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 16, 2008

Re: **First Quarter 2008 Results et. al.**

Dear Partners:

For the quarter ended March 31, 2008, $7.4 Million was added to the various funds by new and existing partners. The additions on a per fund basis are:

PIF2 (US Accredited): $0.7 Million

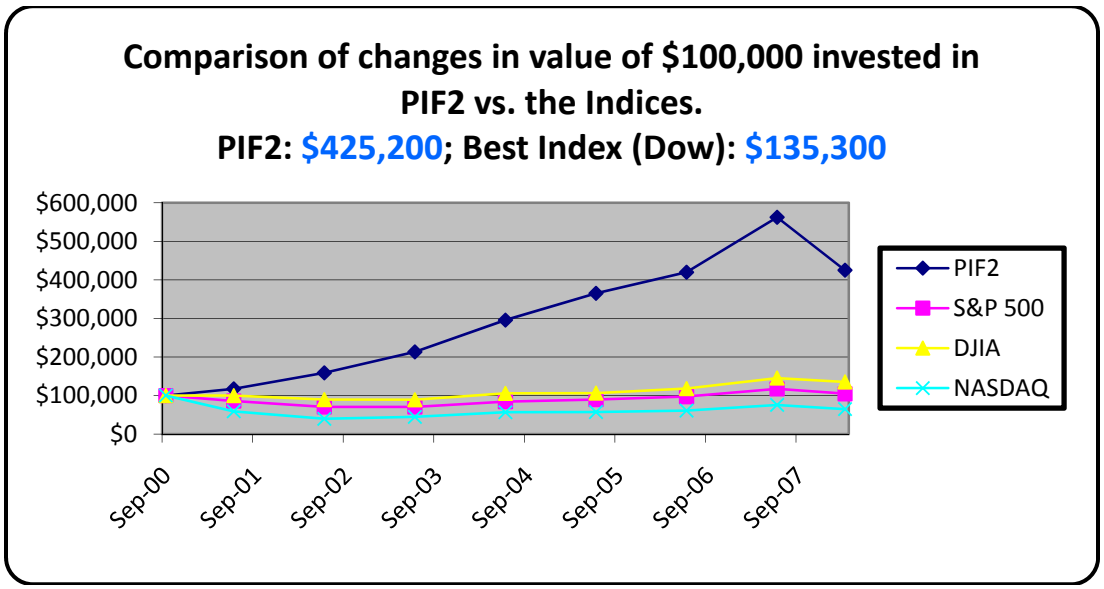
PIF3 (Offshore/IRA): $2.1 Million

PIF4 (US Qualified): $4.6 Million

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 – 3/31/08	**-6.9%**	**-11.9%**	**-10.7%**	**-24.4%**
1/1/08 – 3/31/08	**-7.0%**	**-13.9%**	**-9.4%**	**-8.6%**
Annualized	**+5.3%**	**-3.8%**	**+2.0%**	**+21.3%**
Cumulative	**+35.3%**	**-35.2%**	**+4.8%**	**+325.2%**

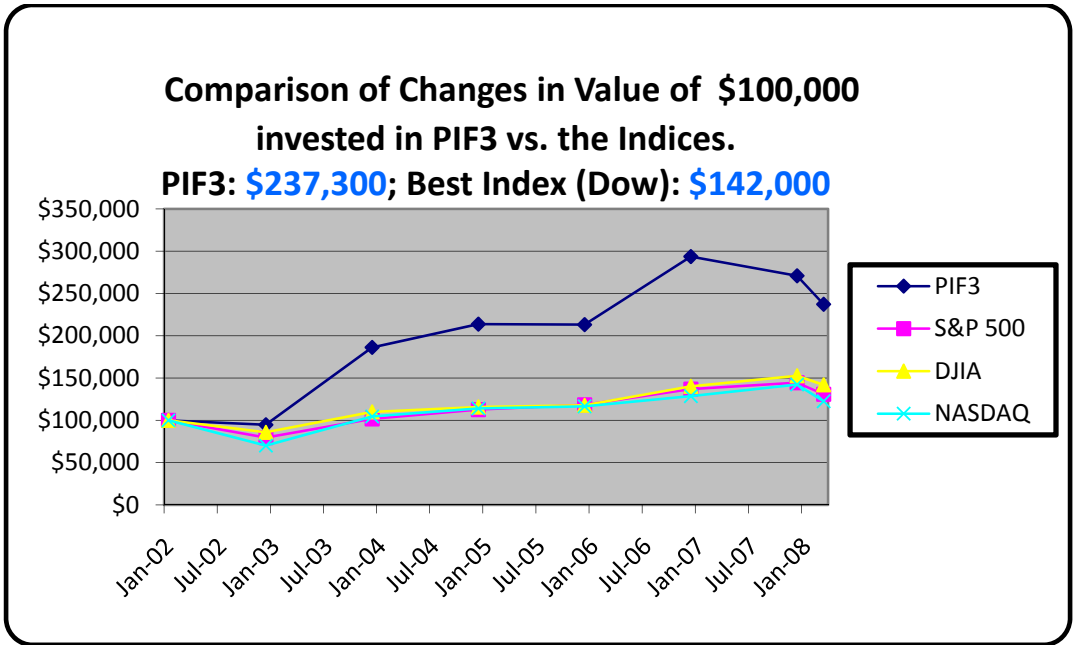


PIF2 Investors:

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 $595,800 as of March 31, 2008 (net to investors). This equates to an annualized return of 22.6% 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 $133,900 on March 31, 2008 – an annualized gain of 3.4%. The Dow gains include reinvested dividends.

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 – 3/31/08	-7.0%	-13.9%	-9.4%	-12.4%
Annualized	+5.9%	+3.4%	+4.6%	+15.0%
Cumulative	+42.0%	+22.6%	+30.9%	+137.3%

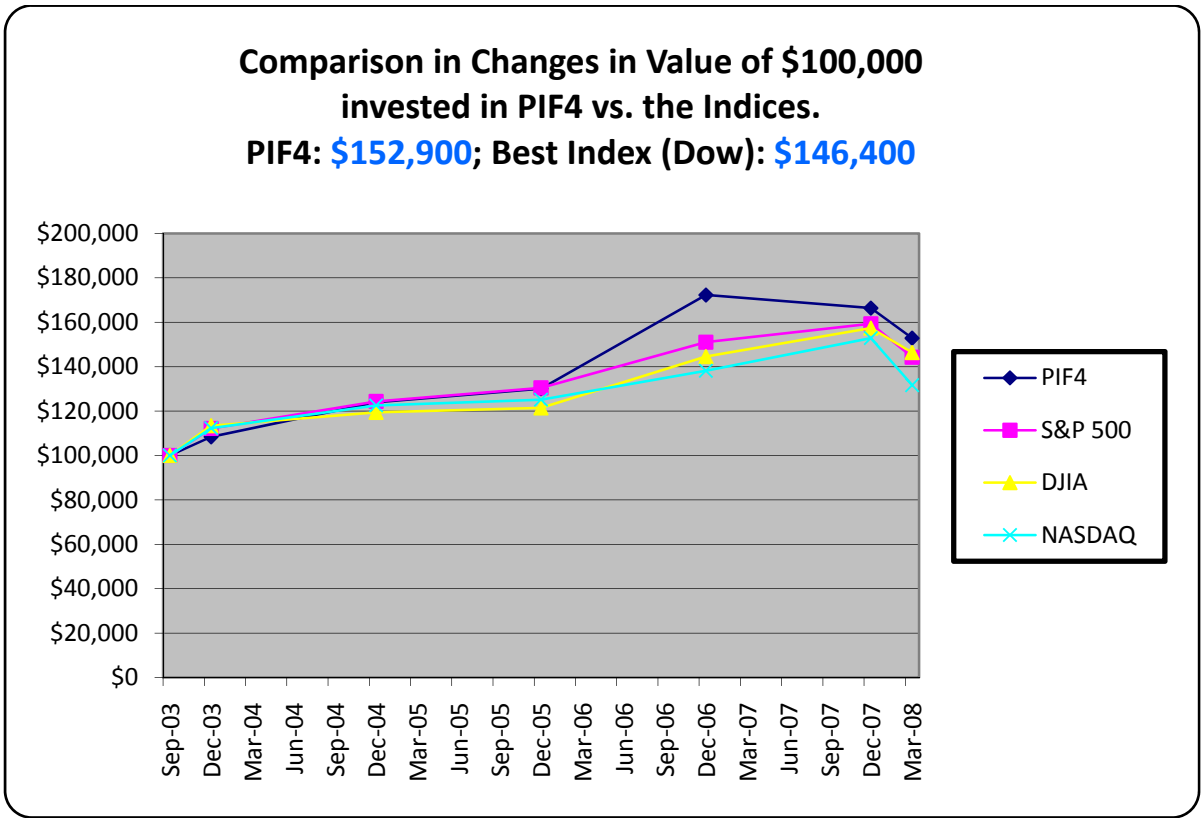


PIF3 Investors:

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $237,300 as of March 31, 2008 (net to investors). This equates to an annualized return of 15.0% since inception. The best index over the same period was the Dow and an investment of $100,000 in the Dow on February 1, 2002 was worth $142,000 on March 31, 2008 – an annualized gain of 5.9%. The Dow gains include reinvested dividends.

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 – 3/31/08	-7.0%	-13.9%	-9.4%	-8.1%
Annualized	+8.8%	+6.3%	+8.5%	+9.9%
Cumulative	+46.4%	+31.7%	+44.3%	+52.9%



PIF4 Investors:

A $100,000 investment in PIF4 at inception on October 1, 2003 was worth $152,900 as of March 31, 2008 (net to investors). This equates to an annualized return of 9.9% since inception. The best index over the same period was the DJIA and an investment of $100,000 in the Dow on October 1, 2003 was worth $146,400 on March 31, 2008 – an annualized gain of 8.8%. The Dow gains include reinvested dividends.

General Comments

For the first quarter of the year, all three funds posted negative returns ranging from -8.1% to -12.4%. PIF2 and PIF4 outperformed two of the three benchmark indices while PIF3 outperformed just the Nasdaq Composite Index. Negative numbers are never fun to report or read. However, the focus of Pabrai Funds has never been to fixate on short-term results. What really matters is our longer term performance – over 5-10 years or more.

Here the news is quite satisfactory. All three funds have outperformed all the benchmark indices over the long-haul. With PIF4 being less than 5 years old, we have to take its "long-term" data with a grain of salt. However, for PIF2 and PIF3 with 8¾ years and over 6 years of history respectively, the data is meaningful and quite good.

One of the best indicators of future performance of any mutual fund or hedge fund is the fund-wide discount to underlying intrinsic value at any given time. And on this front, we're in great shape. The portfolios of all the Pabrai Funds presently trade at very significant discounts to my estimate of their underlying intrinsic value. Intrinsic value calculations can never be exact and the future can unfold quite differently than envisioned. Nonetheless, this large discount and our rock-solid investing framework makes me an optimist on the future prospects of Pabrai Funds over the long haul.

I have no way of knowing whether March 31, 2008 represents low-point NAVs (that we'll never see again) for all three funds. From my vantage point, it certainly looks that way. The prices that many of our positions change hands at today are quite spectacular – the only other time the funds traded at similar discount levels was in the fall of 2002. Many of the prices are quite irrational.

Of course, equity markets have a way of surprising us. Few market veterans who endured the lows of 1973 would have ventured to guess that the market would go even lower in 1974. In 1974, stellar blue chip companies were changing hands at low single digit P/Es. We are nowhere near those valuations today.

Short-term Pain for Long-term Gain

All three funds hit all-time highs on 6/30/07. And all three have had delivered negative returns since then. Over the last nine months, the funds are down 23-30%. The last three quarters haven't exactly been benign from a macro/economy perspective and all the indices have posted 7-12% drops over the same period.

7/1/07 – 3/31/08	Performance
PIF2	-24.4%
PIF3	-30.3%
PIF4	-23.3%

Table 1

While Pabrai Funds has delivered better than market returns over the last nearly nine years, I was curious to go back and look at how we performed in the 12 months following large declines. Table 2 lists all the double digit declines for all four funds from inception through June 30, 2007. It also lists the performance of that fund for the 12 months following the decline.

Fund	Period	Time	Performance
PIFI	9/1/00 – 6/30/01	10 Months	**-17.4%**
PIFI	7/1/01 – 6/30/02	Next 12 Months	**+63.6%**
PIF2	2/1/01 – 3/31/01	2 months	**-14.4%**
PIF2	4/1/01 – 3/31/02	Next 12 Months	**+66.1%**
PIF2	6/1/02 – 9/30/02	4 months	**-38.6%**
PIF2	10/1/02 – 9/30/03	Next 12 Months	**+104.3%**
PIF3	4/1/02 – 1/31/03	10 months	**-15.2%**
PIF3	2/1/03 – 1/31/04	Next 12 Months	**+105.5%**
PIF3	1/1/05 – 4/30/05	4 months	**-17.1%**
PIF3	5/1/05 – 4/30/06	Next 12 Months	**+39.8%**

Table 2

We are a very young operation and, in the broad scheme of things, nine years of data is fairly insignificant. However, these past nine years haven't been entirely uneventful. Here are a few salient events that we've lived through:

- Pabrai Funds was launched in July, 1999 in the midst of one of the most spectacular bubbles of our era – the dot com bubble.

- In March, 2000, the Nasdaq peaked at 5132. And in September, 2002 it bottomed out at 1172. As the dot com bubble popped, the index went through a spectacular 77% decline in 2½ short years. The S&P 500 still trades below the level it reached in 2000.

- The recession of 2001 (and 2008).

- The market turmoil caused by the 9/11 terrorist attacks.

- The ongoing war in Afghanistan and Iraq.

- The fallout from the subprime mortgage lending binge.

- Record trade and budget deficits.

- The near-collapse (and unprecedented bailout by the Federal Reserve) of a large investment bank.

In aggregate, the above events have been a net positive for Pabrai Funds. Without these events we would not have had the opportunity to invest in companies like Embraer, Level 3 bonds and Canadian Oil Sands. We've always focused on buying businesses well below what they are worth and selling them as they attain fair value – regardless of the "flavor of the day" fear or euphoria in the broader markets. On balance, things have worked out quite well. When we encounter market volatility our (already undervalued) portfolio frequently gets pummeled. This causes the portfolio-wide discount to intrinsic value to widen. This has also allowed us to add to the portfolio periodically at deeply discounted valuations.

We've seen significant volatility throughout the history of Pabrai Funds – as clearly evident from Table 2. The speed of the bounce-back in every case has been quite surprising. Even with my front-row seat, I am repeatedly amazed by the pace and fury of the recovery. We've historically never had declines go on for more than a year and we've never taken more than a year to make a full recovery.

There is no law of nature that requires this statistic to hold true in the future. And I'm pretty sure we'll successfully break this streak in the not too distant future. Nonetheless, I'm confident that, over time, our various portfolio holdings will trade around their intrinsic value – and thus we'll always bounce back.

This confidence comes from Ben Graham's teachings. Getting to intrinsic value is a law of investing as described by Ben Graham in an interesting exchange he had with Senator Fulbright in 1955:

Fulbright: *"...One other question and I will desist. When you find a special situation and you decide, just for illustration, that you can buy for $10 and it's worth $30, and you take a position, and then you cannot realize it until a lot of other people decide it is worth $30, how is that process brought about - by advertising, or what happens? What causes a cheap stock to find its value?"*

Graham: "*That is one of the mysteries of our business and it is a mystery to me as well as to everybody else. But we know from experience that eventually the market catches up with value."*

- Benjamin Graham's testimony on March 1, 1955 to the U.S. Senate's Committee on Banking and Commerce (Senator William Fulbright was the Chairman of the committee).

As Ben Graham confessed, we don't know exactly how (or when) stocks switch from being valued by voting machines to weighing machines. Even so, eventually the weighing machines do always triumph.

Investors in Pabrai Funds are an above-average intelligence set with a patient, long-term outlook. I'm honored to have you as partners and I very much appreciate your entrusting me with your hard-earned assets. I'm singularly focused on delivering above-market returns over the long-haul - while subjecting you to below-market risks. I hope to continue to be the preferred manager of some of your family's assets for decades to come.

Pabrai Funds 2007 Annual Meeting Transcript

The preparation of the transcript of our annual meetings is always a low priority task at Pabrai Funds. Diana and I worked on it whenever we're twiddling our thumbs. It has been posted on the website for your perusal. Here is the link:

http://www.pabraifunds.com/website/2007_PIF_AM_Transcript.pdf

(to access, the id is pabraifunds and password is warren)

The transcript goes with the slides which are posted at:

http://www.pabraifunds.com/website/2007_PIF_AM_Slides.pdf

Alignment of Interests

All three funds are below their historic NAVs and hence no fees were earned by any of the funds for the quarter. My immediate family has a stake of 584,396 units of PIF2, 7935 units of PIF3 and 1,242,318 units of PIF4. This stake is worth over $44 Million.

Besides the previously disclosed stake and small investment in Dardashti Capital (worth about $1.1 Million), my family has no interests in any other mutual funds, hedge funds or private equity funds. I have a deep vested interest in the future performance of Pabrai Funds.

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. 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.

2008 Annual Meetings – Save the Date

As is our usual modus operandi, there will be two annual meeting sequentially at Chicago & Orange County, California and Chicago. The **Chicago** meeting will be held on **Saturday, Sept. 13, 2008** at 4:00 PM at our new venue:

Hyatt Regency O'Hare
9300 Bryn Mawr Avenue, Rosemont, IL 60018 Tel. +1847.696.1234

The Hyatt is a five minute taxi ride away from O'Hare airport. Besides the Hyatt, there are a plethora of hotels in the vicinity of O'Hare airport. The Hyatt has a complementary shuttle service to O'hare airport for guests and we've got 10 rooms set aside at $119/night for meeting attendees. First come first served. Please call the hotel directly to get one of those rooms. Good deals on O'Hare hotels are usually available on the major travel-related websites.

The **California** meeting is scheduled to be on **Saturday, Sept. 20, 2008** 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

We do have 10 rooms set aside for the event at $250/night for the 20th. Please 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. Please book early as the hotel usually is fully booked around that time. 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 – 6:30 PM: Presentation and Q&A
6:30 – 7:30 PM: Cocktail Hour
7:30 PM: Dinner

The invites will go out in June. Your significant other and kids of all ages are welcome to attend. I look forward to seeing you in September.

Upcoming Events – USC, Columbia, VIC, Yellow BRK'ers ...

Presentation to USC Marshall School of Business Students
April 21, 2008; 6:00 – 8:00 PM

I've been invited to speak to students at the University of Southern California's Marshall School of Business. The talk is part of a course on Value Investing taught by Professor Sandy Green. This is the 3rd year I'll be speaking in his class and am excited to be invited back. He has graciously allowed me to bring up to 10 guests. If you'd like to attend, please email Ms. Isabelle Secor at the earliest (isecor@pabraifunds.com) and we'll confirm your slot as well as provide the exact venue within the business school. First come, first served. The talk will be held on USC's main campus at the Marshall School of Business on Monday, April 21 from 6:00 to 8:00 PM.

This one offers tremendous value – it's free!!

I'm also speaking on April 24th in Bruce Greenwald's Value Investing class at Columbia Business School (NYC). The limited guest slots for this one, unfortunately, are already spoken for.

Speaking at the 3rd Annual Value Investing Congress West
May 6-7, 2008, The Langham, Huntington Hotel & Spa, Pasadena, California
http://www.valueinvestingcongress.com/

My good friends, Whitney Tilson and John Schwartz, put on the very best value investing conference on the planet twice a year. They provide a wonderful service to the value investing community. I will be presenting and certainly endeavor to break the recent losing streak. Wish me luck! I'm on at 10:15 AM on Wednesday, May 7. The conference is priced at $3,995. Friends of Pabrai Funds get a discount of $500 by using the discount code P8SPMP.

The Yellow BRK'ers Party in Omaha – Friday, May 2, 2008; 4:00 PM
http://yellowbrkers.blogspot.com/

The annual soul-cleansing pilgrimage to Omaha and Pasadena is around the corner. This will be my 11th year attending and I can't wait. I hope to attend the Yellow BRK'ers

Party in Omaha. If you're going to be in Omaha, do stop by and meet your fellow tribe members. There is a suggested $5 donation at the door to defer costs.

Limiting Assets Under Management

There is an inverse correlation between size and performance. Pabrai Funds now has over $542 Million under management. Under present market conditions, I am planning to stop accepting new money around the $1 Billion mark.

I am very comfortable with our current asset size and I believe $1 Billion in assets is manageable and we'll continue to deliver long-term results that are superior to the broad indices at that size.

Next Opening – July 1, 2008 (all funds); May 1, 2008 (PIF3)

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

The minimum investment for PIF4 is now $2,500,000 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 July 1, 2008.

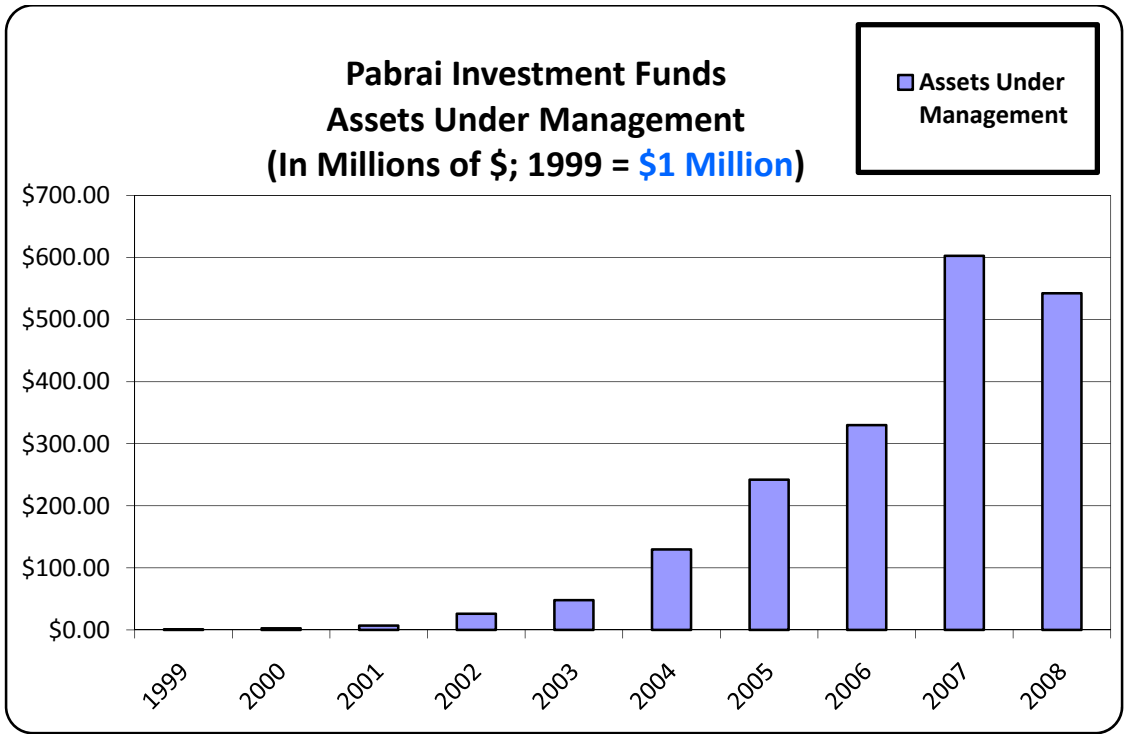
To invest in PIF3, one needs to be a non-US accredited offshore investor. Tax-exempt accounts like IRAs, Roth IRAs and US Family Foundations can invest in PIF3 as well. The minimum investment to join PIF3 as a new partner is $10,000,000 for US Tax-exempt accounts and $2,500,000 for offshore investors. Next opening date for PIF3 is May 1, 2008.

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

PIF2/PIF4 open once every quarter to add funds from new/existing investors (1/1, 4/1, 7/1, 10/1) while PIF3 is open to add funds on the 1st day of every month.

Assets Under Management

There is over $542 Million in assets under management between all the funds as of April 1, 2008.



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

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
3,018,411	9/30/2007	$51.88
2,915,170	12/31/2007	$46.52
2,931,043	3/31/2008	$42.52

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
6,455,669	1/31/2008	$26.21
6,506,664	2/29/2008	$25.10
6,524,353	3/31/2008	$23.73

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
17,200,995	3/31/2008	$15.29

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.