

# Midas touch

## Mohnish Pabrai moves from managing funds to funding talent

**M**agic and misery had their way with Mohnish Pabrai long before the money did – though there were no signs that this founder and managing partner of California-based Pabrai Investment Funds and grandson of legendary magician Gogia Pasha would some day conjure up millions, despite a chaotic childhood. “I fondly remember accompanying my grandfather to watch waterfalls, visit hilltops and even assisting him in some breathtaking tricks as a child,” reminisces 45-year-old Mohnish Pabrai, whose claim-to-fame is the mid-2008, \$650,000 charity lunch with Warren Buffett.

Pabrai has equally vivid, but somewhat harsher, memories of growing up in Mumbai where his father ran a series of unsuccessful ventures. Life then, Pabrai says, was fun or otherwise, depending on which way the family business moved. “We had to live through bouts of extreme uncertainty but it inculcated a sense of business in me early on,” says Pabrai. A graduate in computer engineering from South Carolina’s Clemson College, Pabrai left his masters degree unfinished at the Illinois Institute of Technology “to manage a business rather than study it”. He worked for a while with Tellabs in Chicago before launching TransTech in 1990, an IT consulting and systems integration outfit, funded with \$30,000 from a retirement account and \$70,000 from credit cards. The going was good – TransTech grew to 180 people and \$25 million in revenues in a decade – but not thrilling enough. So in 2000, Pabrai sold it to Kurt Salmon Associates for a “lucrative consideration”.

In between managing TransTech, Pabrai had been dabbling in markets, inspired by Buffett’s autobiography and tickled by the investment business. He even wrote to Buffett offering to work for him for free. Buffett turned down the offer politely, pronouncing investment as an individual endeavour. Undaunted, Pabrai started

his own fund in 1999 with \$1 million from eight investors. “If you can’t work for your guru, you can at least apply his principles,” says Pabrai. Today, Pabrai Investment Funds has grown to over \$300 million in assets (it peaked at \$625 million in 2007),



*Pabrai: emulating Buffett successfully*

catering to 400 wealthy investors, 50 of whom are of Indian origin. The fund has averaged an annualised return of almost 11 per cent between 1999 and 2008, crossing 20 per cent in some years. “If I achieve 20 per cent returns, then roughly 16.5 per cent goes to the investors and the rest is my take. There is no management fee,” says Pabrai, adding, “normally, there are only 15 names in our funds with more or less an equal allocation.”

### Cashing in

Pabrai is particularly proud of some names. One is the Norwegian oil tanker firm Frontline whose stock dipped to \$3 in 2002 from a high of \$15 after shipping rates crashed 75 per cent to \$5,000 a day due to a lull in oil demand. Pabrai studied the oil market and found that small Greek

shippers were selling their near-obsolete tankers for scrap. This meant that when the oil demand resurfaced, there would be a shortage of tankers and Frontline would command premium rates with its ready fleet. Months later, Frontline was charging \$50,000 a day and Pabrai made a killing. Similarly, he once bought aggressively into the funeral-home operator Stewart Enterprises when the stock collapsed from \$15 to \$2 due to a \$500 million debt payment coming due in a couple of years. Pabrai figured they owned enough funeral homes to handle the debt and had steady revenue stream or what he calls “an air-tight cash flow”. The investment paid off handsomely, with Pabrai doubling his money. “It is all part of value investing, as professed by Buffett and others,” he says.

Pabrai is an unabashed fan of Buffett’s. Such is his admiration that he forked out \$650,000 for a charity lunch with the Oracle of Omaha in 2008. Was this a value investment too? Not really, says Pabrai. “This was the best way to thank him for all I have learned. The lunch was the bonus.” Pabrai says he discussed 54 different topics with his guru, ranging from investment philosophy and basic human values to family and philanthropy. “Like Buffett, I too would like to recycle a large part of my wealth eventually for society,” says Pabrai. To initiate ‘giving back’, Pabrai and his wife Harina Kapoor have set up The Dakshana Foundation which funds and prepares impoverished, yet gifted, students for the intensely competitive IIT entrance tests. In 2007, the Foundation enrolled 350 scholars in a tie-up with Jawahar Navodaya Vidyalaya (JNV), of which 75 qualified in the IIT-JEE merit list and another 154 made it to the Extended Merit List in May 2009. “We spent \$4,000-\$5,000 on each child but the income enhancement over that individual’s lifetime is likely to be several million dollars,” reveals Pabrai who is targeting a hit rate of 95 per cent for its current batch of Dakshana scholars. That would certainly enliven the future of many gifted children.

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