



PABRAI INVESTMENT FUNDS

2015 Annual Report

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Dear Partners & Investors:

2015 was a challenging year for Pabrai Funds – mostly due to a mistake I am entirely responsible for. All three funds were down 15-19% for the year, while the benchmark indices were in positive territory. Most of our underperformance came from a significant drop in one relatively large position, Horsehead Holdings. Had our Horsehead's stock price stayed flat, we would have ended the year flat, which would actually have been a decent result because 2015 was, as Seth Klarman of Baupost notes, a stealth bear market.

In 2015 the top ten stocks in the S&P 500 by market cap were up nearly 23%, while the remaining 490 fell 3.5% on average. And since the S&P is market cap weighted, the top ten stocks make up nearly a fifth of the index. There were very few places to hide. It was very hard not to have a down year in 2015 – and most mutual funds and hedge funds encountered stiff headwinds in 2015.

Our problems, however, were mostly related to Horsehead, which was far from flat in 2015. In fact, a few weeks ago, the company filed for Chapter 11 bankruptcy reorganization. It is one of the most painful episodes in the history of Pabrai Funds – one that is still unfolding in slow motion. There were clearly a number of mistakes I made with Horsehead. Some are subtle and some are not so subtle. In hindsight, I should have cut the Horsehead position size over 60% a while back. A Horsehead post-mortem starts on Page 5.

PIF2 vs. The Indices

PIF2 vs. The Indices			
Fund	5 Years	10 Years	Since Inception (7/1/99)
PIF2	2.9%	5.5%	14.2%
Best Index	15.0%	9.8%	5.3%
	(Nasdaq)	(Nasdaq)	(Dow)
Note: All numbers are annualized - net to investors after all fees and expenses			

A \$100,000 investment in PIFI at inception on July 1, 1999 and rolled over into PIF2 on 12/31/02 (\$197,900) was worth \$889,900 as of December 31, 2015 (net to investors). This equates to an annualized return of 14.2% since inception – after all management fees and expenses. The best index over the same period was the Dow and an investment of \$100,000 in the DJIA on July 1, 1999 was worth \$234,400 on December 31, 2015 – an annualized gain of 5.3%. The Dow gains include reinvested dividends.

PIF3 vs. The Indices

PIF3 vs. The Indices			
Fund	5 Years	10 Years	Since Inception (2/1/02)
PIF3	5.3%	6.8%	10.7%
Best Index	15.0%	9.8%	8.2%
	(Nasdaq)	(Nasdaq)	(Nasdaq)
Note: All numbers are annualized - net to investors after all fees and expenses			

A \$100,000 investment in PIF3 at inception on February 1, 2002 was worth \$413,300 as of December 31, 2015 (net to investors). This equates to an annualized return of 10.7% since inception. The best index over the same period was the Nasdaq and an investment of \$100,000 in the Nasdaq on February 1, 2002 was worth \$299,600 on December 31, 2015 – an annualized gain of 8.2%. The Nasdaq gains include reinvested dividends.

PIF4 vs. The Indices

PIF4 vs. The Indices			
Fund	5 Years	10 Years	Since Inception (10/1/03)
PIF4	4.5%	6.2%	7.3%
Best Index	15.0%	9.8%	10.0%
	(Nasdaq)	(Nasdaq)	(Nasdaq)
Note: All numbers are annualized - net to investors after all fees and expenses			

A \$100,000 investment in PIF4 at inception on October 1, 2003 was worth \$237,100 as of December 31, 2015 (net to investors). This equates to an annualized gain of 7.3% since inception. The best index over the same period was the Nasdaq and an investment of \$100,000 in the Nasdaq on October 1, 2003 was worth \$321,800 on December 31, 2015 – an annualized gain of 10.0%. The Nasdaq gains include reinvested dividends.

Underperforming the Indices

Even the not so diligent reader will note that Pabrai Funds is lagging the best of the three indices over five and ten years. Currently, we are clearly not meeting the goals I laid out at the outset seventeen years ago. For what it's worth, over most of our existence, we have indeed met our performance goals. And I believe we will return to beating the best of the three indices in the not too distant future. Part of the current underperformance is due to an unusual makeup and valuation of the biggest components of the S&P 500 and Nasdaq in the last few years.

We have seen a version of this movie before. The Nasdaq was heavily overdosed on a deadly cocktail of bubbly dotcoms when we started in 1999. Both the Nasdaq and the S&P 500 were in wildly euphoric territory at the time. While the stock market is a voting machine in the short-term, it is a weighing machine in the long-term. From its March 2000 peak, the Nasdaq lost nearly 80% of its value over the next 30 months. Ouch! Over that period, PIF2 was in solidly positive territory. In fact, in the first three years of our existence, the Nasdaq dropped by 60% and we were up 60%! And that was net to investors - after my outrageous fees ☺.

The Nasdaq is now, once again, back to those old highs. It has gone from 1300 to 5200 in less than seven years. In 2002 and 2009, all 2200 stocks on the Nasdaq had a collective market capitalization of \$2 trillion. Today they are valued at \$7 trillion. The top 10 names make up 1/3 of the total pie today. And the top 100 make up 70% of the pie! But there is a critical difference between the Nasdaq of 2000 and the Nasdaq of 2015. While the Nasdaq of 2000 was loaded with businesses that had never made a dime, today's top flyers are solidly profitable. And they are truly exceptional businesses. However, even the most exceptional business has a finite value. When the likes of Facebook and Amazon have P/E ratios of 86 and 445 and sport market caps of \$320 billion and \$250 billion, respectively, any future speed bumps will be quite unpleasant for shareholders.

Both are exceptional businesses run by exceptionally talented CEOs. Jeff Bezos, I think, is one of the most gifted business leaders to come along in a century or more. Truly off the charts. But the weighing machine ain't goin' away. In the end, these businesses are worth the sum of the owner earnings they can produce between now and judgment day, discounted by a reasonable interest rate. And it is anyone's guess what that number is. If you'll let me digress a bit, let's take a closer look at the US advertising industry and what I call the law of large numbers.

The US Advertising Industry

Over a very long period of time, advertising has been pretty stable at about 1.3% of GDP in the US. This is roughly \$218 billion. Google already generates most of its \$80 billion in revenues from advertising. Granted, that is global. However, the \$218 billion is divided between print, television, cable, billboards, direct mail, banner ads, Bing, Google, Facebook, Yahoo – the list is endless. I would not be willing to bet on the \$218 billion growing meaningfully faster than GDP. And there are upper limits on how much advertising Facebook can force us to scroll through before turning us off. Already more than 50% of the US population is active *everyday* on Facebook. Facebook is likely out of significant net new eyeball growth in their flagship property in the United States. There are indeed upper bounds to many of these models. While I'd never wanna bet against Mark Zuckerberg, it is also a no-brainer to not go long in Facebook.

The Law of Large Numbers

The law of large numbers eventually does kick in. In the history of mankind, we have never had any business on the planet valued at much over \$700 billion. Many of the Nasdaq highfliers are presently sporting market caps of over \$100 billion. We will have businesses worth a trillion dollars or more in the future – for sure. Whether those are the current Nasdaq highfliers is unknown. In 2000, Cisco became the most valuable business on the planet with a market cap exceeding \$600 billion. Cisco was then considered essential plumbing for the internet. What is that essential plumbing worth today? Well that plumbing can now be bought for 75% off. Cisco has done well over the years, but it has still been a lousy investment. Similarly, many of the Nasdaq highfliers are likely to do very well in the future. That does not necessarily mean shareholders who bought in at these nosebleed valuations will also do well.

The Pabrai Funds portfolio composition is quite different from the frothy Nasdaq. I love what we own and believe we will do quite well in the years ahead, even with a few mistakes along the way.

Horsehead Holdings Corporation – A post-mortem.

Horsehead Holdings Corporation	
First Bought on:	11/11/2008 for \$3.19/share
Last Sold on:	1/29/2016 for \$0.25/share
Avg. Buy Price:	\$9.98
Avg. Sell Price:	\$1.14
Total Amount Invested:	\$66.9 million
Total Proceeds:	\$7.6 million
Annualized Return:	-26.0%
-88.6% realized loss over an average holding period of 7.2 years.	

Between the three funds, until recently, Pabrai Funds owned over 6.3 million shares of Horsehead. Horsehead was originally bought in November 2008 as a classic Ben Graham net net investment. It was trading well below just the value of its net current assets minus all liabilities. I first learnt of Horsehead in this Forbes article:

<http://www.forbes.com/forbes/2008/1110/056.html>

(Forbes Magazine; Ben Graham Then and Now; 10/23/2008)

After studying all nine businesses listed as net nets in that article, I decided to only invest in Horsehead as part of the commodities basket I was building at the time. We bought about 1.3 million shares of Horsehead for about \$4 million - a 2% bet as part of our 10% commodities basket. Every single bet in that basket worked out very well.

Teck Cominco eventually went up 10x. We captured a 7x return on Teck. In less than 13 months, Horsehead had appreciated by over 400% from the price we paid. A nice home run!

In the last few weeks of 2008 and the first few months of 2009, I was inundated with great investment ideas. It was like drinking from a fire hydrant. I did not get a chance to study these businesses in as much depth as I would have liked. The pricing was such a no-brainer and our position sizes were so small that I acted as fast as I could.

Later I studied businesses like Teck and Horsehead far more closely and discovered that Horsehead was run by an outstanding CEO - a Princeton-trained chemical engineer who had a strong appreciation for making very prudent capital allocation bets.

As I exited our commodities basket, I decided to hang on to Horsehead. In December 2009, Horsehead bought Inmetco from Vale for \$38 million. They bought Inmetco for 2 times cash flow. It is a very nice business that generates some \$18 million a year in operating earnings. When a business is changing hands for \$100 million and is valued at over \$400 million a year later and then they buy another \$18 million in earnings for \$38 million, it gets my attention. I liked what the CEO, Jim Hensler, was doing and decided to keep our shares.

In 2011, Jim did another winner deal. He bought Zochem for \$30 million – and it generates \$15 million in operating earnings. Any additional capex that has gone into both these businesses has generated super high ROI. Now we owned a fraction of a business that had invested \$68 million in two businesses and increased operating earnings by \$33 million.

In fact, I carefully studied all of Jim's major capex decisions and execution skills. They were flawless. These new businesses were nicely integrated. In addition, a \$65 million greenfield EAF (Electric Arc Furnace) dust recycling plant in South Carolina was built in 2009-10, when construction labor was cheaply available. That plant was commissioned on time at a cost that is at least 30% lower than the same would cost today. Until 2011, Horsehead had virtually no net debt. Between 2011 and 2013, I increased our stake in Horsehead significantly. We bought another 5 million shares at prices ranging from \$7-14 a share.

The Mine that Never Depletes and needs no Capex

Unlike other zinc refiners, Horsehead sources its zinc from EAF dust. EAF dust is a waste product generated when steel is produced in mini mills. There are, broadly speaking, two ways to make steel:

1. In a traditional steel mill using a blast furnace using iron-ore and metallurgical coal.
2. In a mini mill with electric arc furnaces using scrap steel from shredded automobiles, washing machines, etc.

About 45 years ago, when Nucor set up its first mini mills using EAF technology, all they could produce was the lowest grades of steel (rebar used in reinforced concrete). Over the decades, EAF technology has improved to the point that, except for the highest end grades of steel, mini mills can produce it all. Because of the significant cost

advantages, mini mills have gone through nonstop growth for the last four decades and taken share from integrated steel mills.

One of the byproducts of EAF steel production is EAF dust. The EPA has characterized EAF dust as a hazardous waste and mini mills need to either send it to landfills or to an outfit like Horsehead which processes EAF dust and extracts the rich zinc content in it.

Horsehead gets paid by the mini mills to haul away the EAF dust. There is about a million tons of this dust produced in the US and Horsehead has long-term contracts to haul away 65+% of it. They thus have a lock on the EAF supply in the United States. They have four zinc recycling (calcining) plants located close to major mini mills. Mini mills are mostly a Southeastern and Eastern US phenomenon (think Nucor) and Horsehead's plants are strategically located near most of these mini-mills, reducing transport costs.

This locked EAF dust that they get paid to take is at the core of Horsehead's competitive advantage. There is little risk of large reductions in dust production. It does ebb and flow with the economy, but there is enough to keep Horsehead's plants running. It is all very elegant and environmentally friendly. Our clunker cars get converted into brand new Cadillacs, and even dirty byproducts like EAF dust do not go into landfill. They are used to produce zinc, which is used to galvanize that shiny Escalade and make it rust-proof.

Thus Horsehead has this beautiful endless supply of zinc ore where it gets paid to take the ore – and no one else can easily step in and upset that apple cart.

Calcining Plants: Deepening the Moat

The four zinc calcining plants further deepen the moat. They have a \$250+ million replacement value. So, any would-be competitor would need to first somehow get supply locked in (not possible as it is already locked), then replicate these four plants with some \$300 million of capex. And then they'd either need a smelter or another method of producing refined zinc.

I watched Jim Hensler lock in and extend all the existing EAF dust contracts at favorable terms. And he built a brand new calcining plant in Barnwell, South Carolina in 2010 to further lockdown precious EAF dust.

Mooresboro: The Final Piece of the Moat

The four zinc recycling facilities produce zinc calcine that has historically been fed into Horsehead's smelter in Monaca, Pennsylvania to produce zinc and zinc oxide. The Monaca facility was 80 years old using a very energy intensive, environmentally unfriendly centuries-old process of producing zinc. In 2011, Horsehead decided to transition zinc production from smelting to using a state-of-the-art solvent extraction process. This new plant was expected to cost about \$350 million and increase EBITDA by \$90-\$110 million and make them one of the lowest cost zinc producers on the planet.

The new plant, coupled with a captive low cost “EAF Dust Mine” that basically never depletes, made it a long-term winner. Jim was able to do a deal with Shell that allowed Shell to take over the old smelter facility along with any legacy environment liability. It was a coup. Horsehead walked away with no future environmental liability from that plant that had produced zinc for 80 years. And Shell intends to build a cracker at the facility to produce a variety of specialty chemicals from the fracking boom. It was a win-win deal for everyone.

Once the Mooresboro plant was ramped up to capacity, Horsehead’s moat would have become impregnable. They’d be one of the lowest cost producers of zinc on the planet. Even at the 2008 financial crisis collapsed zinc price of 50 cents a pound, Horsehead would eke out a tiny profit. In a more normal zinc price environment, the company would generate operating earnings north of \$160 million. And if zinc prices went euphoric, the company’s operating earnings would increase by \$25 to \$30 million with every 10 cent/lb increase in the price of zinc. If zinc went to \$2/lb (which it did about a decade ago), the business would generate over \$400 million in operating earnings. The company’s market cap hovered mostly in the \$400 to \$700 million range.

At the beginning of 2015, our Horsehead stake was valued at \$100 million. And even six months later, it was valued at \$72 million. On January 4, the company missed a bond payment and in early February, the company filed for bankruptcy protection. The missed bond payment and bankruptcy filing came as quite a surprise. The company has two separate businesses (Zochem and Inmetco) that are stand-alone. Even though prices would have been depressed, they could have sold these businesses. In fact, they had multiple offers to sell Zochem at \$60 million in January 2016. Why they didn’t aggressively pursue this sale and avoid bankruptcy is still a mystery. And even one or more of the calcining plants could have been sold.

After the missed interest payment, I sold our entire equity position for about \$3 million and used those proceeds to buy some of Horsehead’s senior unsecured debt at 8-15% of face value. I very much wanted to be as high as possible on the capital structure. I preferred buying the secured debt at 55 cents to the unsecured at 10 cents. But the secured debt basically didn’t trade. All I could buy was \$55,000 of face value of secured debt.

There is a very good chance equity is entirely wiped out in the bankruptcy process. There are some decent prospects of recoveries exceeding the \$3 million we invested in the unsecured debt. Time will tell. But, even if we got paid par on the bonds, we will still have a very significant loss. And I view the bonds being worth par as a very low probability event.

Dhandho Holdings also had a stake and is now on the unsecured creditors’ committee. We have a seat at the table, but the bankruptcy process is not fair or rational. The odds are very high that the DIP financing and secured lenders will get this remarkable asset for a song.

Was the Horsehead investment a mistake? Well, the original bet was not a mistake. We had a greater than 4x gain on our original 2008 purchase in a year. The mistake lies in the subsequent purchases. Here are all the subtle and not so subtle mistakes I made with Horsehead:

1. The first mistake was buying over 5% of the shares outstanding. In the last seventeen years at Pabrai Funds, we have bought over 5% or even over 10% of a few public companies. In no cases have we

ever ended up with a winner. It is a small data set, but there are obvious reasons why going over 5% is dumb. Buying over 10% makes us subject to a variety of insider disclosure rules. Going over 5% requires us to make a 13G filing. All these Form 4 and 13G filings not only add cost and administrative time, but they also make it hard to increase or decrease position size without very transparent public filings.

If we owned less than 5% of Horsehead, it is almost certain we would have done tax loss selling in 2015 at significantly higher prices – and decided not to buy it back based on all the updated current facts. This would have been a dumb luck exit. Instead of a \$60 million loss, we'd have lost maybe 1/3 to 1/2 of that amount – a huge difference.

2. The second and third mistake was that there were two prior times when the company had ramp up difficulties at the Mooresboro plant and each time raised capital by issuing stock. In October 2013, they raised \$70 million by issuing 6.3 million shares. And in January 2015, they raised another \$70 million by issuing 5.8 million shares. When these offerings took place, the all-important question I failed to ask of myself is what would have happened if the equity markets were closed and/or zinc prices were at multi-year lows? Well, the answer is that the company would have faced a serious liquidity crisis. Had I asked myself these questions, I would not have exited, but it would have reinforced the view that Horsehead should have been capped at 5%.

When Hensler embarked on the plant, he had \$400 million available to build it – and he hedged zinc prices far into the future to ensure that the rest of the business would not lose money regardless of zinc prices. Both these actions appeared prudent to me. However, in hindsight, there was no margin of safety. If the plant took longer than anticipated to ramp-up, he'd have to extend hedges. And those could only be extended if zinc prices remained healthy. And if he had cost over-runs, he'd have to access the capital markets for debt or equity issuance. And capital market access is never assured. What ended up happening was both: significant cost overruns and significant time delays. The first two times it happened, conditions were benign and he raised the money and extended the hedges. When he had the third cost over-run, the music had stopped. Zinc prices were in a collapsed state and capital markets were closed to Horsehead.

Commodity businesses with heavy reliance on debt are playing with fire. One never knows how prices can change. Unless one is a low cost producer and debt-free, if prices collapse, one is likely to be in trouble. Horsehead was a debt free business attempting to become a low-cost producer. In the process, they elected to add leverage. It would have been far better to bite the bullet and issue \$400 million of equity in 2011. Even without leverage, the plant's projected ROI was very good.

3. The fourth mistake was what Charlie Munger calls the boiling frog syndrome. If you put a frog in boiling water, it immediately jumps out. But if you put it in luke warm water and raise the temperature very gradually, it never jumps out and it dies. I'm not sure if that is the real behavior a frog would exhibit, but it is a good analogy for Horsehead. When I invested in Horsehead in 2008, it was a classic Graham net net. Net current assets were over \$160 million and the market cap was \$100 million. The

four plants came for free (worth north of \$300 million). There were no leverage issues to be concerned about. The big step function in leverage happened when they decided to build the Mooresboro facility.

My good friend, Guy Spier, observed that both of us have a pre-investment checklist, but no in-flight checklist. The pre-investment checklist has proven invaluable. However, it is not enough to just keep up with ongoing in existing investments in an ad hoc manner. It is important to periodically run and re-run the in-flight checklist. If I had first looked at Horsehead in 2011 instead of 2008, I would have either taken a pass or made it a small bet.

4. The fifth mistake was in reading Jim Hensler. On the surface it appeared that Jim fully understood the pitfalls of debt in a commodity business where you have no control over price. He always had hedges. However, hedges are a weak counter to leverage – they always run out. The reality is that Horsehead needed a far more conservative manager who abhorred debt. Horsehead would have been a very nice asset for its owners for decades if it had elected to finance the plant with equity versus debt.
5. The sixth mistake is simply this: Most great businesses should not need high amounts of debt to produce high returns on equity. As I look at my pre-investment checklist, the number one reason for losses for many great value investors is leverage. Unfortunately, this has been true for Pabrai Funds as well. In the last seventeen years, leverage is front and center on a number of my mistakes. My interest in investing in levered businesses in the future is likely to be very low. And when we do take the plunge, position sizing will be quite conservative.

The learnings from Horsehead are expensive lessons, but they are truly priceless. I wish I could I have learnt these lessons vicariously, but (unfortunately) they are pounded better into the brain when we encounter direct pain. I know that I am a better investor and will make better decisions in the future as a result of this mistake. Even with a 100% loss on Horsehead, Pabrai Funds has plenty of other great irons in the fire and we expect to do quite well in the years ahead. The key is to work diligently to continue to reduce errors that result in a permanent loss of capital.

FCA & General Motors (GM) and Position Size

I prefer not to speak about our existing positions, but Fiat Chrysler (FCA) and our GM Class B warrants (GMWSB) are outsized positions and warrant a brief discussion related to position size. We have never invested more than about 10% of assets in a single position. And this is true of both FCA and GMWSB. As of December 31, our FCA position was worth around \$192 million while GMWSB was worth \$97 million. From 2012 through 2015, our FCA position is up nearly 200% while GM is up over 45%.

In January, FCA spun out Ferrari and this reduced the value of our FCA stake by approximately a third. As I write this letter, FCA makes up roughly 25% of the portfolio while GMWSB is 19% of the pie. Both positions are dramatically undervalued. It would not surprise me if both positions are a triple *from here* in three years or less. FCA is trading at less than a 2018 P/E of 1.5 – based on management's estimate of 2018 earnings. I do not have stronger conviction on any other present or recent past positions than I do on FCA and GMWSB.

This conviction is with the full understanding that automobile manufacturing is a challenging business to say the least. And there are a number of disruptive forces ranging from self-driven cars, ride sharing services like Uber, and challenges with electrification on the horizon. Some of these developments increase mobility options and have already led to humans moving about more by automobiles than they did in the past. They serve to actually increase car sales.

Also, I have spent an enormous amount of time studying self-driving technology and the other disruptive forces. Self-driving only begins to become a disrupter when one is able to entirely remove the driver from the vehicle and the car does it all – going from anywhere to anywhere with no driver. My best guess is we are at least a decade (more like 15+ years) from such vehicles being reality. There is a real possibility that we simply can't remove a human driver in all circumstances for decades. The technology challenges are quite formidable. It may also not be possible for vehicles to easily be in dual mode (fully driverless or human-assisted) till well past 2030.

Making a car drive autonomously on highways is relatively straightforward – and this is close to going mainstream. Semi-autonomous driving along with mandates like automatic emergency braking will simply serve to make driving safer and less aggravating, especially in traffic. It does not disrupt the business models of FCA and GM. On the contrary it may boost sales as people may be eager to adopt these technologies.

As an aside, nearly the entire amount we invested in FCA was returned to us by the company in the form of Ferrari shares. And we still have our full FCA stake. The entire FCA business in 2012 was valued at less than just the (finally transparent) value of Ferrari in 2015. Ferrari produces less than 8000 cars a year, while FCA produces around 5 million. We are not done with FCA spinoffs yet. In 2017, FCA plans to spin off some very non-core Italian media assets to shareholders – again in the form of public stock. This will not be large, but it will still be at least 3-5% of our original purchase price. I was not even aware they had these assets! FCA is not a great business (but it does have a formidable moat in the form of RAM and Jeep). More importantly, it is run by two truly off the charts managers. These factors coupled with an ultra-low valuation make it a keeper. The business is trading at a P/E of less than 1.5 on 2018 earnings.

GM emerged from bankruptcy with over \$50 billion in NOLs. The company won't pay meaningful taxes in the US for a while. It is also effectively a debt free business. And the company is well on its way to pounding out over \$10 billion a year in free cash flow (on a \$50 billion market cap with over \$20 billion in cash). And it is a cannibal. It has committed to returning all future cash flows to shareholders. With a sub-\$50 billion market cap, the best thing for us GM shareholders is that the stock price stays low for as long as possible. At present prices, GM will retire 5-10% of its shares every year for several years.

When folks talk about 2015 representing a peak in auto sales, they fail to recognize that since 2000 (when the auto business hit its last peak), the US population has grown by over 15%. On a population-adjusted basis we are well below peak auto sales. It is not a peak. This is likely a long-term plateau as the US car fleet is one of the oldest in history.

GM also is not a great business, though it does have a few formidable moats. Its digital and finance businesses are well on their way to generating \$2.5 billion in free cash flow annually. And these cash flows are minimally affected as volumes ebb and flow. It is the #1 auto maker in the two largest car markets on the planet - the United States and China. The China business generates over \$2 billion for GM annually. China may be slowing, but it is still growing. Five years from now, I would not be surprised if China generates north of \$3 billion for GM annually. What is digital, finance and

China worth? I think these three pieces alone exceed the present market cap of GM. And I have not even considered their formidable truck and large SUV lineup, where they are printing dollars.

It is beyond the scope of this letter to go into the myriad details, but if we don't do well with these bets, it will not be due to the aforementioned risk factors. It will be because something like the VW diesel emissions crisis comes in from left field.

If these were my family's assets, I'd keep these allocations and have no difficulty sleeping. While my family is one of the largest investors in Pabrai Funds, most of these assets do not belong to my family. As painful as this is, I am open to selling down these positions as suitable investment ideas emerge. I simply can't get myself to pull the trigger and sell these down and go to cash today. They are super super cheap and we'd be selling dollar bills for twenty to thirty-five cents. A bit of patience here will likely serve us well.

Our Ultra-Low Expense Ratio

All three funds have among the lowest expense ratios of any mutual fund or hedge fund. The funds charge no management fees. The only expenses paid by investors are third-party audit, accounting, administration, tax preparation and SEC filing fees. These fees are listed in the (included) fund audit reports.

These expenses in 2015 were 0.08%, 0.06% and 0.05% of assets for the three funds, respectively. A year ago, these ratios were 0.07%, 0.05% and 0.03%. And two years ago, these ratios were 0.06%, 0.06% and 0.04%. The slight increase in the 2015 percentage is a result of the fixed costs in the funds on a lower assets under management base. I am still very proud of these numbers. The frictional cost of investing in the funds are now as low as 5 basis points. I am not aware of any hedge fund, mutual fund or ETF with expenses as low as Pabrai Funds.

There are two facets to beating the indices. The first is to have low frictional costs. And the second is to generate superior returns. Frictional costs can be a significant drag on performance and I'm proud of our ultra-low-cost operation.

(Note: In our audit reports, the number will appear higher than the aforementioned. This is because commissions charged by the US branch of our India brokerage firm for stock trades have been categorized as administrative expenses.)

Alignment of Interests

My immediate family has a stake of 230,592 units of PIF2, 8,417 units of PIF3, 980,833 units of PIF4, and about 33,000 units of PIF4 in a retirement account. In addition, the administrative team at Pabrai Funds owns about 1,300 units of PIF4 and about 5,900 units of PIF3 in various retirement accounts. The aggregate stake in Pabrai Funds of the Pabrai family and staff at Pabrai Funds is worth about \$39 million.

Pabrai Funds charges no management fee, just performance fees – which are $\frac{1}{4}$ of the returns over 6% annualized (subject to high-water marks). I only get paid when you make money. When you win, I win. I am very bullish on the long-term future of Pabrai Funds – as demonstrated by my being the second largest investor in the funds.

Besides my \$9 million investment in Dhandho Holdings, my family and I have no other meaningful interests in any other mutual funds, hedge funds or private equity funds. Our interests are completely aligned.

PIF2, PIF4 are Closed to New Investors. PIF3 is Open

As a reminder, while PIF2 and PIF4 are closed to new investors (and additions from existing investors), PIF3 is open to new money from existing or new investors at this time. PIF3 is our offshore fund for Accredited Investors and Institutions based outside the United States. To invest in PIF3, one needs to be a non-US accredited offshore investor, private foundation, endowment, or IRA.

The minimum investment to join PIF3 as a new partner is \$2.5 million for individuals and \$10 million for IRAs/Foundations/Endowments. For current investors, the minimum addition to their current investment is \$25,000. The next opening is on May 1, 2016. If you are interested or would like more information, please contact Julie Teltscher or me at jteltscher@pabraifunds.com and mp@pabraifunds.com, respectively.

2015 Annual Meeting Transcript

The 2015 Annual Meeting transcript and presentation slides are posted on our website. The transcript is best read in conjunction with the presentation slides (the password to the video is “Warren”).

Here are the links to the transcript and slides:

http://www.pabraifunds.com/website/2015_PIF_AM_Transcript.pdf

<https://vimeo.com/139966800>

An Exceptional Team

Julie, Lynn, Nickii, Betsy and Karen are simply a delight to work with. I have nothing but praise for the crew at Liccar, and Mike Froy and Sam Schlessinger at Dentons. Along with our offshore legal advisors Conyers, Dill and Pearman, our auditors, the Cayman PwC team, are a pleasure to work with. Ajay Desai and his group at UBS is our prime broker and custodian, and they are also very much a part of our team. Also part of our team is The Kotak Mahindra group, our custodian and broker for the India stock portfolio. I am blessed to be able to work with these exceptional groups in Irvine, Chicago, BVI, Cayman Islands and India. It makes my job a pure joy.

2016 Annual Meetings – Save the Date

There will be our two annual meetings held sequentially at Orange County, California & Chicago, Illinois. We have also added a 3rd annual meeting at our Dhandho Holdings Corporation headquarters in Puerto Rico! The Puerto Rico meeting will be on September 24, 2016.

Prior to the California meeting on September 10, 2016 we will have the 3rd Annual Gran Fondo Dhandho Bike Ride. It's a scenic ride around the Newport Estuary with views of the Pacific Ocean in Newport Beach, California. Biking can be a dangerous activity; we only want folks who are decent bikers on the ride. The ride begins at Starbucks in Newport Beach at 8:15 AM, and ends there around 10:30 AM. For folks that just wanna chill, you can come to the Starbucks at 10:30 AM and hang out with the bikers. Here is a link to the Starbucks location:

<http://www.starbucks.com/store/18175/us/jamboree-bristol/3601-jamboree-road-newport-beach-ca-926602961>

The **California** meeting is scheduled to be on **Saturday, September 10th, 2016** at 4:00 PM at:

[Soka University](#)

Performing Arts Center

1 University Drive, Aliso Viejo, California 92656

Tel. +1949.480.4000

Soka University has a spectacular campus nestled in the scenic hills of Aliso Viejo. It is a 20 minute drive from Orange County Airport (SNA), and about an hour drive from LAX.

There is a fantastic Marriott ClubSport hotel about 3 miles from Soka University:

[Marriott Renaissance ClubSport](#)

50 Enterprise

Aliso Viejo, CA 92656

Reservations: 800-468-3571

Phone: 949-643-6700

There are many hotels in the area. Here is a link to other hotels near Soka University:

<http://tinyurl.com/8dmevvu>

The **Chicago** meeting is thus scheduled to be on **Saturday, Sept. 17th, 2016** at 4:00 PM at:

[Carlucci's Restaurant](#)

(The Auditorium)

6111 North River Road, Rosemont, Illinois 60018

Tel. +1847.518.0990

Carlucci's is a five minute taxi ride away from O'Hare airport. [The Marriott Suites O'Hare](#) and [The Westin O'Hare](#) are both next to the restaurant. In addition, there are a plethora of hotels in the vicinity. Good deals on O'Hare hotels are usually available on the major travel-related websites.

The **Puerto Rico** meeting is scheduled to be on **Saturday, Sept. 24th, 2016** at 4:00 PM at:

The Bankers' Club
Banco Popular Building
206 Tetuan Street, San Juan, PR 00902

The Bankers' Club is on the top floor of the historic Banco Popular building in Old San Juan. This is the same building where our Dhandho Holdings offices are located.

There is a fantastic hotel where we have secured a special rate of \$185/night. This rate comes with a complimentary continental breakfast and a 15% discount on meals in the main restaurant, *Patio Negro*. The hotel is a 5 minute walk from the Banco Popular Building. Please mention "Dhandho Holdings" to get this rate.

[Hotel El Convento:](#)

100 Cristo Street
Old San Juan, PR 00901
Reservations: +1787.723.9020

Agenda:

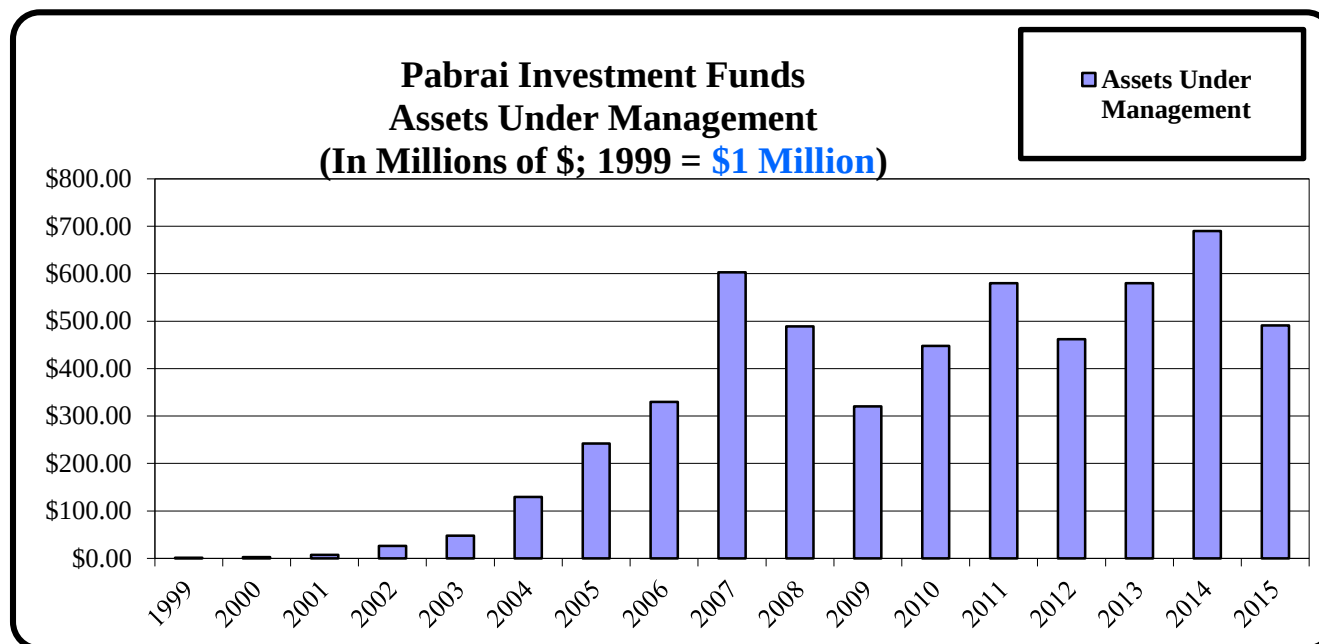
4:00 – 4:30 PM:	Meet and Greet
4:30 – 6:30 PM:	Presentation and Q&A
6:30 PM:	Cocktail Hour
7:15 PM:	Dinner (Chicago and Puerto Rico only)

In lieu of dinner this year in California, we're gonna do an extended cocktail hour with expanded appetizers (multiple food stations) and lots of tables to sit and chat. We'll see how it goes and then decide on the format for future years. It may be more fun this way.

The invites will go out in July, 2016. Your significant other and kids of all ages are welcome to attend. I look forward to seeing you in September.

Assets Under Management

There is \$491 million in assets under management between all the funds as of January 1, 2016.



Thanks for your continued interest, referrals and support. Feel free to call me at +1949.453.0609 or email me at mp@pabraifunds.com with any queries or comments.

Warm regards,

Mohnish Pabrai

NOTE: Various indices are included throughout this Annual Report for reference. Reference to an index or benchmark does not imply that the strategy will achieve returns, experience volatility, or have other results similar to the index. As an example, the Funds may invest in foreign securities or fixed income instruments; however the indices presented only include U.S. securities. These indices are purely a basket of stocks and the Funds may invest in securities other than stocks such as bonds, warrants and preferred stocks. The Funds typically hold fewer than 10 positions as compared to 500 in the S&P, 30 in the DJIA, and thousands in the NASDAQ. Therefore, the Funds are significantly more concentrated than the benchmark indices and may experience notably higher volatility and return characteristics from these indices.

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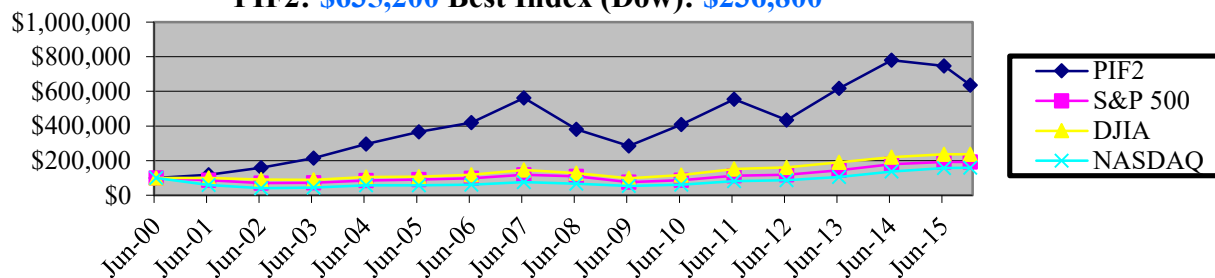
Appendix A

PABRAI INVESTMENT FUND 2 (US Accredited Investors) Performance Summary:

	DJIA	NASDAQ	S&P 500	PIF2 (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	+18.9%	+16.0%	+14.4%	+43.6%
7/1/10-6/30/11	+30.4%	+32.9%	+30.7%	+35.8%
7/1/11-6/30/12	+5.2%	+5.4%	+3.9%	-21.8%
7/1/12-6/30/13	+18.9%	+17.8%	+20.6%	+42.2%
7/1/13-6/30/14	+15.5%	+31.2%	+24.6%	+26.7%
7/1/14-6/30/15	+7.2%	+14.6%	+7.4%	-4.5%
1/1/15-12/31/15	+0.2%	+7.1%	+1.4%	-19.0%
Annualized	+5.8%	+3.1%	+4.4%	+12.9%
Cumulative	+136.8%	+58.4%	+91.6%	+535.2%

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

PIF2: \$635,200 Best Index (Dow): \$236,800



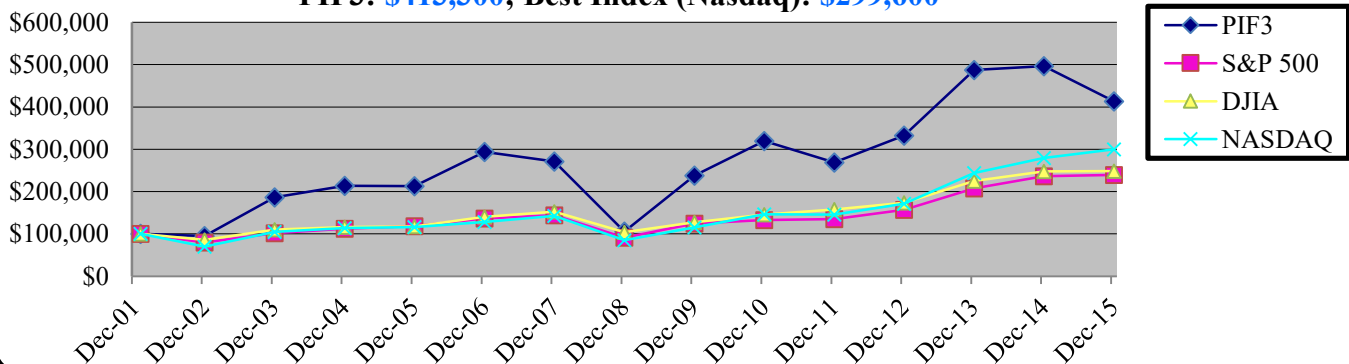
Appendix B

PABRAI INVESTMENT FUND 3 (Offshore/IRA Investors) Performance Summary:

	DJIA	NASDAQ	S&P 500	PIF3 (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%
1/1/10-12/31/10	+14.1%	+18.2%	+15.1%	+34.4%
1/1/11-12/31/11	+8.4%	-0.8%	+2.1%	-15.7%
1/1/12-12/31/12	+10.2%	+17.7%	+16.0%	+23.4%
1/1/13-12/31/13	+29.6%	+40.2%	+32.4%	+46.6%
1/1/14-12/31/14	+10.0%	+14.8%	+13.7%	+1.9%
1/1/15-12/31/15	+0.2%	+7.1%	+1.4%	-16.7%
Annualized	+6.8%	+8.2%	+6.5%	+10.7%
Cumulative	+148.5%	+199.6%	+139.3%	+313.3%

Comparison of Changes in Value of \$100,000 invested in PIF3 vs. the Indices.

PIF3: **\$413,300**; Best Index (Nasdaq): **\$299,600**

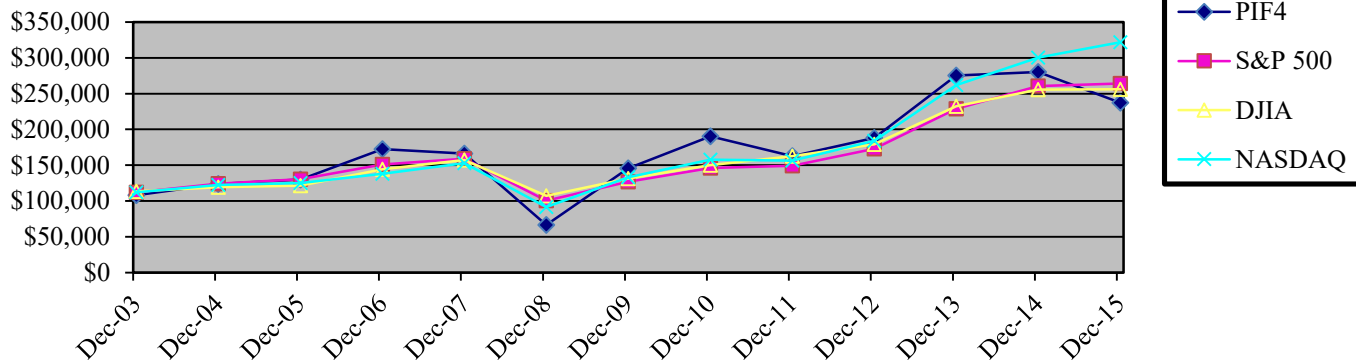


Appendix C

PABRAI INVESTMENT FUND 4 (US Qualified Investors) Performance Summary:

	DJIA	NASDAQ	S&P 500	PIF4 (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%
1/1/10-12/31/10	+14.1%	+18.2%	+15.1%	+30.7%
1/1/11-12/31/11	+8.4%	-0.8%	+2.1%	-14.8%
1/1/12-12/31/12	+10.2%	+17.7%	+16.0%	+16.1%
1/1/13-12/31/13	+29.6%	+40.2%	+32.4%	+46.0%
1/1/14-12/31/14	+10.0%	+14.8%	+13.7%	+1.8%
1/1/15-12/31/15	+0.2%	+7.1%	+1.4%	-15.4%
Annualized	+8.0%	+10.0%	+8.2%	+7.3%
Cumulative	+156.1 %	+221.8%	+163.9%	+137.1%

**Comparison in Changes in Value of \$100,000
invested in PIF4 vs. the Indices.
PIF4: **\$237,100**; Best Index (Nasdaq): **\$321,800****



Appendix D

PIF2's Performance History (Net to Investors)

No. of Units	Date	PIF2 NAV
110,000	10/1/2000	\$10.00
330,014	6/30/2001	\$11.74
1,027,795	6/30/2002	\$15.89
1,950,982	6/30/2003	\$21.32
2,445,212	6/30/2004	\$29.58
2,696,687	6/30/2005	\$36.52
2,646,687	6/30/2006	\$41.99
3,013,111	6/30/2007	\$56.25
2,934,990	6/30/2008	\$38.01
2,468,091	6/30/2009	\$28.45
2,409,165	6/30/2010	\$40.84
2,257,421	6/30/2011	\$55.46
2,180,892	6/30/2012	\$43.36
2,057,676	6/30/2013	\$61.68
1,906,927	6/30/2014	\$78.13
1,795,006	6/30/2015	\$74.64
1,684,602	12/31/2015	\$63.52

PIF3's Performance History (Net to Investors)

No. of Units	Date	PIF3 NAV
65,100	2/1/2002	\$10.00
265,919	12/31/2002	\$9.48
485,041	12/31/2003	\$18.63
1,774,753	12/31/2004	\$21.37
2,478,793	12/31/2005	\$21.32
2,930,608	12/31/2006	\$29.37
6,438,615	12/31/2007	\$27.09
5,415,189	12/31/2008	\$10.57
5,038,658	12/31/2009	\$23.79
4,885,267	12/31/2010	\$31.95
4,701,613	12/31/2011	\$26.92
4,318,818	12/31/2012	\$33.21
4,384,591	12/31/2013	\$48.70
4,290,222	12/31/2014	\$49.61
3,805,336	12/31/2015	\$41.33

PIF4's Performance History (Net to Investors)

No. of Units	Date	PIF4 NAV
595,030	10/1/2003	\$10.00
1,219,330	12/31/2003	\$10.84
5,627,712	12/31/2004	\$12.40
9,314,803	12/31/2005	\$13.01
11,528,331	12/31/2006	\$17.23
16,899,746	12/31/2007	\$16.64
15,737,042	12/31/2008	\$6.66
15,725,066	12/31/2009	\$14.57
15,251,129	12/31/2010	\$19.05
14,493,713	12/31/2011	\$16.24
12,398,564	12/31/2012	\$18.85
11,560,683	12/31/2013	\$27.53
10,642,015	12/31/2014	\$28.03
9,531,764	12/31/2015	\$23.71

Pabrai Investment Fund 2, L.P.
Financial Statements
June 30, 2015

Pabrai Investment Fund 2, L.P.
Index
June 30, 2015

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Independent Auditor's Report

To the General Partner of Pabrai Investment Fund 2, L.P.

We have audited the accompanying financial statements of Pabrai Investment Fund 2, L.P. (the "Fund"), which comprise the statement of assets, liabilities and partners' capital, including the condensed schedule of investments, as of June 30, 2015 and the related statements of operations, and of changes in partners' capital for the year then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

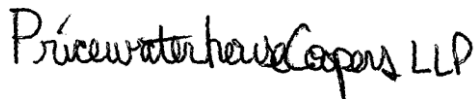
Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pabrai Investment Fund 2, L.P. at June 30, 2015, and the results of its operations and changes in its partners' capital for the year then ended, in accordance with accounting principles generally accepted in the United States of America.



PricewaterhouseCoopers LLP
Chicago, IL
August 7, 2015

Pabrai Investment Fund 2, L.P.
Statement of Assets, Liabilities and Partners' Capital
June 30, 2015
(expressed in United States dollars)

Assets

Cash	\$ 75,281
Investments, at fair market value (cost \$107,772,592)	133,864,943
Dividend receivable	98,444
Total assets	<u>\$ 134,038,668</u>

Liabilities

Foreign dividend withholding tax payable	\$ 21,658
Accrued expenses	39,261
Total liabilities	<u>60,919</u>

Partners' capital

General partner (246,334 units at \$74.64 per unit)	18,386,225
Limited partners (1,548,672 units at \$74.64 per unit)	115,591,524
Total partners' capital	<u>133,977,749</u>
Total liabilities and partners' capital	<u>\$ 134,038,668</u>

The accompanying notes are an integral part of these financial statements.

Pabrai Investment Fund 2, L.P.

Statement of Operations

Year Ended June 30, 2015

(expressed in United States dollars)

Investment Income

Dividend income (net of withholding tax of \$23,066)	\$	254,015
Interest income		3,241
Total investment income		<u>257,256</u>

Expenses

Professional fees		147,834
Administration fees		43,000
Management fee		10
Total operating expenses		<u>190,844</u>

Net investment income / (loss)		66,412
---------------------------------------	--	--------

Realized and unrealized gain / (loss) on investments

Net realized gain on investments		17,840,646
Net realized (loss) on foreign currency transactions		(8,262)
Net change in unrealized appreciation / (depreciation) on investments		<u>(24,135,060)</u>
Net realized and unrealized (loss) on investments		<u>(6,302,676)</u>
Net decrease in partners' capital resulting from operations	\$	<u>(6,236,264)</u>

The accompanying notes are an integral part of these financial statements.

Pabrai Investment Fund 2, L.P.
Statement of Changes in Partners' Capital
Year Ended June 30, 2015
(expressed in United States dollars)

	General Partner	Limited Partners	Total
Balance, July 1, 2014	\$ 19,246,370	\$ 129,743,635	\$ 148,990,005
Redemptions (111,921 units)	-	(8,775,992)	(8,775,992)
Net decrease in partners' capital from operations	(860,145)	(5,376,119)	(6,236,264)
Balance, June 30, 2015	<u>\$ 18,386,225</u>	<u>\$ 115,591,524</u>	<u>\$ 133,977,749</u>

The accompanying notes are an integral part of these financial statements.

Pabrai Investment Fund 2, L.P.
Condensed Schedule of Investments
June 30, 2015
(expressed in United States dollars)

Number of Shares		Value as a Percentage of Partners' Capital	Cost	Fair Value
Common Stocks				
United States				
	Basic Materials			
1,537,000	Horsehead Holding Corp.	13.45%	16,006,795	18,013,640
	Media			
16,043	Google Inc.	6.23%	8,442,090	8,350,542
	Asset Management	4.97%	6,344,397	6,662,238
	Total United States	24.65%	30,793,282	33,026,420
Greece				
	Banking	3.09%	3,077,584	4,140,000
	Total Greece	3.09%	3,077,584	4,140,000
The Netherlands				
	Automotive			
2,730,000	Fiat Chrysler Automobiles N.V.	29.61%	13,605,661	39,666,900
	Total The Netherlands	29.61%	13,605,661	39,666,900
Korea				
	Basic Materials			
200,000	Posco Spon ADR	7.33%	11,809,303	9,818,000
	Total Korea	7.33%	11,809,303	9,818,000
India				
	Banking	8.28%	17,192,292	11,092,526
	Chemicals			
12,758,000	Rain Industries Limited	5.55%	7,482,567	7,444,096
	Specialty Finance	2.50%	2,788,564	3,356,867
	Total India	16.33%	27,463,423	21,893,489
Hong Kong				
	Lodging	0.64%	738,195	852,935
	Total Hong Kong	0.64%	738,195	852,935
China				
	Consumer Products	0.78%	783,804	1,038,674
	Total China	0.78%	783,804	1,038,674
	Total Common Stocks	82.43%	88,271,252	110,436,418
Money Market Funds				
United States				
4,304,058	UBS Select Prime			
	Institutional Fund	3.22%	4,304,058	4,304,058
	Total Money Market Funds	3.22%	4,304,058	4,304,058
Warrants				
United States				
	Automotive			
1,198,706	General Motors Co., strike price \$10.00 to 18.33 (expires July 10, 2016 to July 10, 2019)	14.27%	15,197,282	19,124,467
	Total Warrants	14.27%	15,197,282	19,124,467
	Total Investments	99.92%	\$ 107,772,592	\$ 133,864,943

The accompanying notes are an integral part of these financial statements.

Pabrai Investment Fund 2, L.P.

Notes to the Financial Statements

June 30, 2015

1. Organization

Pabrai Investment Fund 2, L.P. (the "Partnership"), an Illinois Partnership, was organized and commenced operations on October 1, 2000. The Partnership is expected to terminate on October 1, 2020, unless terminated earlier or extended in accordance with the provisions of the Partnership's Limited Partnership Agreement dated as of October 1, 2000, as amended (the "LP Agreement").

Dalal Street, Inc. served as the Partnership's General Partner and was responsible for the management of the Partnership's assets until September 30, 2005. Subsequently, Dalal Street, LLC became the General Partner ("General Partner") of the Partnership. Dalal Street, Inc. redeemed its entire interest in the Partnership on December 31, 2014. The Partnership's objective is to obtain above market returns and long term appreciation by investing principally in marketable securities of U.S. and non-U.S. companies. The Partnership has not adopted fixed guidelines for diversification, and therefore, may be subject to more rapid change in value than would be the case if the Partnership were required to maintain wide diversification.

The Partnership utilizes UBS Financial Services Inc. ("UBS") as its principal broker-dealer and maintains cash and investments with UBS. Additionally, the Partnership utilizes Kotak Mahindra Bank Limited and Computershare S.p.A as its broker. All subscriptions and proceeds from investors are received into Wintrust Bank, ("Wintrust") and all redemptions and disbursements are made from the Wintrust account.

The Partnership has also entered into an agreement with Liccar to perform all general administrative tasks of the Partnership, including keeping the financial records, preparation of reports to Limited Partners and approval of all disbursements.

2. Significant Accounting Policies and Risks

Method of Reporting

The Partnership's financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Use of Estimates

The preparation of financial statements in conformity with accounting practices generally accepted in the United States of America requires the General Partner to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Contingencies and Commitments

In the normal course of business, the Partnership enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Partnership's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Partnership that have not yet occurred. However, based on experience, the General Partner expects the risk of loss to be remote.

Pabrai Investment Fund 2, L.P.

Notes to the Financial Statements

June 30, 2015

Security Valuation

Investments listed on a national securities exchange are valued at their last sales price on the date of valuation on the primary exchange. In the event no such price is available for such date, then the last reported sale price within the last five day period preceding the valuation date is utilized. If no such price is reported, then the security will be valued at the representative bid price at the close of business on the valuation date. Investments whose market quotations are not readily available are valued at fair value as determined in good faith under procedures established by the General Partner. Because of the inherent uncertainty of valuation, the estimate of fair value may differ from the values that would have been used had a ready market existed and the differences could be material. Money market funds are valued at net assets value per share, which approximates fair value. Notwithstanding the foregoing, if in the reasonable judgment of the Partnership, in its sole discretion, the listed price for any security held by the Partnership does not accurately reflect the value of such security, the Partnership may value such security at a price which is greater or less than the quoted market price for such security.

Security Transactions and Income and Expense Recognition

Investment transactions are recorded on trade date. Interest income and expenses are recorded on the accrual basis and dividend income and capital gain distributions are recorded on the ex-dividend date net of foreign dividend withholding taxes. Realized gains and losses are recorded on the specific identification method.

Foreign Currency Transactions

Assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the year-end exchange rates. Purchases and sales of these assets and liabilities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions. The Partnership does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of investments held.

Income Taxes

No provision is made in the accompanying financial statements for liabilities for federal, state or local income taxes since such liabilities are not the responsibility of the Partnership. Each partner is required to report on his/her income tax return his/her proportionate share of the items of income and deduction of the Partnership.

The Partnership executes trades on the Indian exchanges and, therefore, may be subject to taxes levied by India. The investments in common stock traded on the Indian exchange are subject to short-term capital gains tax at 15.45% and no long-term capital gains tax. The Partnership intends to hold the Indian securities for the long-term.

Management has continued to evaluate the application of Accounting Standards Codification ("ASC") 740, "Income Taxes", and has determined that no reserves for uncertain tax positions were required to have been recorded as a result of the adoption of ASC 740. The Partnership analyzed all open tax years, as defined by the statute of limitations, for all major jurisdictions. Open tax years are those that are open for exam by taxing authorities. As of June 30, 2015, open tax years include the tax years ended June 30, 2012 through June 30, 2015. The Partnership is not aware of any examinations in progress. The Partnership has reviewed all open tax years and major jurisdictions and concluded that the adoption of these financial reporting rules resulted in no effect to the Partnership's financial position or results of operations. There is no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken on the tax return for the fiscal year ended June 30, 2015. The Partnership is also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefit will significantly change in the next twelve months.

Pabrai Investment Fund 2, L.P.
Notes to the Financial Statements
June 30, 2015

Statement of Cash Flows

The Partnership has elected not to provide a Statement of Cash Flows as permitted by the Financial Accounting Standards Board's Accounting Standards Codification (ASC) 230-10-45, "Statement of Cash Flows--Exemptions of Certain Enterprises and Classifications of Cash Flows from Certain Securities Acquired for Resale."

3. Fair Value Measurement

The Partnership has adopted financial reporting rules that establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Partnership has the ability to access at the measurement date;

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3 Inputs that are unobservable.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the General Partner. The General Partner considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the General Partner's perceived risk of that instrument.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within level 1, include active listed equities, and certain money market securities. The General Partner does not adjust the quoted price for such instruments, even in situations where the Partnership holds a large position and a sale could reasonably impact the quoted price.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include investment-grade corporate bonds and less liquid listed equities. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

The inputs used by the General Partner in estimating the value of the level 3 investment include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the General Partner in the absence of market information. The fair value measurement of level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis.

Pabrai Investment Fund 2, L.P.
Notes to the Financial Statements
June 30, 2015

Assumptions used by the General Partner due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Partnership's results of operations.

As of June 30, 2015 and during the year then ended, the Partnership had no investments classified within Level 3. There were no transfers between levels 1, 2, and 3 during the year ended June 30, 2015.

The following table presents the financial instruments carried on the Statements of Assets, Liabilities by level:

Investment Type	Assets at Fair Value as of June 30, 2015			Total
	Level 1	Level 2	Level 3	
Investments				
Common stocks	\$ 110,436,418	\$ -	\$ -	\$ 110,436,418
Money market funds	4,304,058	-	-	4,304,058
Warrants	19,124,467	-	-	19,124,467
Total Investments	<u>\$ 133,864,943</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 133,864,943</u>

4. Warrants

Investments in warrant contracts are subject to additional risks that can result in a loss of all or part of an investment. The Partnership may purchase warrants in the normal course of pursuing its investment objectives or may receive warrants from its portfolio companies upon an investment in the debt or equity of a portfolio company. The warrants provide the Partnership with exposure and potential gains upon equity appreciation of the portfolio company's share price.

The value of a warrant has two components: time value and intrinsic value. A warrant has a limited life and expires on a certain date. As time to the expiration date of a warrant approaches, the time value of a warrant will decline. In addition, if the stock underlying the warrant declines in price, the intrinsic value of an "in the money" warrant will decline. Further, if the price of the stock underlying the warrant does not exceed the strike price of the warrant on the expiration date, the warrant will expire worthless. As a result, there is the potential for the Partnership to lose its entire investment in a warrant.

Exchange traded warrants are treated as level one for the table in the above Fair Value Measurement footnote. At June 30, 2015, the volume of the Partnership's warrant activities based on their notional amounts and number of contracts, categorized by primary underlying risk, are as follows:

Primary underlying risk	Long exposure	
	Notional amounts	Number of contracts
Equity price		
Contract and Notional Amounts	39,952,871	1,198,706

Notional amounts presented for warrants are based on the fair value of the underlying shares as if the warrants were exercised at June 30, 2015. There were 1,400 warrants purchased and no warrants were sold or expired during the year ended June 30, 2015.

Pabrai Investment Fund 2, L.P.
Notes to the Financial Statements
June 30, 2015

Impact of Warrants on the Statement of Assets, Liabilities and Partners' Capital and Statement of Operations

The following table identifies the fair value amounts of warrants included in the statement of assets, liabilities and partners' capital as warrants, categorized by primarily underlying risk, at June 30, 2015. Balances are presented on a gross basis, prior to the application of the impact of counterparty and collateral netting. The following table also identifies the net gain and loss amounts included in the statement of operations as change in unrealized appreciation/(depreciation) on investments, categorized by primary underlying risk, for the year ended June 30, 2015:

<u>Primary underlying risk</u>	<u>Warrant assets</u>	<u>Change in Unrealized gain/(loss)</u>
Equity price		
Warrants	\$ 19,124,467	\$ ~~(3,141,301)~~
Total	\$ 19,124,467	\$ (3,141,301)

5. Partners' Capital

Subscriptions and Units

All Partners of the Partnership must be "accredited investors" as defined in Regulation D adopted under the Securities Act of 1933. In exchange for each Partner's subscription to the Partnership, the Partnership issues Units, which represent an undivided proportionate interest in the assets and liabilities of the Partnership. Units were initially issued at \$10 and are subsequently offered at Unit Value. As of any valuation date, the Unit Value is determined by dividing the Partners' Capital of the Partnership by the total number of Units outstanding. The initial investment by each Limited Partner may not be less than \$350,000, and each additional investment may not be less than \$25,000. At June 30, 2015 the Partnership was not accepting additional capital contributions from new or existing investors.

Redemptions

Subsequent to two years after an initial subscription to the Partnership, a Limited Partner may make complete or partial withdrawals of \$25,000 or greater as of December 31 of any year with at least 60 days advance notice to the General Partner, provided that no partial withdrawal which would reduce a Limited Partner's Capital account to below \$25,000 will be accepted. During the year ended June 30, 2015 the General Partner approved limited partner redemption requests of \$8,775,992 of which all were paid before June 30, 2015.

Transfers

Interests are not transferable without the consent of the General Partner.

Distributions

The Partnership will not ordinarily, but may at the General Partner's discretion, make distributions to its Partners.

Allocations of Profits and Losses

Net Profits, which includes net changes in unrealized appreciation / (depreciation) on investments and net realized gain / (loss) on investments and gain / (loss) on foreign currency transactions and income and expense (including the management fee as described in Note 6) are generally allocated at least annually and each time new Units are issued, in proportion to the Units held at the beginning of such fiscal period, except for the performance allocation to the General Partner as described in Note 6.

Pabrai Investment Fund 2, L.P.

Notes to the Financial Statements

June 30, 2015

Expense Cap

The General Partner's authority to authorize Partnership expenses, exclusive of costs associated with margin borrowing, is limited to 2% of the Partnership's assets in any one fiscal year.

Guarantee

The General Partner has a guarantee obligation with respect to the original capital investment of limited partners made prior to July 15, 2001. This guarantee obligation does not include any limited partners entering the Partnership subsequent to that date, including the original capital investment made by partners in Pabrai Investment Fund 1, L.P. ("PIF1") prior to the merger of PIF1 with the Partnership. Mohnish Pabrai, the principal of the General Partner, has executed the LP Agreement as a personal guarantor of the General Partner with respect to this obligation.

6. Management Fee and Performance Allocation

Management Fee

The General Partner is paid an annual management fee of \$10.

Performance Allocation

The General Partner is entitled to a performance allocation equal to 25% of the amount by which the increase, if any, in the Net Asset Value Per Unit exceeds 6% on a per annum basis over the "High Water Mark" in effect immediately prior to the applicable valuation date. The valuation date is defined as the last day of each fiscal year and the day immediately preceding the date upon which a capital contribution of the Partnership or withdrawal of capital in excess of \$25,000 is made. Therefore, the timing of the measurement of the performance allocation can be as frequent as quarterly or as infrequent as annually. The "High Water Mark" initially means the Net Asset Value Per Unit of \$10, and is adjusted, as of each valuation date, to equal the greater of (a) the High Water Mark immediately prior to such valuation date, increased at a per annum rate of 6% or (b) the Net Asset Value Per Unit as of such valuation date.

During the year ended June 30, 2015, the General Partner did not earn a performance allocation.

7. Financing Arrangements

The Partnership may obtain financing through margin borrowing arrangements. The margin loans may not exceed 30% of the Partnership's total asset value without the Partners' written unanimous consent. The Partnership did not utilize the margin borrowing arrangement during the year ended June 30, 2015.

On December 5, 2011, the Partnership entered into a securities loan agreement with UBS Financial Services, Inc. providing for the lending of securities to UBS. UBS provides the Partnership an irrevocable letter of credit as collateral. The value of the collateral is at least equal to 100% of the market value of the loaned securities, based on a daily mark to market by UBS. The Partnership earns income based on the aggregate market value of the loaned securities, which is included in securities lending income in the statement of operations.

As of June 30, 2015 and during the year then ended, the Partnership had no securities lent to UBS.

8. Related Party

The General Partner may cause the Partnership to purchase securities from or sell securities to other vehicles managed by the General Partner when the General Partner believes such transactions are appropriate and in the best interests of the Partnership. No such transactions occurred during the year ended June 30, 2015.

At June 30, 2015, Dalal Street, LLC held approximately 13.72% of the total outstanding partnership units.

Pabrai Investment Fund 2, L.P.
Notes to the Financial Statements
June 30, 2015

9. Risks

Market and Credit Risks

The success of any investment activity is influenced by general economic and financial conditions that may affect the level and volatility of security prices and interest rates. As recent events have demonstrated, unexpected volatility, illiquidity, governmental action, currency devaluation, or other events in the U.S. or global markets in which the Partnership may directly or indirectly hold positions could impair the Partnership's ability to carry out its business and could cause the Partnership to incur substantial losses.

The Partnership's trading activities expose the Partnership to both market risk, the risks from changes in fair value, and credit risk, the risk of failure by another party to perform according to the terms of a contract.

Market risk is the potential for changes in fair value of financial instruments from market changes, including fluctuations in market prices. Market risk is directly affected by the volatility and liquidity in the markets in which the related underlying assets are traded.

Credit risk exists from the possibility of loss from the failure of the counterparty to perform according to the terms of a contract.

The Partnership has a substantial portion of its assets on deposit with brokers in connection with its trading of certain investments and its cash management activities. In the event of a financial institution's insolvency, recovery of the Partnership assets on deposit may be limited.

Currency Risks

The Partnership invests in assets and liabilities denominated in foreign currencies which are translated into U.S. dollar amounts at the period end exchange rates. The value of these assets and liabilities are exposed to fluctuations in the foreign currencies as compared to the US dollar.

10. Financial Highlights

Financial highlights are calculated for a limited partner unit outstanding for the entire period. An individual limited partner's return and ratios may vary based on timing of capital transactions.

Selected per unit data

Limited Partner unit value, beginning of period	\$	78.13
Income / (loss) from investment operations ⁽¹⁾		
Net investment income / (loss)		0.04
Net realized gain and net change in unrealized appreciation / (depreciation)		(3.53)
Limited Partner unit value, end of period	\$	<u>74.64</u>

Total return	-4.47%
---------------------	--------

Ratios to average limited partners' capital

Total expenses	0.15%
Net investment income / (loss)	0.05%

⁽¹⁾ Calculated using the average number of units outstanding during the year.

Pabrai Investment Fund 2, L.P.
Notes to the Financial Statements
June 30, 2015

11. Subsequent Events

The Partnership has evaluated subsequent events through the issuance of the Partnership's financial statements on August 7, 2015 (the date the financial statements were available to be issued) and has determined that there is no impact on the Partnership's financial statements.

**Pabrai Investment
Fund 3, Ltd.**
Financial Statements
December 31, 2015

Pabrai Investment Fund 3, Ltd.

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December 31, 2015

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Independent Auditor's Report

To the Board of Directors of Pabrai Investment Fund 3, Ltd.

We have audited the accompanying financial statements of Pabrai Investment Fund 3, Ltd. (the "Fund"), which comprise the statement of assets and liabilities, including the condensed schedule of investments, as of December 31, 2015, and the related statements of operations and of changes in net assets for the year then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

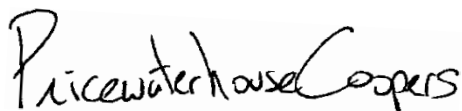
Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pabrai Investment Fund 3, Ltd. at December 31, 2015, and the results of its operations and changes in its net assets for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The image shows a handwritten signature in black ink that reads "PricewaterhouseCoopers". The signature is written in a cursive, flowing style, with the letters connected together. It is positioned above the date "February 19, 2016".

February 19, 2016

Pabrai Investment Fund 3, Ltd.
Statement of Assets and Liabilities
December 31, 2015
(expressed in United States dollars)

Assets

Cash	\$ 110,222
Investments, at fair value (cost \$159,474,777)	182,378,252
Other assets	7,815
Total assets	182,496,289

Liabilities

Redemptions payable	25,386,333
Prepaid subscription	49,980
Accrued expenses and other liabilities	65,171
Total liabilities	25,501,484

Net assets	
	\$ 156,994,805

Net assets consist of:

Manager's shares (100 authorized; 100 issued and outstanding)	\$ 100
Common shares (10,000,000 authorized; 3,798,683 issued and outstanding)	156,994,705
Total net assets	\$ 156,994,805
Net asset value per common share	\$ 41.33

The accompanying notes are an integral part of these financial statements.

Pabrai Investment Fund 3, Ltd.

Statement of Operations

Year Ended December 31, 2015

(expressed in United States dollars)

Investment income

Dividend income (net of withholding tax of \$113,552)	\$ 1,248,903
Interest income	10,809
Total investment income	<u>1,259,712</u>

Expenses

Professional fees	131,212
Administration fee	55,000
Interest expense	1,108
Total expenses	<u>187,320</u>
Net investment income	1,072,392

Net realized and unrealized gain/(loss) on investments

Net realized (loss) on investments (net of capital gain tax of \$12,993)	(8,632,196)
Net realized (loss) on foreign currency transactions	(40,439)
Net change in unrealized (depreciation) on investments	<u>(29,139,040)</u>
Net realized and unrealized (loss) on investments	<u>(37,811,675)</u>
Net decrease in net assets resulting from operations	<u>\$ (36,739,283)</u>

The accompanying notes are an integral part of these financial statements.

Pabrai Investment Fund 3, Ltd.
Statement of Changes in Net Assets
Year Ended December 31, 2015
(expressed in United States dollars)

Increase / (decrease) in net assets from operations	
Net investment income	\$ 1,072,392
Net realized (loss) on investments (net of capital gain tax of \$12,993)	(8,632,196)
Net realized (loss) on foreign currency transactions	(40,439)
Net change in unrealized (depreciation) on investments	<u>(29,139,040)</u>
Net decrease in net assets resulting from operations	<u>(36,739,283)</u>
Capital transactions	
Subscriptions of common shares (122,715 shares)	6,299,990
Redemptions of common shares (614,254 shares)	<u>(25,386,333)</u>
Net change in net assets resulting from capital transactions	<u>(19,086,343)</u>
Net (decrease) in net assets for the year	(55,825,626)
Net assets at:	
Beginning of year	<u>212,820,431</u>
End of year	<u>\$ 156,994,805</u>

The accompanying notes are an integral part of these financial statements.

Pabrai Investment Fund 3, Ltd.
Condensed Schedule of Investments
December 31, 2015

(expressed in United States dollars)

Number of Shares		Value as Percentage of Net Assets	Cost	Fair Value
Common Stocks				
United States				
	Basic Materials	2.66%	\$ 21,005,998	\$ 4,175,850
	Financial Services	3.24%	5,206,187	5,086,675
	Media			
22,060	Alphabet Inc.	10.66%	11,553,771	16,740,893
	Total United States	16.56%	37,765,956	26,003,418
China				
	Consumer Staples	2.90%	3,975,033	4,548,028
	Total China	2.90%	3,975,033	4,548,028
Hong Kong				
	Lodging	0.17%	284,470	267,300
	Total Hong Kong	0.17%	284,470	267,300
India				
	Chemicals			
16,254,715	Rain Industries Limited	5.88%	10,687,475	9,239,254
	Financial Services*	11.60%	29,846,331	18,219,883
	Total India	17.48%	40,533,806	27,459,137
The Netherlands				
	Automotive			
4,439,000	Fiat Chrysler Automobiles N.V.	39.56%	22,007,352	62,101,610
	Total The Netherlands	39.56%	22,007,352	62,101,610
United Kingdom				
	Aerospace	1.92%	4,009,883	3,008,270
	Total United Kingdom	1.92%	4,009,883	3,008,270
	Total Common Stocks	78.59%	108,576,500	123,387,763
Money Market Funds				
United States				
	UBS Select Prime			
26,891,309	Institutional Fund	17.13%	26,891,309	26,891,309
	Total Money Market Funds	17.13%	26,891,309	26,891,309
Warrants				
United States				
	Automotive			
1,970,000	General Motors Co., strike price \$18.33 (expires July 10, 2019)	20.45%	24,006,968	32,099,180
	Total Warrants	20.45%	24,006,968	32,099,180
	Total Investments	116.17%	159,474,777	182,378,252

* No one security represents greater than 5%.

The accompanying notes are an integral part of these financial statements.

Pabrai Investment Fund 3, Ltd.

Notes to Financial Statements

December 31, 2015

1. Organization

Pabrai Investment Fund 3, Ltd. (the "Fund"), a British Virgin Islands Corporation, was organized on November 9, 2001 and commenced operations on February 2, 2002. The Fund will continue indefinitely until wound up in accordance with the provisions of the Fund's Articles of Association.

The Fund has been recognized as a professional fund under the Securities and Investment Business Act, 2010 (British Virgin Islands) (the "Funds Act"). The shares of a "professional fund" as defined in the Funds Act may be made available (including issued or transferred) to persons who are "professional investors" within the meaning of the Funds Act and on the basis that investment in the Fund by each investor is not less than \$100,000.

Dalal Street, LLC serves as the Fund's Investment Manager (the "Investment Manager") and is responsible for the management of the Fund's assets. The Fund's objective is to obtain above market returns and long term appreciation by investing principally in marketable securities of U.S. and non-U.S. companies. The Fund has not adopted fixed guidelines for diversification and, therefore, may be subject to more rapid change in value than would be the case if the Fund were required to maintain wide diversification.

The Fund utilizes UBS Financial Services Inc. ("UBS") as its principal broker-dealer and maintains its cash and investments with UBS. Additionally, the Fund utilizes Kotak Mahindra Bank Limited and UBS Securities LLC. All subscriptions and proceeds from investors are received into the Northbrook Bank & Trust – Wintrust Funds Group ("Wintrust") account, and all redemptions and disbursements are made from the Wintrust account.

The Fund has also entered into an agreement with Liccar to perform all general administrative tasks of the Fund, including keeping the financial records, preparation of reports to shareholders and approval of all disbursements.

2. Significant Accounting Policies

Method of Reporting

The Fund's financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The Investment Manager has evaluated the structure, objectives and activities of the Fund and determined that the Fund meets the characteristics of an investment company.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from the estimates included in the financial statements.

Contingencies and Commitments

In the normal course of business, the Fund enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, the Investment Manager expects the risk of material loss to be remote.

Security Valuation

Investments listed on a national securities exchange are valued at their last sales price on the date of valuation on the primary exchange. In the event no such price is available for such date, then the last reported sale price within the last five day period preceding the valuation date is utilized. If no such price is reported, then the security will be valued at the representative bid price at the close of business on the valuation date. Investments whose market quotations are not readily available are valued at fair value as determined in good faith under procedures established by the Investment Manager. Because of the inherent uncertainty of valuation, the estimate of fair value may differ from the values that would have been used had a ready market existed and the differences could be material. Money market funds are valued at net assets value per share, which approximates fair value. Notwithstanding the foregoing, if in the reasonable judgment of the Fund, in its sole discretion, the listed price for any security held by the Fund does not accurately reflect the value of such security, the Fund may value such security at a price which is greater or less than the quoted market price for such security.

Security Transactions and Income and Expense Recognition

Investment transactions are recorded on the trade date. Income and expenses are recorded on the accrual basis and dividend income and capital gain distributions are recorded on the ex-dividend date net of foreign dividend withholding taxes. Realized gains and losses are recorded on the specific identification method.

Foreign Currency Transactions

Assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the year-end exchange rates. Purchases and sales of these assets and liabilities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions. The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of investments held.

Income Taxes

The Fund has conducted and intends to conduct its operations so that it will not be engaged in a United States trade or business and, therefore, will not be subject to United States federal income tax on its net income from United States sources, except for United States withholding tax at a 30% rate on United States source dividend income received. Generally, there is no withholding on portfolio interest income and capital gains derived from United States securities.

The Fund executes trades on the Indian, Chinese and Korean exchanges and, therefore, may be subject to taxes levied in each country. The investments in common stock traded on the Indian exchange are subject to short-term capital gains tax at 15% and no long-term capital gains tax. The Fund intends to hold the Indian securities for the long-term. The investments in common stock traded on the Korean exchange are subject to 22% tax on interest and dividend income. Capital gains tax is exempted if holdings are less than 25% of outstanding shares on the Korean exchange and the securities transaction is executed through Korean exchange, not the over-the-counter market. If holdings are more than 25% of outstanding shares on the Korean exchange or if the trade is executed through the over-the-counter market, a 22% standard rate or 11% of sales proceeds (including resident tax), whichever is lower, will be levied. For countries with double taxation treaties, the treaty rate prevails only if it is more favorable than the standard rate. As of December 31, 2015, \$0 was accrued for these taxes.

Under the current British Virgin Islands legislation, the Fund is not required to pay taxes in the British Virgin Islands on income or capital gains. Because the Fund is not subject to taxation in the British Virgin Islands and it is management's opinion that its method of operations does not result in

Pabrai Investment Fund 3, Ltd.

Notes to Financial Statements

December 31, 2015

its being subject to income taxes, no provision for taxes has been made in these financial statements.

Management has continued to evaluate the application of Accounting Standards Codification ("ASC") 740, "Income Taxes", and has determined that no reserves for uncertain tax positions were required to have been recorded as a result of the adoption of ASC 740. Open tax years are those that are open for exam by taxing authorities. As of December 31, 2015, open tax years include the tax years ended December 31, 2012 through December 31, 2015. The Fund is not aware of any examinations in progress. The Fund has reviewed all open tax years and major jurisdictions and concluded that the adoption of these financial reporting rules resulted in no effect to the Fund's financial position or results of operations. There is no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken on the tax return for the fiscal year ended December 31, 2015. The Fund is also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefit will significantly change in the next twelve months.

Redemptions Payable

The Fund accounts for subscriptions, allocations and redemptions on a per share basis. The amounts shown as redemptions payable of \$25,386,333 represent the remaining amount due for redemptions as of December 31, 2015.

Prepaid Subscription

The amounts shown as prepaid subscription of \$49,980 represent the amount of subscription received in advanced as of December 31, 2015.

Statement of Cash Flows

The Fund has elected not to provide a Statement of Cash Flows as permitted by the Financial Accounting Standards Board's Accounting Standards Codification (ASC) 230-10-15, "Statement of Cash Flows-Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale."

3. Fair Value Measurement

The Fund has financial reporting rules that establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date;

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3 Inputs that are unobservable.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the

Pabrai Investment Fund 3, Ltd.
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lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgment by the Investment Manager. The Investment Manager considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Investment Manager's perceived risk of that instrument.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within level 1, include active listed equities, and certain money market securities. The Investment Manager does not adjust the quoted price for such instruments, even in situations where the Investment Manager holds a large position and a sale could reasonably impact the quoted price.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs, are classified within level 2. These include investment-grade corporate bonds and less liquid listed equities. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

The inputs used by the Investment Manager in estimating the value of the level 3 investment include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the Investment Manager in the absence of market information. The fair value measurement of level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis. Assumptions used by the Investment Manager due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Fund's results of operations.

As of December 31, 2015 and during the year then ended, the Fund had no investments classified within Level 3. There were no transfers in or out of either Level 1 or Level 2 as of or during the year ended December 31, 2015.

The following table presents the financial instruments carried on the Statement of Assets and Liabilities by level:

Assets at Fair Value as of December 31, 2015				
	Level 1	Level 2	Level 3	Total
Common stock	\$ 123,387,763	\$ -	\$ -	\$ 123,387,763
Money market funds	26,891,309	-	-	26,891,309
Warrants	32,099,180	-	-	32,099,180
	<u>\$ 182,378,252</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 182,378,252</u>

Pabrai Investment Fund 3, Ltd.
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4. Warrants

Investments in warrant contracts are subject to additional risks that can result in a loss of all or part of an investment. The Fund may purchase warrants in the normal course of pursuing its investment objectives or may receive warrants from its portfolio companies upon an investment in the debt or equity of a portfolio company. The warrants provide the Fund with exposure and potential gains upon equity appreciation of the portfolio company's share price.

The value of a warrant has two components: time value and intrinsic value. A warrant has a limited life and expires on a certain date. As time to the expiration date of a warrant approaches, the time value of a warrant will decline. In addition, if the stock underlying the warrant declines in price, the intrinsic value of an "in the money" warrant will decline. Further, if the price of the stock underlying the warrant does not exceed the strike price of the warrant on the expiration date, the warrant will expire worthless. As a result, there is the potential for the Fund to lose its entire investment in a warrant.

Exchange traded warrants are treated as level one for the table in the above Fair Value Measurement note.

For December 31, 2015, the Fund's investments in warrants based on their notional amounts and number of contracts, categorized by primary underlying risk, are as follows:

Primary underlying risk	Long exposure	
	Notional amounts	Number of contracts
Equity price		
Contract and		
Notional amounts	\$ 66,999,700	1,970,000

Notional amounts presented for warrants are based on the fair value of the underlying shares as if the warrants were exercised at December 31, 2015. There were 43,000 warrants purchased and no warrants sold during the year ended December 31, 2015.

Impact of Warrants on the Statement of Assets and Liabilities and Statement of Operations

The following table identifies the fair value amounts of warrants included in the statement of assets and liabilities, categorized by primary underlying risk, at December 31, 2015. Balances are presented on a gross basis, prior to the application of the impact of counterparty and collateral netting. The following table also identifies the net gain and loss amounts included in the statement of operations as net change in unrealized appreciation / (depreciation) on investments, categorized by primary underlying risk, for the year ended December 31, 2015:

Primary underlying risk	Fair Value	Change in unrealized (depreciation)
Equity price		
Warrants	\$ 32,099,180	\$ (1,516,664)
Total	\$ 32,099,180	\$ (1,516,664)

Pabrai Investment Fund 3, Ltd.
Notes to Financial Statements
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5. Share Capital

Non-Voting Common Shares

The Fund has authorized 10,000,000 shares of non-voting common shares with a par value of \$0.01 per share. Such common shares were offered at an initial price of \$10 per share, and are thereafter offered at the then Net Asset Value of such shares. The common shares have no voting rights, but do participate in all profits and losses of the Fund, including net changes in unrealized appreciation or depreciation of investments and realized investment gains or losses and income and expense (including the investment management fee as described in Note 6). Such profits and losses are generally allocated at least annually and each time new common shares are issued and redeemed.

The net asset value of a common share is determined by dividing the net assets attributable to the common shares by the total number of common shares outstanding.

The initial investment by each investor may not be less than \$2,500,000 for offshore investors and \$10,000,000 for US tax exempt entities. Minimum additional amounts are determined by the Investment Manager at his discretion.

Manager's Shares

The Fund has authorized 100 shares of voting, non-participating Manager's Shares with a par value of \$1.00 per share. The Manager's Shares, which are the sole voting shares, are not entitled to participate in any profits or income of the Fund. The Manager's Shares are redeemable at par and are owned by Mohnish Pabrai. Mr. Pabrai is also a member of the Fund's Board of Directors.

Redemptions

A shareholder may make complete or partial withdrawals in amounts of \$25,000 or greater as of December 31 of any year with at least 60 days advance notice to the Investment Manager. The Fund, in its discretion, may at any time redeem all or a portion of the shares of any investor. Redemptions may be paid in cash or, at the discretion of the Investment Manager, in-kind. The Investment Manager may, at its discretion, allow redemptions of amounts differing from the aforementioned criteria.

During the year ended December 31, 2015, the Investment Manager approved shareholders' redemption requests of \$25,386,333 of which \$25,386,333 was paid out subsequent to year-end.

Transfers

Interests are not transferable without the consent of the Investment Manager.

Distributions

The Fund will not ordinarily, but may at the Investment Manager's discretion, make distributions to its Shareholders.

6. Investment Management Fee

The Investment Manager receives an investment management fee, payable on December 31 of each year and on the final trading day immediately preceding a subscription or redemption to the Fund, in an amount equal to 25% of the amount by which the increase, if any, in the net asset value of the Fund at the time such fee is payable, exceeds 6%, on an annualized basis, of the net asset value at the time such fee was most recently paid. No investment management fee is payable unless the net asset value of a common share is at its historic highest value, after giving

Pabrai Investment Fund 3, Ltd.
Notes to Financial Statements
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effect to distributions, share splits or share dividends, if any. During the year ended December 31, 2015, the Investment Manager did not earn any investment management fee.

7. Principal Shareholders

At December 31, 2015, one shareholder held approximately 28% of the net asset value of the total Common Shares issued.

8. Related Party

At December 31, 2015, an affiliate of the Investment Manager held less than 1% of the net asset value of the total Common shares issued.

9. Risks

Market and Credit Risks

The success of any investment activity is influenced by general economic and financial conditions that may affect the level and volatility of security prices and interest rates. As recent events have demonstrated, unexpected volatility, illiquidity, governmental action, currency devaluation, or other events in the U.S. or global markets in which the Fund may directly or indirectly hold positions could impair the Fund's ability to carry out its business and could cause the Fund to incur substantial losses.

The Fund's trading activities expose the Fund to both market risk, the risks from changes in fair value, and credit risk, the risk of failure by another party to perform according to the terms of a contract.

Market risk is the potential for changes in fair value of financial instruments from market changes, including fluctuations in market prices. Market risk is directly affected by the volatility and liquidity in the markets in which the related underlying assets are traded.

Credit risk exists from the possibility of loss from the failure of the counterparty to perform according to the terms of a contract.

The Fund has a substantial portion of its assets on deposit with brokers in connection with its trading of certain investments and its cash management activities. In the event of a financial institution's insolvency, recovery of the Fund assets on deposit may be limited.

Currency Risks

The Fund invests in assets and liabilities denominated in foreign currencies which are translated into U.S. dollar amounts at the year-end exchange rates. The value of these assets and liabilities are exposed to fluctuations in the foreign currencies as compared to the US dollar.

Pabrai Investment Fund 3, Ltd.
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10. Financial Highlights

Financial highlights are calculated for a Common Share outstanding for the year ended December 31, 2015. An individual investor's return and ratios may vary based on the timing of capital transactions. Ratios are computed based on average monthly net assets.

	Common Shares
Selected per share data	
Net asset value, beginning of year	\$ 49.61
Income from investment operations ⁽¹⁾	
Net investment income	0.25
Net realized gain and net change in unrealized appreciation / (depreciation)	(8.53)
Investment management fees	-
Net asset value, end of year	<u>\$ 41.33</u>
Total return	
Total return before management fees	-16.69 %
Management Fees	<u>0.00 %</u>
Total return after management fees	<u>-16.69 %</u>
Ratios to average net assets	
Operating expenses	0.09 %
Management Fees	<u>0.00 %</u>
Total operating expenses and management fees	<u>0.09 %</u>
Net investment income / (loss)	0.53 %

⁽¹⁾ Calculated using the average number of shares outstanding during the year.

11. Subsequent Events

The Fund has evaluated subsequent events through the issuance of the Fund's financial statements on February 19, 2016.

From January 1, 2016 through February 19, 2016 the Fund received capital contributions of approximately \$825,000.

**The Pabrai Investment
Fund IV, L.P.**
Financial Statements
December 31, 2015

The Pabrai Investment Fund IV, L.P.

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December 31, 2015

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Independent Auditor's Report

To the General Partner of The Pabrai Investment Fund IV, L.P.

We have audited the accompanying financial statements of The Pabrai Investment Fund IV, L.P. (the "Partnership"), which comprise the statement of assets, liabilities and partners' capital, including the condensed schedule of investments, as of December 31, 2015, and the related statements of operations and of changes in partners' capital for the year then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

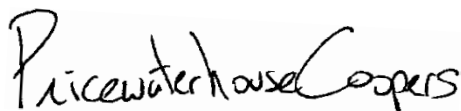
Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Partnership's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Pabrai Investment Fund IV, L.P. at December 31, 2015, and the results of its operations and changes in its partners' capital for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The image shows a handwritten signature in black ink that reads "PricewaterhouseCoopers". The signature is written in a cursive, flowing style, with the letters connected together. It is positioned above the date "February 19, 2016".

February 19, 2016

The Pabrai Investment Fund IV, L.P.
Statement of Assets, Liabilities and Partners' Capital
December 31, 2015
(expressed in United States dollars)

Assets

Cash	\$ 8,229,810
Receivable for securities sold	2,474,350
Investments, at fair value (cost \$192,777,750)	<u>241,740,050</u>
Total assets	<u>\$ 252,444,210</u>

Liabilities

Redemptions payable	\$ 26,326,096
Accrued expenses	<u>102,238</u>
Total liabilities	<u>26,428,334</u>

Partners' capital

General partner (980,833 units at \$23.71 per unit)	23,257,376
Limited partners (8,550,932 units at \$23.71 per unit)	<u>202,758,500</u>
Total partners' capital	<u>226,015,876</u>
Total liabilities and partners' capital	<u>\$ 252,444,210</u>

The accompanying notes are an integral part of these financial statements

The Pabrai Investment Fund IV, L.P.
Statement of Operations
Year Ended December 31, 2015
(expressed in United States dollars)

Investment Income

Dividend income (net of withholding tax of \$30,837)	\$	743,772
Interest income		21,661
Total investment income		<u>765,433</u>

Expenses

Professional fees		110,961
Administration fee		42,000
Interest expense		23
Total operating expenses		<u>152,984</u>

Net investment income 612,449

Net realized and unrealized gain/(loss) on investments

Net realized gain on investments		13,923,755
Net realized gain on foreign currency transactions		26,552
Net change in unrealized (depreciation) on investments		<u>(60,480,255)</u>
Net realized and unrealized loss on investments		<u>(46,529,948)</u>
Net decrease in partners' capital resulting from operations	\$	<u>(45,917,499)</u>

The accompanying notes are an integral part of these financial statements

The Pabrai Investment Fund IV, L.P.
Statement of Changes in Partners' Capital
Year Ended December 31, 2015
(expressed in United States dollars)

	General Partner	Limited Partners	Total
Balance, January 1, 2015	\$ 29,848,131	\$ 268,411,340	\$ 298,259,471
Redemptions (1,110,250 units)	(2,000,000)	(24,326,096)	(26,326,096)
Net decrease in partners' capital from operations	(4,595,968)	(41,321,531)	(45,917,499)
Performance allocation to General Partner	(580)	(5,213)	(5,793)
Reinvestment of performance allocation (207 units)	5,793	-	5,793
Balance, December 31, 2015	<u>\$ 23,257,376</u>	<u>\$ 202,758,500</u>	<u>\$ 226,015,876</u>

The accompanying notes are an integral part of these financial statements

The Pabrai Investment Fund IV, L.P.
Condensed Schedule of Investments
December 31, 2015
(expressed in United States dollars)

Number of Shares		Value as a Percentage of Partners'	Cost	Fair Value
		Capital		
Common Stocks				
United States				
31,085	Financial Services	0.18%	421,860	412,408
	Basic Materials	2.50%	25,659,117	5,656,557
	Insurance	3.51%	8,010,760	7,922,400
	Media			
	Alphabet Inc.	10.44%	16,131,302	23,589,785
	Total United States	16.64%	50,223,039	37,581,150
China				
585,096	Consumer Staples			
	Kweichow Moutai Co Ltd.	8.70%	16,708,827	19,671,719
	Total China	8.70%	16,708,827	19,671,719
India				
	Financial Services	2.92%	13,393,079	6,597,635
	Chemicals	0.68%	1,945,333	1,539,808
	Total India	3.60%	15,338,412	8,137,443
	The Netherlands			
6,589,000	Automotive			
	Fiat Chrysler Automobiles N.V.	40.78%	34,003,514	92,180,110
	Total The Netherlands	40.78%	34,003,514	92,180,110
United Kingdom				
	Aerospace	4.92%	13,006,209	11,117,888
	Total United Kingdom	4.92%	13,006,209	11,117,888
	Total Common stocks	74.64%	129,280,001	168,688,310
	Money Market Funds			
United States				
27,347,070	UBS Select Prime			
	Institutional Fund	12.10%	27,347,070	27,347,070
	Total Money Market Funds	12.10%	27,347,070	27,347,070
Warrants				
United States				
2,805,000	Automotive			
	General Motors Co., strike price \$18.33 (expires July 10, 2019)	20.22%	36,150,679	45,704,670
	Total Warrants	20.22%	36,150,679	45,704,670
	Total Investments	106.96%	\$ 192,777,750	\$ 241,740,050

The accompanying notes are an integral part of these financial statements

The Pabrai Investment Fund IV, L.P.

Notes to Financial Statements

December 31, 2015

1. Organization

The Pabrai Investment Fund IV, L.P. (the "Partnership"), a Delaware partnership, was organized and commenced operations on October 1, 2003. The Partnership is expected to terminate on September 30, 2023, unless terminated earlier or extended in accordance with the provisions of the Partnership's Limited Partnership Agreement dated as of October 1, 2003, as amended (the "L.P. Agreement").

Dalal Street, LLC serves as the Partnership's General Partner (the "General Partner") and is responsible for the management of the Partnership's assets. The Partnership's objective is to obtain above market returns and long term appreciation by investing principally in marketable securities of U.S. and non-U.S. companies. The Partnership has not adopted fixed guidelines for diversification and, therefore, may be subject to more rapid change in value than would be the case if the Partnership were required to maintain wide diversification. The Partnership cannot purchase securities on margin, enter into futures or forward contracts, enter into the short sales of securities, or engage in certain other investment activities without the approval of Limited Partners owning not less than 50% of the capital balance of the Partnership.

The Partnership utilizes UBS Financial Services Inc. ("UBS") as its principal broker-dealer and maintains its cash and investments with UBS. Additionally, the Partnership utilizes Kotak Mahindra Bank Limited and UBS Securities LLC. All subscriptions and proceeds from investors are received into the Northbrook Bank and Trust – Wintrust Funds Group ("Wintrust") account, and all redemptions and disbursements are made from the Wintrust account.

The Partnership has also entered into an agreement with Liccar to perform all general administrative tasks of the Partnership, including keeping the financial records, preparation of reports to Limited Partners and approval of all disbursements.

2. Significant Accounting Policies

Method of Reporting

The Partnership's financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The Investment Manager has evaluated the structure, objectives and activities of the Partnership and determined that the Partnership meets the characteristics of an investment company.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires the General Partner to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from the estimates included in the financial statements.

Contingencies and Commitments

In the normal course of business, the Partnership enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Partnership's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Partnership that have not yet occurred. However, based on experience, the General Partner expects the risk of material loss to be remote.

The Pabrai Investment Fund IV, L.P.

Notes to Financial Statements

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Security Valuation

Investments listed on a national securities exchange are valued at their last sales price on the date of valuation on the primary exchange. In the event no such price is available for such date, then the last reported sale price within the last five day period preceding the valuation date is utilized. If no such price is reported, then the security will be valued at the representative bid price at the close of business on the valuation date. Investments whose market quotations are not readily available are valued at fair value as determined in good faith under procedures established by the Investment Manager. Because of the inherent uncertainty of valuation, the estimate of fair value may differ from the values that would have been used had a ready market existed and the differences could be material. Money market funds are valued at net assets value per share, which approximates fair value. Notwithstanding the foregoing, if in the reasonable judgment of the Partnership, in its sole discretion, the listed price for any security held by the Partnership does not accurately reflect the value of such security, the Partnership may value such security at a price which is greater or less than the quoted market price for such security.

Security Transactions and Income and Expense Recognition

Investment transactions are recorded on trade date. Income and expenses are recorded on the accrual basis and dividend income and capital gain distributions are recorded on the ex-dividend date net of foreign dividend withholding taxes. Realized gains and losses are recorded on the specific identification method.

Foreign Currency Transactions

Assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the year-end exchange rates. Purchases and sales of these assets and liabilities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions. The Partnership does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of investments held.

Income Taxes

No provision is made in the accompanying financial statements for liabilities for federal, state or local income taxes since such liabilities are not the responsibility of the Partnership. Each partner is required to report on his/her income tax return his/her proportionate share of the items of income and deduction of the Partnership.

The Partnership executes trades on the Indian and Chinese exchanges and, therefore, may be subject to taxes levied by India and China. The investments in common stock traded on the Indian exchange are subject to short-term capital gains tax at 15% and no long-term capital gains tax. The Partnership intends to hold the Indian securities for the long-term.

Management has continued to evaluate the application of Accounting Standards Codification ("ASC") 740, "Income Taxes", and has determined that no reserves for uncertain tax positions were required to have been recorded as a result of the adoption of ASC 740. Open tax years are those that are open for exam by taxing authorities. As of December 31, 2015, open tax years include the tax years ended December 31, 2012 through December 31, 2015. The Partnership is not aware of any examinations in progress. The Partnership has reviewed all open tax years and major jurisdictions and concluded that the adoption of these financial reporting rules resulted in no effect to the Partnership's financial position or results of operations. There is no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken on the tax return for the fiscal year ended December 31, 2015. The Partnership is also not aware

The Pabrai Investment Fund IV, L.P.

Notes to Financial Statements

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of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefit will significantly change in the next twelve months.

Receivable for securities sold

The amount shown as receivable for securities sold represents a net receivable from brokers for unsettled sales of securities as of December 31, 2015.

Redemptions Payable

The Partnership accounts for subscriptions, allocations and redemptions on a per unit basis. The amounts shown as redemptions payable of \$26,326,096 represent the remaining amount due for redemptions as of December 31, 2015.

Statement of Cash Flows

The Partnership has elected not to provide a Statement of Cash Flows as permitted by the Financial Accounting Standards Board's Accounting Standards Codification (ASC) 230-10-15, "Statement of Cash Flows-Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale."

3. Fair Value Measurement

The Partnership has adapted financial reporting rules that establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Partnership has the ability to access at the measurement date;

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3 Inputs that are unobservable.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the General Partner. The General Partner considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the General Partner's perceived risk of that instrument.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within level 1, include active listed equities, and certain money market securities. The General Partner does not adjust the quoted price for such instruments, even in situations where the Partnership holds a large position and a sale could reasonably impact the quoted price. Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable

The Pabrai Investment Fund IV, L.P.

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inputs, are classified within level 2. These include investment-grade corporate bonds and less liquid listed equities. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

The inputs used by the General Partner in estimating the value of the level 3 investment include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the General Partner in the absence of market information. The fair value measurement of level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis. Assumptions used by the General Partner due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Partnership's results of operations.

As of December 31, 2015 and during the year then ended, the Partnership had no investments classified within Level 3. There were no transfers in and out of either Level 1 or Level 2 as of or during the year ended December 31, 2015.

The following table presents the financial instruments carried on the Statement of Assets and Liabilities by level:

Assets at Fair Value as of December 31, 2015				
	Level 1	Level 2	Level 3	Total
Investments				
Common stock	\$ 168,688,310	\$ -	\$ -	\$ 168,688,310
Money market funds	27,347,070	-	-	27,347,070
Warrants	45,704,670	-	-	45,704,670
Total investments	<u>\$ 241,740,050</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 241,740,050</u>

4. Warrants

Investments in warrant contracts are subject to additional risks that can result in a loss of all or part of an investment. The Partnership may purchase warrants in the normal course of pursuing its investment objectives or may receive warrants from its portfolio companies upon an investment in the debt or equity of a portfolio company. The warrants provide the Partnership with exposure and potential gains upon equity appreciation of the portfolio company's share price.

The value of a warrant has two components: time value and intrinsic value. A warrant has a limited life and expires on a certain date. As time to the expiration date of a warrant approaches, the time value of a warrant will decline. In addition, if the stock underlying the warrant declines in price, the intrinsic value of an "in the money" warrant will decline. Further, if the price of the stock underlying the warrant does not exceed the strike price of the warrant on the expiration date, the warrant will expire worthless. As a result, there is the potential for the Partnership to lose its entire investment in a warrant.

Exchange traded warrants are treated as level one for the table in the above Fair Value Measurement footnote.

The Pabrai Investment Fund IV, L.P.

Notes to Financial Statements

December 31, 2015

For December 31, 2015, the Partnership's investments in warrants based on their notional amounts and number of contracts, categorized by primary underlying risk, are as follows:

Primary underlying risk	Long exposure	
	Notional amounts	Number of contracts
Equity price		
Contract and		
Notional amounts	\$ 95,398,050	2,805,000

Notional amounts presented for warrants are based on the fair value of the underlying shares as if the warrants were exercised at December 31, 2015. There were no warrants purchased or sold during the year ended December 31, 2015.

Impact of Warrants on the Statement of Assets, Liabilities and Partners' Capital and Statement of Operations

The following table identifies the fair value amounts of warrants included in the statement of assets, liabilities and partners' capital as warrants, categorized by primary underlying risk, at December 31, 2015. Balances are presented on a gross basis, prior to the application of the impact of counterparty and collateral netting. The following table also identifies the net gain and loss amounts included in the statement of operations as change in unrealized (depreciation), categorized by primary underlying risk, for the year ended December 31, 2015:

Primary underlying risk	Fair Value	Change in unrealized (depreciation)
Equity price		
Warrants	\$ 45,704,670	\$ (1,980,330)
Total	\$ 45,704,670	\$ (1,980,330)

5. Partners' Capital

Subscriptions and Units

All Limited Partners of the Partnership must be "qualified purchasers" as defined in the Investment Company Act of 1940. In exchange for each Partner's subscription to the Partnership, the Partnership issues Units, which represent an undivided proportionate interest in the assets and liabilities of the Partnership. Units were initially issued at \$10 on October 1, 2003 and are subsequently offered at Net Asset Value Per Unit. As of any valuation date, the Net Asset Value Per Unit is determined by dividing the Partners' Capital of the Partnership by the total number of Units outstanding. The initial investment by each Limited Partner may not be less than \$2,500,000, although the General Partner, in its sole discretion, may permit initial investments in amounts less than \$2,500,000 but in no event less than \$20,000. Minimum additional investment amounts are determined by the General Partner in its discretion.

Effective October 1, 2010 the Partnership was not taking in additional contributions from new or existing investors. As an exception, only the Pabrai family and the retirement plan for Dalal Street, LLC are allowed to add capital. There were no capital additions in 2015 for these accounts.

The Pabrai Investment Fund IV, L.P.

Notes to Financial Statements

December 31, 2015

Withdrawals

A Limited Partner may make complete or partial withdrawals of \$25,000 or greater as of December 31 of any year with at least 60 days advance notice to the General Partner, provided that no partial withdrawal which would reduce a Limited Partner's capital account to below \$100,000 will be accepted. The General Partner, in its discretion, may at any time require the withdrawal of any Limited Partner and redemption of the corresponding Limited Partner interest. Redemptions may be paid in cash or, at the discretion of the General Partner, in-kind. During the year ended December 31, 2015, the General Partner approved partners' withdrawal requests of \$26,326,096 of which \$26,326,096 was paid out subsequent to year-end.

Transfers

Interests are not transferable without the consent of the General Partner.

Distributions

The Partnership will not ordinarily, but may at the General Partner's discretion, make distributions to its Partners.

Allocations of Profits and Losses

Net Profits, which includes net changes in unrealized appreciation or depreciation of investments and realized investment gains or losses and income and expense, are generally allocated at least annually and each time new Units are issued/redeemed, in proportion to the Units held at the beginning of such fiscal period, except for the performance allocation to the General Partner as described in Note 6.

6. Receivable for securities sold

At December 31, 2015, receivable for securities sold includes \$2,474,350 for unsettled trades.

7. General Partner Allocation

The General Partner is entitled to a performance allocation equal to 25% of the amount by which the increase, if any, in the Net Asset Value Per Unit exceeds 6% on a per annum basis over the "High Water Mark" in effect immediately prior to the applicable valuation date. The valuation date is defined as the last day of each fiscal year and the day immediately preceding the date upon which a capital contribution of the Partnership or withdrawal of capital in excess of \$25,000 is made. Therefore, the timing of the measurement of the performance allocation can be as frequent as quarterly or as infrequent as annually. The "High Water Mark" initially means the Net Asset Value Per Unit of \$10, and is adjusted, as of each valuation date, to equal the greater of (a) the High Water Mark immediately prior to such valuation date, increased at a per annum rate of 6% or (b) the Net Asset Value Per Unit as of such valuation date.

During the year ended December 31, 2015, the General Partner earned a performance allocation of \$5,793.

The Pabrai Investment Fund IV, L.P.
Notes to Financial Statements
December 31, 2015

8. Related Party

At December 31, 2015, the General Partner held approximately 11% of the total outstanding Limited Partnership units. Redemptions payable includes \$2,000,000 payable to the General Partner.

9. Risks

Market and Credit Risks

The success of any investment activity is influenced by general economic and financial conditions that may affect the level and volatility of security prices and interest rates. As recent events have demonstrated, unexpected volatility, illiquidity, governmental action, currency devaluation, or other events in the U.S. or global markets in which the Partnership may directly or indirectly hold positions could impair the Partnership's ability to carry out its business and could cause the Partnership to incur substantial losses.

The Partnership's trading activities expose the Partnership to both market risk, the risks from changes in fair value, and credit risk, the risk of failure by another party to perform according to the terms of a contract.

Market risk is the potential for changes in fair value of financial instruments from market changes, including fluctuations in market prices. Market risk is directly affected by the volatility and liquidity in the markets in which the related underlying assets are traded.

Credit risk exists from the possibility of loss from the failure of the counterparty to perform according to the terms of a contract.

The Partnership has a substantial portion of its assets on deposit with brokers in connection with its trading of certain investments and its cash management activities. In the event of a financial institution's insolvency, recovery of the Partnership assets on deposit may be limited.

Currency Risks

The Partnership invests in assets and liabilities denominated in foreign currencies which are translated into U.S. dollar amounts at the year-end exchange rates. The value of these assets and liabilities are exposed to fluctuations in the foreign currencies as compared to the US dollar.

The Pabrai Investment Fund IV, L.P.
Notes to Financial Statements
December 31, 2015

10. Financial Highlights

Financial highlights are calculated for a Limited Partner unit outstanding for the entire period. An individual Limited Partner's return and ratios may vary based on timing of capital transactions. The ratios are computed based on the average Limited Partners' capital, calculated for all Limited Partners as a group.

Selected per unit data

Limited Partner unit value, beginning of year	\$	28.03
Income from investment operations ⁽¹⁾		
Net investment income / (loss)		0.06
Net realized gain and net change in unrealized appreciation / (depreciation)		(4.38)
Limited Partner unit value, end of year	\$	23.71

Total return

Total return before performance allocation	(15.40) %
Performance allocation	0.00
Total return after performance allocation	(15.40) %

Ratios to average limited partners' capital

Expenses	0.06 %
Performance allocation	0.00
Total expenses and performance allocation	0.06 %
Net investment income / (loss)	0.22 %

(1) Calculated using the average number of units outstanding during the year.

11. Subsequent Events

The Partnership has evaluated subsequent events through the issuance of the Partnership's financial statements on February 19, 2016 and has determined that there is no impact on the Partnership's financial statements.

Team Pabrai

MOHNISH PABRAI

Managing Partner

Office Team

NICKII ALEO, *Administrative Assistant* **LYNN DANN**, *Administrative Assistant*
BETSY HARKER, *Administrative Assistant* **KAREN ADACHI**, *Administrative Assistant*
JULIE TELTSCHER, *Office Manager/Chief Compliance Officer*

PIF2 Advisory Board

JOHN S. BANK, *Chicago, Illinois*
PATRICK M. FITZGERALD, *Hinsdale, Illinois*
JOHN LARKIN, *Glen Ellyn, Illinois*

PIF3 Board of Directors

MOHNISH PABRAI, *Irvine, California*
HARINA KAPOOR, *Irvine, California*
RAMESH NAIR (*Reserve Director*), *Chicago, Illinois*

PIF4 Advisory Board

NAVNEET CHUGH, *Fullerton, California*
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Dr. SAMUEL MASLAK, *Vail, Colorado*

Auditor

PRICEWATERHOUSECOOPERS

Broker & Custodian

UBS AG, *The Desai Group*
KOTAK MAHINDRA BANK LIMITED, *India*

General Counsel

DENTONS US LLP

CONYERS DILL & PEARMAN, BVI (*PIF3*)

Tax, Accounting & Administration

MICHAEL J. LICCAR & CO., LLC

Past performance is not indicative of future results. Returns are presented net of all fees and expenses, include the reinvestment of income and are calculated using a simple rate of return. The securities discussed do not represent all securities recommended for the Funds. It is also not a recommendation to buy or sell and one should not presume they will be profitable.

Please be aware that our past Annual Reports may discuss specific securities that have performed well without necessarily addressing those that have underperformed within our Fund(s). Readers should not infer that all investment decisions within the Funds were profitable.



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