather than an ETF? And then secondly, from public info it's clear that there's substantial overlap between the Wagons Fund and your pre-existing funds, yet there's clear distinctions in the holdings. Beyond the position limit drivers you discussed earlier, can you discuss the philosophical drivers that are driving the quite similar but yet meaningful differences? Thank you.

MOHNISH PABRAI

Yeah. I think we went with the mutual fund structure because, by and large, I think a lot of ETFs are more simplistic, they're more on autopilot, much more index-type products. This is very much an actively-managed fund, it's not really an index-type product, and so to us it just made sense. And the other thing is that we weren't necessarily looking, you know, one of the advantages of ETFs is that you can trade them all day long and we weren't really looking for that type of a demographic in terms of the investors. In fact, that's why we have a redemption fee if people sell within 90 days of purchasing. We wanted to attract a certain type of investor.

And I think in terms of the overlap, the overlap between, I'm restricted in what I can talk about in the private funds with all the SEC rules, but I would say that private funds generally don't have really any restrictions on how big a position can be or how many positions we can have or any of those. I think, by definition, the Wagons Fund looks very different from the other funds that we have. But really, like I said, because of all these rules and laws, I really can't talk much about it, but it's a really different vehicle. I think you should focus on it as itself and kind of take it from there.

OPERATOR

Thank you. Your next question comes from the line of Ryne Maxwell. Please go ahead.

RYNE MAXWELL

Hi, Mohnish. Thanks for taking the question here. I understand and really appreciate the thesis around the car dealership plays as a whole. I'm curious if you can talk at all about your thought process behind selecting a couple of specific dealerships in the US instead of maybe doing a more broad-basket bet, you know, incorporating other companies like Lithia, Penske, so on. I'd appreciate your thoughts there. Thanks.

MOHNISH PABRAI

Yeah, that's a good question. If we stick to US dealerships, there are not that many dealerships in the United States that are publicly traded of any size that we could invest in. Penske, for example, is a really good operation. I like Roger Penske a lot. They have a great truck business and I think it's a great place, but it's a little bit different from the Asburys and Lithias of the world from the perspective of buybacks. So Penske really is not in a position to do buybacks because 50% is owned by Roger Penske and another 20% is owned by Mitsui, which is one of the five bets Warren made, and so 70% is kind of closely held and so it's not really focused on buybacks and the multiple it trades at is a little more than some of these other players. So when we looked at, ah, I would say the most impressive of the group that we looked at was Asbury. I would say that the others, you know, someone like Lithia is a little different animal, but I think they've got a very good capital allocation engine. So I would say, in terms of capital allocation, I would put Asbury and Lithia up there. In terms of quality of operations, Group 1 is exceptional, more Texas-focused and so on, but I think if you took a dart and I think threw them at the top five, including Penske, so what I mean is, Asbury, Lithia, Group 1, AutoNation and Penske, and you bought a basket, I don't think you would go wrong with that. I think that basket is likely to work out quite well.

OPERATOR

Thank you. And your next question comes from the line of Eugene Seki. Please go ahead.

EUGENE SEKI

Hi, Mohnish. Thank you for taking my question. My question is longer term and it has to do with timing when you buy stocks. In Pulak Prasad's book, *What I Learned About Investing from Darwin*, which is a book that you mentioned in one of your YouTube talks, he talks about buying a lot of stocks during the downturn in 2008/2009 and COVID. He could do this because he structured it this way, being able to draw funds when he wanted, and when the market came down he asked his existing investors to add more. Pulak talks about this as being one, you know, buying in uncertain and depressed times is one of the drivers for his fund's success. But as a mutual fund, do you have the ability to buy when times are depressed or do you have to kind of buy when the funds come in, which, you know, retail investors historically, they buy when times are good and that's generally not when the markets are depressed? Thank you.

MOHNISH PABRAI

Yeah, that's a great question. I don't think we have any kind of regulatory mandate that we have to be fully invested, so we do have flexibility there. At the same time, I'm not a market timer. If we see opportunities that it makes sense to put our capital in, if we had inflows into the funds, we're very comfortable adding to our dealerships and adding to our coal bets and adding to Anadolu Efes and so on. And so I think when we have a degree of comfort on those, we'll proceed. If we didn't have a degree of comfort on those, we could close the funds or we could build the cash, etc. We haven't had to go down those routes so far, but those tools are available to us.

OPERATOR

Thank you. And your last question comes from the line of Harry Woo. Please go ahead.

HENRY WOO

Hey. Thanks for taking another question. This kind of goes back to one of your earlier points, Mohnish, about the size of the fund and then at what point it becomes sort of more profitable for the advisor. And we hear a lot about just scaling up funds from Buffett and Munger in terms of, you know, at some point it becomes harder to kind of provide value over the index returns. Is there a certain point at which you say this fund is too large? I know it's early days for the fund, but just thinking long term, is there a point at which it becomes too big where you say, you know, it's more difficult now because of the size to deliver the type of performance you're expecting to?

MOHNISH PABRAI

Absolutely. There is a direct correlation, inverse correlation between size and performance. And I would not be excited about running a fund that has a very low probability of beating the index and I think beating the index becomes hard if you become really large. So we will play it by ear. We will just look at the opportunity set and how we were doing versus the size and what we had in the mix and if it started to get to the point where we were having difficulties, you can see loss inflows, and that's perfectly fine.

HENRY WOO

Great. Okay, cool. Thanks.

MOHNISH PABRAI

And thank you very much to everyone for participating. I really enjoyed this first call and I hope you enjoyed the session as well.

OPERATOR

Thank you. Ladies and gentlemen, that does conclude the conference for today. Thank you all for participating. You may all disconnect.

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