PABRAI INVESTMENT FUNDS

17 Spectrum Pointe Drive, Suite 503
Lake Forest , CA 92630-2277
USA

Tel. +1949.275.5652
mpabrai@pabraifunds.com
www.pabraifunds.com

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

From: Mohnish Pabrai, Managing Partner

Date: February 9, 2005

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

Dear Partners:

On the February 1 subscription date a total of $17 Million was added to the various funds by new and existing partners. Here are the additions on a per fund basis:

PIF2: $2.8 Million

PIF3: $4.2 Million

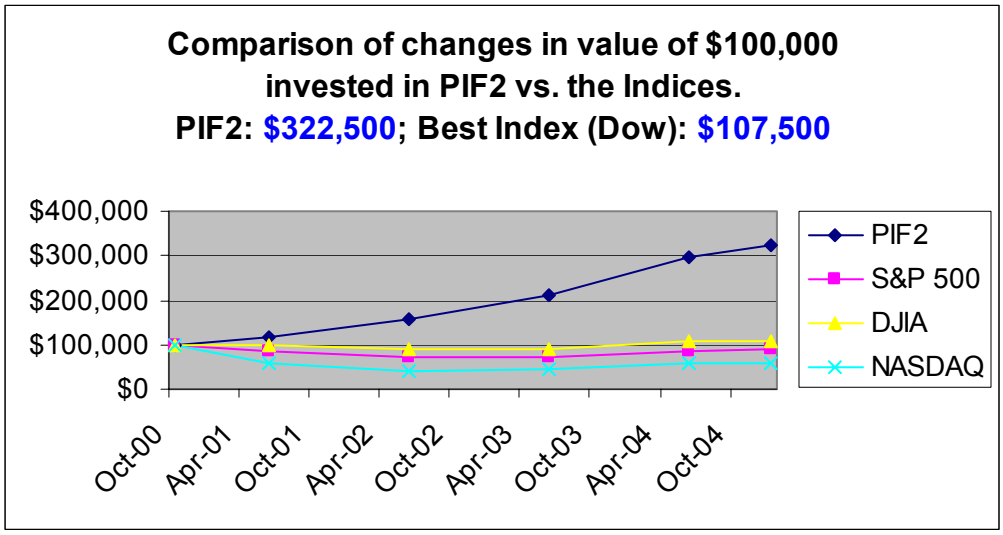
PIF4: $10 Million

$17 Million represents an alltime record for inflows on a single subscription date for Pabrai Funds. I do appreciate the confidence you have expressed. You have my word that I am singularly focused on managing the assets you have entrusted to me to the very best of my ability.

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 – 1/31/05	**+1.8 %**	**+1.0%**	**+4.6%**	**+9.0%**
1/1/05 – 1/31/05	**-2.6%**	**-5.2%**	**-2.4%**	**-5.9%**
Annualized	**+1.7%**	**-12.1%**	**-2.9%**	**+31.0%**
Cumulative	**+7.5%**	**-42.8%**	**-11.9%**	**+222.5%**

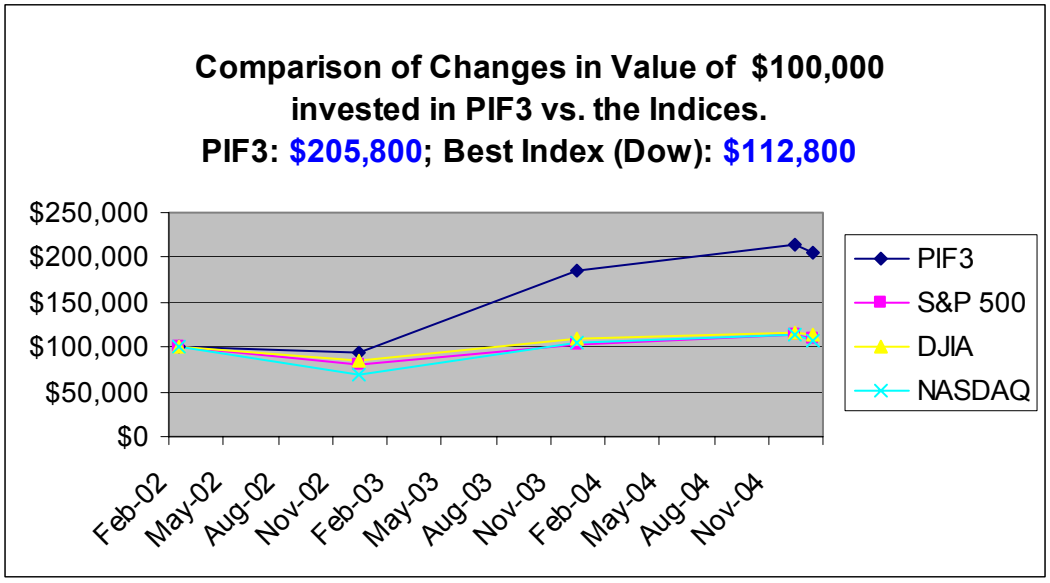


PIF2 Investors:

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 $451,800 as of January 31, 2005 (net to investors). This equates to an annualized return of 31.0% 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 $106,400 on January 31, 2005 – an annualized gain of 1.1%. 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%**
1/1/05 – 1/31/05	**-2.6%**	**-5.2%**	**-2.4%**	**-3.7%**
Annualized	**+4.1%**	**+2.7%**	**+3.2%**	**+27.2%**
Cumulative	**+12.8%**	**+8.2%**	**+10.0%**	**+105.8%**

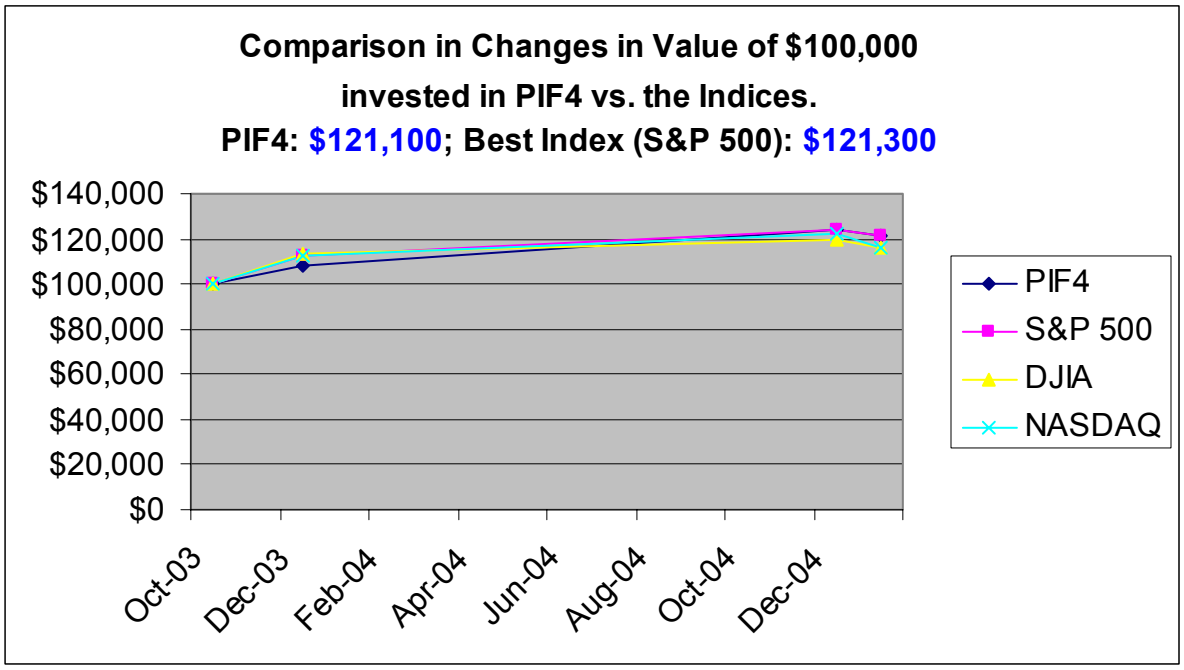


PIF3 Investors:

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $205,800 as of January 31, 2005 (net to investors). This equates to an annualized return of 27.2% 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 $112,800 on January 31, 2005 – an annualized gain of 4.1%. 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%**
1/1/05 – 1/31/05	**-2.6%**	**-5.2%**	**-2.4%**	**-2.3%**
Annualized	**+12.0%**	**+11.9%**	**+15.6%**	**+15.4%**
Cumulative	**+16.3%**	**+16.2%**	**+21.3%**	**+21.1%**



PIF4 Investors:

A $100,000 investment in PIF4 at inception on October 1, 2003 was worth $121,100 as of January 31, 2005 (net to investors). This equates to an annualized return of 15.4% 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 $121,300 on January 31, 2005 – an annualized gain of 21.3%. The S&P gains include reinvested dividends.

General Comments

All three funds were down in January. While all three indices were down as well, only PIF4 did better than all three indices for the month. PIF2 lagged all three indices while PIF3 lagged two of the three indices. There is not much point to trying to read too much into

single month performance numbers. However, by my estimation, the discount to intrinsic value widened during January for all three funds.

No attempt is being made on my part to beat the indices month to month. I believe the disciplined focused value approach of Pabrai Funds is highly likely to deliver results superior to the best index over the long haul. However, with our focused portfolio, it should not surprising that the funds are likely to lag some or all of the indices in a given month or a given year.

PIF3 (Offshore Fund) Completes Three Years

PIF3 was launched on February 1, 2002 with just $650,000 in assets. It completed three years on January 31, 2005 with about $41 Million in assets. Here is the three year performance history versus the indices (net to investors):

	1 Year	3 Years (annualized)
PIF3	**+7.2%**	**+27.2%**
Dow	+2.1%	**+4.1%**
Nasdaq	+0.3%	+2.7%
S&P 500	**+6.2%**	+3.2%

While three years is a relatively short period of time, it is good to see that the ship is sailing in the right direction.

Alignment of Interests

None of the funds are at historic highs and hence no fees were payable to the investment manager (Dalal Street). 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 $17.4 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.

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 – April 1, 2005 (all funds) and March 1, 2005 (PIF3)

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

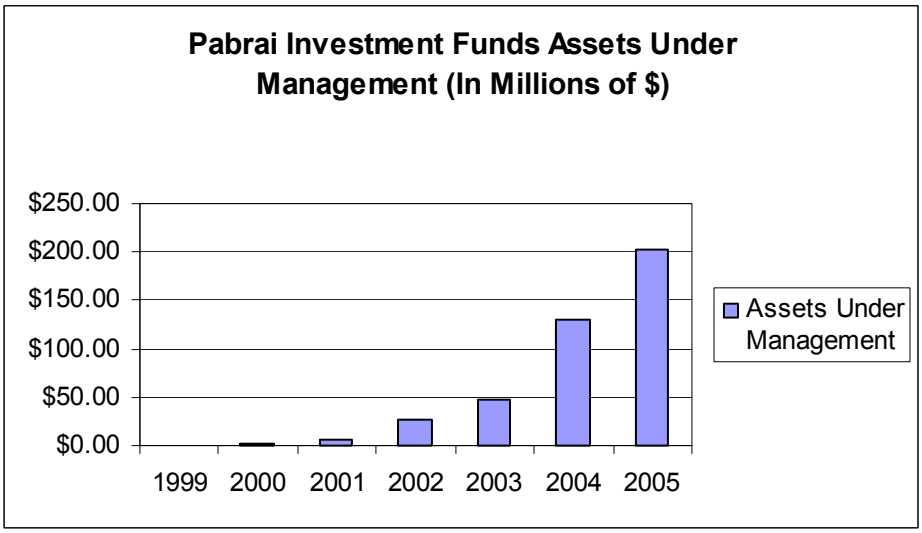
The minimum investment for PIF4 is $1,000,000 and one needs to be a "qualified investor" as defined by the SEC. The offering and subscription documents for PIF4 have details on who is considered a qualified investor. Next opening is April 1, 2005.

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 dates for PIF3 are March 1 and April 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).

Assets Under Management

There is about $203 Million in assets under management between all the funds as of February 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
2,602,698	1/31/2005	$32.25

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
1,978,594	1/31/2005	$20.58

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
6,450,875	1/31/2005	$12.11

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.