

# PABRAI • INVESTMENT • FUNDS

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**Welcome!**

**2010 Annual Meeting**  
**Sept. 11/25, 2010**

**Mohnish Pabrai**  
Managing Partner

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## Agenda

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- ◆ **Performance Review & Expectations**
  - ◆ **Post-mortem on Past Holdings**
    - ◆ **Q & A Session**

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**2010 Annual Meeting**

## PIF2 (US Accredited) Performance Review

	<u>DJIA</u>	<u>NASDAQ</u>	<u>S&amp;P 500</u>	<u>PIF2</u> (net to investors)
10/1/00 – 6/30/01	-0.2%	-41.0%	-14.0%	+17.4%
7/1/01 – 6/30/02	-10.3%	-32.7%	-18.0%	+35.3%
7/1/02 – 6/30/03	-0.5%	+11.4%	+0.3%	+34.2%
7/1/03 – 6/30/04	+18.6%	+26.8%	+19.1%	+38.7%
7/1/04 – 6/30/05	+0.7%	+1.1%	+6.3%	+23.4%
7/1/05 – 6/30/06	+11.1%	+6.5%	+8.6%	+15.0%
7/1/06 – 6/30/07	+23.0%	+20.7%	+20.6%	+34.0%
7/1/07 – 6/30/08	-13.3%	-11.2%	-13.1%	-32.4%
7/1/08 – 6/30/09	-23.0%	-19.1%	-26.2%	-25.2%
7/1/09 – 6/30/10	<b>+18.9%</b>	<b>+16.0%</b>	<b>+14.4%</b>	<b>+43.6%</b>
1/1/09 – 6/30/10	-5.0%	-6.6%	-6.7%	-3.4%
<b>Annualized</b>	<b>+1.5%</b>	<b>-4.9%</b>	<b>-1.5%</b>	<b>+12.7%</b>
<b>Cumulative</b>	<b>+15.5%</b>	<b>-38.7%</b>	<b>13.9%</b>	<b>+308.4%</b>

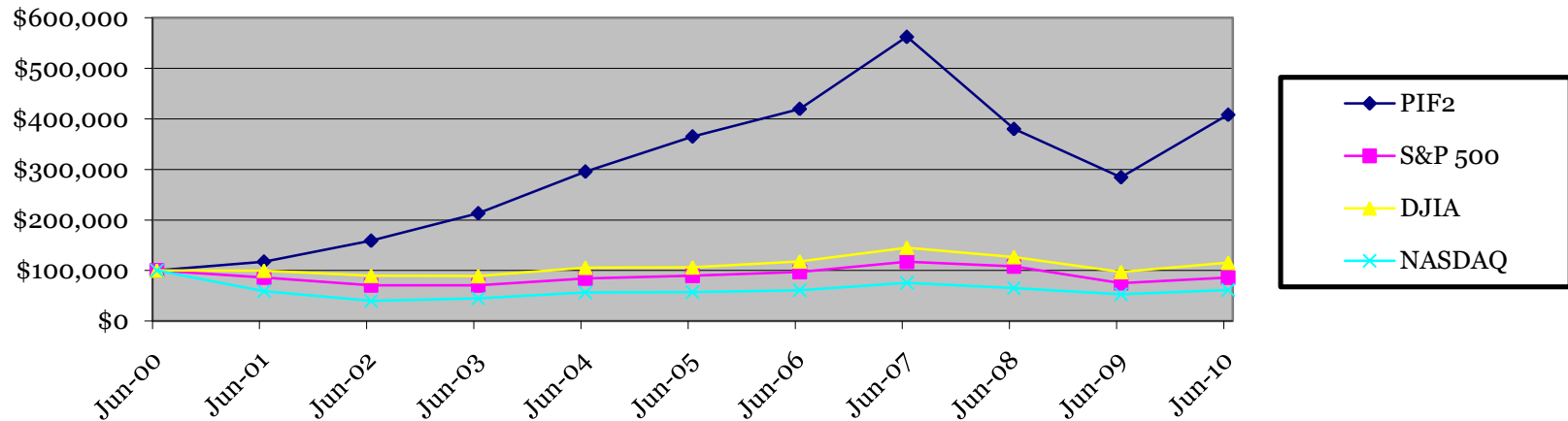
**2010 Annual Meeting**

## PIF2 (US Accredited) Performance Review

Comparison of changes in value of \$100,000  
invested in PIF2 vs. the Indices.

**PIF2: \$408,400**

**Best Index (Dow): \$115,500**



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## PIF2 (US Accredited) Performance Review

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A \$100,000 investment in PIFI at inception in 1999 (and subsequently merged with PIF2 in 2002) was worth **\$572,100** on June 30, 2010. The best index (Dow) was worth **\$114,300**.

**PIFI/PIF2 Annualized Return:** **+17.2%**

**Best Index (Dow):** **+1.2%**

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## Performance Comparison PIFI/PIF2 vs. The Best Index

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>Life of Fund (11 years)</u>
<b>PIFI/PIF2</b>	<b>+43.6%</b>	<b>-10.1%</b>	<b>+2.3%</b>	<b>+17.2%</b>
<b>Best Index</b>	<b>+18.9%</b> (Dow)	<b>-5.9%</b> (Nasdaq)	<b>+1.7%</b> (Dow)	<b>+1.2%</b> (Dow)

(Annualized; As of 6/30/10)

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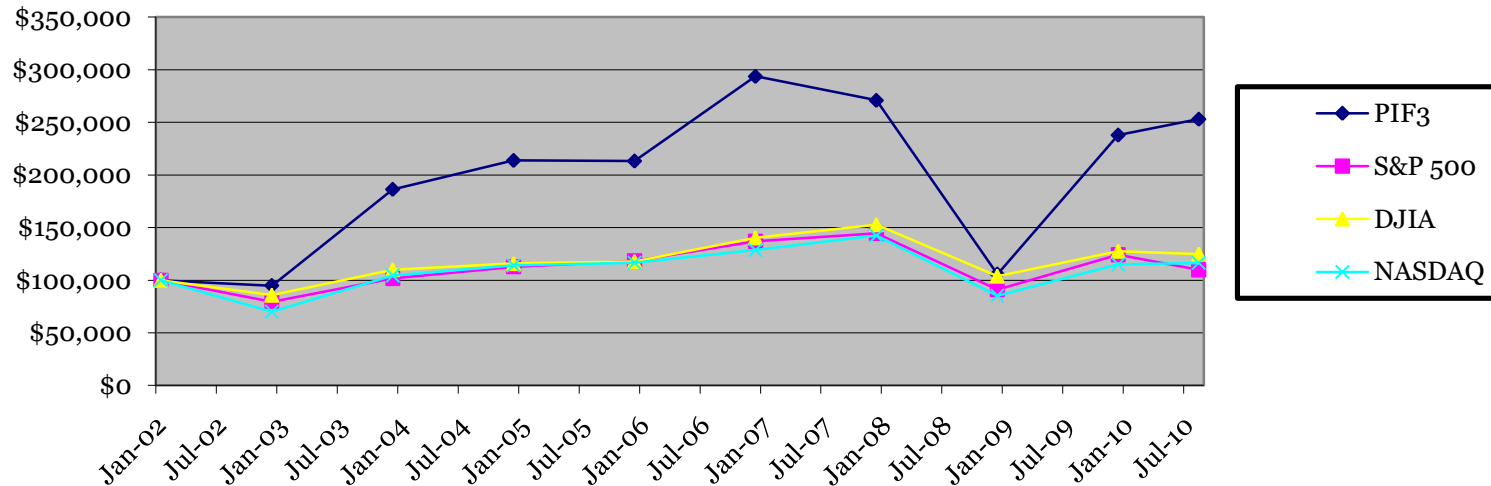
## PIF3 (Offshore/IRA) Performance Review

	<b>DJIA</b>	<b>NASDAQ</b>	<b>S&amp;P 500</b>	<b>PIF3</b> (net to investors)
2/1/02 – 12/31/02	-14.1%	-29.9%	-20.4%	-5.2%
1/1/03 – 12/31/03	+28.3%	+50.8%	+28.7%	+96.5%
1/1/04 – 12/31/04	+5.3%	+9.2%	+10.9%	+14.7%
1/1/05 – 12/31/05	+1.7%	+2.1%	+4.9%	-0.2%
1/1/06 – 12/31/06	+19.0%	+10.4%	+15.8%	+37.8%
1/1/07 – 12/31/07	+8.9%	+10.7%	+5.5%	-7.8%
1/1/08 – 12/31/08	-31.9%	-39.9%	-37.0%	-60.9%
1/1/09 – 12/31/09	+22.7%	+45.4%	+26.5%	+125.0%
1/1/10 – 8/31/10	-2.1%	-6.2%	-4.6%	<b>+6.3%</b>
<b>Annualized</b>	<b>+2.6%</b>	<b>+1.8%</b>	<b>+1.1%</b>	<b>+11.4%</b>
<b>Cumulative</b>	<b>+24.9%</b>	<b>+16.4%</b>	<b>+9.9%</b>	<b>+152.8%</b>

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## PIF3 (Offshore/IRA) Performance Review

**Comparison of Changes in Value of  
\$100,000 invested in PIF3 vs. the Indices.  
PIF3: **\$252,800**; Best Index (Dow): **\$124,900****



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## PIF3 (Offshore/IRA) Performance Review

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A \$100,000 investment in PIF3 at inception in 2002 was worth \$252,800 on Aug. 31, 2009. The best index (Dow) was worth \$124,900.

**PIF3 Annualized Return: +11.4%**

**Best Index (Dow): +2.6%**

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## Performance Comparison PIF3 vs. The Best Index

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>Life of Fund (~8.6 years)</u>
<b>PIF3</b>	<b>+18.8%</b>	<b>-6.0%</b>	<b>+3.0%</b>	<b>+11.4%</b>
<b>Best Index</b>	<b>+8.4%</b> (Dow)	<b>-5.7%</b> (Nasdaq)	<b>+1.8%</b> (Dow)	<b>+2.6%</b> (Dow)

(Annualized; As of 8/31/10)

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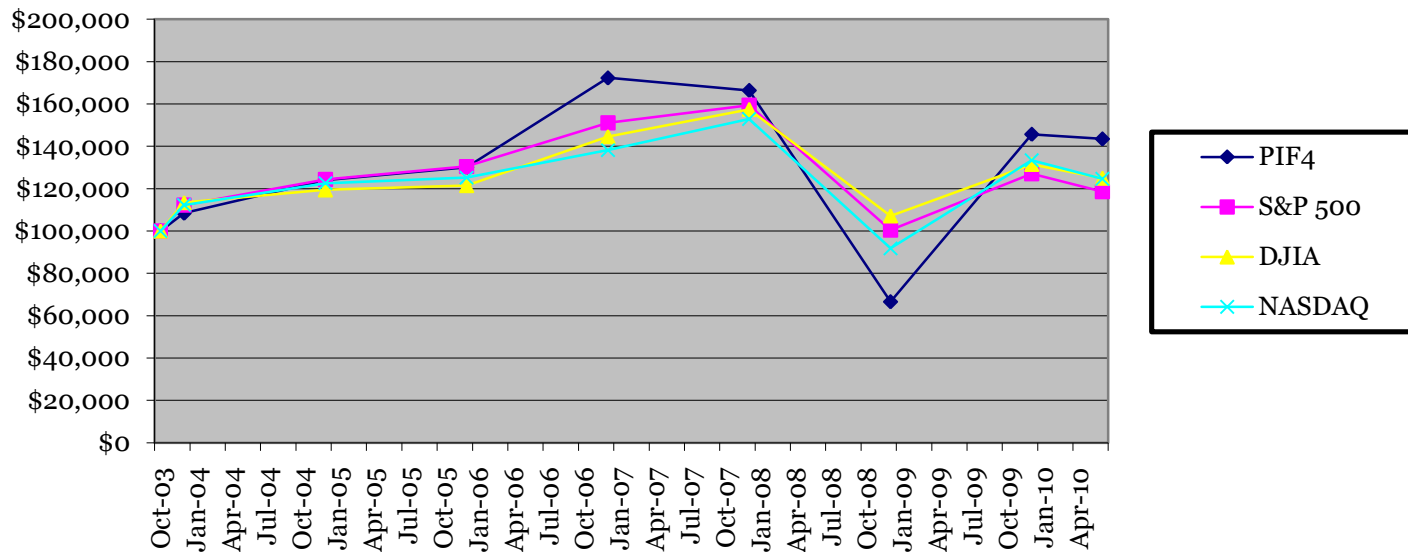
## PIF4 (US Qualified) Performance Review

	<u>DJIA</u>	<u>NASDAQ</u>	<u>S&amp;P 500</u>	<u>PIF4</u> (net to investors)
10/1/03 – 12/31/03	+13.4%	+12.3%	+12.2%	+8.4%
1/1/04 – 12/31/04	+5.3%	+9.2%	+10.9%	+14.4%
1/1/05 – 12/31/05	+1.7%	+2.1%	+4.9%	+4.9%
1/1/06 – 12/31/06	+19.0%	+10.4%	+15.8%	+32.4%
1/1/07 – 12/31/07	+8.9%	+10.7%	+5.5%	-3.4%
1/1/08 – 12/31/08	-31.9%	-39.9%	-37.0%	-60.0%
1/1/09 – 12/31/09	+22.7%	+45.4%	+26.5%	+118.8%
1/1/10 – 6/30/10	<b>-5.0%</b>	<b>-6.6%</b>	<b>-6.7%</b>	<b>-1.5%</b>
<b>Annualized</b>	<b>+3.4%</b>	<b>+3.3%</b>	<b>+2.6%</b>	<b>+5.5%</b>
<b>Cumulative</b>	<b>+24.9%</b>	<b>+24.6%</b>	<b>+18.6%</b>	<b>+43.5%</b>

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## PIF4 (US Qualified) Performance Review

**Comparison in Changes in Value of \$100,000  
invested in PIF4 vs. the Indices.  
PIF4: \$143,500; Best Index (Dow): \$124,900**



## PIF4 (US Qualified) Performance Review

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A \$100,000 investment in PIF4 at inception in 2003 was worth **\$143,500** on June 30, 2010. The best index (Nasdaq) was worth **\$124,900**.

**PIF4 Annualized Return: +5.5%**

**Best Index (Nasdaq): +3.4%**

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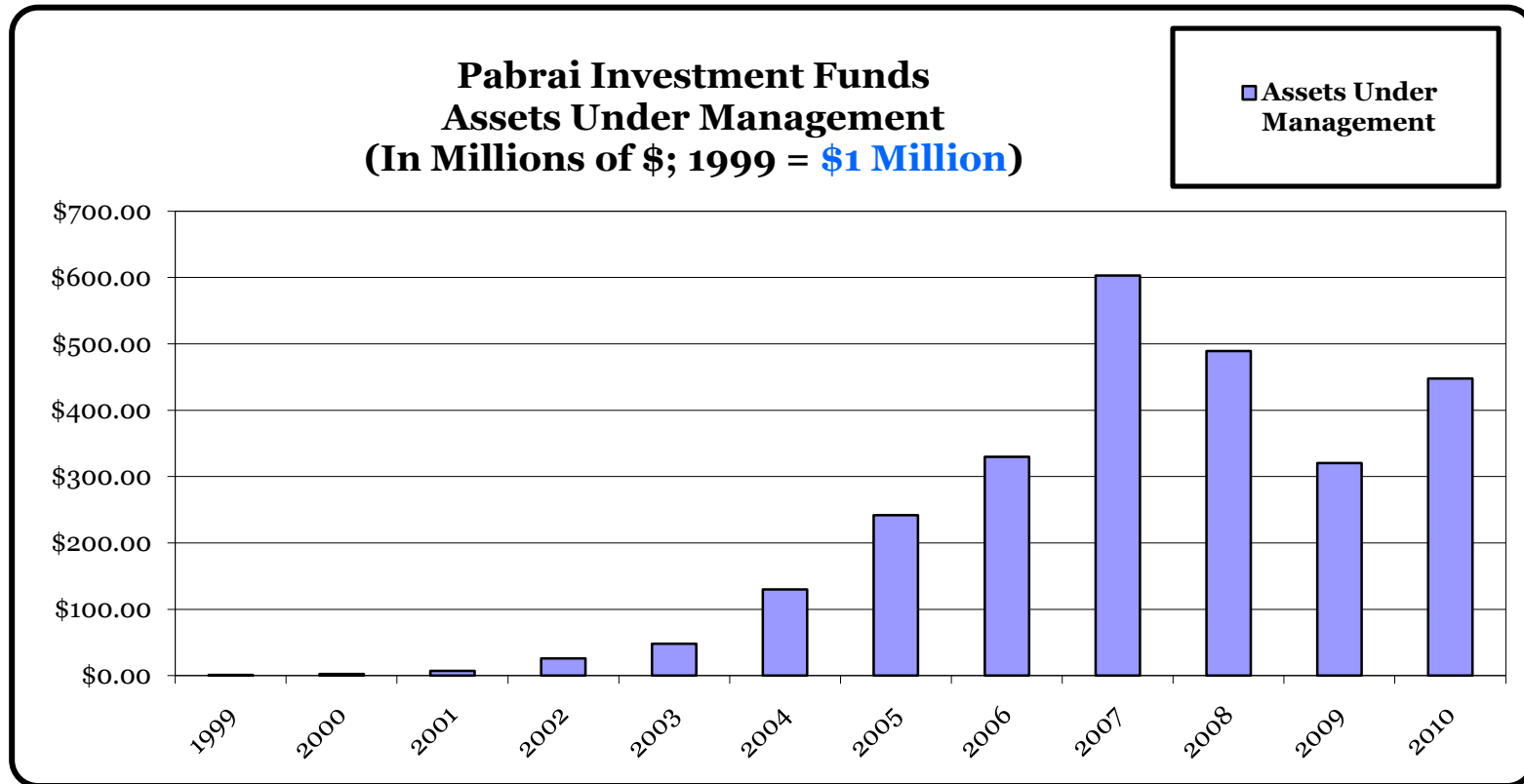
## Performance Comparison PIF4 vs. The Best Index

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>Life of Fund (~6.8 years)</u>
<b>PIF4</b>	<b>+43.4%</b>	<b>-10.4%</b>	<b>+3.0%</b>	<b>+5.5%</b>
<b>Best Index</b>	<b>+18.9%</b> (Dow)	<b>-5.9%</b> (Nasdaq)	<b>+1.7%</b> (Dow)	<b>+3.4%</b> (Dow)

(Annualized; As of 6/30/10)

# 2010 Annual Meeting

## Assets Under Management (~\$450 Million)



## 2010 Annual Meeting

## July 1– Aug. 31 Estimated Performance

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**PIF3 publishes results monthly. The other funds (PIF2 & PIF4) publish quarterly.**

**PIF3 Performance from 7/1/10 – 8/31/10: +8.5%**

**Best Index (Dow): +3.0%**

**(YTD, PIF3 is outperforming indices by 8.5% to 12.6%)**

**PIF2 and PIF4 are up similarly. Assets are about \$487 Million.**

**High Water Mark: PIF2: 79%; PIF3: 74%; PIF4: 78%**

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## A Tale of Two Periods

- **PIF1/PIF2 Performance from 7/1/99 to 6/30/07**
  - **29.4% Annualized vs. 4.6% for Dow**
- **PIF3 Performance from 2/1/02 to 6/30/07**
  - **22.0% Annualized vs. 7.9% for Dow**
- **PIF4 Performance from 10/1/03 to 6/30/07**
  - **20.2% Annualized vs. 13.7% for S&P 500**
- **From inception to 6/30/07, the results are more than acceptable for all three funds.**

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## 2<sup>nd</sup> Period: 7/1/07 – 8/31/10

- **Dow: -18.1%**    **S&P 500: -25.0%**    **Nasdaq: -16.3%**
  - **PIF2: -21.2%\*** ; **PIF3: -25.8%** ; **PIF4: -22.0%\***
- From 7/1/07 – 8/31/10, two of the funds are now beating the S&P 500.
- All three funds are pretty close to beating all three indices.
- **1<sup>st</sup> Milestone: Beat the indices from 7/1/07 onwards**
- **2<sup>nd</sup> Milestone: Exceed High-water mark.**

\*Estimate

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## 2010 Annual Meeting

## Ultra-Low Expenses

**PIF2: 11 Basis Points (0.11%)**

**PIF3: 8 Basis Points (0.08%)**

**PIF4: 5 Basis Points (0.05%)**

**A year ago ...**

**PIF2: 15 Basis Points (0.15%)**

**PIF3: 18 Basis Points (0.18%)**

**PIF4: 16 Basis Points (0.16%)**

**Expense ratios for all three funds are amongst the lowest across the entire mutual fund and hedge fund industries.**

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## Performance Expectations

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- ◆ **85% of mutual funds lag the S&P 500 Index after all fees and expenses. Just 0.5% of Mutual Funds beat the Indices by over 3%. (Source: Bogle)**
- ◆ **Our goal is to beat the three indices over the long haul. Beating all three indices is likely to put us in the top 10% of all US mutual funds and hedge funds.**
- ◆ **I'm quite confident we'll beat the indices over the long haul. Not sure by how much.**

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## Pabrai Funds Value Proposition

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- ♦ **No management fees. Just performance fees.**
    - ♦ **If we had a 2/20 structure, fee would be \$10 Million/year.**
  - ♦ **Pabrai Family is the largest investor – eating my own cooking.**
    - ♦ **Interests are fully aligned.**
  - ♦ **High water marks**
    - ♦ **No performance fees till we're at all time high and higher than 6% annualized from 6/30/07 high.**
    - ♦ **New money/investors get free ride up to that point.**
    - ♦ **Good time to add funds – cheapest fund on fee basis.**
  - ♦ **No Leverage, No derivatives, No margin loans, No short positions**
    - ♦ **Stable, diversified group of investors – 400+ families worldwide**
    - ♦ **Investors are long-term oriented and “get it.” Fantastic group.**
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## Checklist 2.0

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- Had three interns work on The Checklist 2.0 part-time this summer.
    - Identified mistakes by great investors.
      - Analyzed 13-F Filings and commentaries
      - Identified over \$19 Billion in permanent capital loss from 2004-10.
        - Davis, Oakmark, Third Avenue, Longleaf, Fairholme, Baupost, Greenlight, ESL, Pershing, Brave Warrior, Oak Value, Wintergreen.
        - 363 Mistakes!
      - In the process of going through the mistakes and lessons learnt and adding to the checklist.
    - Rich data set. In most cases, these investors have never talked about these mistakes. Figuring out the checklist failure can be time consuming.
  - Intern leader, Joe “make Excel dance” Benevento did a great job.
    - Free ad for Joe: [jbenevento@mba2011.hbs.edu](mailto:jbenevento@mba2011.hbs.edu)
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## Checklist 2.0

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- **Additions/Refinement of The Checklist has no end.**
  - **Every mistake, we reverse engineer and figure out failure/oversight makes the investing process more robust.**
  - **Am in the process of gleaning the data as time permits.**
    - **Extracting the lessons.**
  
- **Since incorporation of Checklist in Q408: 18 new investments**
  - **3 full exits – all profitable.**
  - **Highly likely to have no permanent capital loss on any of them.**
  - **Fully expect to make mistakes, but expect much lower error-rate.**
  
- **Great weapon in the arsenal!**

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## A Cross-section of Recent Past/Sold Holdings



Ternium

Teck



teckcominco



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## Ternium

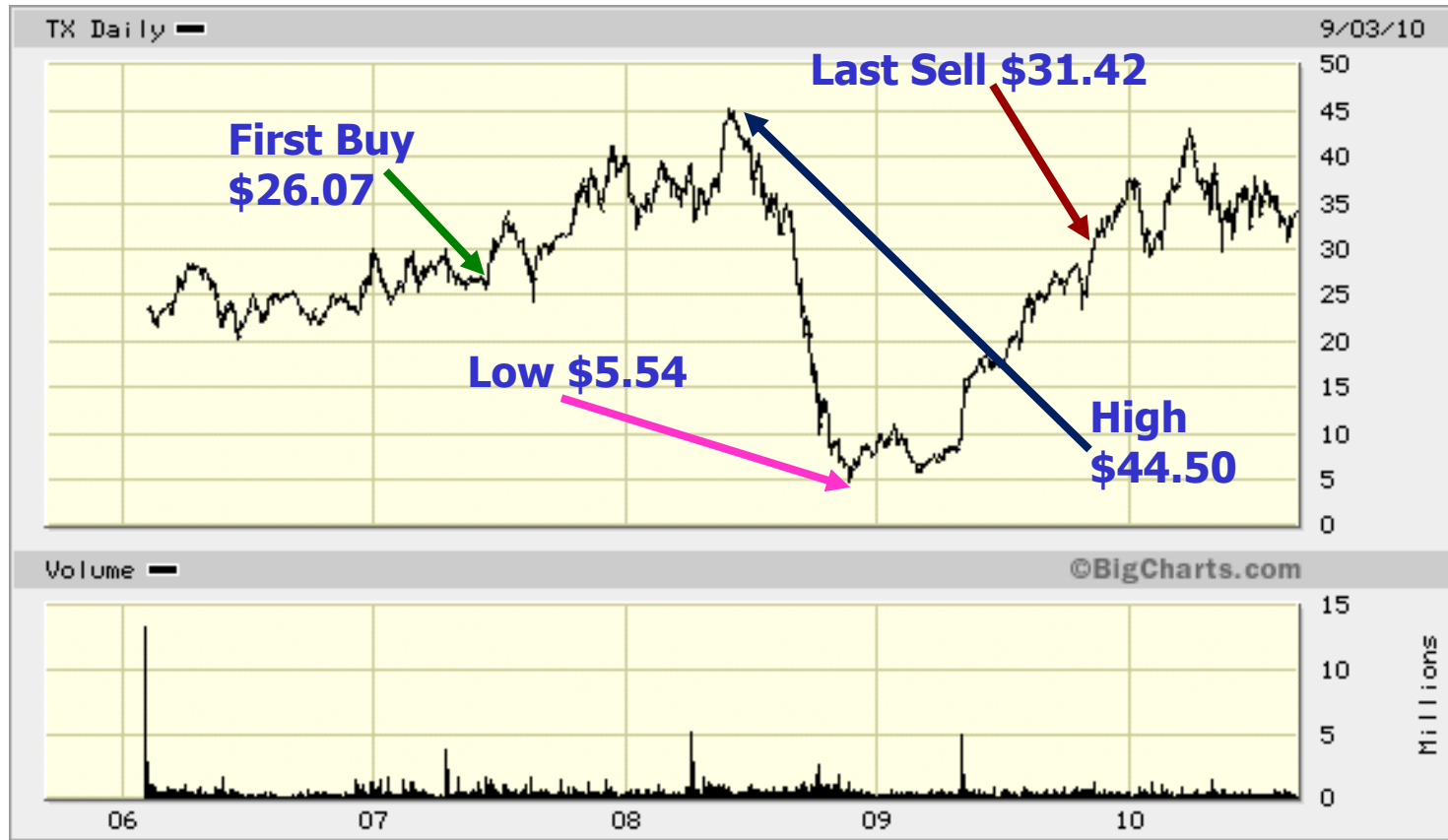
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- First bought on June 13, 2007 for \$26.07/share
- Last sold on Nov. 12, 2009 for \$31.42/share
- Avg. Buy Price: \$26.98; Avg. Sell Price: \$28.40
- Total Amount Invested: \$49.6 Million (all 3 funds)
- Total Proceeds (incl. dividends): \$52.2 Million
- ~5.2% realized gain over 2+ years.

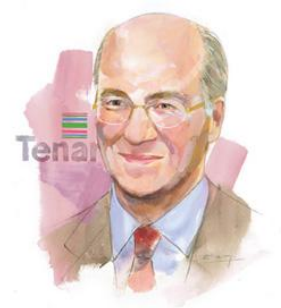




## Ternium



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## Ternium

- **Blue Chip Latin American Steel Producer**
  - **Dominant market share in Mexico & Argentina**
  - **Vertically integrated – from mines to distribution centers**
  - **Low-cost producer with captive Iron-ore, coal and nat. gas**
  - **Managed/controlled by Rocca Family – world-class folks.**
  
- **The overhang**
  - **Possibility of nationalization of Venezuelan subsidiary.**
    - **1/4 th of EBITDA**
    - **Stock was depressed due to this uncertainty.**
    - **Didn't believe, even with a nationalization it was worth 0**
    - **IV estimated in Q207 at \$55/share; Trading below \$27.50**

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## Ternium – What Happened?

- **Great recession/Financial crisis – decimated the FCF thesis.**
  - **Chavez did nationalize Venezuelan assets**
    - **This 1-2 punch led to an 87% price drop in Q308 and Q408**
  - **Rocca did negotiate successfully with Chavez and collect.**
  - **Volumes and Cash flow started rebounding in late 2H09.**
    - **Nearly an 8x rise in price within 18 months!**
  - **Pabrai Funds lived through extreme gyrations in price:**
    - **\$26 to \$44 to \$5 to \$30 – all in 2.5 years.**
    - **Sold out at small gain in Q409 as had other opportunities.**
  - **Thesis is playing out with a delay. Company is likely to do well.**
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## Teck – Formerly Teck Cominco

- First bought on Dec. 1, 2008 for \$4.52/share
- Last sold on Feb. 12, 2010 for \$35.92/share
- Avg. Buy Price: \$4.33; Avg. Sell Price: \$37.08
- Total Amount Invested: \$4.4 Million (all 3 funds)
- Total Proceeds (incl. dividends): \$38.0 Million
- ~763% realized gain over about 13 months.

teckcominco

2010 Annual Meeting

# Teck

## Teck



## 2010 Annual Meeting



## Teck

- **World-class Canadian Miner**
    - **Large base of unique low cost mines in critical commodities**
      - **Met Coal, Zinc (Red Dog Alaska), Copper etc.**
  - **The IBM of Mining – BHP, Rio, Vale, Teck**
  - **Subject to the vagaries of commodity prices**
    - **FCF can range from \$500 MM to \$9.5 Billion annually**
    - **Ultra low-cost asset base protects FCF from going negative.**
  - **They owned 60% of Fording and offered to buy rest for \$14.5B**
  - **Mostly financed with 1-year bridge and term loans in Q308**
    - **All hell broke loose in Q408**
    - **Commodity prices crushed; Lehman; No financing for anything. No clear path to handling debt. Stock collapses.**
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## Teck

- **If Teck filed for bankruptcy, common would most likely have plenty of value.**
  - **Liquidity mis-match (like General Growth)**
- **I studied Teck and concluded that it was well worth making an investment as part of a “commodities basket” i.e 2% of assets.**
  - **Company had many many levers it could pull.**
    - **Cancel dividend, asset sales**
    - **Some hedges in place, so some FCF was guaranteed.**
    - **Banks don’t want to own/run mines. Prefer a pound of flesh and extend maturities. “Extend and pretend!”**
    - **Commodity prices could get a lift from severe depressed levels.**
- **If it didn’t go BK, it could be a 5-7 bagger.**

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## Teck – What Happened?

- **Commodity prices improved.**
- **Got loan extensions from banks with less than a pound of flesh.**
- **Issued bonds.**
- **Issued equity to China Investment Corp.**
- **Lots of Asset Sales.**
- **Got themselves out of the tight corner.**
- **March '09: Stock under \$5/share**
  - **January '10: Stock over \$40/share – 8x in 10 months!**
- **Teck has been our best performing exited position in the history of Pabrai Funds. Nearly an 8x in 13 months.**

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## Past Holdings – A Cross Section

**RADIOLOGIX**

**LEAR**  
CORPORATION

FAIRFAX  
FINANCIAL HOLDINGS LIMITED

**FRONTLINE**

**COVANTA**

**EMBRAER**

**Silicon Valley Bank**

**Stewart Enterprises, Inc.**

**Sears** LIBERTYGLOBAL

**UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.**

**EXIDE** E. W. Blanch

**CANADIAN OIL SANDS TRUST**

**stamps.com**

**COMPU CREDIT** **Teck**

**ipsco** BERKSHIRE HATHAWAY INC.

**SUNRISE**  
SENIOR LIVING

**Level (3)**  
COMMUNICATIONS  
**RICHMOND**  
AMERICAN HOMES

**Budget** **VDM**  
VAN DER MOOLEN  
**Diamond**  
Management & Technology Consultants

**TESORO**

**DELTA**  
RATION

**register.com**

**Ternium** **impark**

**Gartner**

**FREMONT GENERAL**

**bio scrip**

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## The Company We Keep



Conyers Dill & Pearman

MorganStanley  
SmithBarney



MICHAEL J. LICCAR & CO.  
CERTIFIED PUBLIC ACCOUNTANTS

PRICEWATERHOUSECOOPERS 

Sonnenschein<sup>®</sup>  
SONNENSCHN NATH & ROSENTHAL LLP

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## The Awesome Team at Pabrai Funds

- **Isabelle Secor, Office Manager**
- **Nickii Aleo, Administrative Assistant**
- **Lynn Dann, Administrative Assistant**
- **Diana Dillman, Administrative Assistant**
- **Julie Teltscher, Office Manager**



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**Q & A**

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