PABRAI INVESTMENT FUNDS

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To: All Limited Partners and Investors of the Pabrai Investment Funds

From: Mohnish Pabrai, Managing Partner

Date: January 6, 2005

Re: **Updated Performance Numbers for all Funds**

Dear Partners:

December 31 represents the fiscal year end for PIF3 and PIF4. It also is the annual redemption date for all the funds. To that end, the redemptions in aggregate by fund are:

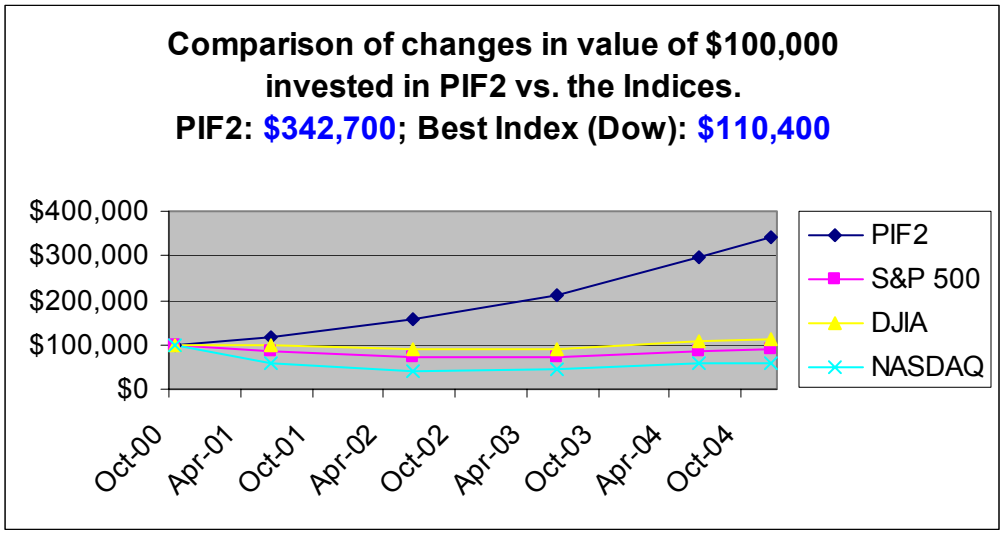
PIF2: $1.9 Million PIF3: $0.3 PIF4: $1.2

In addition, on January 1, 2005, PIF3 was open to current and new investors and a total of about $3 Million was added to PIF3.

Between the redemptions and fiscal year end, performance numbers for all the funds are required to be reported as of December 31, 2004. Here are the updated performance numbers on all the funds:

PABRAI INVESTMENT FUND 2 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 – 12/31/04	**+4.5 %**	**+6.6%**	**+7.2%**	**+15.9%**
1/1/04 – 12/31/04	**+5.3%**	**+9.2%**	**+10.9%**	**+18.7%**
Annualized	**+2.4%**	**-11.2%**	**-2.4%**	**+33.6%**
Cumulative	**+10.4%**	**-39.7%**	**-9.7%**	**+242.7%**

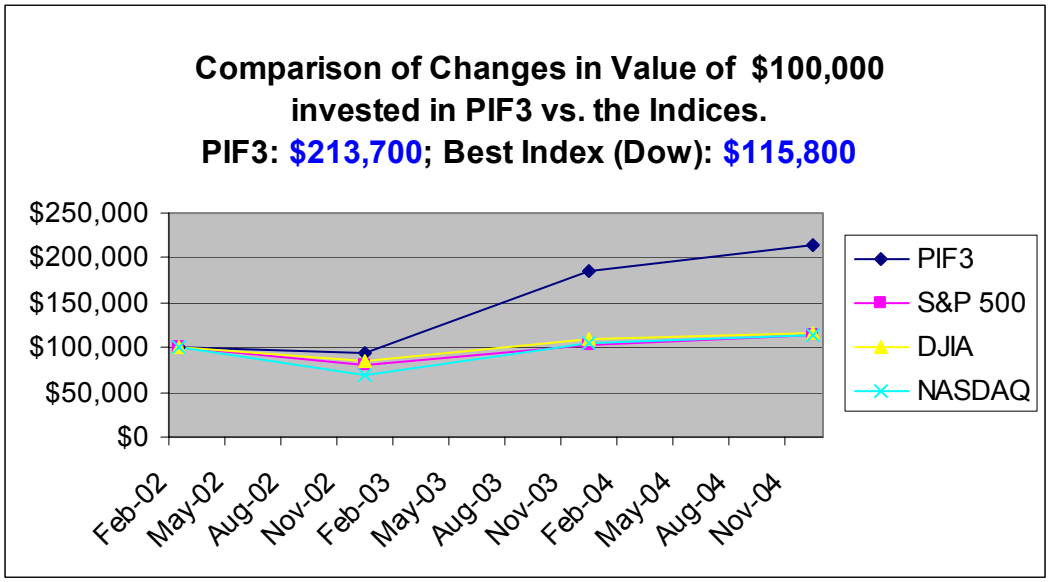


PIF2 Investors:

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 $480,100 as of December 31, 2004 (net to investors). This equates to an annualized return of 33.0% 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 $109,300 on December 31, 2004 – an annualized gain of 1.6%. The Dow gains include reinvested dividends.

PABRAI INVESTMENT FUND 3 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%**
Annualized	**+5.2%**	**+4.6%**	**+4.2%**	**+29.7%**
Cumulative	**+15.8%**	**+14.1%**	**+12.8%**	**+113.7%**

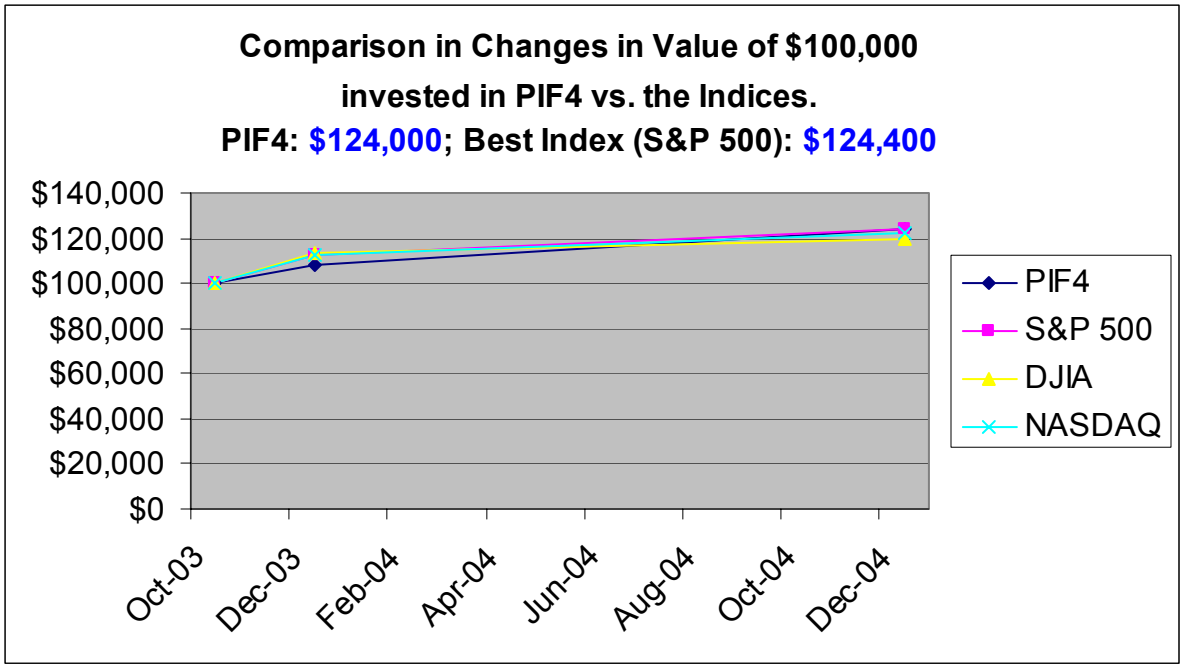


PIF3 Investors:

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $213,700 as of December 31, 2004 (net to investors). This equates to an annualized return of 29.7% since inception. The best index over the same period was the Dow and an investment of $100,000 in the DJIA on February 1, 2002 was worth $115,800 on December 31, 2004 – an annualized gain of 5.2%. The Dow gains include reinvested dividends.

PABRAI INVESTMENT FUND 4 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%**
Annualized	**+15.2%**	**+17.7%**	**+19.1%**	**+18.8%**
Cumulative	**+19.4%**	**+22.6%**	**+24.4%**	**+24.0%**



PIF4 Investors:

A $100,000 investment in PIF4 at inception on October 1, 2003 was worth $124,000 as of December 31, 2004 (net to investors). This equates to an annualized return of 18.8% since inception. The best index over the same period was the S&P 500 and an investment of $100,000 in the S&P on October 1, 2003 was worth $124,400 on December 31, 2004 – an annualized gain of 19.1%. The S&P gains include reinvested dividends.

General Comments

For the calendar year ended December 31, 2004 all three funds beat all the indices by respectable margins. Good as it may be, I do not fixate on single year performance. For me, the best yardstick is to look at performance over the last 5 years, 10 years and life of each fund. With Pabrai Funds being just 5½ years old, we are a relatively young operation.

Nonetheless, I am very satisfied (even amazed) with the performance of all funds over their respective lives.

PIF4 does have a slight underperformance versus the S&P 500 since inception, but with only 15 months of data it is best not to read too much into PIF4's performance until a few more years roll by. Over the last 15 months the S&P 500 has averaged an annualized gain of 19.1%. It is all but guaranteed that it will deliver well under this annualized rate over the next ten years. Pabrai Funds is likely to lag the indices in years where they widely outperform their long term average annual gains.

I do expect Pabrai Funds to outperform the best of the three indices over the long haul. I have no idea by how much we will outperform, but am willing to wager that it will be substantially less than the last 5½ years. Partners would be best off setting their expectations for Pabrai Funds to outperform the best of the three indices by a small margin over the long haul.

Alignment of Interests

All three of the funds are at historic highs and hence fees were paid to the investment manager (Dalal Street) is as follows:

PIF2: $935,734 – fully reinvested into PIF2. Added 27,301 units.
PIF3: $331,092 (since PIF3 is offshore, I cannot reinvest my fees)
PIF4: $721,309 - fully reinvested into PIF4. Added 58,184 units.

Dalal Street (wholly owned by me) has a stake of 497,229 units of PIF2 and 113,269 units of PIF4. This stake is worth about $18.5 Million.

My family and I do not have any investments in any other mutual funds, hedge funds or private partnerships. I can't think of any other investment vehicle where I'd rather have my family put all its assets. Thus I have a deep vested interest in the future performance of Pabrai Funds.

Finally, I only get paid when you make money. When you win, I win. Our interests are completely aligned. I am very bullish on the long-term future of Pabrai Funds – as demonstrated by my being the single largest investor in the funds.

PIF3 & PIF4 Year-end Audit

December 31 represents the fiscal year-end for PIF3 and PIF4. PricewaterhouseCoopers has begun work on the year-end financial audit for both funds. I expect that investors will get the audit report sent to them sometime in March. K-1's will also go out in March.

Fund Expense Ratios

The performance numbers reported for all three funds are after all fees and expenses. I do want all investors to be cognizant of the frictional costs of running the funds. These frictional costs include audit, accounting, tax preparation and administrator fees. While utilizing best-in-class service providers, I do try to keep these costs down.

With over $80 Billion in assets, the Vanguard S&P 500 Index (VINX) is amongst the largest index funds. It has an expense ratio of 18 basis points (0.18%). That's about as low as one can get via any mutual fund or hedge fund. And I'd like Pabrai Funds to be more cost-effective than the most efficient index fund – even though we are infinitesimally smaller.

Based on year-end assets, these expenses for 2004 by fund are:

PIF2: ~14 basis points (0.14%)
PIF3: ~31 basis points (0.31%)
PIF4: ~12 basis points (0.12%)

PIF3 had higher than normal expenses in 2004 due to the addition of over 70 IRA accounts. Those did help raise assets under management, but we did incur higher than normal administrator costs to get those accounts setup and processed. We also had some additional expenses for all three funds related to processing the SEC's request for information in July, 2004.

Going forward, all the funds are subject to more regulations and filings (quarterly 13F filings starting this year) and that will raise expenses. Offsetting this (hopefully entirely) might be additional assets. Pabrai Funds already has one of the lowest expense ratios of virtually all mutual funds and hedge funds – something I am quite proud of. Management fees only kick in after the funds deliver over a 6% annualized return to investors. Nonetheless, I would like to get all three funds to be under 10 basis points in annual expenses. I am hopeful that all three funds will get there in the next 2-3 years.

It is pretty simple – the lower the frictional costs, the more money you and I make. Our interests are fully aligned on this front as well.

2005 Annual Meetings – Save the date

As we did last year, there will be two annual meeting sequentially at Chicago and Orange County, California.

The Chicago meeting is scheduled to be on Saturday, Sept. 17, 2005 at 4:00 PM at our usual venue:

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.

The Orange County meeting will be held on Sept. 24, 2005 at 4:00 PM at our usual venue:

Hyatt Regency Huntington Beach Resort and Spa
(Grand Ballroom)
21500 Pacific Coast Highway
Huntington Beach, CA 92648
Tel. +1714.698.1234

Please note that we will be in the Grand Ballroom this year. Hyatt developed this beautiful property recently. It overlooks the Pacific and one of the best beach strips in Orange County. Book early and make a weekend of it with your spouse or family. We do have 10 rooms set aside for the event at $185/night for the 24th. Call the hotel directly and book your room at this rate at the earliest mentioning Pabrai Investment Funds. Alternately, Hyatt.com usually has good rates and you can book online as well.

The hotel is closest to Orange County Airport (SNA), though LAX and Long Beach (LGB) are convenient as well.

Agenda:

4:00 – 4:30 PM: Meet and Greet
4:30 – 6:00 PM: Presentation and Q&A
6:00 – 7:00 PM: Cocktail Hour
7:00 – 9:00 PM: Dinner

As usual, you'll get formal invites no later than June 30. Your significant other and kids of all ages are welcome to attend. We had over 230 attendees at both meetings last year and I look forward to seeing you in September.

Next Opening – February 1, 2005 (all funds)

There are 2 funds open to new investors to add funds - PIF3 and PIF4.

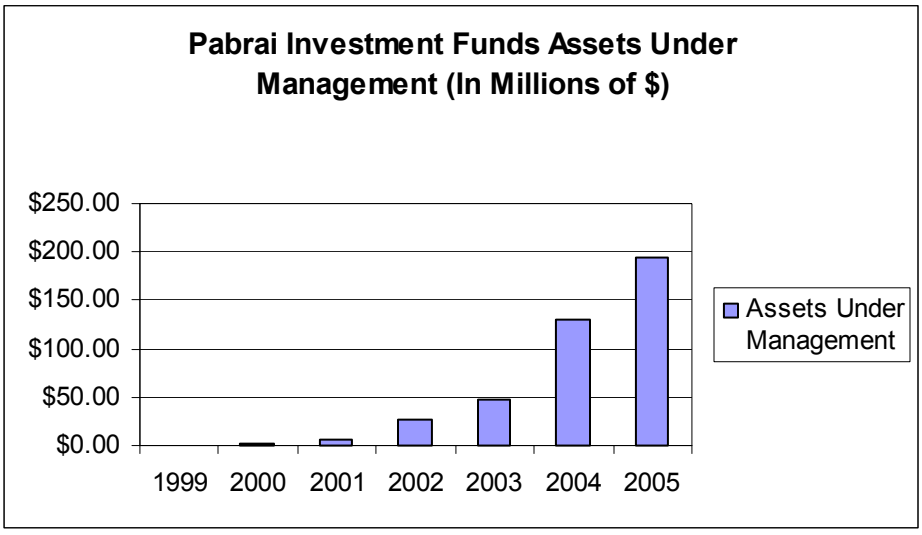
The minimum investment for PIF4 is $1,000,000 and one needs to be a "qualified investor" as defined by the SEC. The offering and subscription documents for PIF4 have details on who is considered a qualified investor. Next opening is February 1, 2005.

To invest in PIF3, one needs to be a non-US accredited offshore investor. Tax-exempt accounts like IRAs, Roth IRAs and US Family Foundations can invest in PIF3 as well. The minimum investment to join PIF3 as a new partner is $1,000,000 for US Tax-exempt accounts and $100,000 for offshore investors. Next opening is February 1, 2005.

Existing partners in any of the Pabrai Funds can add funds in increments of $25,000 at each opening (with a $25,000 minimum).

Assets Under Management

There is about $194 Million in assets under management between all the funds as of January 1, 2005.



Thanks for your continued interest, referrals and support. Feel free to call me at +1949.275.5652 or email me at mpabrai@pabraifunds.com with any queries or comments.

Warm Regards,



Mohnish Pabrai

Appendix A

PIF2's Performance History (Net to Investors)

No. of Units	Date	PIF2 NAV
110,000	10/1/2000	$10.00
330,014	6/30/2001	$11.74
1,027,795	6/30/2002	$15.89
1,950,982	6/30/2003	$21.32
2,445,212	6/30/2004	$29.58
2,461,339	7/31/2004	$27.90
2,471,654	9/30/2004	$29.08
2,541,507	11/30/2004	$33.01
2,514,655	12/31/2004	$34.27

PIF3's Performance History (Net to Investors)

No. of Units	Date	PIF3 NAV
65,100	2/1/2002	$10.00
265,919	12/31/2002	$9.48
485,041	12/31/2003	$18.63
1,787,591	12/31/2004	$21.37

PIF4's Performance History (Net to Investors)

No. of Units	Date	PIF4 NAV
595,030	10/1/2003	$10.00
1,219,330	12/31/2003	$10.84
5,627,713	12/31/2004	$12.40

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 newsletters 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.