PABRAI INVESTMENT FUNDS

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

From: Mohnish Pabrai, Managing Partner

Date: June 11, 2004

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

Dear Partners:

On the June 1 subscription date, a total of $13.2 Million was added into the various funds by new and existing investors. In addition, $0.9 Million was added to PIF3 on May 1. Here are the subscriptions by fund for both dates:

PIF2: $0.7 Million

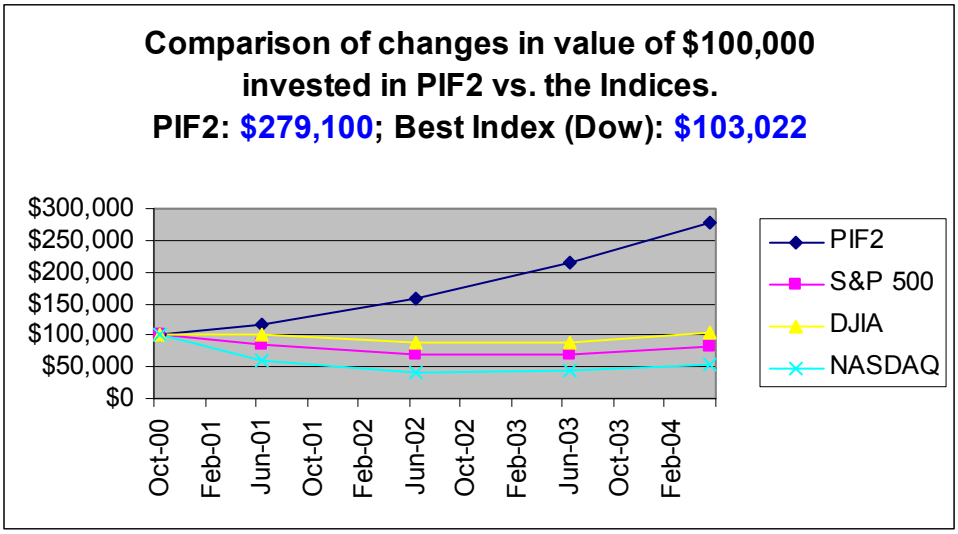
PIF3: $4.0 Million

PIF4: $9.4 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 – 5/31/04	**+15.7%**	**+23.0%**	**+16.8%**	**+30.9%**
1/1/04 – 5/31/04	**-1.7%**	**-0.7%**	**+1.5%**	**-3.3%**
Annualized	**+0.8%**	**-15.1%**	**-5.1%**	**+32.3%**
Cumulative	**+3.0%**	**-45.1%**	**-17.4%**	**+179.1%**

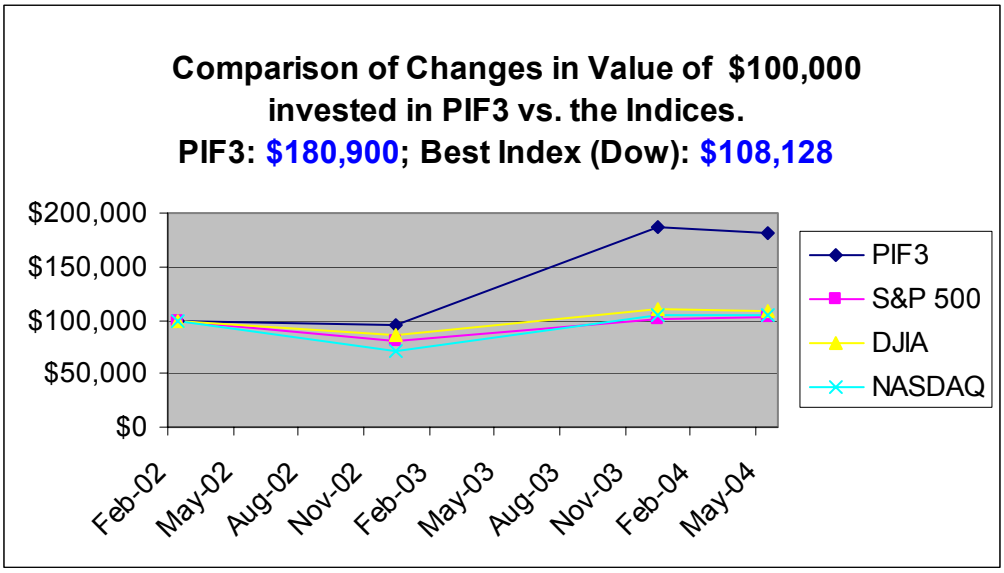


US-based Investors:

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 $390,700 as of May 31, 2004 (net to investors). This equates to an annualized return of 31.9% 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 $101,977 on May 31, 2004 – an annualized gain of 0.4%. 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 – 5/31/04	**-1.7%**	**-0.7%**	**+1.5%**	**-2.9%**
Annualized	**+3.4%**	**+1.6%**	**+1.4%**	**+28.9%**
Cumulative	**+8.1%**	**+3.8%**	**+3.2%**	**+80.9%**



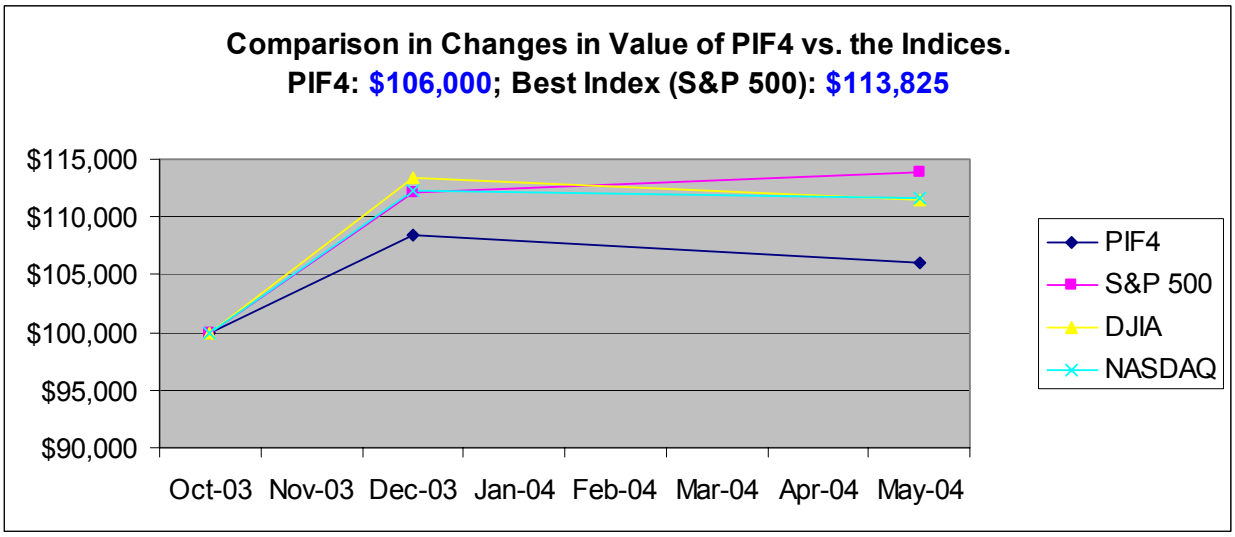
Offshore Investors:

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $180,900 as of May 31, 2004 (net to investors). This equates to an annualized return of 28.9% 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 $108,128 on March 31, 2004 – an annualized gain of 3.4%. 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 – 5/31/04	**-1.7%**	**-0.7%**	**+1.5%**	**-2.2%**
Cumulative	**+11.5%**	**+11.6%**	**+13.8%**	**+6.0%**

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

The diligent reader will notice that, while Pabrai Funds has trounced the equity market handily since inception, the results over the last few months aren't so great. Indeed, year-to-date, all three funds have managed to underperform all three indices. Why is that?

We've had such short periods of underperformance in the past. The most extreme case was from June '02 through Sept. '02 - when PIF2's NAV declined by 39%. Some of the reasons why we're likely to continue to see periods of such short-term underperformance are:

1. Pabrai Funds is very concentrated. While an index like the Nasdaq has thousands of stocks, we typically have under 15 (with 80+% of assets in 10 or fewer positions). The concentrated nature of the portfolio means that, in the short-term, the funds are likely to exhibit much wider swings than the market. No attempt has ever been made to "smooth these short-term gyrations." The funds have never sold a stock short nor have they ever delved into any sort of options,

derivatives or hedging mechanisms to temper short-term volatility – and there are no plans to ever change that.

2. Value investing is fundamentally contrarian in nature. Pabrai Funds is usually buying things that most investors have no interest in buying. Virtually every security we've ever bought for the funds has first undergone declines in price before moving up.

3. Virtually all investments that I make for the funds do not have a catalyst in place that'll drive up the price in some definitive timeframe. Value is its own catalyst and publicly traded businesses do eventually get around to trading around their intrinsic value. As Ben Graham succinctly put it:

In the short-run the market is a voting maching;
In the long-run it is a weighing machine.

Pabrai Funds is in the business of buying pieces of businesses, from a depressed Mr. Market, at a healthy discount to what they are worth. And it's in the business of selling these businesses, to an exuberant Mr. Market, near or above what they are worth. It is typical for this convergence process to take 2-4 years. Sometimes we've lucked out and convergence has taken place in a few weeks or a few months, but patience is the name of the game.

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 five 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 none of the funds were at historic highs, no fees were payable to the investment manager – Dalal Street. Dalal Street (wholly owned by me) has a stake of 425,512 units of PIF2 and 36,475 units of PIF4. This stake is worth about $12.3 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. 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.

Forbes Article – The Buffetteers

Forbes Magazine ran a story in the June 7 issue entitled *The Buffetteers* that you might enjoy. The article profiled a few investment managers, including Pabrai Funds, that follow Warren Buffett's value investing discipline.

Forbes ran the story with a funky picture. However, copy explaining the picture was edited out due to space constraints. The picture was taken in Pabrai Funds offices. I have the ultimate luxury of a private office and a private resting area at work. I take a 1-2 hour nap every afternoon. This serene room has no windows, pastel purple walls and is a setup perfectly with a bed, comforters, pillow et. al. The picture was taken as I was preparing for my nap in my usual lounging Indian kurta-pyjama attire. I think the picture says it all about how money is managed at Pabrai Funds! If you're ever in the vicinity, I'll be happy to give you a tour of the entire 700 sq. ft of office space and introduce you to the formidable 1.3 person team who work at Pabrai Funds.

The bedding in the picture is designed and produced by my wife's company, RainBee, under exclusive license from Dr. Seuss.

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 and send in your RSVP to Julie Shiposh at jshiposh@pabraifunds.com.

Next Opening – July 1, 2004 (PIF3) and August 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 August 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 July 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 August 1, 2004 for PIF2 and PIF4 and July 1, 2004 for PIF3.

Minimum Investment Algorithm

The minimum investment amount at Pabrai Funds is likely to rise over time. When I've raised minimums in the past, some investors got blindsided and surprised. To avoid this in the future, I am laying out the algorithm by which minimums will rise.

PIF4

SEC rules limit the number of limited partners (LPs) in PIF4 to 500 and they all need to be qualified. We presently have 84 LPs and $35 Million is assets in PIF4. Once LP count exceeds 100 and assets exceed $50 Million, the minimum initial investment will rise to either $750,000 or $1 Million.

At $50 Million in assets, PIF4 will have an expense ratio of under 15 basis points (0.15%). It is one of my objectives to get all funds to an expense ratio under 10 basis points eventually. Hence the reluctance to raise the minimum investment amount until then.

PIF3

PIF3 is an offshore fund based in the British Virgin Islands with $19 Million under management. It is permitted to have two classes of investors:

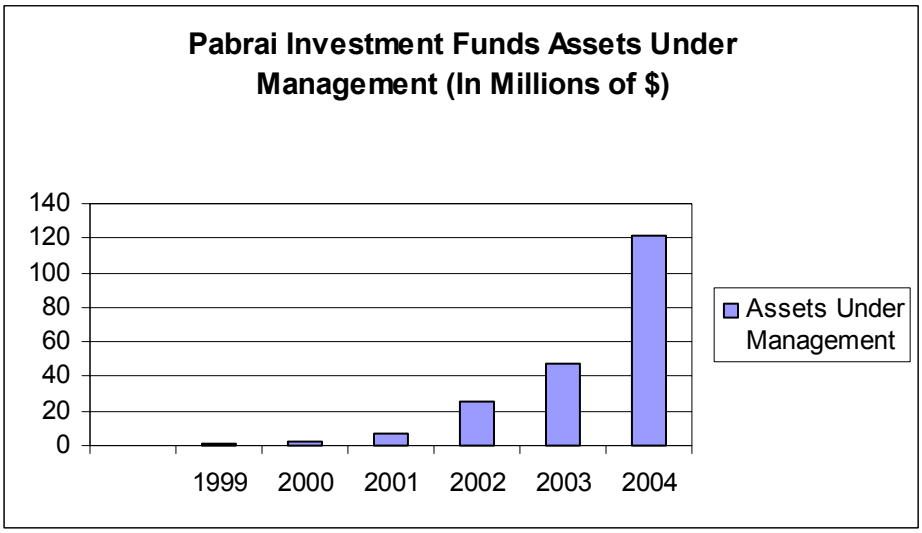
1. Tax-exempt US investors like IRAs, Roth IRAs and Family Foundations. PIF3 is limited to have 100 such accredited investors. Presently there are 26 such investors and $4.7 Million in such assets in PIF3. Once these assets exceed $10 Million, the plan is to raise the minimum investment from $100,000 to at least $250,000.

2. Offshore Investors. PIF3 can have an unlimited number of such accredited offshore investors. There are no plans at this time to raise the minimum from the $100,000 level for offshore investors as there is no legal limit to the number of such investors the fund can have.

I am keen to get expense ratios for PIF3 under 10 basis points as well. This was one of the motivations behind enabling IRAs to invest in PIF3. When there are 100 IRAs in PIF3, IRA assets are likely to exceed $20 Million in aggregate – helping get us closer to the $50 Million asset mark and the 10 basis point expense ratio.

Assets Under Management

There is about $122 Million in assets under management between all the funds as of June 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
2,445,190	5/31/2004	$27.91

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	2/29/2004	$18.81
791,476	3/31/2004	$19.40
836,331	4/30/2004	$18.95
1,009,797	5/31/2004	$18.09

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
1,968,470	1/31/2004	$11.26
2,428,427	3/31/2004	$11.23
3,315,254	5/31/2004	$10.60

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.