



PABRAI INVESTMENT FUNDS

2016 Annual Report

Table of Contents

Letter to Partners	2
Performance Summaries:	
Appendix A: Pabrai Investment Fund II	15
Appendix B: Pabrai Investment Fund 3	16
Appendix C: Pabrai Investment Fund IV	17
Appendix D: PIF2/PIF3/PIF4 Performance History	18
Audited Financial Statements:	
Pabrai Investment Fund II, June 30, 2016	20
Pabrai Investment Fund 3, December 31, 2016	36
Pabrai Investment Fund IV, December 31, 2016	51
Team Pabrai	66

Dear Partners & Investors:

It is hard to believe that Pabrai Funds will have completed eighteen years in a few weeks. It has been a wonderful journey thus far. I have very much enjoyed it. However, I do believe our best years lie ahead of us. I have learned a lot in the last eighteen years – and that can only help us in the future. We own fractions of some truly exceptional businesses. Some of these are run by incredible managers. I love the fact that a significant portion of our assets are managed by the likes of Mary Barra, Aengus Kelly, Gary Kelly, Sergio Marchionne, Vikas Oberoi, Sundar Pichai, Ajay Piramal and Larry Page. We are lucky to have been able to acquire stakes in these exceptional businesses at well below underlying intrinsic value. It can only lead to good results in the years ahead.

Pabrai Funds has lagged the various indices for an unprecedented three years in a row (2014-2016). It was a perfect storm of a large mistake (Horsehead) and a deeply undervalued portfolio. We haven't had such underperformance in our eighteen-year history. Here is PIF2's performance for rolling five-year periods versus the S&P 500 since our first full calendar year:

PIF2 vs. the S&P 500

5-year Period	Annualized PIF2 Performance (after fees)	Annualized Outperformance/Underperformance versus the S&P 500
2000-04	23.81%	26.11%
2001-05	29.19%	28.65%
2002-06	19.97%	13.78%
2003-07	29.71%	16.88%
2004-08	0.90%	3.09%
2005-09	3.34%	2.92%
2006-10	5.81%	3.52%
2007-11	-1.51%	-1.26%
2008-12	-0.01%	-1.67%
2009-13	29.35%	11.41%
2010-14	13.14%	-2.31%
2011-15	2.88%	-9.69%
2012-16	9.21%	-5.42%

Our results have been more than acceptable from inception in 1999 through 2014. I am confident that in the years ahead we will get back to beating all the indices by meaningful margins. The gap between market value and intrinsic value has already begun to narrow a bit. In the first four months of 2017, PIF3 is up 28.8% versus 7.1% for the S&P 500.

I have not been able to find much to buy in the United States for over a year. The pickings are slim. I have been able to put some assets to work outside the United States – particularly in India and South Korea. The Indian equity markets are at all-time highs as well. However, there are many underfollowed or misunderstood businesses in India. And we’ve been able to buy some of these at steep discounts to underlying intrinsic value. Today about 70% of Pabrai Fund assets are invested in businesses domiciled outside the United States. This is an all-time high for us. And it is likely to go higher.

PIF2 vs. The Indices

PIF2 vs. The Indices			
Fund	5 Years	10 Years	Since Inception (7/1/99)
PIF2	9.2%	3.6%	13.6%
Best Index	17.2%	9.6%	5.9%
	(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 \$936,600 as of December 31, 2016 (net to investors). This equates to an annualized return of 13.6% 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 \$273,000 on December 31, 2016 – an annualized gain of 5.9%. 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	9.4%	3.7%	10.1%
Best Index	17.2%	9.6%	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 \$422,700 as of December 31, 2016 (net to investors). This equates to an annualized return of 10.1% 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 \$326,400 on December 31, 2016 – 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	9.2%	3.9%	7.2%
Best Index	17.2%	9.6%	9.9%
	(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 \$252,100 as of December 31, 2016 (net to investors). This equates to an annualized gain of 7.2% 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 \$350,600 on December 31, 2016 – an annualized gain of 9.9%. The Nasdaq gains include reinvested dividends.

Our Holdings

To minimize commitment and consistency bias, I am reticent to talk much about what we own while we own these assets. However, there is plenty of transparency on what we own. GAAP rules require all three funds to list their significant assets – you can find these in the audit reports on Page 26, 42 and 57 of this annual report.

Post-mortems

I do wanna talk about positions that we have exited – especially ones that did not work out as planned. This year we have two positions that I'd like to discuss that we exited recently. In one case we exited at a loss of \$2.3 million (Rolls Royce) and in the other we exited with a small gain of \$1.6 million across all three funds (Seritage Growth Properties).

Rolls Royce Holding PLC

Rolls Royce Holding PLC	
First Bought on:	10/12/2015 for \$11.45/share
Last Sold on:	4/24/2017 for \$10.36/share
Avg. Buy Price:	\$10.15
Avg. Sell Price:	\$9.01
Total Amount Invested:	\$23.0 million
Total Proceeds:	\$20.7 million
Annualized Return:	-6.6%
~10.0% realized loss over an average holding period of 1.5 years.	

In spite of the name, Rolls Royce has nothing to do with automobiles. The “automobile Rolls Royce” has been owned by BMW since 2003. Rolls Royce Holding is primarily a jet engine manufacturer. It also has a meaningful presence in power systems, marine engines and the nuclear industry.

What attracted me to Rolls Royce was their oligopolistic (and sometimes monopolistic) leadership position in wide-body jet engines. What tipped the scales was the arrival of Warren East as the new CEO of Rolls Royce. I had deeply admired what Warren had accomplished at ARM Holdings, making it a global leader of designing leading edge processors that are found in virtually all desktops, servers, laptops, tablets and smart phones. When Warren East became CEO of ARM Holdings in 2001, the market cap was well under a billion. He left in 2013 and in 2016 ARM was acquired by Softbank for over \$25 billion. His strategy and execution at ARM was brilliant.

Anyway, getting back to jet engines, it is a fabulous oligopolistic business dominated by GE, Rolls Royce and Pratt & Whitney. When a new aircraft is sold, it is usually competitive to get to be the supplier of the jet engines. As a result, jet engines usually get sold at either break-even or a loss. However, where these engine suppliers make their money is in the maintenance contracts and parts. A jet engine will usually last for about two decades or more. Over that term, most airlines prefer to have the engines maintained by the manufacturer. Even if they opt for (a cheaper) third party, it is almost unheard of in aviation to use parts from anyone but the original manufacturer. And Rolls prices those parts such that it is irrelevant whether it is the one maintaining the engines. This is a classic razor-razorblade business.

Rolls Royce has a monopoly position on the Airbus A350 wide-body jet, which is a competitor to the Boeing 787 Dreamliner. The A350 is likely to be a highly successful aircraft with a current order book of well over 800 planes. Rolls Royce is also one of two engine suppliers for the Boeing 787. Both these wide bodies are very fuel efficient and likely to be produced for several decades. Rolls Royce could be servicing engines for both the 787 and the A350 for the next 50-60 years! Talk about recurring, forecastable revenues. This is clearly a very wide moat business.

Rolls Royce has historically been a lumbering bureaucracy and significantly underperformed GE in margins, etc. There was poor capital allocation in the past – with capital being redeployed from oligopolistic businesses to not-so-great businesses. Warren East is a master capital allocator with proven execution skills. He steered ARM to become a highly successful capital light semiconductor company. Capital light and semiconductors do not usually get mentioned in the same sentence, but he did it – and his execution while facing giants like Intel was simply off the charts. He ran circles around Intel. My thesis rested on Rolls getting to be a lean mean fighting machine focused on businesses that delivered the highest returns on invested capital.

Within a few weeks of investing in Rolls Royce, I realized I had made a mistake. Rolls Royce is a significant employer in the UK. There is a lot of fat to cut, but even Warren East simply could not make cuts that were so obvious to him. There was intense pressure from various stake holders in the UK, including the government, to preserve jobs. These dynamics just don't exist at GE. As a result, I realized Rolls Royce will always underperform GE and will always be at a disadvantage that will grow over time. In the past, this disadvantage translated into Rolls Royce giving up on the high volume single aisle jet engines for the 737 and A320. The 737 and A320 are the backbone of commercial aviation. Being shut out of these gives GE and Pratt & Whitney a huge leg up on Rolls Royce.

I decided to sell as long as I could at break-even or better. Most of our position was thus sold at a small gain. However, when it became clear that 2016 redemptions would exceed \$100 million, I was forced to sell all kinds of assets I did not want to sell. Selling most of the remaining Rolls Royce stock we owned at a slight loss to minimize sales of my highest conviction ideas was, under the circumstances, a no-brainer. Anytime I make a mistake and can unwind that mistake with a small loss, I am thrilled.

Seritage Growth Properties

Seritage Growth Properties	
First Bought on:	2/19/2016 for \$41.01/share
Last Sold on:	3/30/2017 for \$42.40/share
Avg. Buy Price:	\$41.82
Avg. Sell Price:	\$43.80
Total Amount Invested:	\$22.9 million
Total Proceeds:	\$24.5 million
Annualized Return:	6.3%
~7.0% realized gain over an average holding period of 1.1 years.	

I decided to drill down on Seritage after learning that Warren Buffett has taken a significant personal stake in the business. Did I mention that I am the shameless cloner? Seritage is a REIT that owns current and former Sears and K-Mart locations. Warren has made several real estate investments in his personal portfolio over the last several decades, including farmland in Nebraska, a building near NYU in Manhattan and publicly traded REITs like First Industrial. To the best of my knowledge he has never lost money on any of his real estate investments. He is likely batting with a perfect 1000 on his real estate escapades spanning several decades.

Warren is super smart and highly disciplined, but he has made lots of mistakes in other industries. Berkshire has bought many loser retail operations over the years. Other than Nebraska Furniture Mart and Borsheim's, most of the rest of them have not worked out so well. He has also made mistakes with manufacturers like Dexter Shoes and Berkshire Hathaway Mills. But his batting average in certain industries is flawless – real estate and commercial banking are two of these, for example. I don't believe he has ever lost money investing in any commercial bank.

When we first bought Seritage about fifteen months ago, the plan was to hold this remarkable asset for a very long time. Perhaps ten years or more. However, while Seritage is aggressively diversifying away from Sears, it is heavily dependent on Sears being a solvent entity for at least the next three years. With each passing quarter, Seritage increases its non-Sears revenue and decreases its dependency on Sears Holdings being a going concern.

A year ago, when I first bought Seritage, I did not view a Sears bankruptcy filing as imminent. Today, I am not so sure. The rate of decline at Sears seems to be accelerating. Retailers need unquestioned confidence on them being a going concern for vendors to ship them products on unsecured 30-90 day terms. If I were a supplier to Sears today, I would be very reluctant to give them any terms unless I either got paid upfront or had zero risk of bad debt. This was not the case a year ago.

While a significant majority of their stores are still profitable at the store level, this is mostly a mirage. The store level profitability excludes its quite significant corporate overhead. When I lived in Chicago, I drove past Sears' sprawling

Hoffman Estate Headquarters campus frequently. It is quite a property. And while it likely holds a fraction of the employees it once did, it would not surprise me if the cost of the Hoffman Estates bureaucracy exceeds \$1 billion a year. This \$1 billion equates to about 5% of revenue. For companies like Walmart, this number is 1-2%. For Sears, the actual number may be well over 5%. I don't know exactly as it is not specifically disclosed. As the Sears store count shrinks (and it will shrink), there will be further cuts at Hoffman Estates, but it will not match store closures proportionally. Thus this 5% number will keep increasing – until Sears files for bankruptcy.

I have a friend who ran what used to be a highly successful IT Services firm. The revenues of this firm went from zero to \$10 million to \$50 million to eventually over \$200 million. Then the music stopped and revenues started falling – eventually falling to well under \$50 million. He lamented that when he hit \$50 million the first time, he clearly recalls his overhead headcount to run the business. When he hit \$50 million on the way down, his corporate headcount was 50% more than it was when he was growing superfast. People have a way of justifying their jobs. Managers are reluctant to let people go. They like these people, etc. All these factors make cost cutting hard. When Eddie Lampert asks for the purchasing group at Hoffman Estates to be cut in half, he will get a lot of pushback. He will hear that stores may not get the merchandise they need, they may not get the right merchandise or the best prices, etc. if they let Mr. X or Ms. Y go etc., etc. Thus, it is like a law of Physics. As the Sears revenue drops, corporate overhead will not drop proportionally. It will drop less.

The logic for investing in Seritage is simple. Sears pays them \$4-5/sq. ft. in annual rent. By spending \$75-150/sq. ft., they can raise rents to between \$18-50/sq. ft. Spending \$75 to get an additional \$13-15 per year is such a no-brainer. The unlevered ROI is very acceptable. With some leverage, it becomes quite attractive. And Seritage has an almost infinite supply of this type of redevelopment opportunity. Eventually, they could get tens of millions in additional square feet to redevelop from Sears and other struggling retailers. It does not matter that people won't be shopping in malls in the future. We are a social species. We like to gather in nice public spaces. The space will be utilized in a very different way than Sears used it. Former Sears and K-Marts are being recycled into huge fitness centers, great restaurants, healthcare clinics, specialty retailers, etc.

The probability of Sears filing for bankruptcy protection within three years was large enough in my mind that when Mr. Market offered an exit with no loss, I took it. After Sears files for bankruptcy, it may make sense for us to invest in Seritage again. I will be watching from the sidelines with keen interest.

Lightening Up on Ferrari – A Very Dumb Mistake!

In 2012 and 2013, Pabrai Funds bought 13.8 million shares of Fiat Chrysler for about \$5 each. We invested about \$70 million in Fiat Chrysler. In early 2016, for every ten shares of Fiat Chrysler we owned, we received one share of Ferrari. As a result, we were the proud owners of nearly 1.4 million shares of Ferrari. Fiat Chrysler also spun out RCS Media to shareholders. We realized \$613,000 in proceeds from selling RCS Media.

Ferrari is changing hands these days at \$84/share while Fiat Chrysler's recent stock price is \$11/share. In addition, Ferrari has issued dividends of \$1.19/share since the spinoff.

If we had not sold any of either stock, our \$69.6 million investment would presently be worth:

Fiat Chrysler:	\$151.3 million
Ferrari:	\$117.2 million
RCS Media:	\$0.6 million
Total	\$269.1 million

In other words, Fiat Chrysler has (thus far) delivered a nearly 4x return in under five years!

It was (and is) clear to me that Fiat Chrysler remains significantly undervalued. Thus, I have no desire to sell any. The large redemptions in December 2016 forced my hand and I was forced to sell some of my beloved Fiat Chrysler. I tried to minimize the selling and just 2.3 million shares were sold. We still own 11.5 million shares of Fiat Chrysler valued at \$127 million. Nearly a quarter of our assets are invested in Fiat Chrysler. I feel great about that. It would not surprise me if this stake is worth 2-3 times more in the next 2-3 years. Stay tuned.

But, I digress. The subject at hand is the dumb mistake I made in selling some of our Ferrari stake. We received 1,375,800 shares of Ferrari across all three funds. Today we own 398,138 shares. PIF3 has no shares. It was forced to sell 100% of its Ferrari stake to satisfy redemption requests.

However, just 277,000 shares of Ferrari needed to be sold to satisfy redemptions. The sin I committed was selling 700,662 shares to buy something else. And therein lies the problem. I am a cheapskate. I try to buy assets on the cheap and sell them when they approach 90% of intrinsic value. But sometimes, this is not a good way to go. Ferrari is a very unique asset. It is one of the widest moat businesses on the planet. The cars appreciate after they are sold. Incremental margins on their higher-end cars likely exceed 70%. More importantly, Ferrari is led by Sergio Marchionne, who is simply one of the best CEOs on the planet. May god give me the wisdom to not sell another share of Fiat Chrysler or Ferrari as long as Sergio runs them. Ferrari is an incredible asset, and when it is managed by one of the top 100 all-time greatest CEOs to come along, it is pure stupidity to sell.

Let me lay out the PIF2 Ferrari sales as an illustration of yours truly's dumbness:

Between 7/20/16 and 8/22/16, PIF2 sold 124,000 shares of Ferrari and received net proceeds of \$5.5 million or \$44.36/share. We used some of these proceeds (\$4 million) to buy 107,599 shares of Southwest Airlines at an average price of \$37.18/share. \$1.4 million was used to buy small stakes in four obscure undervalued Korean stocks. And the last \$100,000 was invested in India.

The \$5.5 million invested in Southwest Airlines, Korean stocks and Indian stocks is today worth \$8.1 million. Not bad. However, if I had done nothing, those 124,000 Ferrari shares would have been worth \$10.5 million. PIF2 investors as a group are \$2.4 million poorer as a result. In addition, we had realized gains and taxes due on the very significant Ferrari gains.

Why did I do it? Well, Southwest Airlines was very cheap (it was trading at less than 7 times cash flow) while Ferrari sported a robust double digit multiple. From a strictly moat perspective, there is no question that Ferrari's moat is vastly superior to Southwest. I love Southwest, but it ain't no Ferrari. And on top of that, Ferrari has a super-human CEO in Sergio. I should simply have either passed on Southwest (very hard to do that!) or looked for other stocks to sell. While the Southwest narrower moat plus lower P/E may have made me feel it was better than the wider moat however more expensive Ferrari, there is no justification for me to sell Ferrari to buy the Korean or Indian stocks. I have a good understanding of the Korean and Indian businesses. They are cheap. However, they cannot hold a candle to Ferrari from a moat perspective.

The reason I wanted to include my adventures with Ferrari in this letter was to try to reinforce in my brain the importance of just sitting on your ass when you own great businesses run by great managers. It is not a good idea to sell them unless they are egregiously overvalued. I may have felt Ferrari was fully priced at \$44, but by no means was it egregiously overpriced. And today, at \$84, I can see actions that Sergio can take that may make \$84 look cheap in a few years.

The good news is that PIF2 and PIF4 collectively own Ferrari shares valued at \$33.5 million. For these two funds it is collectively an 8% position. While PIF3 has no Ferrari, if it is any consolation at all, a cool 14% of PIF3 assets are invested in Alphabet (i.e. Google). So far in 2017, PIF3 is outperforming the other two funds.

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 2016 were 0.07%, 0.06% and 0.04% of assets for the three funds, respectively. A year ago, these ratios were 0.08%, 0.06% and 0.05%. And two years ago, these ratios were 0.07%, 0.05% and 0.03%. I am very proud of these numbers. The frictional cost of investing in the funds are now as low as 4 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, 945,138 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 over \$40 million.

Pabrai Funds charges no management fee, just performance fees – which are ¼ 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 largest investor in the funds.

My family and I have an \$8 million investment in Dhandho Holdings, and have invested approximately \$678,000 in the newly launched Dhandho Junoon ETF. Besides this, we have no other meaningful interests in any other mutual funds, hedge funds or private equity funds. Our interests are completely aligned.

All Funds are Closed to New Investors

Pabrai Funds is now closed to new funds and investors. After reviewing our assets under management, cash position and available places to put the same to work, I believe it is in the best interest of all investors to stop accepting inflows at this time.

The only exception to the funds being closed is that the general partner (yours truly) can continue to re-invest incentive fees into the funds. Also, the employee retirement plan for my staff and myself can continue to invest in the funds along with any IRA contributions Harina or I make in the future. I'll also allow my kids to join Pabrai Funds as LPs if they choose to do so. These exceptions only align my interests more strongly with yours. Further, resulting inflows are expected to be immaterial – especially considering that incentive fees are simply a re-allocation of existing assets.

2016 Annual Meeting Transcript and Presentation

The 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:

http://www.pabraifunds.com/website/2016_PIF_AM_Transcript.pdf

<https://vimeo.com/184764157>

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 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.

2017 Annual Meetings – Save the Date

There will be two annual meetings held sequentially in Orange County, California & Chicago. These meetings will cover Pabrai Funds, Dhandho Holdings and Dhandho Funds.

Prior to the California meeting on September 9, 2017, we will have the 4th 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 us 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>

Several out-of-towners have rented bikes from ARB Cyclery over the years. Here is a link to their website: <http://www.arbcyclery.com/>. They have a great selection of bikes and will deliver and pick up the bikes from your hotel. Bikers are best off staying at the Newport Beach Marriott Bayview, as it is less than 0.5 miles from our Starbucks rendezvous point. Here is a link to the hotel's website: <http://www.marriott.com/hotels/travel/npbst-newport-beach-marriott-bayview/>.

I hope you'll join me on Saturday morning to experience some of the magic of Southern California.

The **California** meeting is scheduled to be on **Saturday, September 9th, 2017** 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 Club Sport 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, September 16th, 2017** 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.

Agenda:

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

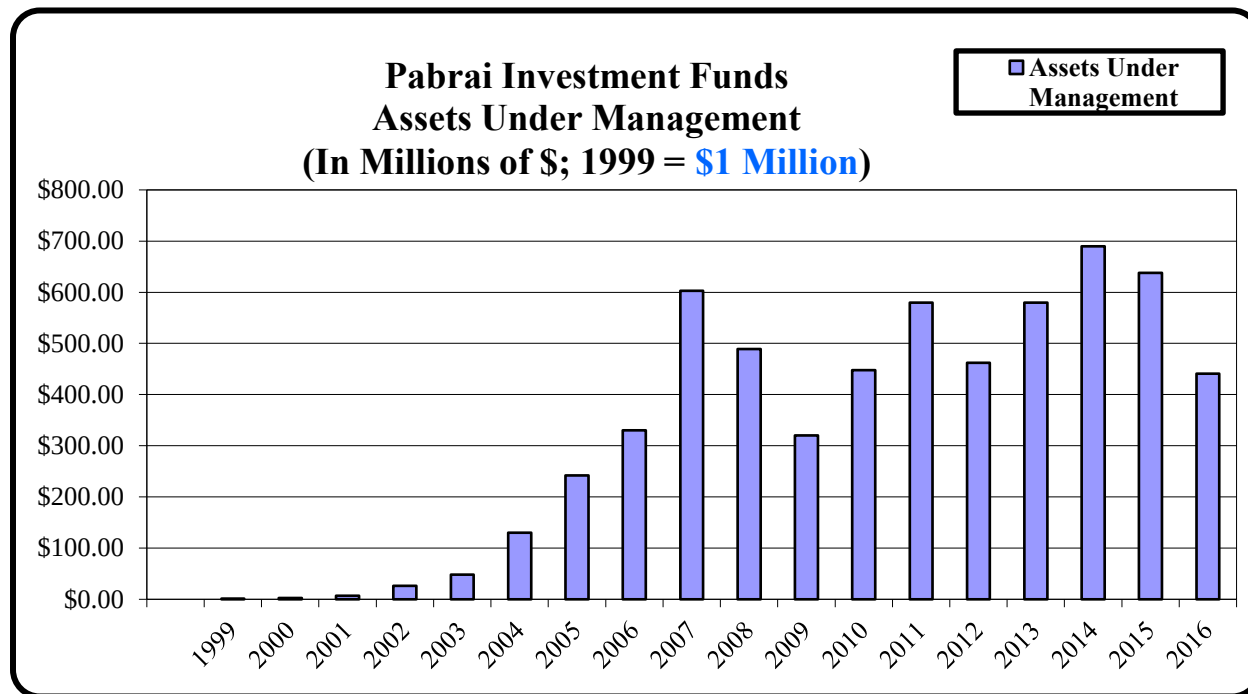
In lieu of dinner in California, we'll have an extended cocktail hour with expanded appetizers (multiple food stations), and lots of tables to sit and chat.

The invites will go out electronically via email in July 2017. Look for it in your inbox! Your significant other and kids of all ages are welcome to attend. As we are now a Registered Investment Advisor, the SEC requires that all guests (excluding family members) must be "accredited investors." The invitation is non-transferable.

I look forward to seeing you in September.

Assets Under Management

There is \$438 million in assets under management between all the funds as of January 1, 2017. Note that assets are around \$550 million as I write this report in mid-May. We've had robust YTD gains in 2017.



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 letter 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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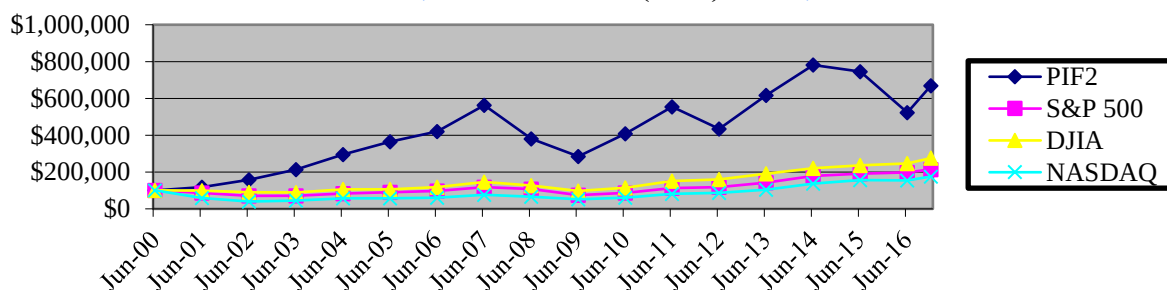
Appendix A

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%
7/1/15-6/30/16	+4.5%	-1.6%	+4.0%	-30.0%
7/1/16-12/31/16	+11.7%	+11.9%	+7.8%	+27.9%
1/1/16-12/31/16	+16.5%	+8.9%	+11.9%	+5.3%
Annualized	+6.4%	+3.5%	+4.8%	+12.4%
Cumulative	+175.7%	+75.6%	+114.4%	+568.6%

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

PIF2: **\$668,600** Best Index (Dow): **\$275,700**

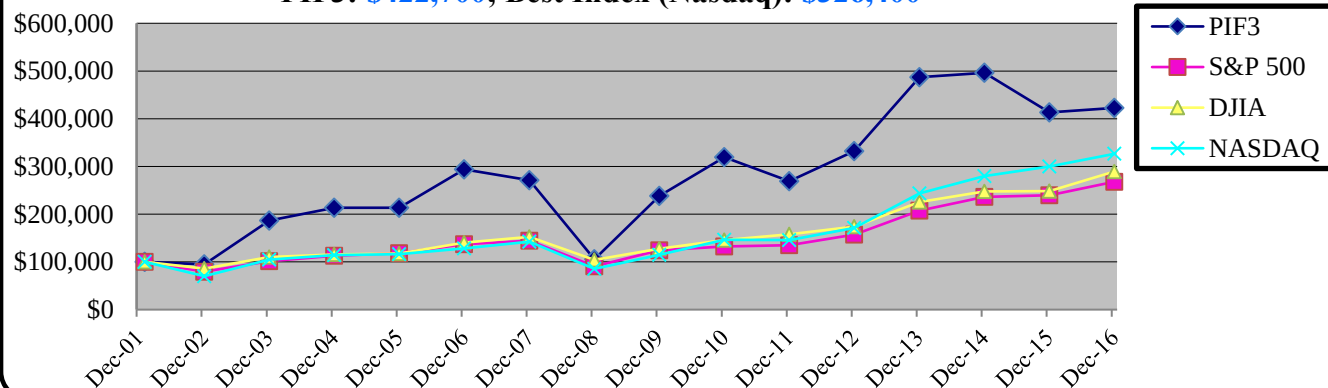


Appendix B

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%
1/1/16-12/31/16	+16.5%	+8.9%	+11.9%	+2.3%
Annualized	+7.4%	+8.2%	+6.8%	+10.1%
Cumulative	+189.4%	+226.4%	+167.9%	+322.7%

**Comparison of Changes in Value of \$100,000
invested in PIF3 vs. the Indices.**
PIF3: **\$422,700**; Best Index (Nasdaq): **\$326,400**



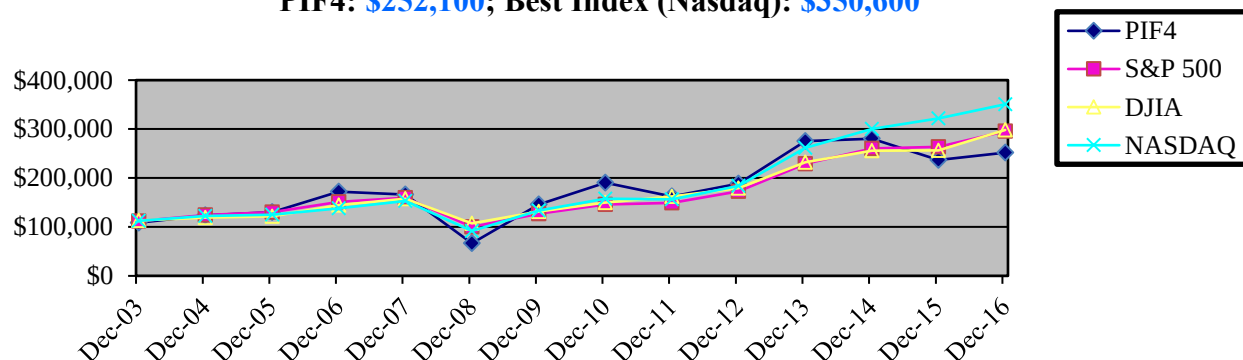
Appendix C

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%
1/1/16-12/31/16	+16.5%	+8.9%	+11.9%	+6.3%
Annualized	+8.6%	+9.9%	+8.5%	+7.2%
Cumulative	+198.2%	+250.6%	+195.4%	+152.1%

**Comparison in Changes in Value of \$100,000
invested in PIF4 vs. the Indices.**

PIF4: \$252,100; Best Index (Nasdaq): \$350,600



Appendix D

PIF2's Performance History (Net to Investors)

No. of Units	Date	PIF2 NAV
110,000	10/01/2000	\$10.00
330,014	06/30/2001	\$11.74
1,027,795	06/30/2002	\$15.89
1,950,982	06/30/2003	\$21.32
2,445,212	06/30/2004	\$29.58
2,696,687	06/30/2005	\$36.52
2,646,687	06/30/2006	\$41.99
3,013,111	06/30/2007	\$56.25
2,934,990	06/30/2008	\$38.01
2,468,091	06/30/2009	\$28.45
2,409,165	06/30/2010	\$40.84
2,257,421	06/30/2011	\$55.46
2,180,892	06/30/2012	\$43.36
2,057,676	06/30/2013	\$61.68
1,906,927	06/30/2014	\$78.13
1,795,006	06/30/2015	\$74.64
1,684,602	06/30/2016	\$52.26
1,699,291	12/31/2016	\$66.86

PIF3's Performance History (Net to Investors)

No. of Units	Date	PIF3 NAV
65,100	02/01/2002	\$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
2,433,652	12/31/2016	\$42.27

PIF4's Performance History (Net to Investors)

No. of Units	Date	PIF4 NAV
595,030	10/01/2003	\$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
8,792,042	12/31/2016	\$25.21

The Pabrai Investment Fund II, L.P.
Financial Statements
June 30, 2016

The Pabrai Investment Fund II, L.P.
Index
June 30, 2016

	Page(s)
Independent Auditor's Report	1
Financial Statements	
Statement of Assets, Liabilities and Partners' Capital	2
Statement of Operations	3
Statement of Changes in Partners' Capital	4
Condensed Schedule of Investments	5-6
Notes to Financial Statements	7-14

Independent Auditor's Report

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

We have audited the accompanying financial statements of The Pabrai Investment fund II, L.P. (the "Fund"), which comprise the statement of assets, liabilities and partners' capital, including the condensed schedule of investments, as of June 30, 2016 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 The Pabrai Investment Fund II, L.P. at June 30, 2016, 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.



Chicago, IL
August 22, 2016

The Pabrai Investment Fund II, L.P.
Statement of Assets, Liabilities and Partners' Capital
June 30, 2016
(expressed in United States dollars)

Assets

Cash	\$ 25,284
Investments, at fair market value (cost \$72,819,790)	88,016,463
Dividend receivable	30,250
Total assets	<u>\$ 88,071,997</u>

Liabilities

Accrued expenses	<u>\$ 39,554</u>
Total liabilities	<u>39,554</u>

Partners' capital

General partner (230,592 units at \$52.26 per unit)	12,050,070
Limited partners (1,454,010 units at \$52.26 per unit)	<u>75,982,373</u>
Total partners' capital	<u>88,032,443</u>
Total liabilities and partners' capital	<u>\$ 88,071,997</u>

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

The Pabrai Investment Fund II, L.P.

Statement of Operations

Year Ended June 30, 2016

(expressed in United States dollars)

Investment Income

Dividend income (net of withholding tax of \$15,459)	\$ 995,879
Interest income	6,473
Other investment income	<u>12,738</u>
Total investment income	<u>1,015,090</u>

Expenses

Professional fees	151,144
Administration fees	48,000
Management fee	10
Other expense	<u>1,746</u>
Total operating expenses	<u>200,900</u>

Net investment income / (loss) 814,190

Realized and unrealized gain / (loss) on investments

Net realized gain/(loss) on investments	(28,735,032)
Net realized gain/(loss) on foreign currency transactions	(115,834)
Net change in unrealized appreciation / (depreciation) on investments	<u>(10,895,678)</u>
Net realized and unrealized gain/(loss) on investments	<u>(39,746,544)</u>
Net decrease in partners' capital resulting from operations	<u>\$ (38,932,354)</u>

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

The Pabrai Investment Fund II, L.P.
Statement of Changes in Partners' Capital
Year Ended June 30, 2016
(expressed in United States dollars)

	General Partner	Limited Partners	Total
Balance, June 30, 2015	\$ 18,386,225	\$ 115,591,524	\$ 133,977,749
Redemptions (110,404 units)	(1,000,000)	(6,012,952)	(7,012,952)
Net decrease in partners' capital from operations	<u>(5,336,155)</u>	<u>(33,596,199)</u>	<u>(38,932,354)</u>
Balance, June 30, 2016	<u>\$ 12,050,070</u>	<u>\$ 75,982,373</u>	<u>\$ 88,032,443</u>

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

The Pabrai Investment Fund II, L.P.
Condensed Schedule of Investments
Year Ended June 30, 2016
(expressed in United States dollars)

<u>Number of Shares</u>		<u>Value as a Percentage of Partners' Capital</u>	<u>Cost</u>	<u>Fair Value</u>
Common Stocks				
United States				
	Real Estate Investment Trust			
121,000	Seritage Growth Properties	6.85%	\$ 5,037,730	\$ 6,030,640
	Media			
16,043	Alphabet Inc. CL C	12.61%	8,442,090	11,103,360
	Financial Services	2.06%	1,671,570	1,809,875
	Total United States	21.52%	15,151,390	18,943,875
China				
	Consumer Staples	3.95%	2,201,825	3,474,162
	Total China	3.95%	2,201,825	3,474,162
Hong Kong				
	Lodging	0.81%	738,195	715,105
	Total Hong Kong	0.81%	738,195	715,105
India				
	Chemicals			
12,758,000	Rain Industries Limited	7.84%	7,482,567	6,905,743
	Specialty Financial Services			
930,841	Karur Vysya Bank Ltd	7.76%	6,241,196	6,833,669
	Other Financial Services	3.53%	3,300,585	3,104,831
	Other	0.13%	104,101	118,642
	Total India	19.26%	17,128,449	16,962,885
Ireland				
	Air Services			
147,000	Aercap Holdings N.V.	5.61%	5,521,948	4,937,730
	Total Ireland	5.61%	5,521,948	4,937,730
Italy				
	Automotive			
273,000	Ferrari N V	12.63%	4,679,641	11,115,468
	Total Italy	12.63%	4,679,641	11,115,468
The Netherlands				
	Automotive			
2,730,000	Fiat Chrysler Automobiles N.V.	18.98%	8,926,019	16,707,600
	Total The Netherlands	18.98%	8,926,019	16,707,600
United Kingdom				
	Aerospace	2.46%	2,608,109	2,168,508
	Total United Kingdom	2.46%	2,608,109	2,168,508
	Total Common Stocks	85.21%	56,955,576	75,025,333

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

The Pabrai Investment Fund II, L.P.
Condensed Schedule of Investments
Year Ended June 30, 2016
(expressed in United States dollars)

Money Market Funds				
United States				
34,034	UBS Select Prime			
	Institutional Fund	0.04%	\$ 34,034	\$ 34,034
	Total Money Market Funds	0.04%	34,034	34,034
Warrants				
United States				
	Automotive			
1,198,053	General Motors Co., strike price \$18.33 (expires July 10, 2019)	14.25%	15,190,909	12,543,615
	Total Warrants	14.25%	15,190,909	12,543,615
Corporate Note				
United States				
	Basic Materials			
	10.50%, 06/01/17	0.05%	32,093	41,181
	Total Corporate Note	0.05%	32,093	41,181
Convertible Security				
United States				
	Basic Materials			
	3.80%, 07/01/2017	0.42%	607,178	372,300
	Total Convertible Security	0.42%	607,178	372,300
	Total Investments	99.98%	\$ 72,819,790	\$ 88,016,463

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

The Pabrai Investment Fund II, L.P.

Notes to the Financial Statements

June 30, 2016

1. Organization

The Pabrai Investment Fund II, 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. 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 utilized Kotak Mahindra Bank Limited and UBS Securities, LLC for the year and utilized Computershare S.p.A through the end of July as its brokers. All subscriptions and proceeds from investors are received into the Wintrust Funds Group-Northbrook Bank & Trust Company ("Wintrust") account, and all redemptions and disbursements are made from the Wintrust account.

The Partnership has also entered into an agreement with Michael J. Liccar & Company, LLC 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"). The General Partner 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 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 significant loss to be remote.

The Pabrai Investment Fund II, L.P.

Notes to the Financial Statements

June 30, 2016

2. Significant Accounting Policies and Risks (Continued)

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 asset 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.

Corporate Notes

The fair value of corporate notes is estimated using recently executed transactions, market price quotations (where observable), or credit default swap spreads. When observable price quotations are not available, fair value is determined based on cash flow models using yield curves, single name credit default swap spreads, and recovery rates based on collateral values as key inputs. Corporate notes are generally categorized in Level 2 of the fair value hierarchy. In instances where significant inputs are unobservable, corporate notes are categorized in Level 3 of the fair value hierarchy.

Convertible Securities

The fair value of convertible securities is estimated using recently executed transactions, market price quotations (where observable). When observable price quotations are not available, fair value is determined based on cash flow models using yield curves, and price of underlying stock. Convertible securities are generally categorized in Level 2 of the fair value hierarchy. In instances where significant inputs are unobservable, convertible securities are categorized in Level 3 of the fair value hierarchy.

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 Pabrai Investment Fund II, L.P.

Notes to the Financial Statements

June 30, 2016

2. Significant Accounting Policies and Risks (Continued)

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, 2016, open tax years include the tax years ended June 30, 2013 through June 30, 2016. 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, 2016. 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.

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.

The Pabrai Investment Fund II, L.P.
Notes to the Financial Statements
June 30, 2016

3. Fair Value Measurement (Continued)

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.

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, 2016 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, 2016.

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, 2016			
	Level 1	Level 2	Level 3	Total
Investments				
Common stocks	\$ 75,025,333	\$ -	\$ -	\$ 75,025,333
Money market funds	34,034	-	-	34,034
Warrants	12,543,615	-	-	12,543,615
Corporate note	-	41,181	-	41,181
Convertible security		372,300	-	372,300
Total Investments	<u>\$ 87,602,982</u>	<u>\$ 413,481</u>	<u>\$ -</u>	<u>\$ 88,016,463</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

The Pabrai Investment Fund II, L.P.
Notes to the Financial Statements
June 30, 2016

4. Warrants (Continued)

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, 2016, 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:

<u>Primary underlying risk</u>	<u>Long exposure</u>	
	<u>Notional amounts</u>	<u>Number of contracts</u>
Equity price		
Contract and		
Notional Amounts	33,904,900	1,198,053

Notional amounts presented for warrants are based on the fair value of the underlying shares as if the warrants were exercised at June 30, 2016. There were no warrants purchased and 653 warrants were sold during the year ended June 30, 2016.

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, 2016. 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, 2016:

<u>Primary underlying risk</u>	<u>Warrant assets</u>	<u>Change in unrealized (depreciation)</u>
Equity price		
Warrants	\$ 12,543,615	\$ (6,580,852)
Total	\$ 12,543,615	\$ (6,580,852)

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 \$2,500,000, and each additional investment may not be less than \$25,000. During the year ended June 30, 2016, the Partnership was not accepting additional capital contributions from new or existing investors.

The Pabrai Investment Fund II, L.P.

Notes to the Financial Statements

June 30, 2016

5. Partners' Capital (Continued)

Redemptions

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, 2016 the General Partner approved limited partner redemption requests of \$6,012,952 of which all were paid before June 30, 2016.

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.

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. The General Partner guarantees each limited partner's original capital investment as set forth in the Limited Partnership Agreement from loss, provided that a limited partner and the invested capital has been in the Partnership for not less than five years and provided that a limited partner made the original capital investment prior to July 15, 2001. The current amount of the guarantee obligation is \$1,143,643. 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

The Pabrai Investment Fund II, L.P.

Notes to the Financial Statements

June 30, 2016

6. Management Fee and Performance Allocation (Continued)

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, 2016, 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. 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, 2016, the Partnership had no securities lent to UBS. During the year ended June 30, 2016 the Partnership earned \$12,738 from securities lent during the year 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, 2016.

At June 30, 2016, Dalal Street, LLC held approximately 13.69% of the total outstanding partnership units.

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.

The Pabrai Investment Fund II, L.P.
Notes to the Financial Statements
June 30, 2016

9. Risks (Continued)

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	\$	74.64
Income / (loss) from investment operations ⁽¹⁾		
Net investment income / (loss)		0.47
Net realized (loss) and net change in unrealized appreciation / (depreciation)		(22.85)
Limited Partner unit value, end of period	\$	<u>52.26</u>

Total return	-29.99%
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Ratios to average limited partners' capital

Total expenses	0.18%
Net investment income / (loss)	0.73%

⁽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 August 22, 2016 (the date the financial statements were available to be issued) and has determined that there is no impact on the Partnership's financial statements.

On July 14, 2016, the Partnership was reopened to subscriptions from new and existing investors for the next quarterly valuation date of October 1, 2016.

**Pabrai Investment
Fund 3, Ltd.**
Financial Statements
December 31, 2016

Pabrai Investment Fund 3, Ltd.

Index

December 31, 2016

	Page(s)
Independent Auditor's Report	1
Financial Statements	
Statement of Assets and Liabilities	2
Statement of Operations	3
Statement of Changes in Net Assets	4
Condensed Schedule of Investments	5
Notes to Financial Statements	6-13

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, 2016, 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.

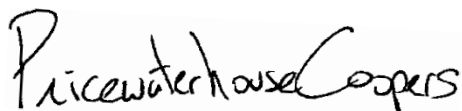
Auditor's Responsibility

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, 2016, 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 "March 6, 2017".

March 6, 2017

Pabrai Investment Fund 3, Ltd.

Statement of Assets and Liabilities

December 31, 2016

(expressed in United States dollars)

Assets

Cash	\$ 2,243,207
Receivable for investments sold	285,048
Investments, at fair value (cost \$132,374,022)	163,660,918
Dividends receivable	41,828
Other assets	<u>7,897</u>
Total assets	<u>166,238,898</u>

Liabilities

Redemptions payable	67,148,876
Prepaid subscription	500,000
Accrued expenses and other liabilities	<u>88,935</u>
Total liabilities	<u>67,737,811</u>

Net assets	<u>\$ 98,501,087</u>
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Net assets consist of:

Manager's shares (100 authorized; 100 issued and outstanding)	\$ 100
Common shares (10,000,000 authorized; 2,330,096 issued and outstanding)	<u>98,500,987</u>
Total net assets	<u>\$ 98,501,087</u>
Net asset value per common share	<u>\$ 42.27</u>

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

Pabrai Investment Fund 3, Ltd.

Statement of Operations

Year Ended December 31, 2016

(expressed in United States dollars)

Investment income

Dividend income (net of withholding tax of \$112,215)	\$ 1,332,297
Interest income	10,889
Total investment income	<u>1,343,186</u>

Expenses

Professional fees	151,956
Administration fee	51,000
Total expenses	<u>202,956</u>
Net investment income	1,140,230

Net realized and unrealized gain/(loss) on investments

Net realized (loss) on investments	(5,165,490)
Net realized (loss) on foreign currency transactions	(12,832)
Net change in unrealized appreciation on investments	8,383,421
Net realized and unrealized gain (loss) on investments	<u>3,205,099</u>
Net increase in net assets resulting from operations	<u>\$ 4,345,329</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, 2016
(expressed in United States dollars)

Increase / (decrease) in net assets from operations

Net investment income	\$ 1,140,230
Net realized (loss) on investments	(5,165,490)
Net realized (loss) on foreign currency transactions	(12,832)
Net change in unrealized appreciation on investments	8,383,421
Net increase in net assets resulting from operations	<u>4,345,329</u>

Capital transactions

Subscriptions of common shares (119,856 shares)	4,309,829
Redemptions of common shares (1,588,443 shares)	<u>(67,148,876)</u>
Net change in net assets resulting from capital transactions	<u>(62,839,047)</u>
Net (decrease) in net assets for the year	(58,493,718)

Net assets at:

Beginning of year	<u>156,994,805</u>
End of year	<u>\$ 98,501,087</u>

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

Pabrai Investment Fund 3, Ltd.
Condensed Schedule of Investments
December 31, 2016

(expressed in United States dollars)

Number of Shares		Value as Percentage of Net Assets	Cost	Fair Value
Common Stocks				
United States				
	Real Estate Investment Trust			
167,314	Seritage Growth Properties	7.25%	\$ 7,014,403	\$ 7,145,981
	Media			
22,060	Alphabet Inc. Class C	17.29%	11,553,561	17,026,349
	Total United States	24.54%	18,567,964	24,172,330
China				
	Consumer Staples			
135,272	Kweichow Moutai Co Ltd.	6.60%	3,860,095	6,499,754
	Total China	6.60%	3,860,095	6,499,754
Hong Kong				
	Lodging	0.27%	317,233	265,696
	Total Hong Kong	0.27%	317,233	265,696
India				
	Chemicals			
16,254,715	Rain Industries Limited	13.33%	10,687,475	13,132,040
	Other	0.36%	320,618	349,682
	Financial Services*	5.76%	4,999,748	5,674,094
	Total India	19.45%	16,007,841	19,155,816
Ireland				
	Air Services			
190,000	Aercap Holdings N.V.	8.03%	7,500,614	7,905,900
	Total Ireland	8.03%	7,500,614	7,905,900
Korea				
	Industrial Manufacturing	0.82%	964,680	810,540
	Total Korea	0.82%	964,680	810,540
The Netherlands				
	Automotive			
2,639,000	Fiat Chrysler Automobiles N.V.	24.43%	9,015,859	24,067,680
	Total The Netherlands	24.43%	9,015,859	24,067,680
United Kingdom				
	Aerospace	2.97%	3,998,579	2,921,916
	Total United Kingdom	2.97%	3,998,579	2,921,916
	Total Common Stocks	87.11%	60,232,865	85,799,632
Money Market Funds				
United States				
	Select Cay Prime			
51,011,253	Institutional Fund Ltd	51.79%	51,016,354	51,016,354
	Total Money Market Funds	51.79%	51,016,354	51,016,354
Warrants				
United States				
	Automotive			
1,564,390	General Motors Co., strike price \$18.33 (expires July 10, 2019)	27.25%	20,121,067	26,844,932
	Basic Materials	0.00%	1,003,736	-
	Total Warrants	27.25%	21,124,803	26,844,932
	Total Investments	166.15%	132,374,022	163,660,918

* 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, 2016

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.

Pabrai Investment Fund 3, Ltd.
Notes to Financial Statements
December 31, 2016

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 asset 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, 2016, \$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, 2016

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, 2016, open tax years include the tax years ended December 31, 2013 through December 31, 2016. 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, 2016. 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.

Receivable for investments sold

The amount shown as a receivable for investments sold represents a net receivable from brokers for unsettled sales of securities as of December 31, 2016.

Redemptions Payable

The Fund accounts for subscriptions, allocations and redemptions on a per share basis. The amounts shown as redemptions payable of \$67,148,876 represent the remaining amount due for redemptions as of December 31, 2016.

Prepaid Subscription

The amounts shown as prepaid subscription of \$500,000 represent the amount of subscription received in advance as of December 31, 2016.

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.

Pabrai Investment Fund 3, Ltd.
Notes to Financial Statements
December 31, 2016

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 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, 2016 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, 2016.

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

Pabrai Investment Fund 3, Ltd.
Notes to Financial Statements
December 31, 2016

Assets at Fair Value as of December 31, 2016				
	Level 1	Level 2	Level 3	Total
Common stock	\$ 85,799,632	\$ -	\$ -	\$ 85,799,632
Money market funds	51,016,354	-	-	51,016,354
Warrants	26,844,932	-	-	26,844,932
	<u>\$ 163,660,918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 163,660,918</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 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, 2016, 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	\$ 54,503,348	1,569,090

Notional amounts presented for warrants are based on the fair value of the underlying shares as if the warrants were exercised at December 31, 2016. There were 4,700 in warrants purchased and 405,610 in warrants sold during the year ended December 31, 2016.

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, 2016. 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, 2016:

Pabrai Investment Fund 3, Ltd.
Notes to Financial Statements
December 31, 2016

Primary underlying risk	Fair Value	Realized Gain	Change in unrealized (depreciation)
Equity price			
Warrants	\$ 26,844,932	\$ 3,120,962	\$ (2,372,083)
Total	\$ 26,844,932	\$ 3,120,962	\$ (2,372,083)

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. The Investment Manager may, at its discretion, allow initial investments of lower amounts. Investors may purchase additional common shares with a minimum investment of not less than \$25,000.

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, 2016, the Investment Manager approved shareholders' redemption requests of \$67,148,876 of which \$67,148,876 was paid out subsequent to year-end.

Transfers

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

Pabrai Investment Fund 3, Ltd.
Notes to Financial Statements
December 31, 2016

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 effect to distributions, share splits or share dividends, if any. During the year ended December 31, 2016, the Investment Manager did not earn any investment management fee.

7. Principal Shareholders

At December 31, 2016, one shareholder held approximately 11% of the net asset value of the total Common Shares issued.

8. Related Party

At December 31, 2016, 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.

Pabrai Investment Fund 3, Ltd.
Notes to Financial Statements
December 31, 2016

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.

10. Financial Highlights

Financial highlights are calculated for a Common Share outstanding for the year ended December 31, 2016. 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	\$ 41.33
Income from investment operations ⁽¹⁾	
Net investment income	0.30
Net realized gain and net change in unrealized appreciation / (depreciation)	0.64
Investment management fees	-
Net asset value, end of year	<u>\$ 42.27</u>
Total return	
Total return before management fees	2.29 %
Management Fees	<u>0.00 %</u>
Total return after management fees	<u>2.29 %</u>
Ratios to average net assets	
Operating expenses	0.15 %
Management Fees	<u>0.00 %</u>
Total operating expenses and management fees	<u>0.15 %</u>
Net investment income / (loss)	0.83 %

(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 March 6, 2017.

From January 1, 2017 through March 6, 2017 the Fund received capital contributions of approximately \$6,700,000 of which \$500,000 was received in advance.

**The Pabrai Investment
Fund IV, L.P.**
Financial Statements
December 31, 2016

The Pabrai Investment Fund IV, L.P.

Index

December 31, 2016

	Page(s)
Independent Auditor's Report	1
Financial Statements	
Statement of Assets, Liabilities and Partners' Capital	2
Statement of Operations	3
Statement of Changes in Partners' Capital	4
Condensed Schedule of Investments	5
Notes to Financial Statements	6-13

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, 2016, 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.

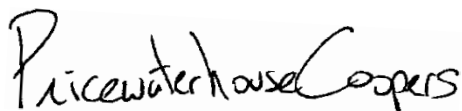
Auditor's Responsibility

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, 2016, 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 "March 6, 2017".

March 6, 2017

The Pabrai Investment Fund IV, L.P.
Statement of Assets, Liabilities and Partners' Capital
December 31, 2016
(expressed in United States dollars)

Assets

Cash	\$ 1,284,179
Investments, at fair value (cost \$161,300,989)	243,732,660
Dividends receivable	79,338
Total assets	<u>\$ 245,096,177</u>

Liabilities

Redemptions payable	\$ 25,460,321
Payable for investments purchased	29,158
Prepaid subscriptions	150,000
Accrued expenses	47,380
Total liabilities	<u>25,686,859</u>

Partners' capital

General partner (945,139 units at \$25.21 per unit)	23,830,697
Limited partners (7,756,755 units at \$25.21 per unit)	195,578,621
Total partners' capital	<u>219,409,318</u>
Total liabilities and partners' capital	<u>\$ 245,096,177</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, 2016
(expressed in United States dollars)

Investment Income

Dividend income (net of withholding tax of \$155,955)	\$ 2,008,182
Interest income	189
Total investment income	<u>2,008,371</u>

Expenses

Professional fees	133,914
Administration fee	53,000
Total operating expenses	<u>186,914</u>

Net investment income 1,821,457

Net realized and unrealized gain/(loss) on investments

Net realized (loss) on investments	(20,139,881)
Net realized (loss) on foreign currency transactions	(297,185)
Net change in unrealized appreciation on investments	<u>33,469,372</u>
Net realized and unrealized gain (loss) on investments	<u>13,032,306</u>
Net increase in partners' capital resulting from operations	<u>\$ 14,853,763</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, 2016
(expressed in United States dollars)

	General Partner	Limited Partners	Total
Balance, January 1, 2016	\$ 23,257,376	\$ 202,758,500	\$ 226,015,876
Contributions (179,899 units)	-	4,000,000	4,000,000
Redemptions (1,009,770 units)	(900,000)	(24,560,321)	(25,460,321)
Net increase in partners' capital from operations	1,473,321	13,380,442	14,853,763
Balance, December 31, 2016	<u>\$ 23,830,697</u>	<u>\$ 195,578,621</u>	<u>\$ 219,409,318</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, 2016

Number of Shares		Value as a Percentage of Partners' Capital	Cost	Fair Value
Common Stocks				
United States				
	Real Estate Investment Trust	4.67%	10,000,752	10,250,400
	Travel	4.39%	6,973,268	9,637,858
	Media			
31,085	Alphabet Inc. Class C	10.94%	16,131,302	23,992,025
	Total United States	20.00%	33,105,322	43,880,283
China				
	Consumer Staples			
585,096	Kweichow Moutai Co Ltd.	12.81%	16,708,827	28,113,581
	Total China	12.81%	16,708,827	28,113,581
Hong Kong				
	Lodging	0.14%	314,966	309,016
	Total Hong Kong	0.14%	314,966	309,016
India				
	Financial Services*	5.25%	10,196,437	11,519,766
	Chemicals	2.81%	5,170,536	6,174,441
	Total India	8.06%	15,366,973	17,694,207
Italy				
	Automotive			
249,138	Ferrari NV	6.62%	4,835,933	14,531,472
	Total Italy	6.62%	4,835,933	14,531,472
Ireland				
	Air Services			
320,000	Aercap Holdings NV	6.07%	12,505,057	13,315,200
	Total Ireland	6.07%	12,505,057	13,315,200
Korea				
	Pharmaceutical	0.05%	107,584	107,207
	Industrials Manufacturing	0.14%	311,373	303,299
	Total Korea	0.19%	418,957	410,506
The Netherlands				
	Automotive			
6,589,000	Fiat Chrysler Automobiles N.V.	27.39%	22,308,069	60,091,680
	Total The Netherlands	27.39%	22,308,069	60,091,680
United Kingdom				
	Aerospace	1.88%	5,599,274	4,118,746
	Total United Kingdom	1.88%	5,599,274	4,118,746
	Total Common stocks	83.16%	111,163,378	182,464,691
Money Market Funds				
United States				
13,134,169	UBS Select Treasury			
	Institutional Fund Ltd	5.99%	13,134,169	13,134,169
	Total Money Market Funds	5.99%	13,134,169	13,134,169
Warrants				
United States				
	Automotive			
2,805,000	General Motors Co., strike price \$18.33 (expires July 10, 2019)	21.94%	36,150,679	48,133,800
	Basic Materials	0.00%	852,763	-
	Total Warrants	21.94%	37,003,442	48,133,800
	Total Investments	111.09%	\$ 161,300,989	\$ 243,732,660

* No one security represents greater than 5%.

The accompanying notes are an integral part of these financial statements

The Pabrai Investment Fund IV, L.P.

Notes to Financial Statements

December 31, 2016

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

December 31, 2016

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 asset 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, 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 Partnership 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, 2016, \$0 was accrued for these taxes.

The Pabrai Investment Fund IV, L.P.

Notes to Financial Statements

December 31, 2016

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, 2016, open tax years include the tax years ended December 31, 2013 through December 31, 2016. 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, 2016. 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.

Payable for investments purchased

The amount shown as a payable for investments purchased represents a net payable to brokers for unsettled purchases of securities as of December 31, 2016.

Redemptions Payable

The Partnership accounts for subscriptions, allocations and redemptions on a per unit basis. The amounts shown as redemptions payable of \$25,460,321 represent the remaining amount due for redemptions as of December 31, 2016.

Prepaid Subscription

The amounts shown as prepaid subscription of \$150,000 represent the amount of subscription received in advance as of December 31, 2016.

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

The Pabrai Investment Fund IV, L.P.

Notes to Financial Statements

December 31, 2016

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. 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, 2016 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, 2016.

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, 2016				
	Level 1	Level 2	Level 3	Total
Investments				
Common stock	\$ 182,464,691	\$ -	\$ -	\$ 182,464,691
Money market funds	13,134,169	-	-	13,134,169
Warrants	48,133,800	-	-	48,133,800
Total investments	\$ 243,732,660	\$ -	\$ -	\$ 243,732,660

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 Pabrai Investment Fund IV, L.P.

Notes to Financial Statements

December 31, 2016

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.

For December 31, 2016, the Partnership's investments in warrants based on their notional amounts and number of contracts, categorized by primary underlying risk, are as follows:

<u>Primary underlying risk</u>	<u>Long exposure</u>	
	<u>Notional amounts</u>	<u>Number of contracts</u>
Equity price		
Contract and		
Notional amounts	\$ 97,726,200	2,808,934

Notional amounts presented for warrants are based on the fair value of the underlying shares as if the warrants were exercised at December 31, 2016. There were 3,934 in warrants purchased and no warrants sold during the year ended December 31, 2016.

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, 2016. 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, 2016:

<u>Primary underlying risk</u>	<u>Fair Value</u>	<u>Change in unrealized appreciation</u>
Equity price		
Warrants	\$ 48,133,800	\$ 1,576,367
Total	\$ 48,133,800	\$ 1,576,367

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

The Pabrai Investment Fund IV, L.P.

Notes to Financial Statements

December 31, 2016

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.

For the year ended December 31, 2016 the Partnership had subscriptions of \$4,000,000

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, 2016, the General Partner approved partners' withdrawal requests of \$25,460,321 of which \$25,460,321 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 7.

6. Payable for securities purchased

At December 31, 2016, payable for securities purchased includes \$29,158 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 quarter 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. 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.

The Pabrai Investment Fund IV, L.P.

Notes to Financial Statements

December 31, 2016

During the year ended December 31, 2016, the General Partner earned no performance allocation.

8. Related Party

At December 31, 2016, the General Partner held approximately 11% of the total outstanding Limited Partnership units. Redemptions payable includes \$900,000 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, 2016

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	\$ 23.71
Income from investment operations ⁽¹⁾	
Net investment income / (loss)	0.19
Net realized (loss) and net change in unrealized appreciation / (depreciation)	1.31
Limited Partner unit value, end of year	<u>\$ 25.21</u>

Total return

Total return before performance allocation	6.33 %
Performance allocation	0.00
Total return after performance allocation	<u>6.33 %</u>

Ratios to average limited partners' capital

Operating Expenses	0.09 %
Performance allocation	0.00
Total operating expenses and performance allocation	<u>0.09 %</u>
Net investment income / (loss)	<u>0.87 %</u>

(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 March 6, 2017.

From January 1, 2017 through March 6, 2017 the Partnership received capital contributions of approximately \$2,273,000 of which \$150,000 was received in advance.

Team Pabrai

MOHNISH PABRAI

Managing Partner

Office Team

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

PIF2 Advisory Board

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PATRICK M. FITZGERALD, *Hinsdale, Illinois*
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HARINA KAPOOR, *Irvine, California*
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RANDALL GUSIKOSKI, *Irvine, California*
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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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stake Fiat Illinois realized Sears
inception Chrysler million Rolls sold
time portfolio shares assets usually gain eventually cheap highly
index jet - retailers manufacturer underperform Southwest result hotels
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bikes Indian future frictional PIFF Funds include accredited
audit higher account forced people units presentation revenues Marriott report buy
Reserve decades incredible corporate fees annualized good cost Total believe various
margins profitable charged net interests significantly oligopolistic transcript redemptions Cumulative
exceptional commercial businesses Royce meeting position
Appendix California University proceeds bought Assistant especially
suppliers dividends successful restaurant reinvested