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 15, 2009

Re: **Q1 2009 Results et. al.**

Dear Partners:

For the quarter ended March 31, 2009, $1.8 Million was added to the various funds by existing partners. The additions on a per fund basis are:

PIF2 (US Accredited): $0.1 Million

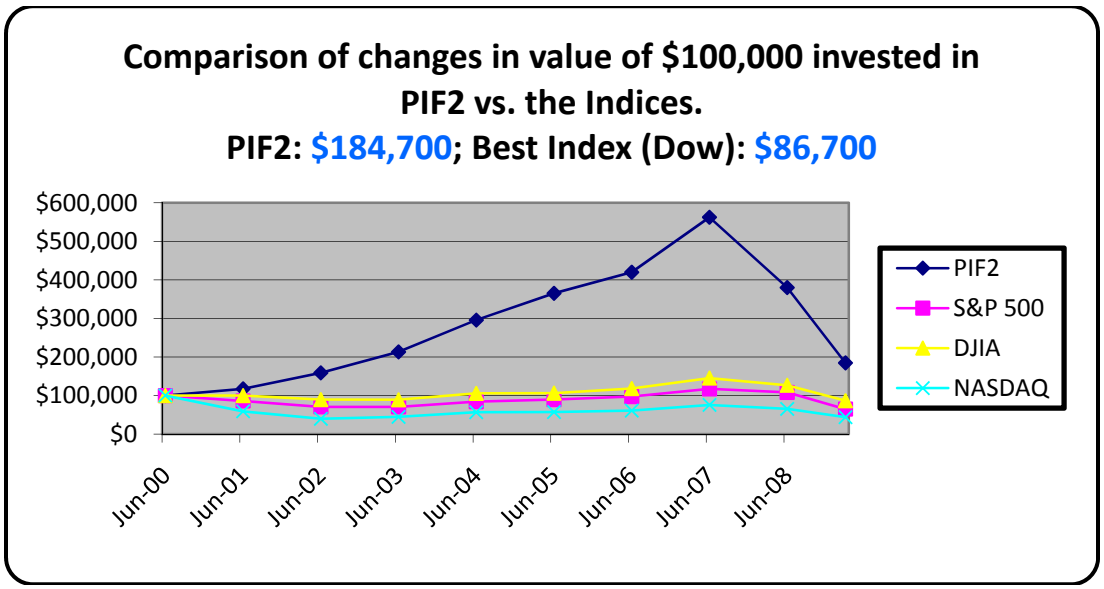
PIF3 (Offshore/IRA): $0.5 Million

PIF4 (US Qualified): $1.2 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 – 6/30/08	**-13.3%**	**-11.2%**	**-13.1%**	**-32.4%**
7/1/08 – 3/31/09	**-31.2%**	**-32.8%**	**-36.3%**	**-51.4%**
1/1/09 – 3/31/09	**-12.4%**	**-2.8%**	**-11.0%**	**-2.8%**
Annualized	**-1.7%**	**-9.2%**	**-5.0%**	**+7.5%**
Cumulative	**-13.3%**	**-56.1%**	**-35.12%**	**+84.7%**

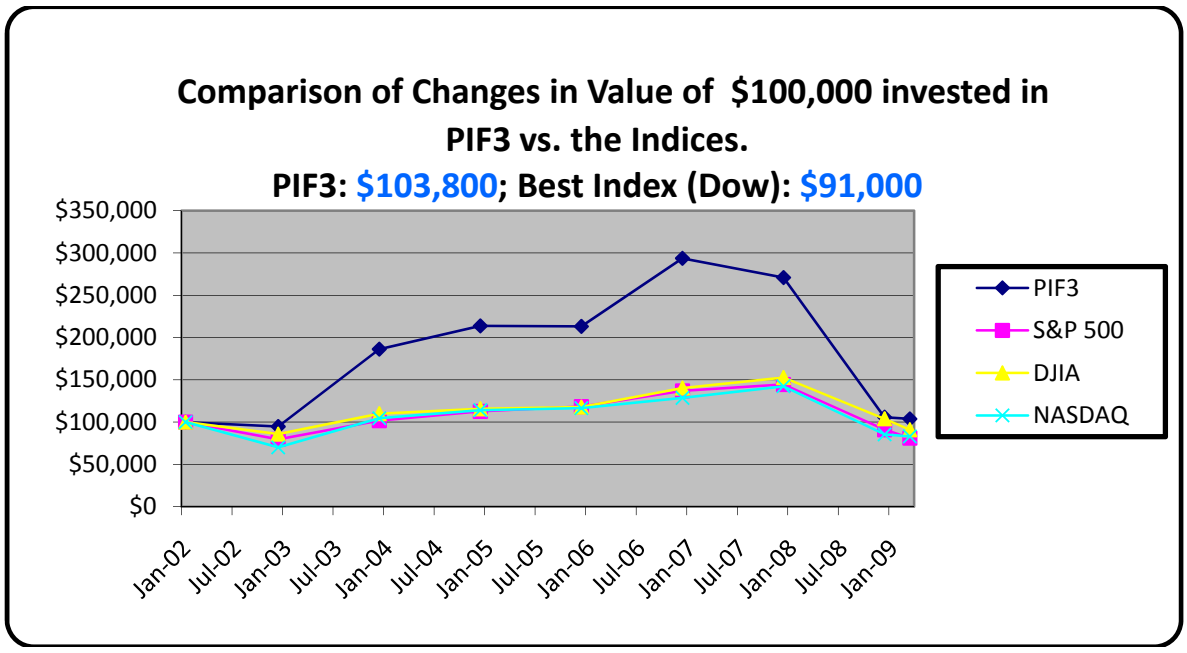


PIF2 Investors:

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 $258,800 as of March 31, 2009 (net to investors). This equates to an annualized return of 10.3% 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 $85,800 on March 31, 2009 – an annualized loss of 1.6%. 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 – 3/31/09	-12.4%	-2.8%	-11.0%	-1.9%
Annualized	-1.3%	-2.6%	-2.9%	+0.5%
Cumulative	-9.0%	-17.0%	-19.0%	+3.8%

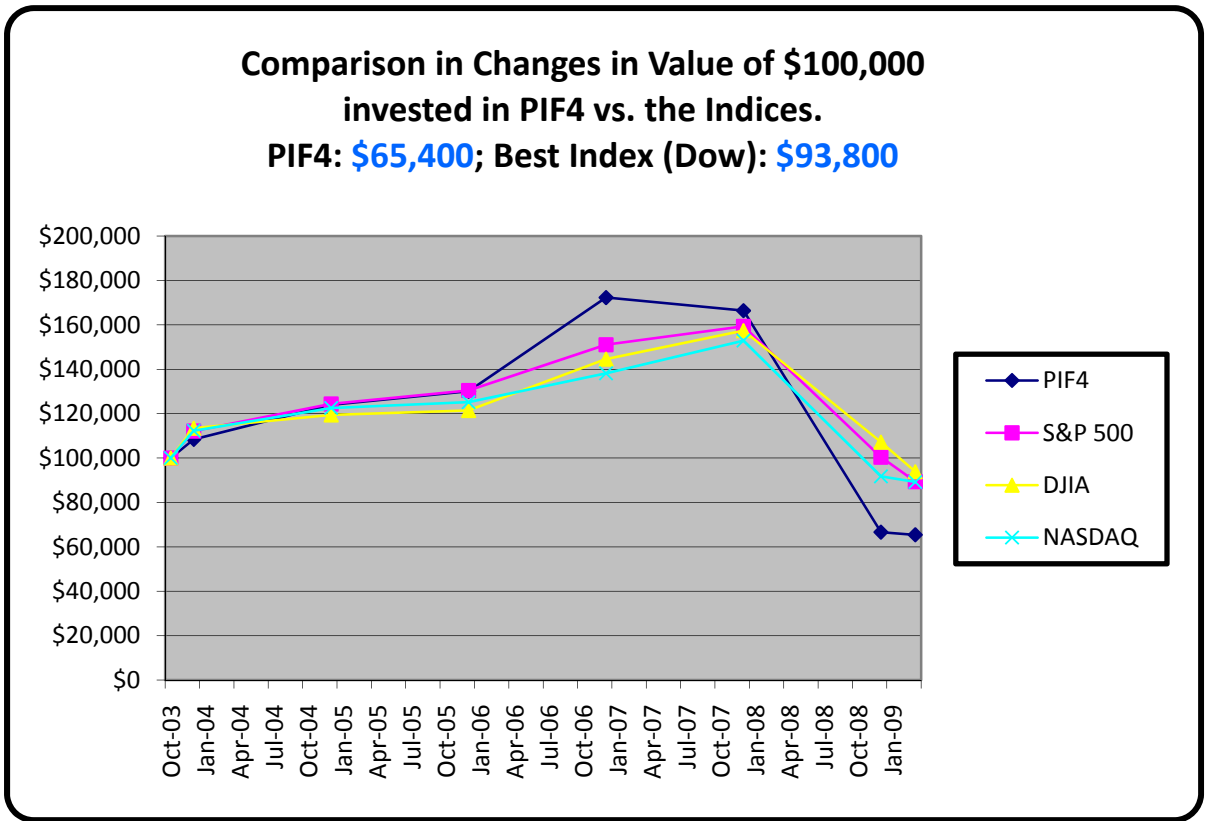


PIF3 Investors:

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $103,800 as of March 31, 2009 (net to investors). This equates to an annualized return of 0.5% 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 $91,000 on March 31, 2009 – an annualized loss of 1.3%. 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 – 12/31/08	-31.9%	-39.9%	-37.0%	-60.0%
1/1/09 – 3/31/09	-12.4%	-2.8%	-11.0%	-1.8%
Annualized	-1.6%	-2.1%	-2.0%	-7.8%
Cumulative	-6.2%	-10.8%	-10.6%	-34.6%



PIF4 Investors:

A $100,000 investment in PIF4 at inception on October 1, 2003 was worth $65,400 as of March 31, 2009 (net to investors). This equates to an annualized loss of -7.8% since inception. The best index over the same period was the Dow and an investment of $100,000 in the Dow on October 1, 2003 was worth $93,800 on Dec. 31, 2008 – an annualized loss of 1.6%. The Dow gains include reinvested dividends.

General Comments

All three funds beat two of the three benchmark indices by a meaningful margin during Q109. And they either beat or matched the third index (Nasdaq composite) over the quarter as well. After six consecutive quarters of substantial declines, I'll take that! However, a single robin does not a spring make. I've never fixated on our quarterly numbers. The more meaningful and relevant benchmark is our long-term performance over five years or longer.

From inception in 1999 through 2007, with a few bumps along the way, all three funds substantially outperformed the indices by wide margins. Since mid-2007, the funds have underperformed the broad indices. The indices have dropped by 40-odd percent during this period and we've dropped by 60-odd percent. I am disappointed by these numbers. PIF2 and PIF3 continue to have a long-term index-beating record. However, PIF4 is lagging. I am confident that the first thing we'll accomplish in the quarters and years ahead is to have a better performance relative to the indices – even when measured from mid-2007 onwards for all three funds.

I fully expect us to get back to our 2007 highs and beyond. I do not have a crystal ball, but I would venture to guess that we are at least a couple years from that point – and possibly longer. This confidence of a return to 2007 highs stems from the very significant gap between the portfolio's current market value and its intrinsic value. We own some tremendous assets managed by some of the very best managers on the planet. These assets will eventually change hands at substantially higher levels. This dog will hunt!

I have no idea what markets will do over the next couple of quarters or years. The key, however, is how the economy does. We still have plenty of wood to chop on the US and global economy front. It would not surprise me if we do not see a real sustained economic recovery until 2011. It could happen sooner and I hope it does, but in making portfolio decisions, I am not banking on it.

Governments around the world are fully committed to doing what they can to revive growth. However, they have no playbook or experience in dealing with the present situation. Some of their actions will not work and may even have negative consequences. I do believe we'll see some heavy-duty inflation in the years ahead. However, it is likely growth will resume globally in 2011, if not sooner. And equities markets will start moving well before the broad economy does.

While GDP around most of the world is shrinking, it is still growing at a healthy clip in India and China. And it is growing upon an increasingly significant base. While things look very gloomy today, when we pull out in the next 2-3 years, India, China and other emerging economies will be growing at even faster rates on a higher base. At the

market lows of 1974 with the oil embargo, gas station queues, stagflation and a deep recession, it was all doom and gloom. It was hard to see how things would ever get better. But things did get better – amazingly better. Similarly, with all the gloom and doom in 2009, we do not appreciate how much better the world will look in just 5-10 years. As Buffett said in his letter this year, "America's best days lie ahead."

Position Sizing – Additional Thoughts

In the last letter to partners I discussed position sizing at some length. Here is a link to that letter for your perusal:

http://www.pabraifunds.com/website/l_010109.pdf

A couple more thoughts on the subject.

If we had all positions sized at 5% (our typical allocation), we'd have a 20 stock portfolio. And if we had 10 stocks in a basket at 2% each, we'd have a 26 stock portfolio. Add in a single 10% bet and it would make the number 25. The least number we could have is 19 (1 at 10%; 18 at 5%). So, with this approach we are likely to operate with a 20-25 stock portfolio when fully invested. Seth Klarman spoke about position sizing last year at Columbia and his perspective seems to line up nearly perfectly with ours (no coincidence, as there are very few disagreements I have with Seth).

Finally, since everything seems to go down after we're done buying, I'm planning to start with 2% positions in some instances and wait to add at a lower price later. This scenario happened recently when I invested in a business that I like a lot. It is run by an individual who I like even more than the business. While it is available at a good price, I wish I were able to buy in at a lower price. So, I put 2% of assets into it and am ready to add the remaining 3% at a better price. Of course, the risk is that we wait forever. We'll take that chance periodically.

Fertile Investing Environment

In just two months last year, November and December, we made 10 new investments. That is a record for the funds. We bought into some great assets and managers at stellar prices. Even though the indices went even lower in 2009, for the first quarter of this year I was able to find just one new business to invest in. We'll likely do quite well on all these bets in aggregate in the coming years.

This continues to be a very fertile investing environment. The bar, however, is much higher than even a year ago. I'm fixated on the greatest possible returns with the least possible risk. We aren't looking for fifty cent dollars – those are available for a dime a

dozen today. It has to be thirty cents or lower. And it has to be low-risk. We do have a few promising candidates that I'm in the midst of analyzing.

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 479,206 units of PIF2, 8417 units of PIF3 and 1,242,318 units of PIF4. This stake is worth over $17 Million.

Besides the previously disclosed stake and small investment in Dardashti Capital (worth about $0.7 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. Investors who add funds when we are below the high-water mark (like now), get a free ride (no fees) until we're back at the high water mark plus 6% annualized from that date. It is a great deal.

Presentations at Business Schools – USC Marshall School of Business (Los Angeles) and Columbia Business School (New York City)

This month I spent one evening teaching a class to USC Business School students (on April 8) and another later this month to Bruce Greenwald's students at Columbia Business School in New York City. These talks are centered on an area which I'm presently improving upon and adding rigorous processes to at Pabrai Funds – the checklist.

The checklist is a powerful concept that I was first introduced to several years ago by Charlie Munger. I heard him, but did nothing about it – until a few months ago. It has already dramatically improved on the stock selection processes at Pabrai Funds. And over the years, I expect it'll lead to meaningfully better results. It is very much a work-in-progress. Here is the link to the USC presentation for your perusal:

http://www.pabraifunds.com/website/usc_2009.pdf

2009 Annual Meetings – Save the Date

As is our usual modus operandi, there will be two annual meeting sequentially at Chicago, Illinois & Orange County, California. We are moving the Chicago meeting back to Carlucci's - our old beloved venue. I had moved the meeting to the Hyatt O'Hare because there was a decent chance we wouldn't have been able to fit everyone at Carlucci's. I got an expensive

education in dealing with union rules and ancillary hotel charges at the various O'Hare area hotels. Our costs for doing an event at Carlucci's is a small fraction of the Hyatt O'Hare.

The Chicago meeting is thus scheduled to be on **Saturday, Sept. 12, 2009** 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.

The **California** meeting is scheduled to be on **Saturday, Sept. 26, 2009** 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 will have 10 rooms set aside for the event at a TBD rate. Please call the hotel directly and book your room 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 – 7:15 PM:	Cocktail Hour
7:15 PM:	Dinner

The invites will go out in July 2009. Your significant other and kids of all ages are welcome to attend. I look forward to seeing you in September.

Next Opening – July 1, 2009 (all funds); May 1, 2009 (PIF3)

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

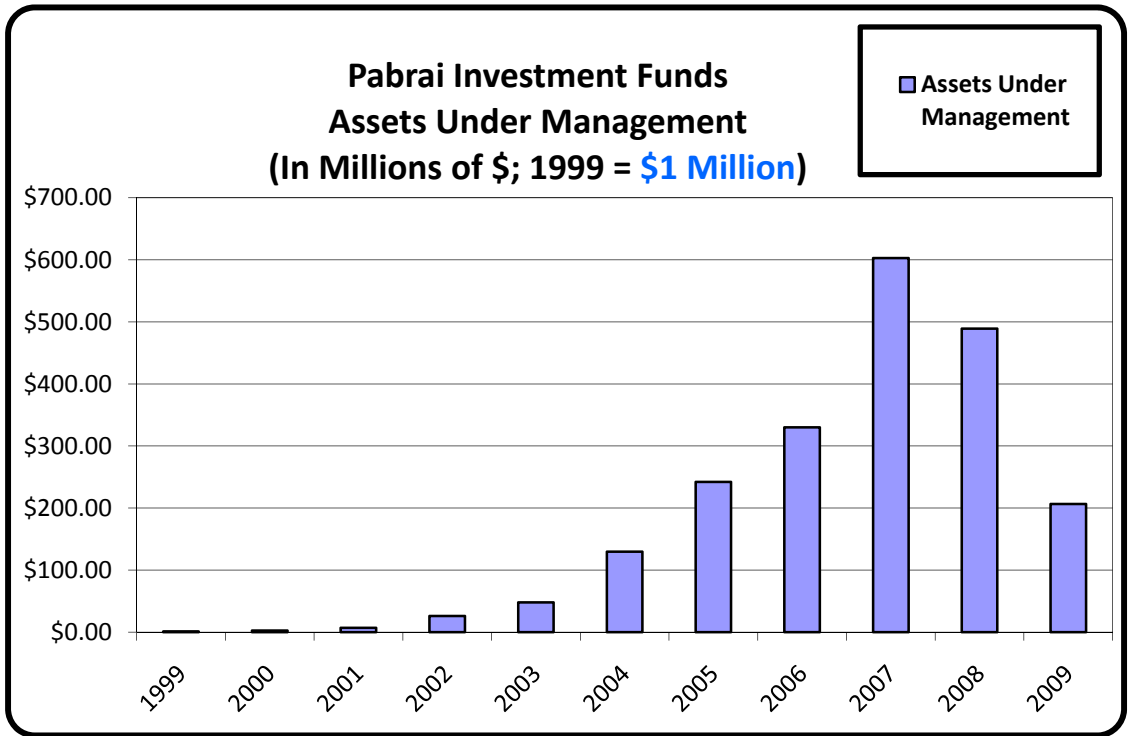
The minimum investment for PIF4 is now reduced to $1,000,000 and one needs to be a "qualified investor" as defined by the SEC. The offering and subscription documents for PIF4 have details on who is considered a qualified investor. Next opening is July 1, 2009.

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 $1,000,000 for offshore investors. Next opening date for PIF3 is May 1, 2009.

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 $206 Million in assets under management between all the funds as of April 1, 2009.



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
2,934,990	6/30/2008	$38.01
2,945,758	9/30/2008	$30.18
2,458,230	12/31/2008	$19.01
2,463,643	3/31/2009	$18.47

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	$10.58
5,480,971	1/31/2009	$10.36
5,483,667	2/28/2009	$9.27
5,483,667	3/31/2009	$10.38

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
15,913,793	3/31/2009	$6.54

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.