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 11, 2007

Re: **Pabrai Funds Completes Eight Years!**

Dear Partners:

For the quarter ended June 30, a total of $67.5 Million was added to the various funds by new and existing partners. The additions on a per fund basis are:

PIF2 (US Accredited): $2.5 Million

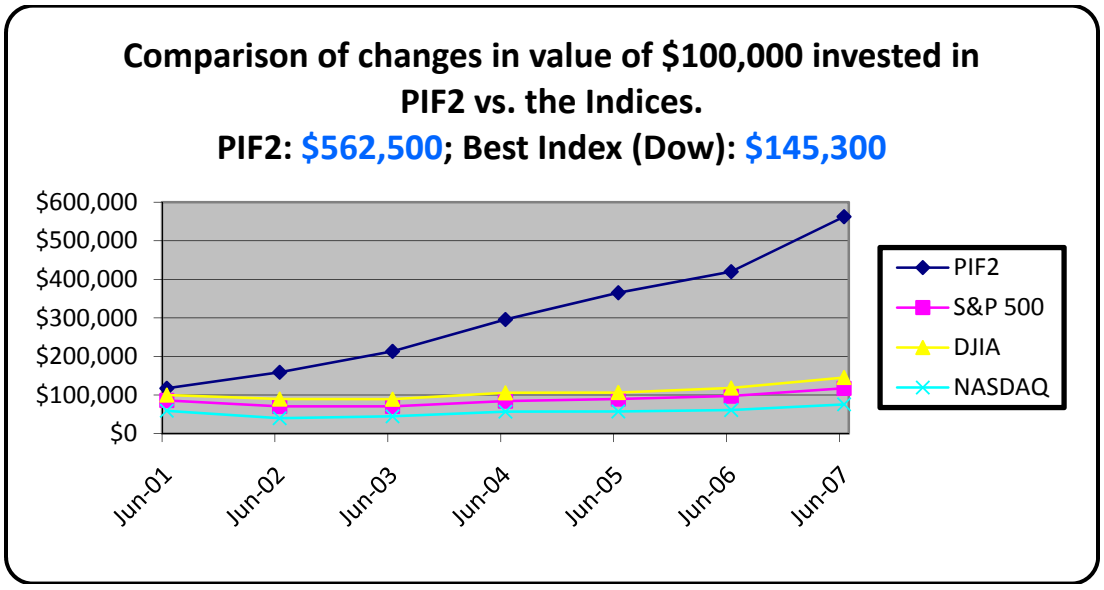
PIF3 (Offshore/IRA): $35.4 Million

PIF4 (US Qualified): $29.6 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%**
1/1/07 – 6/30/07	**+8.8%**	**+8.2%**	**+7.0%**	**+19.5%**
Annualized	**+5.7%**	**-4.1%**	**+2.4%**	**+29.2%**
Cumulative	**+45.3%**	**-24.4%**	**+17.3%**	**+462.5%**

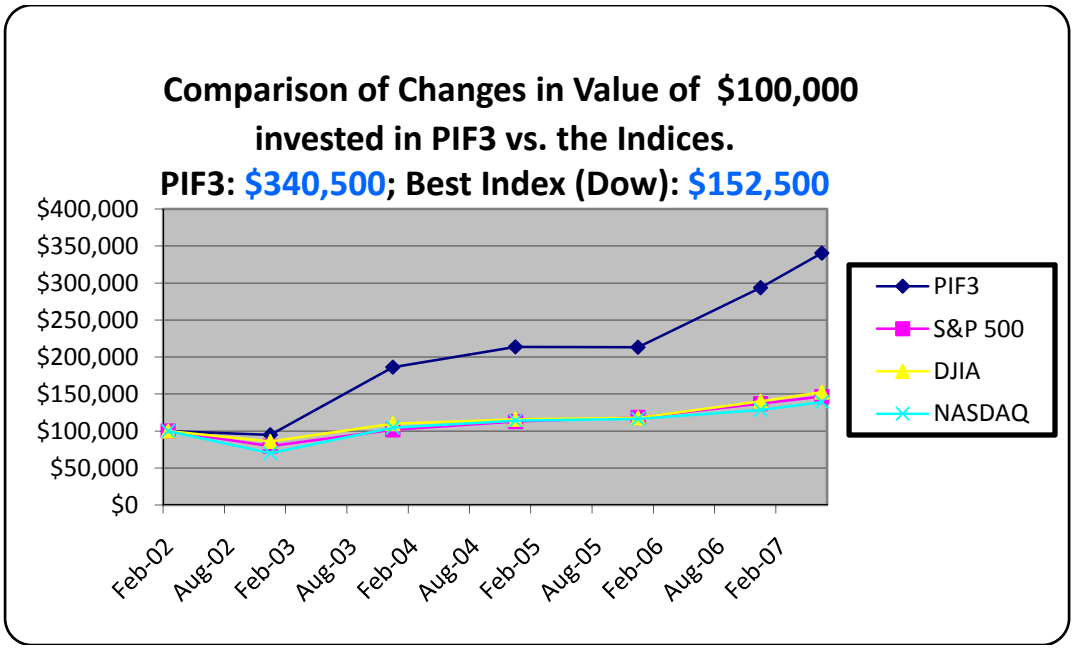


PIF2 Investors:

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 $788,100 as of June 30, 2007 (net to investors). This equates to an annualized return of 29.4% 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 $143,800 on June 30, 2007 – an annualized gain of 4.6%. 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 – 6/30/07	+8.8%	+8.2%	+7.0%	+15.9%
Annualized	+8.1%	+6.3%	+7.3%	+25.4%
Cumulative	+52.5%	+39.1%	+46.5%	+240.5%

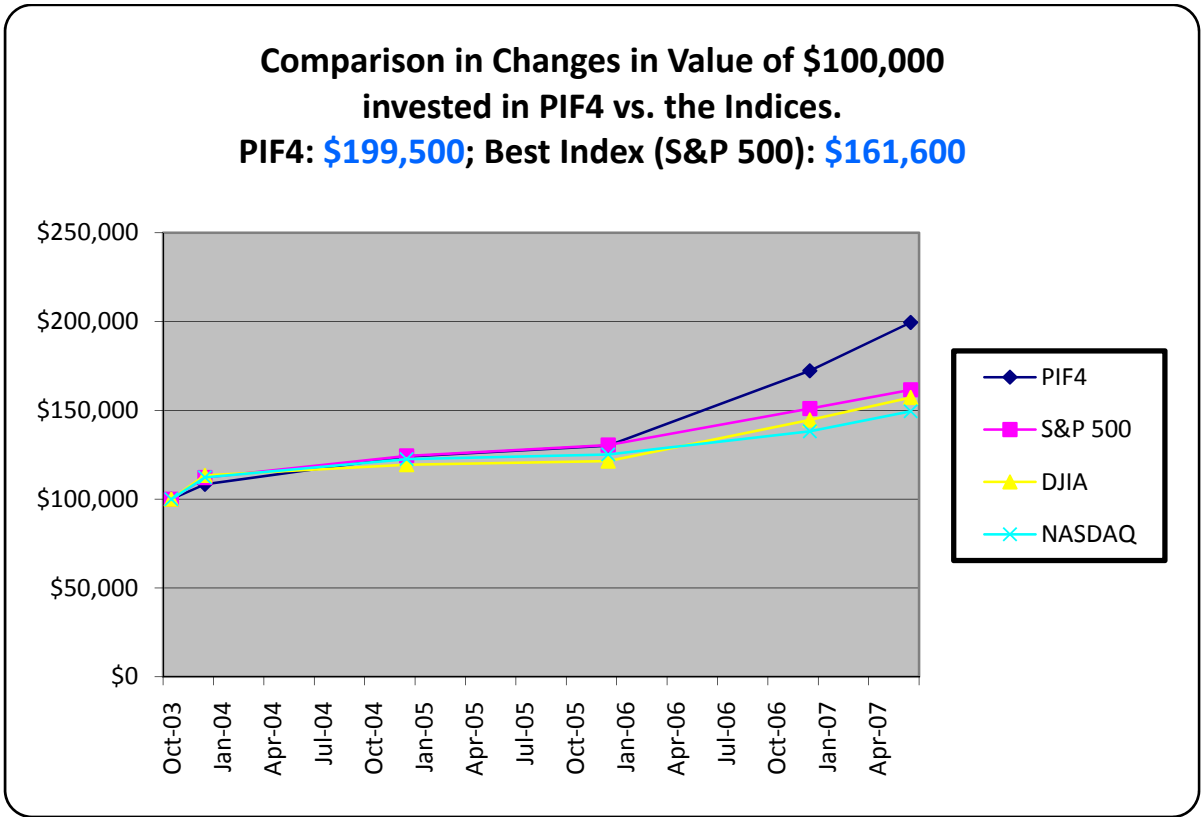


PIF3 Investors:

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $340,500 as of June 30, 2007 (net to investors). This equates to an annualized return of 25.4% 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 $152,500 on March 31, 2007 – an annualized gain of 8.1%. 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 – 6/30/07	+8.8%	+8.2%	+7.0%	+15.8%
Annualized	+12.8%	+11.3%	+13.7%	+20.2%
Cumulative	+57.2%	+49.5%	+61.6%	+99.5%



PIF4 Investors:

A $100,000 investment in PIF4 at inception on October 1, 2003 was worth $199,500 as of June 30, 2007 (net to investors). This equates to an annualized return of 20.2% 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 $161,600 on June 30, 2007 – an annualized gain of 13.7%. The S&P gains include reinvested dividends.

General Comments

Pabrai Funds completed eight years on June 30. The last eight years have just flown by and have been very rewarding for the investors at Pabrai Funds. I have also been deeply enriched by the irreplaceable knowledge and experience amassed by running Pabrai Funds – and becoming wealthier hasn't hurt either! I am very grateful to all the investors in Pabrai Funds for providing this unique opportunity. Thank you!

All three funds performed vastly better than the indices in the first half of 2007. The three funds, PIF2, 3 and 4 were up 19.5%, 15.9% and 15.8% respectively (net to investors, after all fees and expenses). While it is nice to see the strong performance in 2006 continue into 2007, we do not fixate on quarterly or yearly performance at Pabrai Funds. My focus is on periods of 5-10 years or longer and our objective is to outperform the best of the three benchmark indices over that time frame.

We expect to continue to deliver sound results without any leverage, any short positions and any exposure to derivatives. I always fixate on minimizing risk while maximizing our rewards.

Benchmarking PIF2's (US Accredited Fund) Performance Record Vs. the Indices

With eight years of performance history, it is possible to draw some meaningful conclusions about PIF2's results versus the best index.

Performance Comparison: PIF2 vs. The Best Index
(Annualized – as of 6/30/07)

	3 Years	5 Years	8 Years
PIF2	**+23.9%**	**+28.8%**	**+29.4%**
Best Index	**+11.7%** (S&P 500)	**+12.9%** (Nasdaq)	**+4.6%** (Dow)

I am very pleased with these numbers. Over the last eight years, PIF2 delivered an annualized return (after my outrageous fees and all expenses) of 29.4% versus 4.6% annualized one would have made by investing in the best of the three indices (the Dow). We also substantially outperformed over three year and five year periods. We fully delivered on our long-term out-performance objective.

Benchmarking vs. Other Funds

Pabrai Funds is not a mutual fund. However, with no shorting, no leverage and no use of derivatives, we are much closer in portfolio composition to a mutual fund rather than a typical hedge fund. We do have some advantages over mutual funds. Pabrai Funds is allowed to be far more concentrated than most mutual funds. Virtually all of the 450+ families invested in Pabrai Funds think long-term and we don't have much in the way of annual redemptions. It is a far cry from the mutual fund norm of daily subscriptions, redemptions and rapid-fire switching in and out of funds.

Here is how PIFI/PIF2 has stacked up versus the top-performing mutual funds over the life of the funds (8 Years).

	Fund Name	Annualized Return – 8 years (7/1/99 – 6/30/07)
1.	ING:Russia	38.4%
2.	BlackRock:Global Resources	29.5%
	PIFI/PIF2	**29.4%**
3.	World Funds:TM Russia	28.2%
4.	US Global: East European	28.1%
5.	Vanguard Precious Metals and Minerals	27.4%
6.	Eaton Vance As Small Company	26.8%
7.	US Global:Global Resources	25.8%
8.	USAA Precious Metals	25.7%
9.	Bridgeway:Ultra-Small Company Growth	25.7%
10.	CGM Trust: Realty Fund	25.7%

(Data courtesy of Smith Barney. Derived off Lipper's Mutual Fund database.)

Out of a universe of about 4400 funds, PIFI/PIF2 outperformed all but two of them over the last eight years – after all fees and expenses. We beat 4398 out of 4400 funds. It is a stunning statistic – one that has less than a zero probability of repeating itself in any future eight year period. Over the last eight years, we outperformed over 99.95% of mutual funds. The average mutual fund delivered an annualized return of 5.9% over this eight-year period.

For the last five years, 80 mutual funds (out of about 5300 funds) did better than PIF2's 28.8% annualized returns. In other words, looking at 5+ years of performance data, Pabrai Funds outperformed well over 98% of actively managed mutual funds. The average mutual fund delivered an annualized return of 9.4% over this five-year period.

Past performance is exactly that – it is in the past! Partners would be best off setting their expectations for Pabrai Funds to outperform the best of the three indices by a small margin in the future. Just 1 in 200 money managers beat the indices by over 3% over the long

haul. I consider an annualized 3% out-performance versus the best index to be a superb long-term accomplishment.

Alignment of Interests

All three funds are at all-time highs. PIF3 earned a fee of $1,020,017 on April 30, $552,451 on May 31 and $862,577 on June 30. Since this is an offshore fund, I cannot reinvest these fees back into the fund. PIF2 earned a fee of $3,801,194 and PIF4 earned a fee of $4,507,623. All PIF2 and PIF4 fees were reinvested back into the respective funds by Dalal Street.

My immediate family has a stake of 670,376 units of PIF2, 7,300 units of PIF3 and 1,238,743 units of PIF4. This stake is worth over $62.5 Million.

Besides the previously disclosed stake and small investment in Dardashti Capital (worth about $1.2 Million), my family has no interests in any other mutual funds or hedge 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.

2007 Annual Meetings – Save the date

As is our usual modus operandi, there will be two annual meeting sequentially at Orange County, California and Chicago. This year, however, the order is reversed – the California meeting precedes the Chicago meeting. The **California** meeting will be held on **Saturday, Sept. 15, 2007** 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 $248/night for the 15th. 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.

The **Chicago** meeting is scheduled to be on **Saturday, Sept. 29, 2007** 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.

Agenda:

4:00 – 4:30 PM: Meet and Greet
4:30 – 6:15 PM: Presentation and Q&A
6:15 – 7:00 PM: Cocktails and Hors d'Oeuvres
7:00 PM: Dinner

The invites are in the process of being sent out. They should all be out by July 31. Your significant other and kids of all ages are welcome to attend. I look forward to seeing you in September.

Pabrai Funds 2006 Annual Meeting Transcript

The preparation of the merged single transcript of the two annual meetings is always a low priority task at Pabrai Funds. Isabelle and I work 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/2006_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/2006_PIF_AM_Slides.pdf

Pabrai Funds Staff Size grows to 2.7

The bureaucracy continues to build at Pabrai Funds. We are now a team of 2.7 dedicated individuals. Let me introduce you to the team:

1. Isabelle Secor, Office Manager – isecor@pabraifunds.com ; +1949.453.0609
2. Diana Dillman, Administrative Assistant – ddillman@pabraifunds.com ; +1949.705.6444
3. Nikii Aleo, Administrative Assistant – naleo@pabraifunds.com ; +1949.453.8070

... and yours truly.

Isabelle, Diane and Nikii all work part-team with varying schedules – hence the aggregate 1.7 staff members amongst them. I could not function without their critical assistance. It's a terrific team that I'm proud to be a part of.

To be fully fair, some of their efforts are directed at the foundation Harina & I recently setup – The Dakshana Foundation. Check it out at www.dakshana.org. We're excited about the challenges and satisfaction that Dakshana has already begun to add to our lives. It is very much a startup and we expect to make a lot of mistakes. Hopefully they won't be too expensive and we'll learn lots of lessons in the process – making us better at giveback.

Buffett Lunch Auction

This was the 5th consecutive year I bid on eBay to have lunch with Warren Buffett. The proceeds from the auction benefit The Glide Foundation (www.glide.org). My family and I visited Glide last December and were very impressed.

For the last four years, I was always outbid for the lunch. This year I joined forces with my good friend, Guy Spier and we finally prevailed! The lunch was ours at $650,100. We're elated! My family and Guy and his wife will all be at this power lunch at Smith and Wollensky steakhouse in New York City. We're looking forward to a family meal with Uncle Warren.

In India, there is a concept of "guru dakshana." It means an offering to your teacher after you have finished your learning. Kinda like a deferred tuition plan. My guru is Mr. Buffett and I have only taken from him so far and have never given back. This lunch is the only meaningful way that I can give back to Mr. Buffett. The guru dakshana remains mostly unpaid, but I'm excited about having made a dent in the right direction. Having 2-3 hours of Mr. Buffett's undivided attention is priceless and I can hardly wait to break bread with the messiah.

Our share of the lunch was paid by The Dakshana Foundation. It is the first major grant by Dakshana and I'm delighted that this first offering by Dakshana was directed towards repaying my guru dakshana.

Live Interviews with CNBC and Bloomberg

On July 3, I appeared live on CNBC Squak Box with CNBC host anchor Becky Quick to discuss the Buffett Glide lunch auction. Also, on May 29, I appeared on CNBC's Closing Bell program with Melissa Francis. Here is the link to those two video clips:

http://tinyurl.com/2la3rb

On May 16, I appeared on CNBC's Closing Bell with Maria Bartiromo. Here is the link to that clip:

http://tinyurl.com/2kvy4g

Finally, I appeared on Bloomberg Television with anchor Pimm Fox on June 19 for an extended interview. Here is that clip:

http://tinyurl.com/379a49

As an aside, I am unsure how long these links will work. If they don't, you can try running Google searches to find alternate links.

Assets Under Management – Adding more Speed-breakers

There is an inverse correlation between size and performance. Pabrai Funds now has over $600 Million under management. Under present market circumstances, I am planning to close the funds to new money around the $1 Billion mark.

A few months back, I eliminated virtually all calls or one on one meetings with potential investors. I've also eliminated virtually all calls or meetings with existing investors if the primary subject is likely to be about their adding more assets. These have served to reduce inflows. To that end, I'm continuing to apply more "speed-breakers" to reduce asset inflows. The minimum initial investment for all the funds is now $2.5 Million. The only exception is IRAs and Foundations/Endowments. For those, the minimum is $10 Million.

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.

In Q107 we added about $33 Million in assets and in Q207 we added about $68 Million in assets. It is hard to predict how these changes will affect inflows on a quarterly basis. I am comfortable if the funds attract no additional assets and I'm also comfortable if inflows and portfolio gains take us over $1 Billion in the coming quarters.

Next Opening – October 1, 2007 (all funds); August 1, 2007 (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 October 1, 2007.

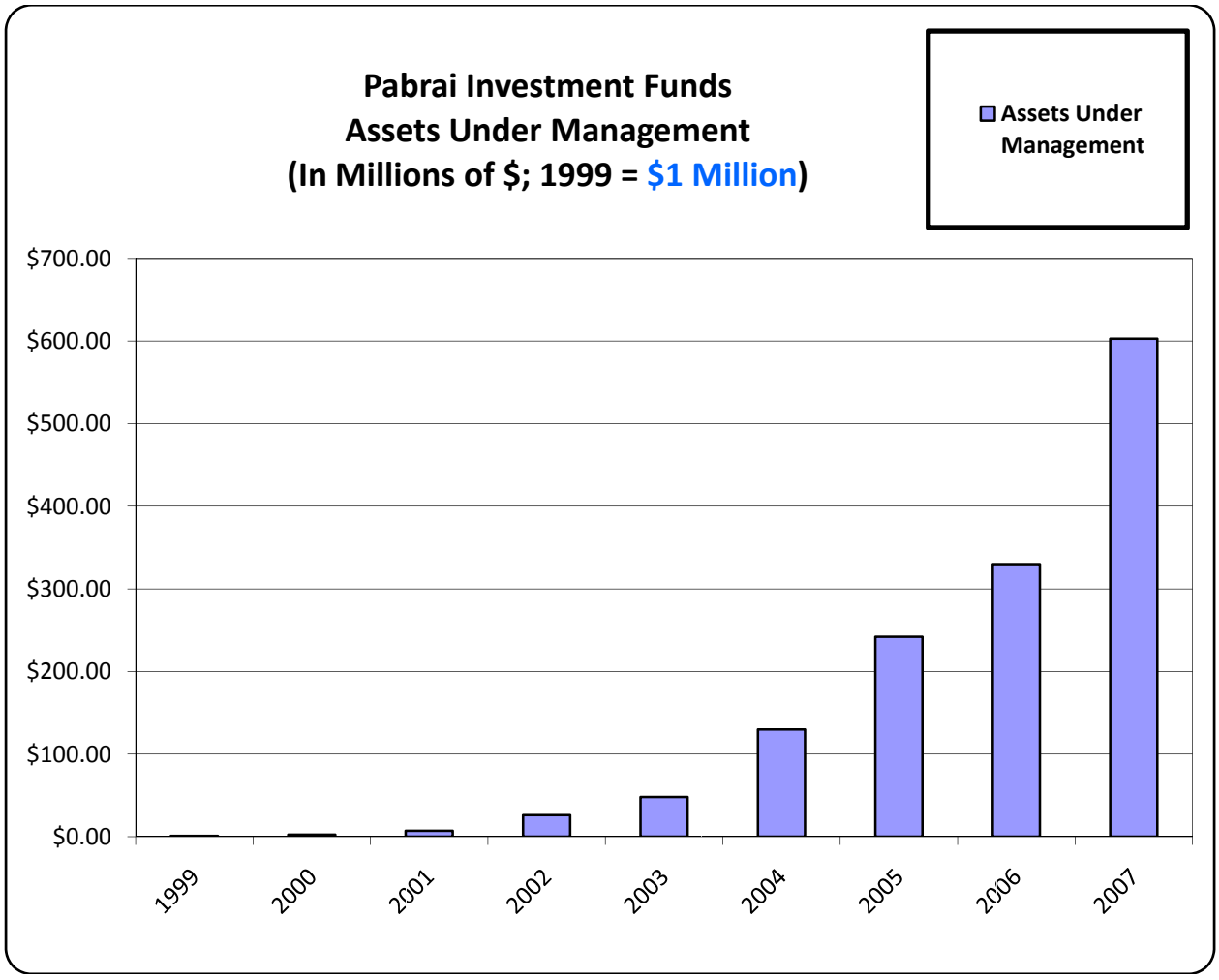
To invest in PIF3, one needs to be a non-US accredited offshore investor. Tax-exempt accounts like IRAs, Roth IRAs and US Family Foundations can invest in PIF3 as well. The minimum investment to join PIF3 as a new partner is $10,000,000 for US Tax-exempt accounts and $2,500,000 for offshore investors. Next opening date for PIF3 is August 1, 2007.

Existing partners in any of the Pabrai Funds can add funds in increments of $25,000 at each opening (with a $25,000 minimum). Please note that all moneys received from existing and new subscribers for all three funds are subject to the 2-year lockup period. The first time funds sent in on 8/1/07 can be redeemed is 1/1/10. Pabrai Funds processes redemptions on the FIFO (first-in first-out) basis.

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 $600 Million in assets under management between all the funds as of July 1, 2007.



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
2,646,687	6/30/2006	$41.99
3,013,111	6/30/2007	$56.25

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
3,095,663	1/31/2007	$30.14
3,177,865	2/28/2007	$30.41
3,329,538	3/31/2007	$31.43
3,432,459	4/30/2007	$32.51
3,569,517	5/31/2007	$33.16
4,378,815	6/30/2007	$34.05

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
12,539,890	3/31/2007	$18.59
14,349,109	6/30/2007	$19.95

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.