# PABRAI INVESTMENT FUNDS

**17 Spectrum Pointe Drive, Suite 503**
**Lake Forest , CA 92630-2277**
**USA**

**Tel. +1949.275.5652**
**mpabrai@pabraifunds.com**
**www.pabraifunds.com**

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

From: Mohnish Pabrai, Managing Partner

Date: August 5, 2005

Re: **Updated Performance et. al.**

---

Dear Partners:

On the August 1 subscription date a total of $1.5 Million was added to the various funds by new and existing partners. Here are the additions on a per fund basis:

PIF2: $0.2 Million

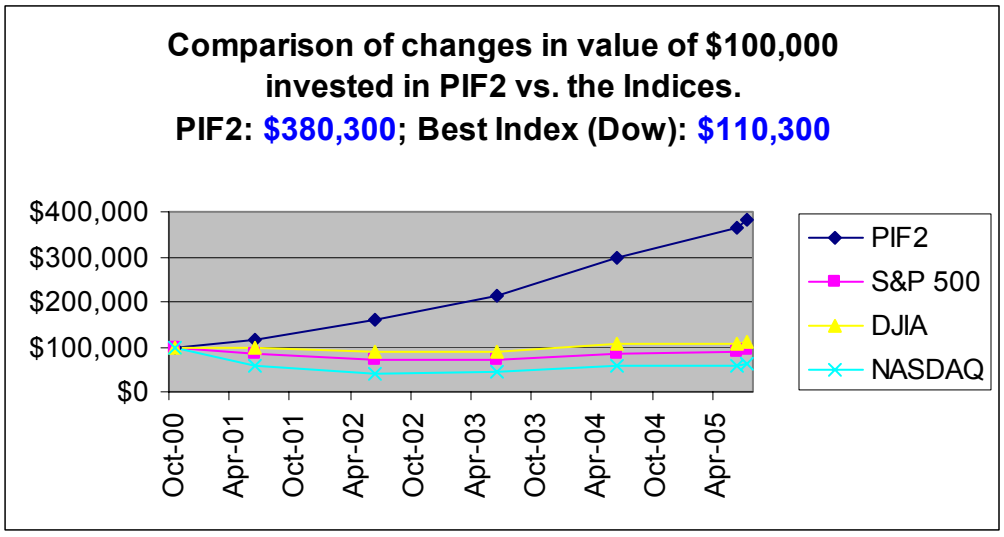
PIF3: $0.1 Million

PIF4: $1.2 Million

Here are the updated performance numbers on all the funds:

**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 – 7/31/05 | **+3.7%** | **+6.2%** | **+3.7%** | **+4.1%** |
| 1/1/05 – 7/31/05 | **-0.1%** | **+0.8%** | **+2.9%** | **+11.0%** |
| **Annualized** | **+2.0%** | **-9.8%** | **-1.5%** | **+31.8%** |
| **Cumulative** | **+10.3%** | **-39.2%** | **-7.1%** | **+280.3%** |

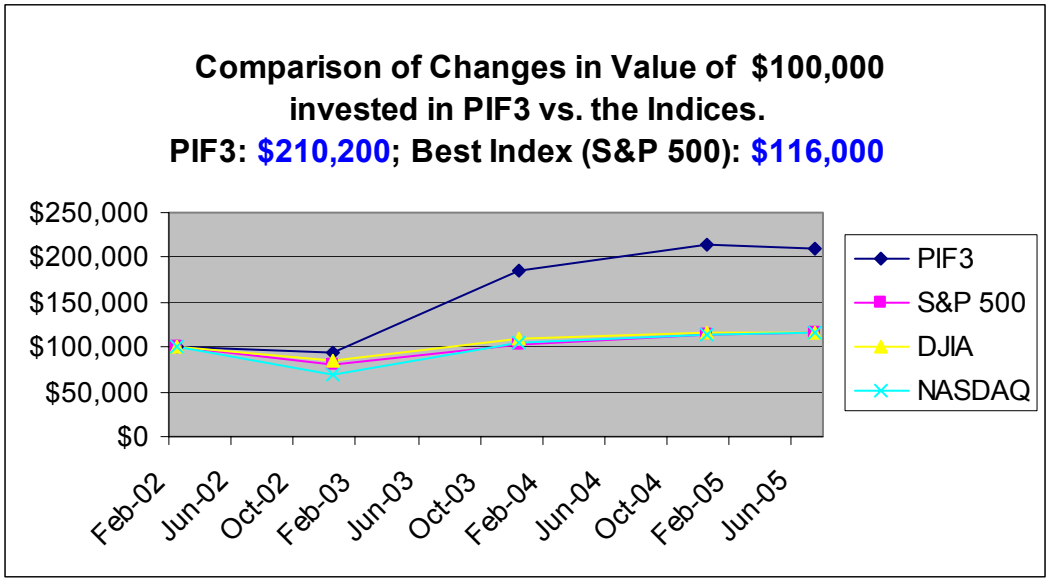



**PIF2 Investors:**

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 $532,800 as of July 31, 2005 (net to investors). This equates to an annualized return of 31.7% 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 $109,200 on July 31, 2005 – an annualized gain of 1.5%. 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 – 7/31/05 | **-0.1%** | **+0.8%** | **+2.9%** | **-1.6%** |
| **Annualized** | **+4.3%** | **+4.1%** | **+4.3%** | **+23.6%** |
| **Cumulative** | **+15.8%** | **+15.0%** | **+16.0%** | **+110.2%** |

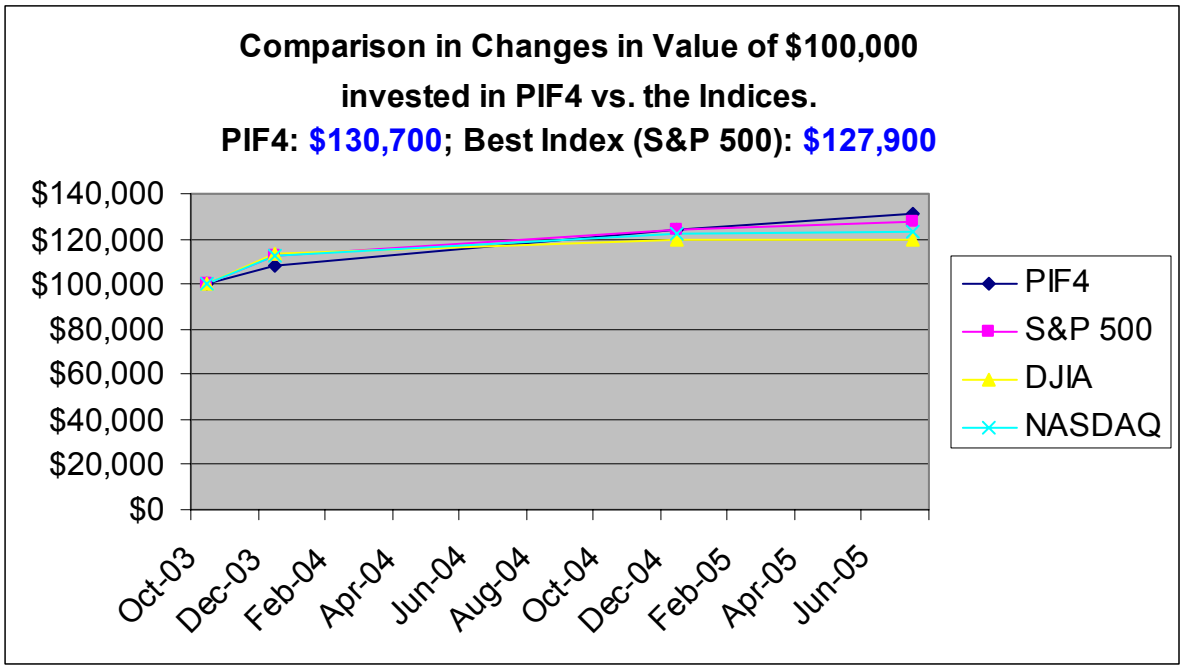



**PIF3 Investors:**

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $210,200 as of July 31, 2005 (net to investors). This equates to an annualized return of 23.6% 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 $116,000 on July 31, 2005 – an annualized gain of 4.3%. The S&P 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 – 7/31/05 | **-0.1%** | **+0.8%** | **+2.9%** | **+5.4%** |
| **Annualized** | **+10.1%** | **+12.2%** | **+14.4%** | **+15.7%** |
| **Cumulative** | **+19.3%** | **+23.5%** | **+27.9%** | **+30.7%** |




**PIF4 Investors:**

A $100,000 investment in PIF4 at inception on October 1, 2003 was worth $130,700 as of July 31, 2005 (net to investors). This equates to an annualized return of 15.7% 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 $127,900 on July 31, 2005 – an annualized gain of 14.4%. The S&P gains include reinvested dividends.

## General Comments

All three funds had significant positive moves in the last two months – as did all three indices. PIF2 and PIF4 are at alltime highs while PIF3 was up over 7% in July alone. While this is all very good, it is long-term results that truly matter. The funds can (and have) exhibited significant volatility in the short-term. That has never bothered me, nor has any attempt ever been made to reduce short-term volatility. It is the long-term that I'm singularly focused on.

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.

## Ultra-Low Frictional Costs

We just passed a milestone of sorts. Both PIF2 and PIF4 crossed $100 Million in assets and PIF3 is now over $50 Million in assets. We finally have critical mass. At these levels, under present regulatory frameworks, I'd expect operating expenses for PIF2 and PIF4 to be under 10 basis points (<0.1%) and under 20 basis points for PIF3 (<0.2%). These are amongst the lowest expense ratios across the entire mutual fund and hedge fund industries. In addition, Pabrai Funds charges no management fees, just performance fees. The combo results in extremely low frictional costs and keeping frictional costs ultra-low is a large part of the secret to beating the indices.

We have not compromised quality in achieving these low costs. We are audited annually by a Big Four firm – PricewaterhouseCoopers. PwC also does the tax work for the funds. Our lawfirm, Sonnenschein, is world-class with over 700 lawyers and our administrators/independent accountants (Liccar in the US and Folio in the BVI) are exceptionally good at what they do. I think of our service providers as partners as well. We do compensate them fairly for their respective services, but derive exceptional value.

## Alignment of Interests

PIF2 and PIF4's NAV is at an alltime high and higher than 6% annualized than the last time a fee was paid. A fee of $1,192,398.15 was thus paid for PIF2 and $608,634.11 for PIF4 on 7/31/05. As I have always done, I've reinvested this fee back into PIF2 and PIF4 respectively. PIF3 is below its historic high so no performance fees are payable by PIF3 at this time.

Dalal Street (wholly owned by me) and myself (IRA etc.) have a stake of 558,191 units of PIF2, 6564 units of PIF3 and 168,197 units of PIF4. This stake is worth over $23 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 – September 1 (PIF3) and October 1, 2005 (all funds)**

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

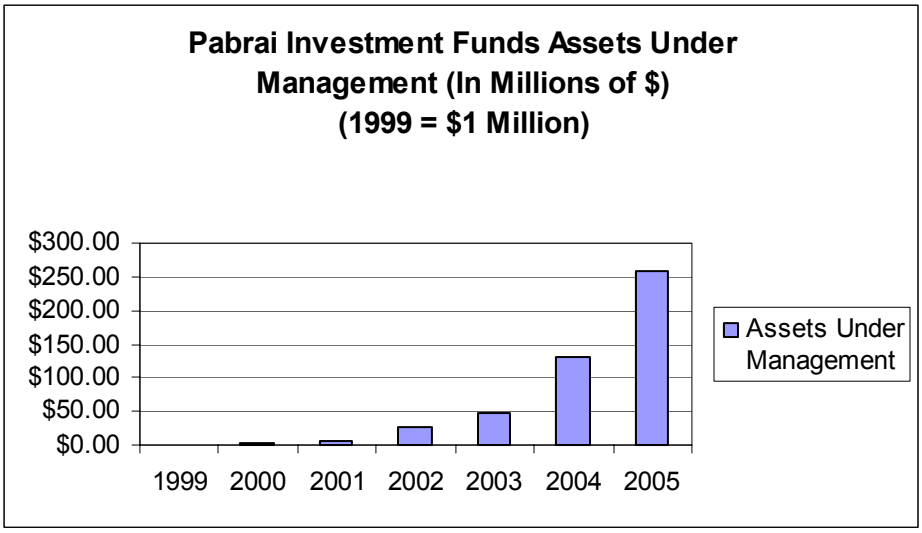
The minimum investment for PIF4 is $1,000,000 and one needs to be a "qualified investor" as defined by the SEC. The offering and subscription documents for PIF4 have details on who is considered a qualified investor. Next opening is October 1, 2005.

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 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).

## Assets Under Management

There is about $258 Million in assets under management between all the funds as of August 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 |
| 2,733,298 | 7/31/2005 | $38.03 |

## 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 |
| 2,404,060 | 6/30/2005 | $19.63 |
| 2,410,007 | 7/31/2005 | $21.02 |

## 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 |
| 7,786,540 | 5/31/2005 | $11.87 |
| 7,921,121 | 7/31/2005 | $13.07 |

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.