PABRAI INVESTMENT FUNDS

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

From: Mohnish Pabrai, Managing Partner

Date: February 7, 2004

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

Dear Partners:

On the February 1 subscription date, a total of $12.8 Million in new funds came into the various funds. Here are the additions on a per fund basis:

PIF2: $3.4 Million

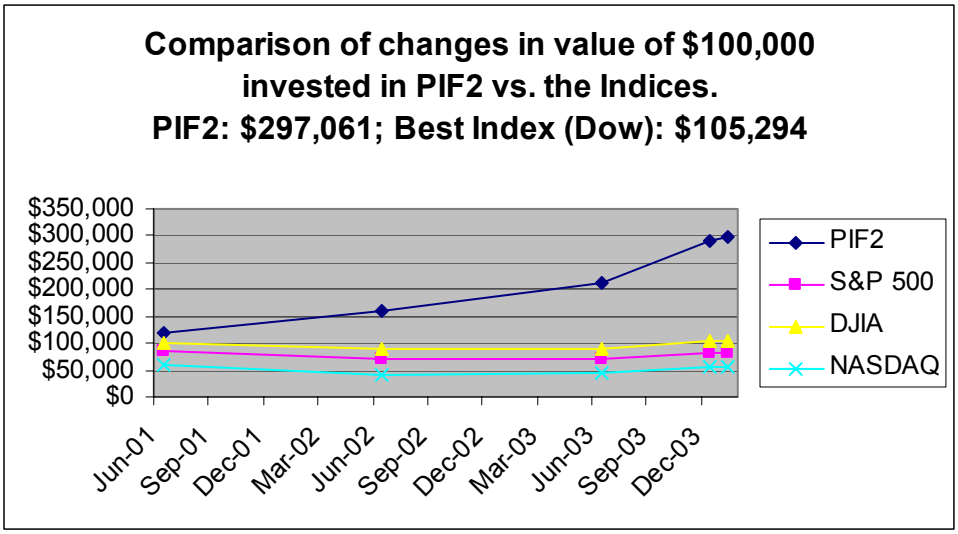
PIF3: $1.2 Million

PIF4: $8.2 Million

The updated performance numbers on the various funds are:

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 – 1/31/04	**+18.2%**	**+27.7%**	**+17.3%**	**+39.3%**
1/1/04 – 1/31/04	**+0.5%**	**+3.2%**	**+1.8%**	**+2.9%**
Annualized	**+1.6%**	**-15.5%**	**-5.5%**	**+38.6%**
Cumulative	**+5.3%**	**-43.0%**	**-17.1%**	**+197.1%**

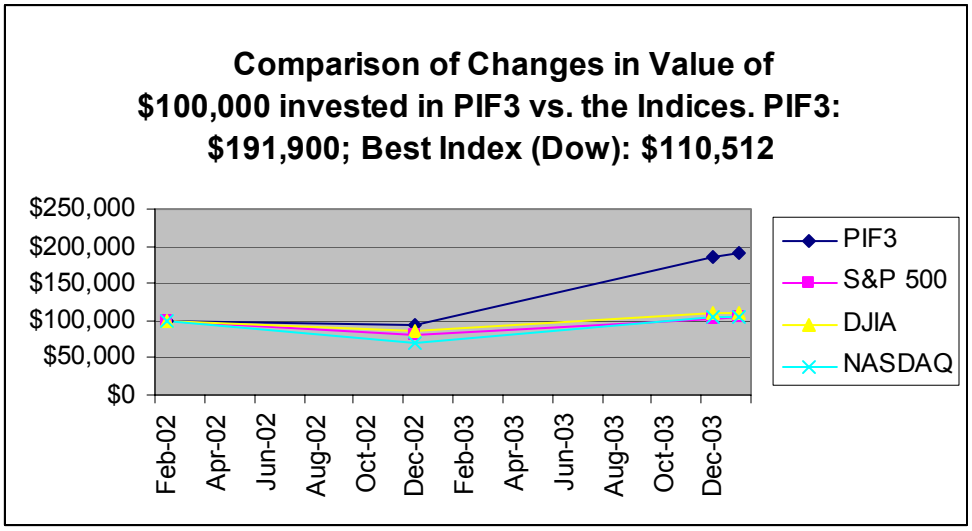


US-based Investors:

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 $415,885 as of January 31, 2004 (net to investors). This equates to an annualized return of 36.5% 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 $104,225 on January 31, 2004 – an annualized gain of 0.9%.

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 – 1/31/04	**+0.5%**	**+3.2%**	**+1.8%**	**+3.0%**
Annualized	**+5.1%**	**+2.2%**	**+1.8%**	**38.5%**
Cumulative	**+10.5%**	**+4.5%**	**+3.6%**	**+91.9%**



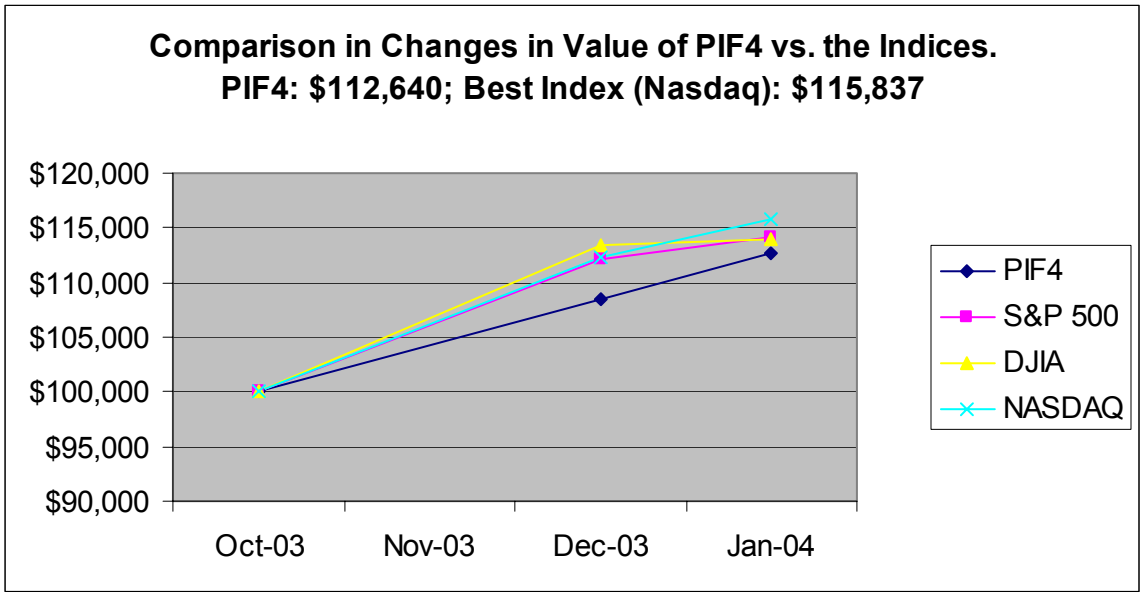
Offshore Investors:

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $191,900 as of January 31, 2004 (net to investors). This equates to an annualized return of 38.5% since inception. 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 $110,512 on January 31, 2004 – an annualized gain of 5.1%.

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 – 1/31/04	**+0.5%**	**+3.2%**	**+1.8%**	**+3.9%**
Cumulative	**+13.9%**	**+15.8%**	**+14.2%**	**+12.6%**

Note: Per AIMR guidelines, annualized performance numbers for periods totaling less than a year are not being provided. Such data can being misleading.



General Comments

During the month of January, the NAV of all three funds increased between 2.9% and 3.9% - an obviously unsustainable monthly rate. All three indices also increased in value – with the Nasdaq rising an amazing 3.5%.

Bill Nygren of Oakmark Funds succinctly noted recently "One of the most successful stock selection rules so far this year (2003) to only buy stocks in companies that are both unprofitable and do not pay dividends. Obviously that approach would fail … long term. And its 180 degrees different that the way we select stocks."

And its 180 degrees different than the way Pabrai Funds stocks are selected. Excluding a few special situations, we have partial ownership of an exceptional group of businesses run by exceptional managers – all bought at exceptional prices. These managers are fixated on cranking out that all-important free cash flow and increasing shareholder value.

Incase you're overcome by euphoria, please be aware that there is a paucity of good investment ideas in these overheated market conditions. Nonetheless, I'm very content to patiently wait for that rare fat pitch. When these good ideas do show up, we do not have capital constraints – especially in PIF4 with its large cash position.

I do expect the 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 4½ years. Partners would be best off setting their expectations for The Pabrai Investment Funds to outperform the best of the three indices by a small margin over the long haul.

Alignment of Interests

Since all three funds were at historic highs on January 31, management fees were payable. A management fee of $548,674.34 was paid by PIF2. As I have always done, this fee was reinvested back in PIF2. A management fee of $75,827.10 was paid by PIF3. A management fee of $150,703.45 was paid by PIF4. This fee was reinvested into PIF4. Dalal Street, Inc. (wholly owned by me) has 424,301 units of PIF2 and 36,474 units of PIF4. This stake is worth about $13 Million. Thus I have a deep vested interest in the future performance of The Pabrai Funds. When you win, I win. Our interests are completely aligned. I am very bullish on the long-term future of The Pabrai Funds – as demonstrated by my being the single largest investor in the funds.

Next Opening – April 1, 2004

There are 2 funds open to <u>new investors</u> to add funds - PIF3 and PIF4.

The minimum initial investment to join PIF4 has been increased to $500,000. One needs to be a "qualified investor" as defined by the SEC to invest in PIF4. The offering and subscription documents for PIF4 have details on who is considered a qualified investor. The next opening is April 1.

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 $100,000. The next opening is March 1.

Existing partners in any of the Pabrai Funds can add funds in increments of $25,000 at each opening (with a $25,000 minimum). Next opening to add funds is April 1, 2004 for PIF2 and PIF4 and March 1, 2004 for PIF3.

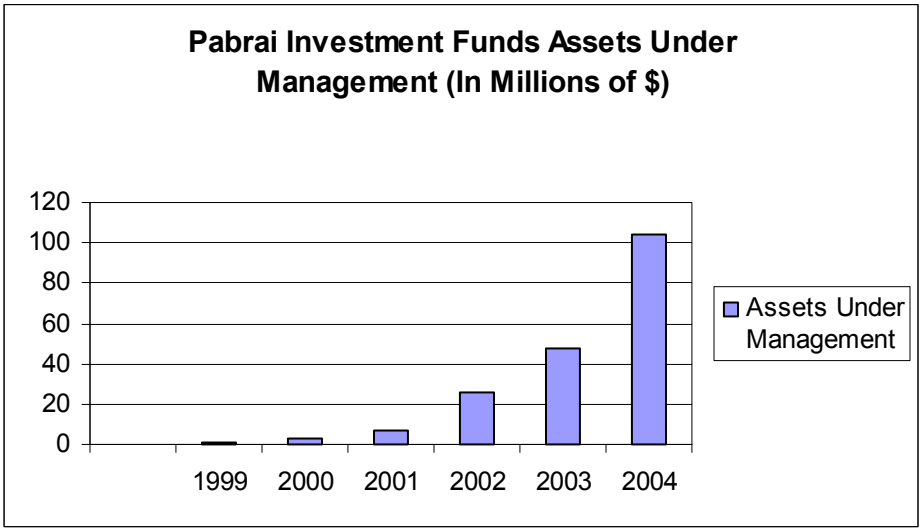
The Yellowstone Factor et. al.

I wrote an article recently entitled, The Yellowstone Factor that was just published by TheStreet.com. I hope you enjoy reading it as much as I enjoyed writing it.

I am in the midst of reading the 2004 Edition of Andy Kilpatrick's Of Permanent Value and thoroughly enjoying it. There are a lot of gems of knowledge in there and at a price of just 2 cents per page, it's a deep value buy.

Assets Under Management

There is about $104 Million in assets under management between all the funds as of February 1, 2004. 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
2,035,719	7/31/2003	$20.95
2,098,511	9/30/2003	$21.86
2,267,230	11/30/2003	$26.40
2,279,448	12/31/2003	$28.86
2,410,521	1/31/2004	$29.71

PIF3's Performance History (Net to Investors)

No. of Units	Date	PIF2 NAV
65,100	2/1/2002	$10.00
265,919	12/31/2002	$9.48
513,756	12/31/2003	$18.63
572,207	1/31/2004	$19.19

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
1,964,030	1/31/2004	$11.26

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.