PABRAI INVESTMENT FUNDS

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

From: Mohnish Pabrai, Managing Partner

Date: August 8, 2004

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

Dear Partners:

On the August 1 subscription date, a total of $15.4 Million was added into the various funds by new and existing investors. Here are the subscriptions by fund:

PIF2: $0.5 Million

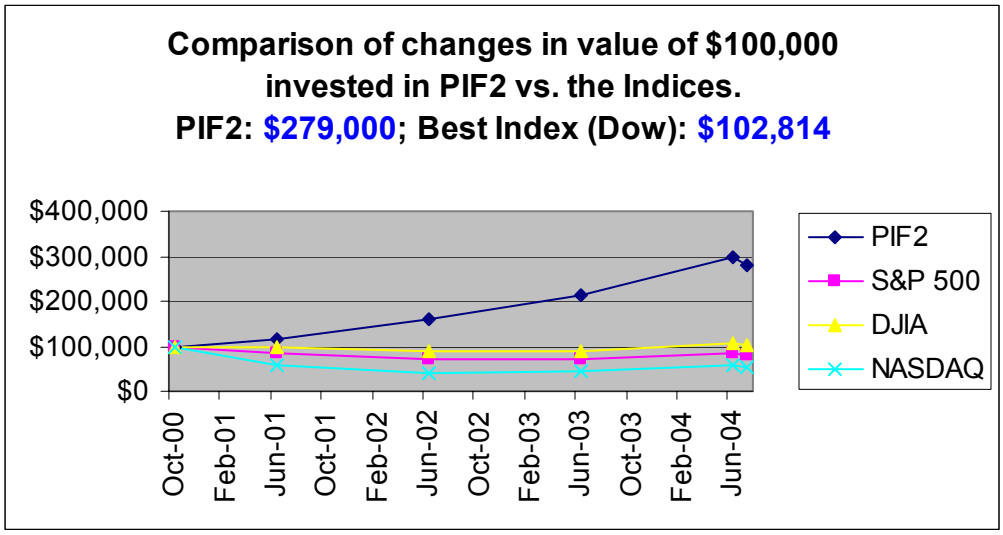
PIF3: $2.2 Million

PIF4: $12.7 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 – 6/30/04	**+18.6%**	**+26.8%**	**+19.1%**	**+38.7%**
7/1/04 – 7/31/04	**-2.7 %**	**-7.8%**	**-3.3%**	**-5.7%**
1/1/04 – 7/31/04	**-1.9%**	**-5.6%**	**+0.0%**	**-3.3%**
Annualized	**+0.7%**	**-15.6%**	**-5.2%**	**+30.7%**
Cumulative	**+2.8%**	**-47.8%**	**-18.6%**	**+179.0%**

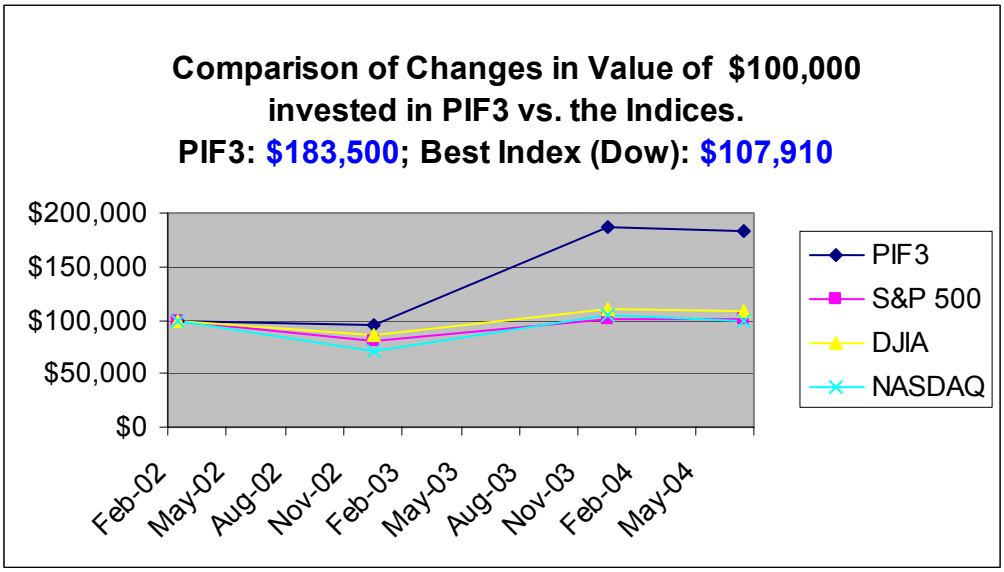


US-based Investors:

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 $390,600 as of July 31, 2004 (net to investors). This equates to an annualized return of 30.7% 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 $101,771 on July 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 – 7/31/04	**-1.9%**	**-5.6%**	**+0.0%**	**-1.5%**
Annualized	**+3.1%**	**-0.5%**	**+0.7%**	**+27.5%**
Cumulative	**+7.9%**	**-1.3%**	**+1.7%**	**+83.5%**



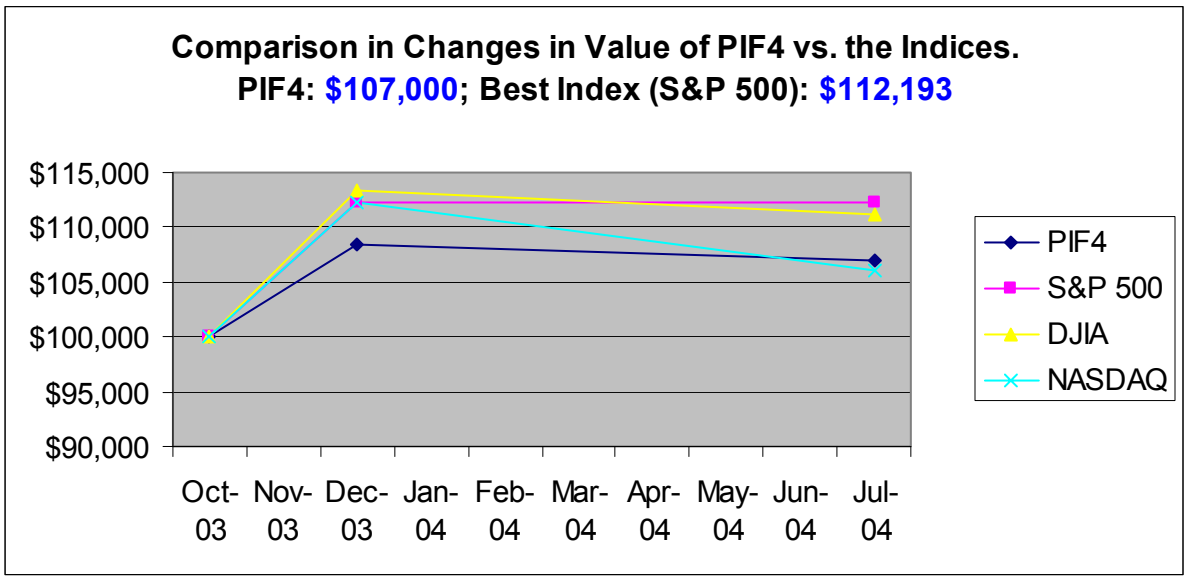
Offshore Investors:

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $183,500 as of July 31, 2004 (net to investors). This equates to an annualized return of 27.5% 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 $107,910 on March 31, 2004 – an annualized gain of 3.1%. 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 – 7/31/04	**-1.9%**	**-5.6%**	**+0.0%**	**-1.3%**
Cumulative	**+11.2%**	**+6.0%**	**+12.2%**	**+7.0%**

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

There are no intelligent comments I can make about our performance over a period of a few months. Usually the businesses we're buying have some sort of cloud or overhang that is causing a wide enough disparity between value and price for Pabrai Funds to step in. There is typically significant uncertainty about when these clouds might lift. That has never bothered me. In the overwhelming majority of stocks the funds have invested in, I've watched them decline *after* our initial purchase before most of them move up. Occasionally these declines have been over 50% from our initial purchase price.

While these movements do affect portfolio valuation and net asset values, I've always fixated on intrinsic value as the guide – and we're are in terrific shape in Pabrai Funds from this vantage point. Most of our holdings trade at wide discounts to underlying intrinsic value. Over time I expect this will get recognized by the market – with an acceptable result for us - even with a healthy dose of errors.

It is remarkable to witness the wide range of values that can be assigned to a given business over a 2-3 year period by a hyperactive auction-driven marketplace. The odds of finding anywhere near the same volatility in business valuation in negotiated-transaction markets approaches zero. Anytime an intelligent buyer interacts with a knowledgeable seller in a rational negotiation, one is likely to get a fair market pricing. Thankfully, the auction-driven public equity markets afford us buying opportunities from time to time that would be entirely unavailable in any negotiated transaction. I hope to discuss this more at length with you at this year's annual meeting with specific case examples from past Pabrai Fund portfolio holdings.

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.

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

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 – September 1, 2004 (PIF3) and October 1, 2004 (all funds)

There are 2 funds open to new investors to add funds - PIF3 and PIF4.

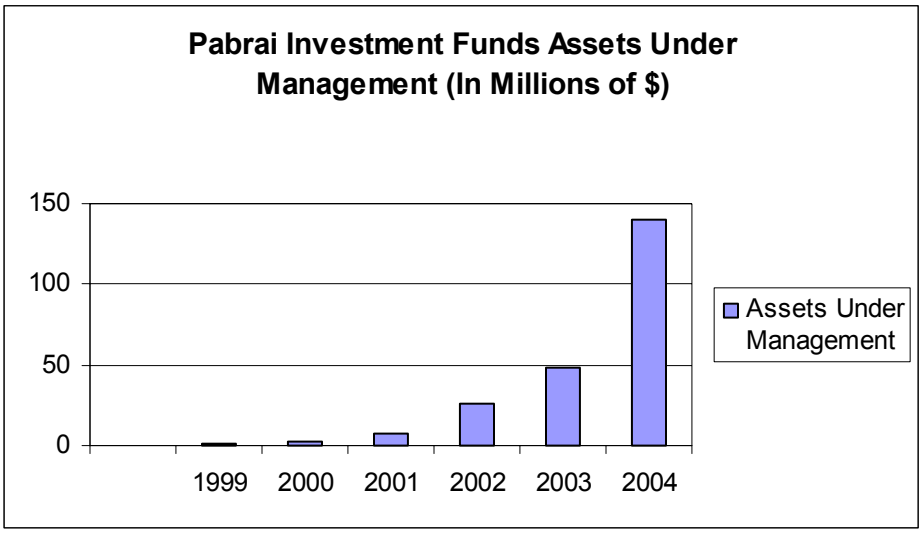
The minimum investment for PIF4 is $500,000 and one needs to be a "qualified investor" as defined by the SEC. The offering and subscription documents for PIF4 have details on who is considered a qualified investor. Next opening is October 1. The minimum investment amount for PIF4 is slated to increase to $750,000 as of December 1, 2004.

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 September 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 October 1, 2004 for PIF2 and PIF4 and September 1, 2004 for PIF3.

Assets Under Management

There is about $140 Million in assets under management between all the funds as of August 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
2,445,212	6/30/2004	$29.58
2,461,339	7/31/2004	$27.90

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
1,009,809	5/31/2004	$18.09
1,167,348	6/30/2004	$19.10
1,289,078	7/31/2004	$18.35

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
3,315,255	5/31/2004	$10.60
4,501,228	7/31/2004	$10.70

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.