PABRAI INVESTMENT FUNDS

1220 Roosevelt, Suite 200
Irvine, CA 92620-3675
USA

Tel. +1949.453.0609
mp@pabraifunds.com
www.pabraifunds.com

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

From: Mohnish Pabrai, Managing Partner

Date: January 12, 2017

Re: **2016 Results et. al.**

Dear Partners:

Happy New Year!

December 31 was our annual redemption date. A total of $100.4 million was redeemed from the various funds in 2016. The redemptions on a per fund basis are:

PIF2: $7.8 million PIF3: $67.1 million PIF4: $25.5 million

Our redemptions this year are concentrated in PIF3. Well over half of the redeemed amount is full redemptions by our two largest institutional clients. Both were in PIF3, and while I am sorry to see them leave, I appreciate their investing in Pabrai Funds for the duration that they did.

Included in the above redemptions is $0.9 million from PIF4 by Dalal Street, LLC. This is a Pabrai family redemption made to cover taxes, office expenses and to fund my family's contributions to The Dakshana Foundation.

For the quarter ended December 31, 2016, a total of $19.6 million was added to the various funds by new and existing partners. The additions on a per fund basis are:

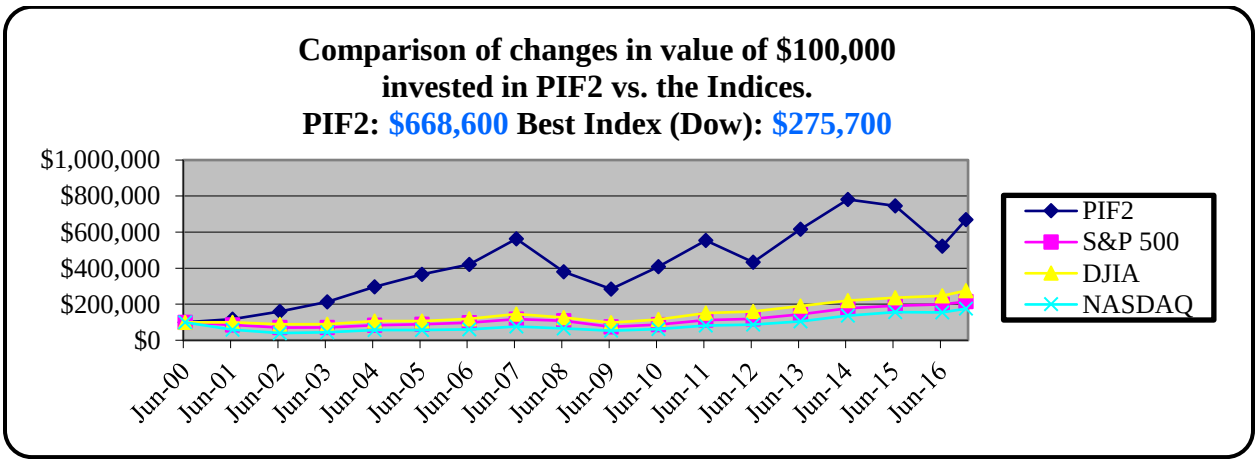
PIF2: $8.3 million PIF3: $5.0 million PIF4: $6.3 million

All three Pabrai Funds are open to new investors. The minimum investment is $2 million if you are a new investor. Existing partners can add as little as $25,000. The next opening for PIF2 and PIF4 is on April 3, 2017. The next opening for PIF3 is on February 1, 2017. ***I am intending to close Pabrai Funds after the April 3 opening. I do not know when or if we will open again. So, if you'd like to join or add funds, now is the time.*** If you are interested or would like more information, please contact Betsy Harker or me at bharker@pabraifunds.com and mp@pabraifunds.com, respectively.

The updated performance numbers on all the funds are:

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

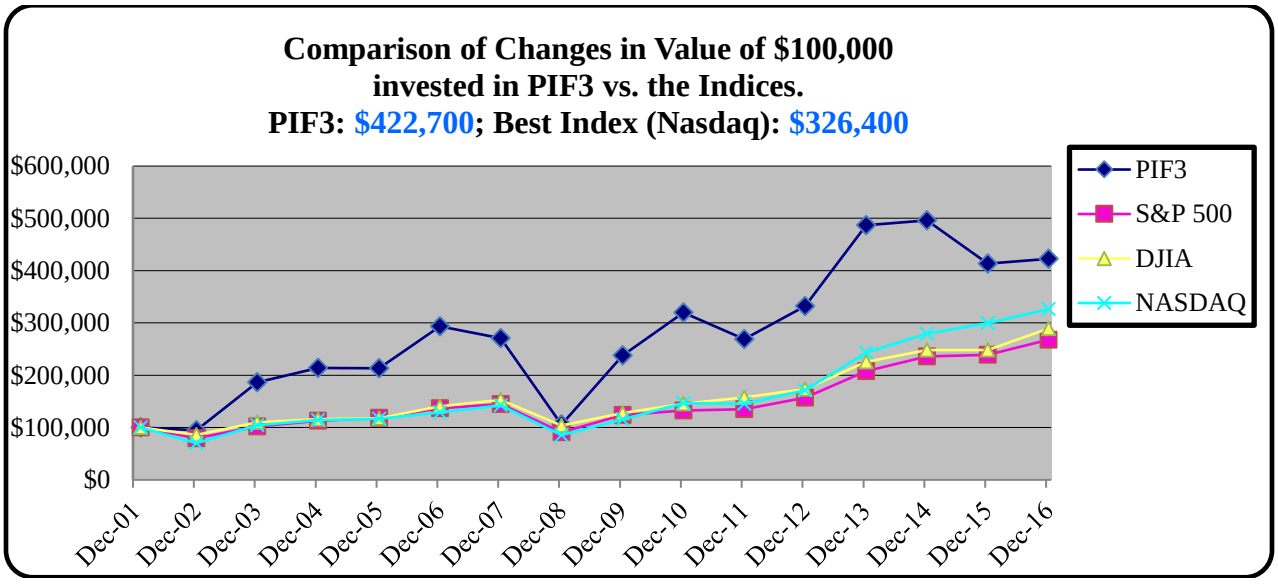
	DJIA	NASDAQ	S&P 500	PIF2 (net to investors)
10/1/00-6/30/01	-0.2%	-41.0%	-14.0%	+17.4%
7/1/01-6/30/02	-10.3%	-32.7%	-18.0%	+35.3%
7/1/02-6/30/03	-0.5%	+11.4%	+0.3%	+34.2%
7/1/03-6/30/04	+18.6%	+26.8%	+19.1%	+38.7%
7/1/04-6/30/05	+0.7%	+1.1%	+6.3%	+23.4%
7/1/05-6/30/06	+11.1%	+6.5%	+8.6%	+15.0%
7/1/06-6/30/07	+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%



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 $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. In the graph above, the start date for PIF2 is shown as June 2000 for readability. The correct start date is October 2000.

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

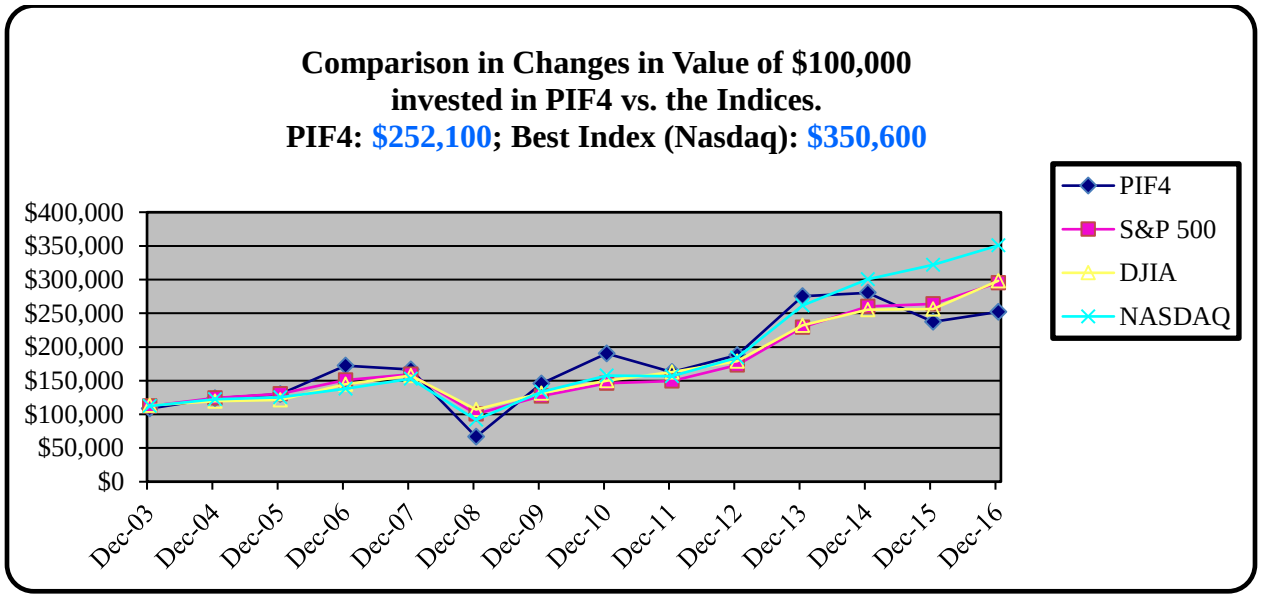
	DJIA	NASDAQ	S&P 500	PIF3 (net to investors)
2/1/02-12/31/02	-14.1%	-29.9%	-20.4%	-5.2%
1/1/03-12/31/03	+28.3%	+50.8%	+28.7%	+96.5%
1/1/04-12/31/04	+5.3%	+9.2%	+10.9%	+14.7%
1/1/05-12/31/05	+1.7%	+2.1%	+4.9%	-0.2%
1/1/06-12/31/06	+19.0%	+10.4%	+15.8%	+37.8%
1/1/07-12/31/07	+8.9%	+10.7%	+5.5%	-7.8%
1/1/08-12/31/08	-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%



PIF3 Investors:
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. In the graph above, the start date for PIF3 is shown as December 31, 2001 for readability. The correct start date is Feb. 1, 2002.

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%



PIF4 Investors:
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 return 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. In the graph above, the start date for PIF4 is shown as Dec 31, 2003 for readability. The correct start date is Oct. 1, 2003.

General Comments

It is par for the course for equity markets to go through long periods of low returns coupled with short periods of spectacular changes in value. Predicting these near-term movements in the markets is a fool's errand. Our concentrated portfolio can magnify these effects. For example, in the 2nd half of 2016, while the Dow and Nasdaq were up a remarkable 12%, PIF2 rose by over 27%. As I write this missive, in the first ten calendar days of 2017, PIF2's NAV has increased by an additional 10.5%, while the indices are up less than 1.5%. I had mentioned last year that our portfolio was like a coiled spring – deeply undervalued. The spring is beginning to uncoil.

The recent redemptions were used by me to convert these redemption lemons into lemonade. I used the outflows to trim or exit our lowest conviction ideas. I love what we elected to keep. The gap between market value and intrinsic value continues to be large for all three funds, and this bodes well for all of us.

New investment ideas are few and far between at this time. Our fee structure gives me zero incentive to mindlessly increase assets. Hence the no-brainer decision to stop accepting new funds after April 3, 2017. If you are looking for a good home for some assets for 5-10 years or longer, this is the time to act.

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. No performance fees were earned by the funds in Q4 2016.

My family and I have a $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.

2016 Annual Meeting Transcript

The Annual Meeting presentation slides are posted on our website and the transcript will be posted in February. Here is the link to the transcript:

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

The transcript is best read in conjunction with the presentation slides (the password to the video is "Warren"):

https://vimeo.com/184764157

Chai with Pabrai Blog and Twitter

I have joined the 21st century and I now have a blog and Twitter account. My blog can be accessed here: http://www.chaiwithpabrai.com/

You can follow me on Twitter here: https://twitter.com/MohnishPabrai.

Presentations and Interviews

I had several fun sessions with students, interviews and podcasts that are also posted on my Blog page:

Podcast with Preston Pysh and Stig Brodersen (January 7, 2017):

https://www.theinvestorspodcast.com/the-dhandho-investor-mohnish-pabrai/

Interview with BTVi India (December 30, 2016):

http://www.btvi.in/m/videos/watch/20599/exclusive---mohnish-pabrai-s-call-on-markets

Interview with CNBC-TV18 in India (December 27, 2016).

Here are the videos:

Part 1: https://m.youtube.com/watch?v=6fkDLax_RmM
Part 2: https://m.youtube.com/watch?v=IfzgWbyAE4Q

Here is a transcript of the interview:

http://www.moneycontrol.com/news/market-outlook/see-trump-making-deals-that-benefitworld-mohnish-pabrai_8170961.html

Lecture to Professor Arvind Navaratnam's Value Investing class at Boston College on November 3, 2016

You can watch the session on YouTube:

https://www.youtube.com/watch?v=IOoaNYQHaYY&feature=youtu.be

Lecture to students at Peking University on October 14, 2016 on "The Quest for 10-100 Baggers."

The talk was my first ever given to the brilliant students of Professor Jiang Guohua's Value Investing Course at Peking University's Guanghua School of Management. Here is a link to the video:

https://www.youtube.com/watch?v=Jo1XgDJCkh4

Articles:

I co-wrote an article in Forbes on an investment strategy called "The Uber Cannibals" (December 22, 2016):

http://www.forbes.com/sites/janetnovack/2016/12/22/move-over-small-dogs-of-the-dow-here-come-the-uber-cannibals/#58e5a4303dea

I recently spoke with Barron's Magazine (December 10, 2016):

http://www.barrons.com/articles/why-mohnish-pabrai-likes-gm-fiat-and-southwest-air

Annual Report – Will be out in May 2017

Our modus operandi is now to provide expansive commentary in the annual reports and the annual meetings. The quarterly letter will continue to provide updated performance numbers and announcements, but minimal commentary. The annual report is slated to be published in May, 2017.

Final K-1's (for US Investors)

For PIF2 and PIF4 investors, we expect your final K-1s to be emailed to you (password protected) in March 2017.

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. We're going back to only having two meetings (so we cancelled the Puerto Rico meeting).

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 Page 3 Hotel, 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, Sept. 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)

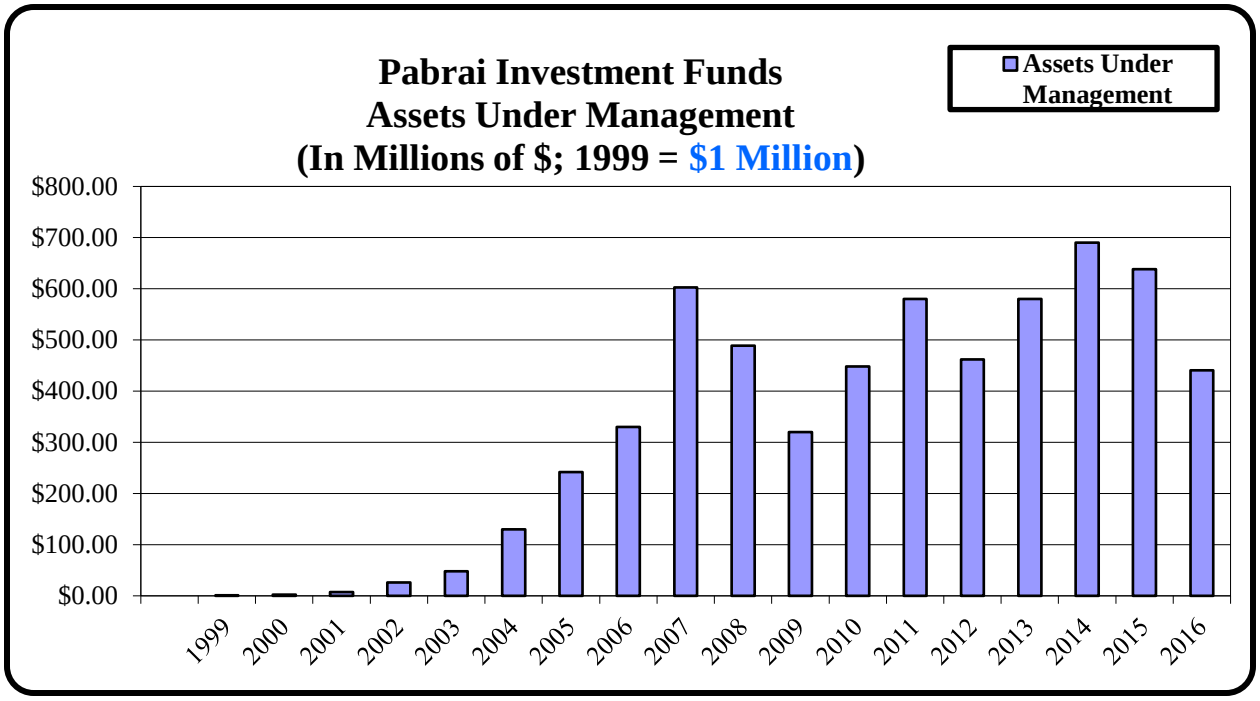
In lieu of dinner in California, we'll have an extended cocktail hour with expanded appetizers (multiple food stations), and lots of tables to sit and chat.

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.



It is a true joy to manage Pabrai Funds. I love it! 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.

Copyright © 2017 by Mohnish Pabrai. All Rights Reserved. Please do not post this letter on the web.

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
2,696,687	6/30/2005	$36.52
2,646,687	6/30/2006	$41.99
3,013,111	6/30/2007	$56.25
2,934,990	6/30/2008	$38.01
2,468,091	6/30/2009	$28.45
2,409,165	6/30/2010	$40.84
2,257,421	6/30/2011	$55.46
2,180,892	6/30/2012	$43.36
2,057,676	6/30/2013	$61.68
1,906,927	6/30/2014	$78.13
1,795,006	6/30/2015	$74.64
1,684,602	6/30/2016	$52.26
1,744,571	9/30/2016	$60.03
1,699,291	12/31/2016	$66.86

PIF3's Performance History (Net to Investors)

No. of Units	Date	PIF3 NAV
65,100	2/1/2002	$10.00
265,919	12/31/2002	$ 9.48
485,041	12/31/2003	$18.63
1,774,753	12/31/2004	$21.37
2,478,793	12/31/2005	$21.32
2,930,608	12/31/2006	$29.37
6,438,615	12/31/2007	$27.09
5,415,189	12/31/2008	$10.57
5,038,658	12/31/2009	$23.79
4,885,267	12/31/2010	$31.95
4,701,613	12/31/2011	$26.92
4,318,818	12/31/2012	$33.21
4,384,591	12/31/2013	$48.70
4,290,222	12/31/2014	$49.61
3,805,336	12/31/2015	$41.33
3,821,599	01/31/2016	$33.82
3,821,599	02/29/2016	$32.36
3,821,599	03/31/2016	$36.31
3,821,599	04/30/2016	$37.33
3,892,832	05/31/2016	$35.10
3,892,832	06/30/2016	$32.49
3,892,832	07/31/2016	$35.67
3,903,819	08/31/2016	$37.30
3,903,819	09/30/2016	$37.61
3,903,819	10/31/2016	$39.06
3,918,539	11/30/2016	$40.45
2,433,652	12/31/2016	$42.27

PIF4's Performance History (Net to Investors)

No. of Units	Date	PIF4 NAV
595,030	10/1/2003	$10.00
1,219,330	12/31/2003	$10.84
5,627,712	12/31/2004	$12.40
9,314,803	12/31/2005	$13.01
11,528,331	12/31/2006	$17.23
16,899,746	12/31/2007	$16.64
15,737,042	12/31/2008	$ 6.66
15,725,066	12/31/2009	$14.57
15,251,129	12/31/2010	$19.05
14,493,713	12/31/2011	$16.24
12,398,564	12/31/2012	$18.85
11,560,683	12/31/2013	$27.53
10,642,015	12/31/2014	$28.03
9,531,764	12/31/2015	$23.71
9,531,764	03/31/2016	$21.64
9,531,764	06/30/2016	$19.43
9,711,664	09/30/2016	$22.23
8,792,042	12/31/2016	$25.21

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.