PABRAI INVESTMENT FUNDS

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

From: Mohnish Pabrai, Managing Partner

Date: April 8, 2004

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

Dear Partners:

On the April 1 subscription date, a total of $8.2 Million was added into the various funds by new and existing investors. In addition, $1.9 Million was added to PIF3 on March 1. Here are the subscriptions by fund for both dates:

PIF2: $0.2 Million

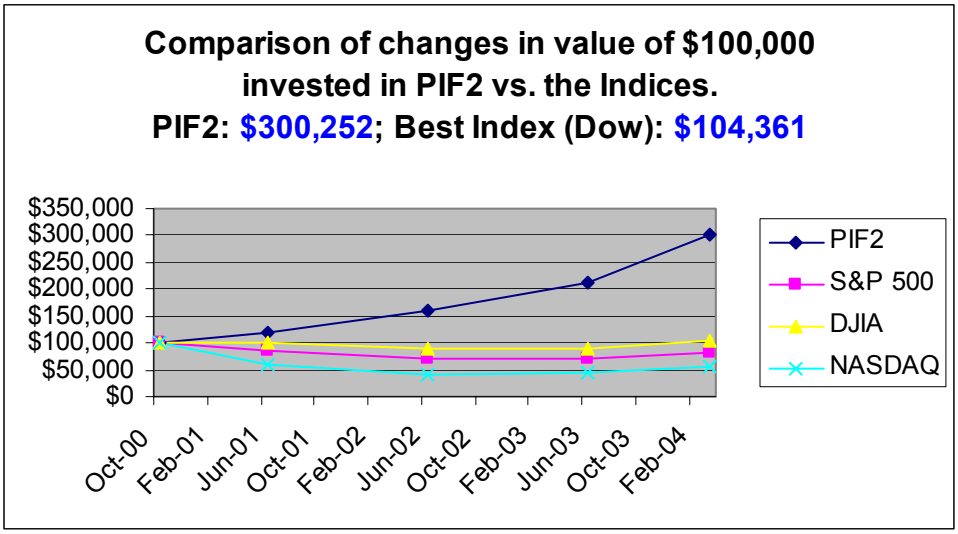
PIF3: $4.7 Million

PIF4: $5.2 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 – 3/31/04	**+17.2%**	**+23.3%**	**+17.1%**	**+40.9%**
1/1/04 – 3/31/04	**-0.9%**	**-0.4%**	**+1.7%**	**+4.1%**
Annualized	**+1.2%**	**-15.7%**	**-5.2%**	**+36.9%**
Cumulative	**+4.4%**	**-44.9%**	**-17.2%**	**+200.3%**

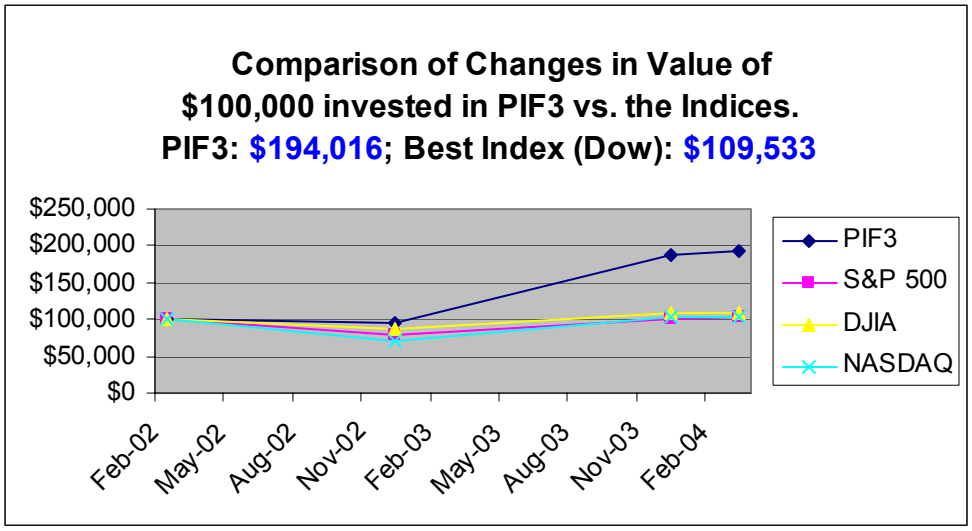


US-based Investors:

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 $420,353 as of March 31, 2004 (net to investors). This equates to an annualized return of 35.3% 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 $103,302 on March 31, 2004 – an annualized gain of 0.7%. 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 – 3/31/04	**-0.9%**	**-0.4%**	**+1.7%**	**+4.1%**
Annualized	**+4.3%**	**+1.9%**	**+1.6%**	**+35.8%**
Cumulative	**+9.5%**	**+4.2%**	**+3.4%**	**+94.0%**



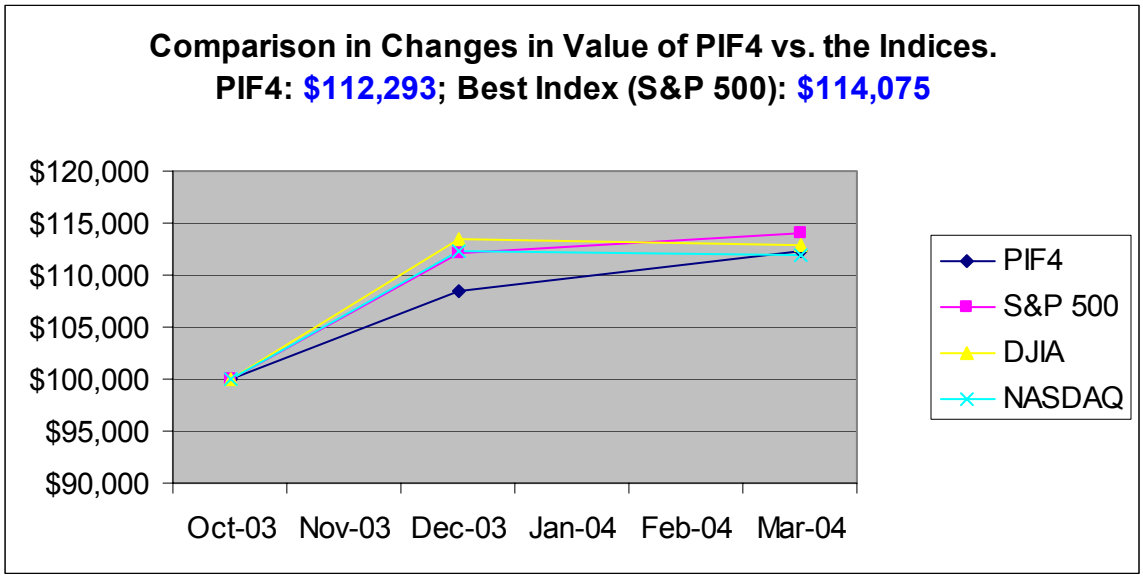
Offshore Investors:

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $194,016 as of March 31, 2004 (net to investors). This equates to an annualized return of 35.8% 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 $109,533 on March 31, 2004 – an annualized gain of 4.3%. 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 – 3/31/04	**-0.9%**	**-0.4%**	**+1.7%**	**+3.6%**
Cumulative	**+12.9%**	**+11.9%**	**+14.1%**	**+12.3%**

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

In his most recent letter to Berkshire Hathaway shareholders, Warren Buffett recommended a book entitled Bull! : A History of the Boom, 1982-1999 by Maggie Mahar. I found it an amazing read. Maggie builds a very solid case for why the broad US equity markets are likely to deliver lackluster results over the next decade.

While no two bubble-bust cycles are identical, all bubbles do eventually get popped. The Dow crossed 1000 for the first time in 1966. Then, it hit what folks considered a bottom of 631 in 1970 before rallying to 1071 in January 1973. Investors had witnessed a drop of 37% over 4 years followed by a rise of 70% over 3 years. And Maggie writes:

"...A new bull market had begun - or so it seemed. Now the bear moved in for the kill. What followed was the crash of 1973-74, the most savage mauling investors had endured since

1930. There was no place to hide…In the rout of 1974, shell-shocked investors raffled off their shares for whatever they could fetch."

The consensus 2004 forward earnings estimate for the S&P 500 as group is $61. As you know, I'm very skeptical of reported earnings numbers – preferring to fixate on true free cash flow (which would be a significantly lower number). But leaving aside that delta, let's assume that inflation-adjusted S&P 500 earnings grow at the same 3% annualized rate as the last ten years.

Based on this, S&P 500 earnings in the year 2016 would be about $87. And at a 15 multiple the S&P 500 would be at 1305. This would imply an annualized real return, excluding dividends, of 1.1%. But a 15 multiple might be too optimistic – especially after 17 years of pathetic market performance. Here's what Maggie observed about the year 1982:

"In 1982, the S&P 500 went begging…GE traded at 10 times earnings; Procter & Gamble changed hands at 8 times earnings; Colgate Palmolive at 7 times …"

And if the S&P 500 changed hands at 10 times earnings in 2016, then annualized real returns, excluding dividends, would be -2.2%.

Maggie laid out these amazing 15-19 year cycles:

Period	**S&P 500 Average Annual Total Real Return (Inflation Adjusted)**
1930 - 1949	3.2%
1950 - 1966	14.1%
1967 - 1982	0.2%
1983 - 1999	15.7%

All of the evidence suggests that, for the next 12 years, one can expect a 0-4% inflation adjusted return for the S&P 500. And, if history is any guide, it's unlikely to be a smooth ride. You can draw your own conclusions about the inflation-adjusted value of the S&P 500 in 2016 by making alternate assumptions about real earnings growth and market multiples.

Pabrai Funds: 2004 – 2016

So where does this leave Pabrai Funds over the next twelve years?

Ironically, Pabrai Funds started *at the end* of one the longest and strongest bull market rallies of all time – and the start of what's likely to be a prolonged period of poor returns for equities.

(As an aside, the best time to start enduring businesses is during recessions – there is a certain discipline that recessionary trends enforce on the strategy and execution of business models that boom times simply don't. If one thrives during deep recessions, then it can only get easier.)

I didn't plan it that way. I've always found the broad markets overvalued since the inception of the funds. The modus operandi has always been to fixate on buying fractions of a select few well-understood businesses at deep discounts to their underlying intrinsic value. A disciplined focused value approach works well in all types of markets. However, it really shows its prowess during prolonged bear markets. The men get separated from the boys. Or as Buffett says, "Only when the tide goes out can we see who's been swimming naked."

Pabrai Funds employs no leverage, has no short positions and does not delve into derivatives. In the event of a deep market decline, there is no question that our portfolio's market value will decline as well – perhaps more so than the broad market. Nonetheless, we face no selling pressure. There are no margin call possibilities as there is no leverage. And there are no sudden redemption possibilities as redemptions are limited to once a year with at least 60 days advance notice.

The deep declines are not a theoretical construct. On May 31, 2002, PIF2's NAV was $17.43/unit. By Sept. 30, 2002 it was at $10.70. This represents a drop of 39% in four months. For the entire year of 2002, PIF2 declined 2.6%, but in the intervening months, there was significant volatility. We could easily see similar gyrations over the next few years.

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 4¾ 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

PIF2 and PIF3 were at historic highs on March 31 and hence management fees were payable. PIF4 was down 0.3% over the last 2 months. A management fee of $36,349.80 was paid by PIF2. As I have always done, this fee was reinvested back in PIF2. A management fee of $2,582.31 was paid by PIF3 on March 31, 2004. Dalal Street, Inc. (wholly owned by me) has 425,512 units of PIF2 and 36,475 units of PIF4. This stake is worth about $13.2 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.

Expense Ratios

It is very important to minimize the frictional costs associated with investing. As an example, if an investor gets 10% annual returns for 20 years on a $100,000 investment and another gets 11% (due to lower fees and expenses), the difference in returns is over $133,000.

Unlike nearly all mutual funds and hedge funds, Pabrai Investment Funds does not charge a management fee - only a performance fee – where ¼ of annualized returns over 6% are paid to the fund manager (me) and ¾ go to the investor. In addition, this performance fee is subject to high-water marks. Besides brokerage commissions, the only expenses paid by the funds are legal, audit, accounting, tax preparation and administrator fees. I'll periodically report what these costs are as a % of assets. Currently they are:

PIF2: < 10 basis points (0.1%)
PIF3: < 35 basis points (0.35%)
PIF4: < 25 basis points (0.25%)

As a point of comparison, the unmanaged Vanguard S&P 500 Index at 0.18% has one of the lowest expense ratios in the business – and I hope to get all the three funds expenses to be below this number eventually.

Annual Meeting – Sept. 18, 2004 (Chicago) & Oct. 2, 2004 (Orange County, CA)

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. 18, 2004 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 Oct. 2, 2004 at 4:00 PM at:

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

Hyatt developed this beautiful property recently. It overlooks the Pacific and one of the best beach strips in Orange County. Hyatt.com usually has the best deal on hotel rates. Book early and make a weekend of it with your spouse or family. 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. Please save the date.

Mosaic: Perspectives on Investing - Now available on Amazon.

Mosaic: Perspectives on Investing is a self-published book that is a collection of my writings on various facets of investing over the last 3½ years. I hope you enjoy reading it as much as I enjoyed putting it together.

Next Opening – May 1, 2004 (PIF3) and June 1, 2004 (all funds)

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

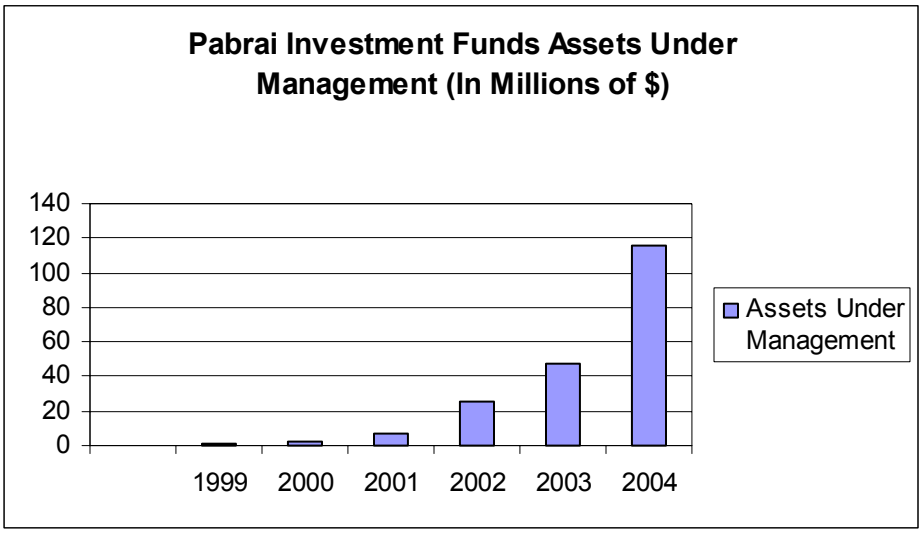
The minimum investment for PIF4 is $500,000 and one needs to be a "qualified investor" as defined by the SEC. The offering and subscription documents for PIF4 have details on who is considered a qualified investor. Next opening is June 1.

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. Next opening is May 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 June 1, 2004 for PIF2 and PIF4 and May 1, 2004 for PIF3.

Assets Under Management

There is about $116 Million in assets under management between all the funds as of April 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
2,412,204	1/31/2004	$29.71
2,420,675	3/31/2004	$30.03

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
544,795	1/31/2004	$19.19
645,434	2/31/2004	$18.81
791,476	3/31/2004	$19.40

PIF4's Performance History (Net to Investors)

No. of Units	Date	PIF4 NAV
595,030	10/1/2003	$10.00
1,198,745	11/30/2003	$10.23
1,219,330	12/31/2003	$10.84
1,968,470	1/31/2004	$11.26
2,428,427	3/31/2004	$11.23

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.