PABRAI INVESTMENT FUNDS

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

From: Mohnish Pabrai, Managing Partner

Date: July 8, 2005

Re: **Pabrai Funds Completes Six Years**

Dear Partners:

On June 30, 2005, Pabrai Funds completed exactly six years. The last six years have gone by very quickly – and have been a lot of fun. I am eternally grateful to all the 360+ families who have demonstrated tremendous confidence in me over the years by entrusting me with some of your hard-earned assets. Thank you. You have enabled me to convert a passion into a very enjoyable fulltime vocation. It's a win-win for all of us.

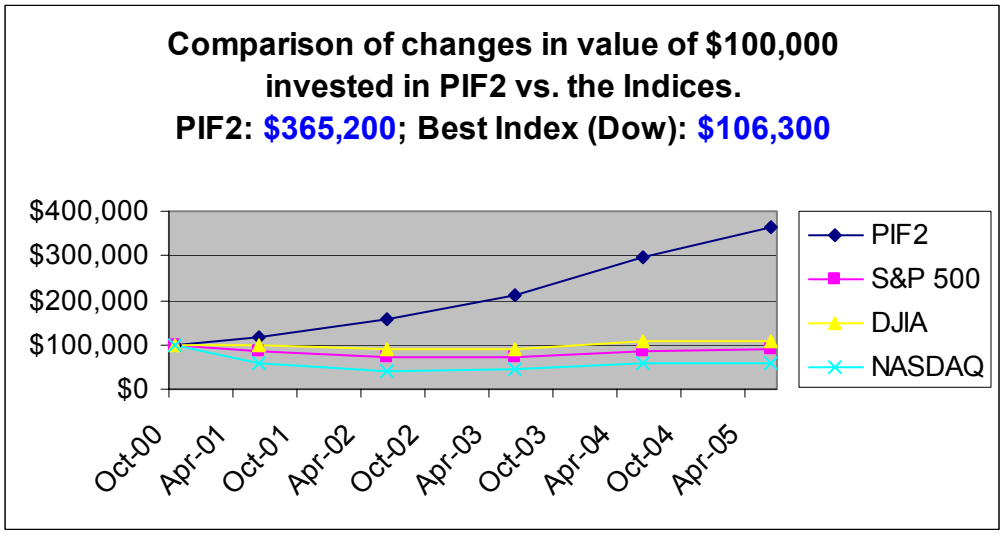
The Numbers

On the July 1 subscription date a total of $0.4 Million was added to PIF3. Since June 30 was the fiscal year-end for PIF2, its updated performance numbers are also being provided below. PricewaterhouseCoopers has begun work on the PIF2 year-end financial audit and we'll get their report out to partners before the annual meetings in September.

Here are the updated performance numbers on PIF2 and PIF3:

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 – 6/30/05	**+0.7%**	**+1.1%**	**+6.3%**	**+23.4%**
1/1/05 – 6/30/05	**-3.7%**	**-5.1%**	**-0.8%**	**+6.6%**
Annualized	**+1.3%**	**-11.1%**	**-2.3%**	**+31.4%**
Cumulative	**+6.3%**	**-42.8%**	**-10.4%**	**+265.2%**

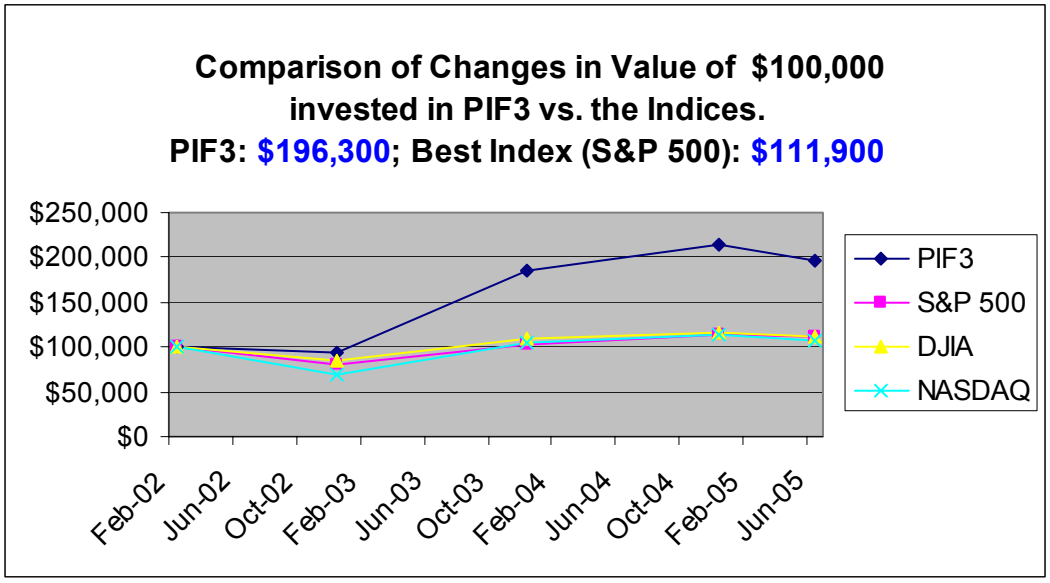


PIF2 Investors:

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 $511,700 as of June 30, 2005 (net to investors). This equates to an annualized return of 31.3% 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 $105,300 on June 30, 2005 – an annualized gain of 0.9%. 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 – 6/30/05	**-3.7%**	**-5.1%**	**-0.8%**	**-8.1%**
Annualized	**+3.3%**	**+2.3%**	**+3.3%**	**+21.8%**
Cumulative	**+11.6%**	**+8.2%**	**+11.9%**	**+96.3%**



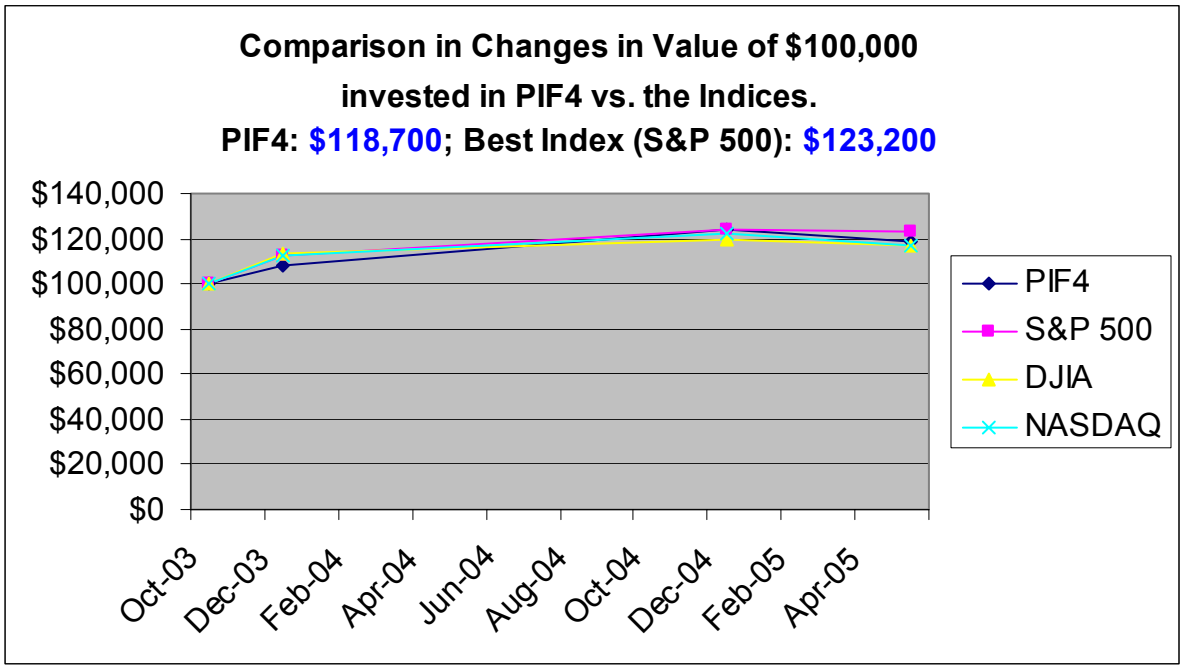
PIF3 Investors:

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $196,300 as of June 30, 2005 (net to investors). This equates to an annualized return of 21.8% 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 February 1, 2002 was worth $111,900 on June 30, 2005 – an annualized gain of 3.3%. The S&P gains include reinvested dividends.

The PIF4 performance data is as of 5/31/05. It is likely to be updated on 7/31/05 assuming there is atleast one subscriber adding funds.

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 – 5/31/05	**-2.0%**	**-4.7%**	**-1.0%**	**-4.3%**
Annualized	**+9.9%**	**+9.8%**	**+13.3%**	**+10.8%**
Cumulative	**+17.0%**	**+16.8%**	**+23.2%**	**+18.7%**



PIF4 Investors:

A $100,000 investment in PIF4 at inception on October 1, 2003 was worth $118,700 as of May 31, 2005 (net to investors). This equates to an annualized return of 10.8% 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 $123,200 on May 31, 2005 – an annualized gain of 13.3%. The S&P gains include reinvested dividends.

General Comments

The first fund, PIFI, began operations in July 1, 1999 and was merged into PIF2 on Dec. 31, 2002. A $100,000 investment made in Pabrai Funds at inception in 1999 was valued at $511,700 after all fees and expenses as of June 30, 2005. This translates into an annualized return of 31.3% (net to investors). I am truly amazed at these results – especially considering that they are after all fees and expenses. The gains over the last six years approximate 40% annualized before all fees and expenses – which is astounding considering that the best index (Dow) delivered under 1% annualized over the same period.

Here is the summarized annualized performance data for PIFI/PIF2 since inception:

Performance Comparison: PIFI/PIF2 vs. The Best Index
(Annualized – as of 6/30/05)

	1 Year	3 Years	5 Years	Life of Fund (6 Years)
PIFI/PIF2	**+23.4%**	**+32.0%**	**+27.7%**	**+31.3%**
Best Index	**+6.3%** (S&P 500)	**+12.6%** (Nasdaq)	**+1.7%** (Dow)	**+0.9%** (Dow)

Benchmarking Versus Other Funds

The Pabrai Funds legal structure is similar to most hedge funds, but that is where the similarity ends. With no shorting, no leverage and no use of derivatives we are much closer (in typical portfolio holdings) to a mutual fund than a hedge fund. However, we are not a mutual fund and do have certain advantages that mutual funds do not have. We are allowed to have a far greater concentration of assets in a handful of equities, have a long-term oriented investor base and do not have to deal with the disruption of daily redemptions and subscriptions.

There is no law requiring mutual funds or hedge funds to hold over a hundred positions at any given time or have average holding periods of under nine months – yet this is typical at most funds. Given this bizzarre hyper-active behavior, it should come as no surprise that the various croupiers in this arena do very well. Most funds lag the major indices and deliver pathetic results.

We now have six years of data at Pabrai Funds and I was curious to see how Pabrai Funds fared versus the very best performing mutual funds over the last five years and six years. Here's the comparative data:

Over the last six years Pabrai Funds outperformed every one of the 8600+ mutual funds tracked by Lipper. The very best performers over the last six years were:

	Fund Name	Annualized Returns (7/1/99 – 6/30/05) (Six Years)
	PIFI/PIF2	**31.27%**
1.	BlackRock:Gl Res;Inst	31.19%
2.	ING Russia; A	31.07%
3.	Bridgeway:Ultra-Sm Co	28.71%
4.	Bruce Fund	27.45%
5.	Turner Micro Cap Gro;I	26.51%

Data Source: Courtesy of Merrill Lynch. (Query run on Lipper's mutual fund database.)

Over the last five years, here is how Pabrai Funds stacks up:

	Fund Name	Annualized Returns (7/1/00 – 6/30/05) (Five Years)
1.	Alpine Eq:US RE;Y	34.06%
2.	Bruce Fund	33.40%
3.	ING Russia;A	30.76%
4.	CGM Tr:Focus Fund	30.20%
5.	H&W:Small Cap Value;I	29.42%
6.	BlackRock:Gl Res;IA	29.26%
7.	US Glbl:Global Res	29.13%
8.	US Glbl:East European	28.47%
9.	CGM Tr:Realty Fund	27.87%
	PIFI/PIF2	**27.73%**
10.	First Eagle:Gold;A	27.25%

Data Source: Wall Street Journal (July 5, 2005, Page R14)

In other words, we ranked 10th out of more than 8600 mutual funds - or in the top 0.12% of funds over five years and in the top 0.01% over six years – well ahead of our stated goals. On a pre-fee basis, we outperformed all 8600+ mutual funds tracked by Lipper over the last five and six years.

Also, the five year and six year numbers are very real. Several investors (myself included) who invested in 1999 and 2000 are still invested in PIF2 - and their statements reflect the

aforementioned results. And when PIFI was merged into PIF2 in 2002, virtually all the PIFI assets moved over to PIF2.

Lest we get overly exuberant, let me add that past performance is exactly that – it is in the past. Going forward, I do expect 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 six years. Partners would be best off setting their expectations for Pabrai Funds to outperform the best of the three indices by a small margin over the long haul. I am bullish on the long-term future for Pabrai Funds, but can guarantee that our results will be inferior to the last 5-6 years.

Alignment of Interests

PIF2's NAV is at an alltime high and higher than 6% annualized than the last time a fee was paid (5/31/05). A fee of $1,076,849.96 was thus paid on 6/30/05. As I have always done, I've reinvested this fee back into PIF2. The other funds are below their historic highs so no management fees are payable by PIF3 and PIF4.

Dalal Street (wholly owned by me) and myself (IRA etc.) have a stake of 526,839 units of PIF2, 6564 units of PIF3 and 121,614 units of PIF4. This stake is worth about $20.8 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 its assets. Thus 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.

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

All of you should have received your formal invites by now. If you haven't, please let me or Isabelle (isecor@pabraifunds.com) know and we'll take care of it. 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 – August 1, 2005 (all funds)

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 August 1, 2005.

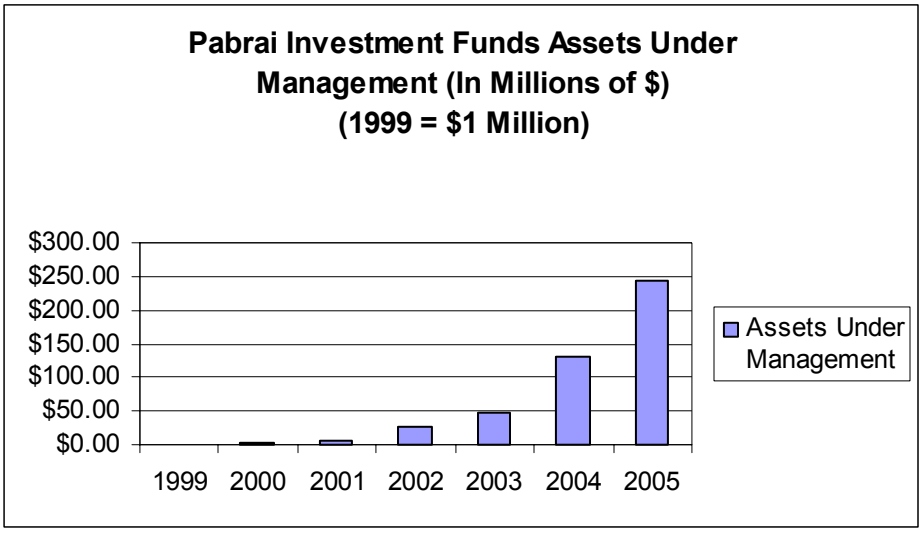
To invest in PIF3, one needs to be a non-US accredited offshore investor. Tax-exempt accounts like IRAs, Roth IRAs and US Family Foundations can invest in PIF3 as well. The

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 date for PIF3 is August 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 $242 Million in assets under management between all the funds as of July 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
2,696,687	6/30/2005	$36.52

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
1,978,599	1/31/2005	$20.58
2,004,109	2/28/2005	$20.58
2,059,811	3/31/2005	$19.34
2,187,705	4/30/2005	$17.71
2,383,685	5/31/2005	$18.85
2,404,058	6/30/2005	$19.63

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
6,450,877	1/31/2005	$12.11
7,029,416	3/31/2005	$12.10
7,786,519	5/31/2005	$11.87

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.