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 17, 2008

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

Dear Partners:

For the quarter ended June 30, 2008, $9.3 Million was added to the various funds by new and existing partners. The additions on a per fund basis are:

PIF2 (US Accredited): $0.15 Million

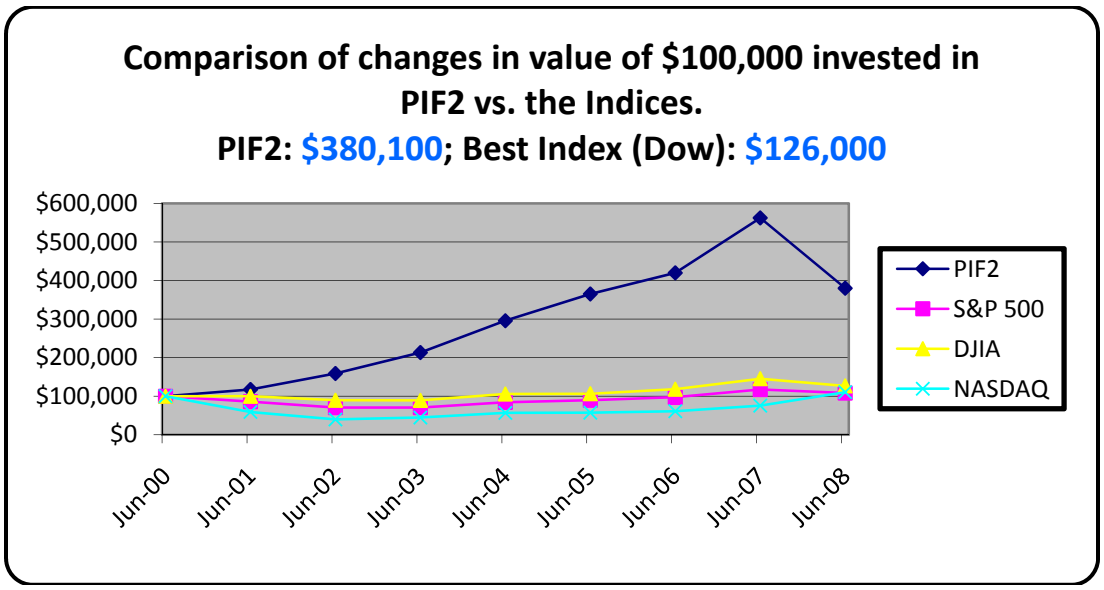
PIF3 (Offshore/IRA): $1.7 Million

PIF4 (US Qualified): $7.45 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%**
1/1/08 – 6/30/08	**-13.4%**	**-13.2%**	**-11.9%**	**-18.3%**
Annualized	**+3.0%**	**-5.3%**	**+0.2%**	**+18.8%**
Cumulative	**+26.0%**	**-34.7%**	**+1.9%**	**+280.1%**

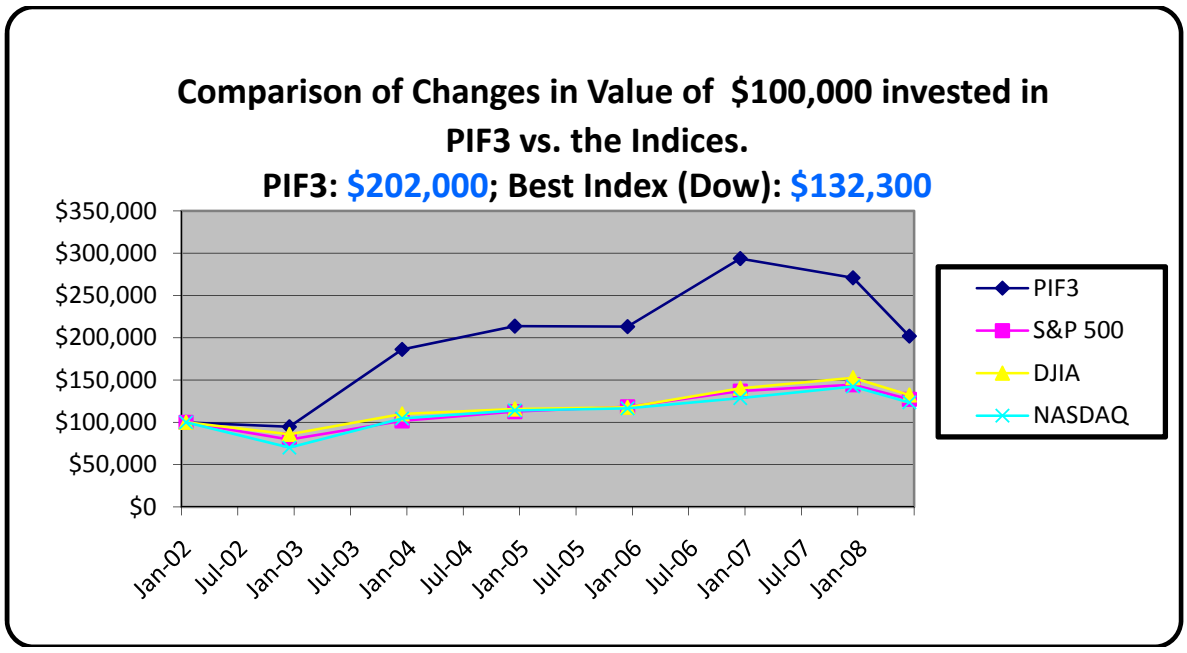


PIF2 Investors:

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 $532,500 as of June 30, 2008 (net to investors). This equates to an annualized return of 20.4% 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 $124,800 on June 30, 2008 – an annualized gain of 2.5%. 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 – 6/30/08	-13.4%	-13.2%	-11.9%	-25.4%
Annualized	+4.5%	+3.4%	+3.8%	+11.6%
Cumulative	+32.3%	+23.6%	+27.3%	+102.0%

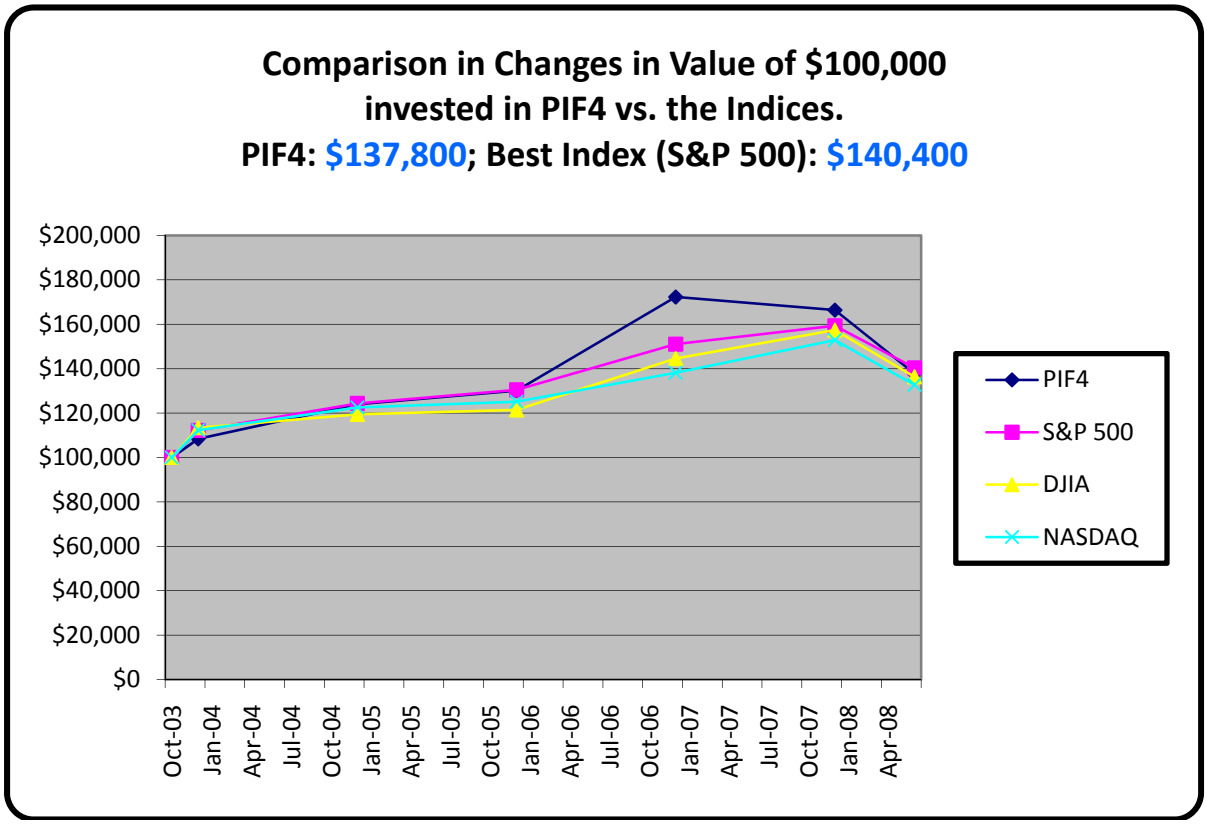


PIF3 Investors:

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $202,000 as of June 30, 2008 (net to investors). This equates to an annualized return of 11.6% 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 $132,300 on June 30, 2008 – an annualized gain of 4.5%. 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 – 6/30/08	-13.4%	-13.2%	-11.9%	-17.2%
Annualized	+6.7%	+6.1%	+7.4%	+7.0%
Cumulative	+36.4%	+32.7%	+40.4%	+37.8%



PIF4 Investors:

A $100,000 investment in PIF4 at inception on October 1, 2003 was worth $137,800 as of June 30, 2008 (net to investors). This equates to an annualized return of 6.9% since inception. The best index over the same period was the S&P 500 and an investment of $100,000 in the S&P 500 on October 1, 2003 was worth $140,400 on June 30, 2008 – an annualized gain of 7.4%. The S&P 500 gains include reinvested dividends.

General Comments

All three funds underperformed the broad indices for the quarter ended June 30, 2008. They have also underperformed the indices year-to-date and over the last twelve months. While it is never fun to report negative numbers, the markets and indices have registered double digits declines as well over the same periods – and with our concentrated holdings we are likely to exhibit higher volatility than the markets at large in the short term.

Over the longer term – 5 years or more – all the funds have always met or exceeded their goals of outperforming the best of the three indices after all fees and expenses. As a sidebar, PIF4 is just 4¾ years old – and outperforming two of the three indices today. We'll get our first 5-year performance data point on PIF4 in October.

As John Templeton said, "One needs to be optimistic at times of maximum pessimism." I don't know if we are at a point of maximum pessimism. Markets can exhibit pretty extreme behavior (in both directions) from time to time. But some exceptional businesses and assets are clearly available at spectacular prices – well below what a rational intelligent private buyer would pay for these businesses. These market declines generally bode well for net buyers of securities. And Pabrai Funds is very much a net buyer these days.

A Nine-Year Bear Market

While the media talks about the recent onset of a bear market, from my vantage point, we've been in a bear market during the entire nine year history of Pabrai Funds. Here are the annualized returns of the various indices and PIF2 since 1999:

Date Range	DJIA	NASDAQ	S&P 500	PIF2 (net to investors)
7/1/99 – 6/30/08	**+2.5%**	**-1.2%**	**+0.9%**	**+20.4%**

(All percentages are annualized)

Having delivered 8-10% annualized over the last 100+ years, we've been told that equities represent the best investment class over the long haul – vastly better than CDs, bonds or real estate. Well, nine years is a pretty long time. And over the last nine years, the investor experience with equities has been pathetic – ranging from -1.2% to +2.5% annualized for the major indices. Equities have delivered negative returns after inflation since 1999.

If one excludes dividends, the best index (the Dow) has basically flat-lined over nine years. On July 1, 1999, the Dow opened at 10,972 and on June 30, 2008 it closed at 11,350 – an annualized gain of under 0.4%.

What does all this mean? Well, equities are highly likely to continue to deliver 8-10% annualized returns over the long haul. However, these returns have been very lumpy in the past and are likely to be quite lumpy in the future.

In the November 22, 1999 issue of Fortune Magazine, Warren Buffett wrote an article entitled "Mr. Buffett on the Stock Market." Here is the link:

http://money.cnn.com/magazines/fortune/fortune_archive/1999/11/22/269071/index.htm

It is well worth reading the article. Mr. Buffett noted how the Dow closed 1964 at 874.12 and it closed 1981 at 875. Over a period of 17 years, excluding dividends, it did not move. During the next 17 years, the Dow went from 875 to 9181. During this 2nd 17 year period, equities delivered 19% annualized returns (including reinvested dividends). In the article, Mr. Buffett goes on to predict that, over the next 17 years, "...the most probable return ... would be 6%." He further adds that, "... it is just as likely to be less as more."

Mr. Buffett made various assumptions to get to his 6%, including assuming that inflation would be around 2%. If inflation is higher, we are likely to get higher nominal returns. He expects returns to be 4% net of inflation. Let's bump up Mr. Buffett's 6% to 7% assuming that inflation might be closer to 3% than 2%. With all the run up in commodity prices, our twin deficits and pressures on inflation that has caused, I think 2% may be wishful thinking.

From the end of 1999 until June 30, 2008, the Dow has averaged 2.0% a year. If we assume that we'll get 7% annualized from 1999 through 2016, it implies that gains over the next 8½ years are likely to be 12.3% annualized. And if we go with Mr. Buffett's 6%, then the next 8½ years will get us 10.2% annualized gains in the Dow. This bodes well for equity investors over the next few years.

From a simplistic perspective, stocks are undervalued today and thus it makes sense that returns over the next few years are likely to exceed historic averages. The caveat here is that stocks could go from significantly overvalued (in 1999) to dramatically undervalued (in 2016) – like they did from 1964-81. Mr. Buffett assumed that stocks would be fairly valued in 2016. If they are dramatically undervalued, then returns could be lower.

From a Pabrai Funds perspective, we've done well with some very strong head winds over the last nine years. We are likely to get a decent tail wind in the next few years – and that bodes well for us going forward.

History does not repeat itself, but it does rhyme – *Mark Twain*

In 2002, over a four month period (June 1 – Sept. 30), PIF2 declined by about 39%. The NAV went down from $17.43 on June 1 to $10.70 on September 30. That NAV hit a peak of $56.25 on June 30, 2007. And even with the current 32.4% decline from the peak to $38.01, PIF2 has delivered stellar market-beating results. From the Sept. 30, 2002 bottom, it's about a 25% annualized gain.

These are a few similarities to our situation today versus the turbulence we encountered in 2002. It is instructive to look at our portfolio composition in 2002. With six years of hindsight, I think we can learn a thing or two from history.

PIF2's Portfolio as of September 30, 2002

Security	Qty	Purchase Price	Market Price	Market Value
Exide 10% Sr. Notes	4,400,000	$0.381265	$0.155	$682,000
Budget 9.125% Sr. Notes	1,000,000	$0.4824	$0.17	$170,000
Level 3 6% Converts '09	4,800,000	$0.259	$0.3151	$1,512,480
Level 3 6% Converts '10	1,050,000	$0.279	$0.3150	$330,750
Embraer ADR	52,432	$12.44	$13.30	$697,345
Fairfax Financial	15,761	$105.97	$74.70	$1,177,453
Frontline ADR	263,686	$5.90	$3.99	$1,052,107
Harvest Natural Resources	410,079	$3.93	$5.43	$2,226,728
Laser Pacific Media	203,698	$2.50	$1.83	$373,745
Midas	211,910	$12.76	$5.00	$1,059,550
Sunrise Senior Living	65,330	$23.85	$21.45	$1,401,328
Six Flags	339,000	$4.72	$3.52	$1,193,280
Tesoro Petroleum	357,200	$7.63	$2.80	$1,000,160
Universal Stainless	158,790	$14.75	$5.90	$936,861
Young Broadcasting	23,081	$9.08	$8.67	$200,112
Cash				$20,427
TOTAL				**$14,034,330**

What was the eventual result of these holdings?

We exited three businesses/positions at a loss eventually – Midas (-30%), Exide (-40%) and Budget (-50%). We lucked out on a couple of positions (Young Broadcasting and Six Flags). We exited Young Broadcasting at a slight profit and Six Flags at a decent profit. Both eventually lost most of their value. Nine of the exits were profitable or break-even. Today, after nearly 6 years, we still own two of the fourteen businesses/positions – Fairfax Financial and Harvest Natural Resources.

There was so much rocket fuel and potential energy in this non blue-chip portfolio that in 2003, after fees, PIF2 was up over 104%. The NAV went from $10.70 to $38.01 in the last six years. That's a greater than 3.5 fold increase from $14 Million to over $50 Million in value.

If we had done absolutely nothing - no trades, no inflows and no redemptions, PIF2 would have a value of over $79 Million today. If I had simply done nothing for the last 6 years – and I did not invest in later home-runs for Pabrai Funds (like Ipsco, Covanta, Canadian Oil Sands etc.) we would have been vastly better off. It reminds of a Blaise Pascal quote, *"All man's miseries stem from his inability to sit quietly in a room alone and do nothing."* I wouldn't call myself miserable today (actually am quite happy). It clearly shows that the path to wealth is long-term ownership of a few great businesses.

It is interesting to note that just one position, Frontline, that was valued at $1 Million in 2002 would be worth some $18 Million today. And that $18 Million excludes two spinoffs that Frontline distributed to shareholders (worth over $8 Million). And, on top of that, they dished out cash dividends of over $9 Million. Frontline alone would have been a 35 bagger had I held on, instead of selling. In fact, the current annual dividend for Frontline is $11/share – nearly twice what we paid for the stock itself in 2002!

Another position, Tesoro, was valued at $1 Million in 2002 and would be worth over $14 Million today. In fact, just nine months ago, our Tesoro position would have been worth some $45 Million – a 45 bagger had I had held on and sold at the peak. Interestingly, we were sitting solidly in the red with both Frontline and Tesoro in September 2002. We had an unrealized loss of over 32% on Frontline and over 63% on Tesoro at the time.

Tesoro is Fortune 500 company. It was a Fortune 500 company when we invested in 2002. At the bottom share price of $1.34 that it hit in 2002, Tesoro had revenues of $10 Billion and a market cap of under $100 Million. Last year, at its peak, it was valued at over $9 Billion. This is not Google. This is a boring, capital-intensive, low-growth oil refiner that saw its market cap go from $100 Million to $9 Billion in less than 5 years. So much for the efficient market theory.

I have continued to study both Frontline and Tesoro after we sold these businesses. Frontline is run by an exceptional allocator of capital – John Fredriksen. I failed to handicap this remarkable jockey entirely. And Tesoro's CEO, Bruce Smith, is no slouch either – Tesoro's specialty oil refining business has a solid moat. One of the most important (and painfully simple) investing lessons I finally learned in 2007 is to appreciate the jockey. Jockeys matter far more than I historically gave them credit for.

It is worth pointing out that there was no way I could not have held on to Frontline or Tesoro based on my understanding of these businesses and industries. Both are highly cyclical and earnings are virtually impossible to forecast a few years out. My perception of Tesoro's intrinsic value was $15/share and Frontline had two intrinsic values. First, based on liquidation value, was $12-14/share. Second, based on future cash flows, was impossible for me to handicap. It is this second value that drove its stock price way past $14/share.

Why is all this past data relevant?

Well, it highlights a few facts:

1. Pabrai Funds record over the last nine years is not a record built on outlier home-runs like Frontline or Tesoro. It has been a solid game of singles and doubles. In spite of not having outliers, we've generated solid results over the long haul. I suspect that'll be the case in the future.

2. Even with a pretty high error rate (one in four picks ended up either being a loser or we got lucky), PIF2 has beaten the indices by a margin of over 15% annualized. We do strike out periodically. I try hard not to. However, even with these strikeouts, the results are quite acceptable. Pabrai Funds' objective is to beat the best index by a small margin after all fees and expenses over the long haul.

3. It is clear that markets can gyrate wildly. They can go from very undervalued to very overvalued in relatively short periods. We saw this in spades with Frontline and Tesoro. Even Embraer dropped from $40 to $12 after 9/11. Then it rose to $50 – quadrupling in a few years. And now its valuation has been cut in half to $25. Throughout this period it has been a great business run by exceptional management and has a very solid moat.

4. It was clear to me in 2002 when I looked at PIF2's portfolio that it was very undervalued and that simply following Pascal's advice (doing nothing) would get us to the promised land. And that is the case with our portfolios today. The key is to be patient and cling on to good assets, businesses and jockeys.

5. While we had 14 positions in PIF2 in 2002, just seven made up over 70% of assets. Today, with PIF2, five positions make up 80% of assets. The remaining 10 positions make up the remaining 20%. The top five holdings all have intrinsic values that are significantly higher than their current market caps. And all five have exceptional jockeys who are terrific at allocating capital – they are all world-class. This dog will hunt!

   PIF3 owns fractions of 16 businesses today. The top seven make up over 70% of assets. At least six of the seven have exceptional jockeys at the helm – and trade at very significant discounts to intrinsic value. The 7th is simply a hard asset play – very undervalued presently.

   The story is similar with PIF4. It has 16 positions. The top seven make up over 77% of assets. And again at least six of the seven have exceptional capital allocators at their helm – and all seven have a wide gap between market and intrinsic value. I do believe the seventh jockey is at least good. He may well turn out to be great. Time will tell.

I usually think of business valuations 2-3 years out. As I was writing this letter, I started to, for the first time, look at the fractions of businesses we own today and try to picture what they might look like six years from now – in 2014. It brought a smile to my face. We own some highly valuable assets and businesses today. Most of these assets are managed by exceptional jockeys. Not only do I expect the market to value these assets meaningfully higher over time, but our jockeys know how to compound these assets – and create wealth.

It is likely we'll have some eventual realized losses on all three funds. However, I believe those losses are highly likely to happen among the smaller positions – not the top 5-7 positions in these portfolios. The funds have had a fairly meaningful error rate throughout their history. I think I'm getting better, but even with the same (or somewhat higher) error rate, I'm confident we'll continue to beat the indices over the long haul (5-10 years).

Throughout the last one year of negative returns, I've hardly heard from investors in Pabrai Funds. On a typical day, I get no calls or emails from investors related to Pabrai Funds. I am blessed to have attracted such an exceptional group of long-term partners. It is important that we use the same yardsticks to measure Pabrai Funds performance – and it is clear to me that virtually all the Pabrai Funds investors are in it for the long haul and measuring results over 5-10 year periods. No fund could ask for or has a better group of partners. You're the best. Thank you for your continued confidence and patience.

Discount to Intrinsic Value

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.

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 $39 Million.

Besides the previously disclosed stake and small investment in Dardashti Capital (worth about $0.9 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.

Lunch with Warren Buffett – A dream come true!

As some of you know, last year Guy Spier and I won the Buffett Charity Lunch on eBay. With a top bid of $650,100 a lunch date with the Oracle of Omaha was sealed. On June 25, Harina, Monsoon, Momachi, Guy, his wife Lory and I met Warren Buffett for a nearly 3-hour lunch at Smith and Wollensky's steakhouse in Manhattan.

It was the experience of a lifetime. I can honestly say that many things Warren said appear to be very simple, but there was life-altering wisdom embedded in those simple statements. Learning from Buffett over the last 14 years has improved me considerably as a human being. I believe the lunch is already leading to improvement. The lunch was well worth every penny – and then some. We gained some tremendous insights and wisdom from Warren.

In addition, we received an unexpected bonus when Warren suggested that Harina & I meet Charlie Munger for lunch – and that he'd tee it up for us. I spoke to Mr. Munger recently by phone. I was floored when he answered the phone himself. We're very much looking forward to breaking bread with Charlie. I never imagined that by buying one meal, we'd get another highly coveted one for free!

The Buffett lunch covered a wide range of topics – and perhaps someday I'll write up a summary of some of the salient point we discussed. In the interim, just to give you a flavor, here are the names of some humans that came up during our time together:

Buffett's dad, Suzie Buffett, Buffett's three kids, Jack Byrne, Charles Darwin, Ben Franklin, Bill Gates, Melinda Gates, David Dodd, David Dodd's daughter, Phil Fisher, Rick Guerin, Sandy Gottesman, David Hawkins, Ajit Jain, Arun Jain (Ajit's brother), Ajay & Akshay Jain (Ajit's sons), Tinku Jain (Ajit's wife), Radhika Kapoor (Harina's late mother), Don Keogh, Anand Kumar (Super 30), Jamie Lee-Curtis, The Dalai Lama, Sophia Loren, Angelo Morati, Charlie Munger, Isaac Newton, Jay Pritzker, Pritzker Family, Eliot Spitzer, Guy Spier's dad, Eitan Wertheimer, Marty Whitman, Cecil Williams, etc.

And here are names of some of businesses /organizations that came up in our conversation:

Allen & Co., Aquamarine Funds, Berkshire Hathaway, Blue Chip Stamps, Buffett Partnerships, California's Department of Motor Vehicles (DMV), Cambridge University, Columbia University, Dakshana Foundation, Fairfax Financial, Fairholme Funds, Bill & Melinda Gates Foundation, GEICO, Glide Foundation, Harvard Business School, ICICI Bank, Ikea, In-N-Out Burger, Indian Institute of Technology (IIT), Infosys, Jawahar Navodaya Vidyalaya (JNV), Johnny Rocket's, Lehman Brothers, Longleaf Partners, Microsoft, Nebraska Furniture Mart, Oxford University, Pabrai Funds, See's Candies, Sequoia Fund, Super 30, Susan Buffett Foundation, Buffett's Childrens' Foundations, Tata Group, Tata Institute of Fundamental Research, Tata Memorial Hospital, Washington Post, Wesco Financial, etc.

My partner in crime, Guy Spier, wrote a wonderful article for Time magazine about the lunch. Here is the link:

http://www.time.com/time/business/article/0,8599,1819293,00.html

A few pictures from our lunch with Warren:

http://share.shutterfly.com/action/welcome?sid=8Abt3DNw0cN3fQ

And a few related media clips:

My favorite is the last 1 minute of this first clip:

http://www.foxbusiness.com/video/index.html?referralObject=1762918

The report Buffett refers to in the above interview is the Dakshana Foundation Annual Report for 2007. Here is the link:

http://www.dakshana.org/AR07.pdf

And if you're still tuned in, some more media clips on the lunch:

http://www.foxbusiness.com/video/index.html?referralObject=1809348

http://www.cnbc.com/id/15840232?video=778195470&play=1

http://www.cnbc.com/id/15840232?video=778383178&play=1

http://www.foxbusiness.com/video/index.html?referralObject=1762613

http://www.bloomberg.com/avp/avp.htm?clipSRC=mms://media2.bloomberg.com/cache/vY7.h9EuUJ8Y.asf

2008 Annual Meetings – Save the Date

As is our usual modus operandi, there will be two annual meeting sequentially at Chicago, Illinois & Orange County, California. 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 – 7:15 PM:	Cocktail Hour
7:15 PM:	Dinner

The invites have all been mailed. Your significant other and kids of all ages are welcome to attend. I look forward to seeing you in September.

Limiting Assets Under Management

There is an inverse correlation between size and performance. Pabrai Funds now has over $489 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 – October 1, 2008 (all funds); August 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 October 1, 2008.

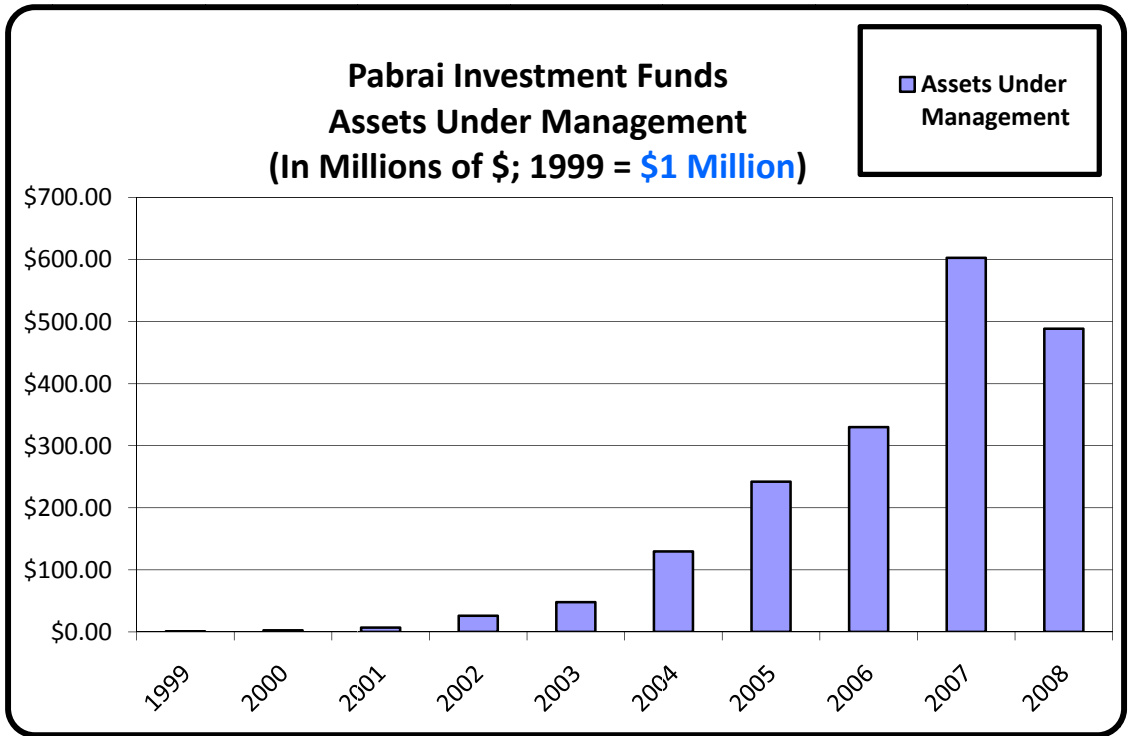
To invest in PIF3, one needs to be a non-US accredited offshore investor. Tax-exempt accounts like IRAs, Roth IRAs and US Family Foundations can invest in PIF3 as well. The minimum investment to join PIF3 as a new partner is $10,000,000 for US Tax-exempt accounts and $2,500,000 for offshore investors. Next opening date for PIF3 is August 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 $489 Million in assets under management between all the funds as of July 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
2,934,990	6/30/2008	$38.01

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
6,551,055	4/30/2008	$23.51
6,578,943	5/31/2008	$23.30
6,600,873	6/30/2008	$20.20

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
17,741,479	6/30/2008	$13.78

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.