Pabrai Investment Funds

Memo

To: All Limited Partners of The Pabrai Investment Fund I, L. P.

From: Mohnish Pabrai, Managing Partner

Date: August 31, 2001

Re: **Redemption of PIFI Units; Updated PIFI NAV**

Dear Partners:

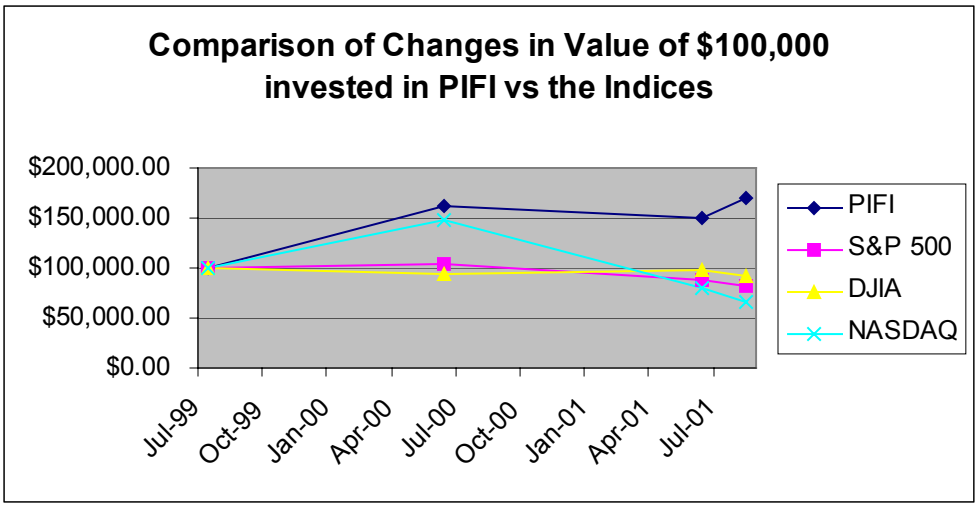
I had received requests from two limited partners of PIFI to redeem their units. Per PIFI partnership rules, any limited partner can request a withdrawal of their interest in the partnership during a two week window after audited results are released.

Between the two, a total of 26,726.94 units were redeemed at $15.73/unit. I'm sending checks totaling $420,414.77 to the two partners. Both partners have a gain on their original investment and I'd like to take this opportunity to thank them for participating in PIFI and hope our paths cross again. As an FYI, I was forced to liquidate positions that I otherwise would not have sold at this time. We will have higher realized capital gains this year as a result of the withdrawals.

The details of the Asset Value Calculations are in the attached Appendix A.

PABRAI INVESTMENT FUND I Performance Summary:

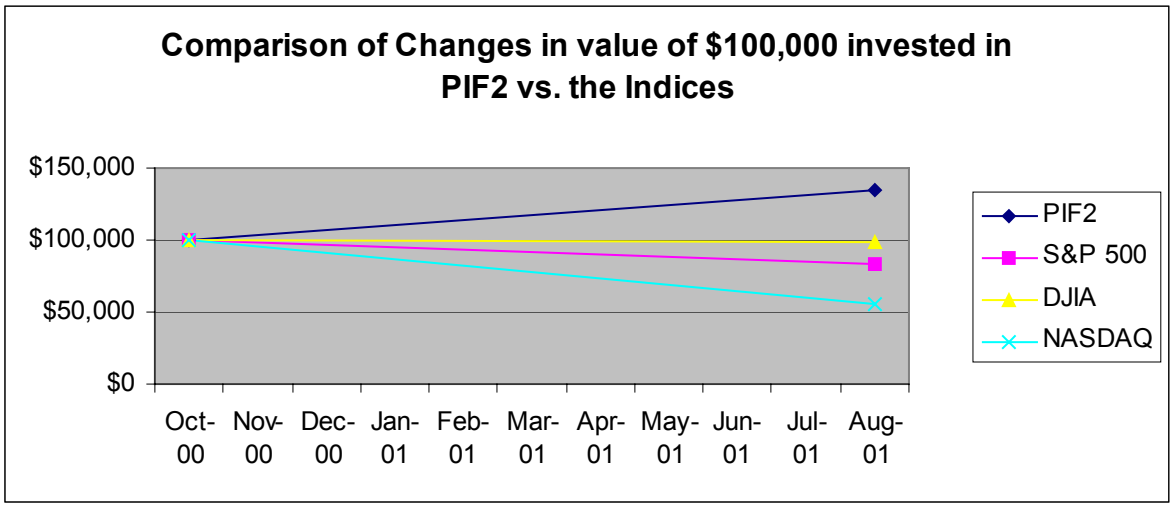
	DJIA	**NASDAQ**	**S&P 500**	**PIFI** (before exp.)	**PIFI** (after exp.)
7/1/99 - 6/30/00	**-4.7%**	**+47.3%**	**+4.7%**	**+62.5%**	**+50.1%**
7/1/00 – 6/30/01	**+2.2%**	**-45.5%**	**-15.9%**	**-7.7%**	**-8.3%**
7/1/01 – 8/31/01	**-5.1%**	**-16.5%**	**-7.4%**	**+14.0%**	**+14.2%**
Annualized	**-3.6%**	**-18.3%**	**-9.4%**	**+24.9%**	**+21.1%**
Cumulative	**-7.6%**	**-33.0%**	**-18.5%**	**+70.7%**	**+57.3%**



For completeness, here are the latest published performance numbers for PIF2:

PABRAI INVESTMENT FUND 2 Performance Summary:

	DJIA	NASDAQ	S&P 500	PIF2 (before exp.)	PIF2 (after exp.)
10/1/00 – 7/27/01	**-0.9%**	**-44.8%**	**-16.1%**	**+34.1%**	**+27.0%**
Annualized	**-1.1%**	**-53.8%**	**-19.3%**	**+40.1%**	**+32.4%**



The diligent reader would have noticed that PIFI is up 14% in the last two months versus a significant drop in the three benchmark indices. Since inception, PIFI is outperforming the Dow, Nasdaq and S&P 500 by 24.7%, 39.4% and 30.5% on an *annualized basis after all fees and expenses* respectively.

A few years ago John Bogle wrote an outstanding book entitled *Common Sense on Mutual Funds*. John was the Chairman of Vanguard and an exceptionally brilliant and direct person. He's an excellent writer as well. In the book, John gave a lot of good empirical data on the probabilities of the typical portfolio or fund manager beating the market. Over 85% of mutual and hedge funds lag the market *after all fees and expenses*. He further showed that the empirical data suggests that just 1 in 200 fund managers is able to beat the market by over an average of 3% annually.

I am confident that the deeply rooted grounding in Buffett/Graham/Munger principles of investing that I have embraced will result is outperforming the three indices over the long haul. I don't think a 25% annualized outperformance of these indices is a rational expectation for the Pabrai Funds. So, while the results of both funds have been exceptional so far, we should remember that:

1. The funds are just 26 months old. We can look back on the track record after 5+ years.

2. The stock market is nearly fully efficient. However, occasionally, Mr. Market will underprice a company or two substantially. Our investment style is very opportunistic. We play in the crevices of inefficiency within an otherwise nearly fully efficient market. Occasionally as I crawl through these crevices, I'm able to uncover great investment ideas. I'll act upon a good idea when I see one. There is no way to predict how many good ideas I'll be able to uncover in the next few years. I think I've had more than my share of good ideas in the last few years. I don't consider the stock market at large to be underpriced. Most of the stuff I look at is either fully priced or over priced. Its hard to find good investment ideas – but that's precisely the reason you've engaged me. I love digging and analyzing and occasionally we hit pay dirt. So I'll continue digging and crawling to find hidden value.

Annual Meeting Reminder:

The Annual Meeting for The Pabrai Investment Funds is scheduled to be on Saturday, September 8, 2001. The meeting location is:

Carlucci's Restaurant
6111 North River Road
Rosemont, Illinois 60018
Tel. +1847.518.0990

4:00 PM - Meeting
5:30 PM - Cocktails
7:00 PM - Dinner

For out-of-towners, The Marriott Suites and Westin O'Hare in Rosemont are both walking distance to the restaurant. You should all have received your invites in the mail. I do hope that you'll bring all your toughest questions to the meeting.

Next Investment Window

The next date when funds will be added to PIF2 is October 1, 2001. I continue to have more opportunities than cash. Thus I'd like to add more cash. It's a great time to invest. If you're interested in investing, please contact me so I can make the allocation. More importantly, I'd appreciate any referrals you might have. I have an information kit that's easy for me to send to any prospective investor.

Thank you for this opportunity to be of service to you. I appreciate your continued help, support and confidence.

Warm Regards,

Mohnish Pabrai
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+1630.240.1652

Appendix A

PIFI NAV and Performance

The August 31, 2001 NAV per the brokerage statement for PIFI is $3,630,527.64. Adding in, paid expenses since inception of $38,005.50 yields a pre-expense NAV of $3,668,528.14. Excluding Dalal Street's Fee, there are 214869.34 units outstanding. This yields a pre-expense NAV of **$17.07/unit**.

After adding in all paid and estimated accrued expenses, the NAV is $3,625,642.90. Including Dalal Street's Fee, there were 230480.13 units outstanding. This yields a NAV of **$15.73/unit**. The two limited partners withdrawing their interest had a total of 26,726.94 units. Thus units outstanding now stand at 203,755.21

PIFI's Performance BEFORE and AFTER fees and expenses vs. the Indices.

No. of Shares	Date	PIFI NAV Pre-Fees	PIFI NAV Post-Fees	S&P 500	S&P 500	DJIA	DJIA	NASDAQ	NASDAQ
100000	7/2/99	$10.00	$10.00	$10.00	1391.22	$10.00	11,139.24	$10.00	2692.96
100000	12/8/99	$17.15	$17.15	$10.09	1403.88	$9.98	11,112.42	$13.32	3586.08
100000	2/25/00	$16.08	$14.57	$9.58	1333.36	$8.93	9,946.85	$17.05	4590.50
164453	6/30/00	$16.25	$15.05	$10.47	1456.60	$9.53	10,613.49	$14.73	3966.11
230480	8/28/00	$18.54	$16.68	$10.83	1506.00	$10.20	11,358.60	$15.01	4043.00
230480	6/30/01	$14.97	$13.78	$8.80	1224.42	$9.74	10,847.09	$8.02	2160.54
203753	8/31/01	$17.07	$15.73	$8.15	1133.58	$9.24	10,294.44	$6.70	1805.43

PIF2's Performance BEFORE and AFTER fees and expenses vs. the Indices.

No. of Units	Date	PIF2 NAV Pre-Exp.	PIF2 NAV Post-Exp.	S&P 500	S&P 500	DJIA	DJIA	NASDAQ	NASDAQ
110000	10/1/00	$10.00	$10.00	$10.00	1436.51	$10.00	10650.92	$10.00	3672.82
172500	11/24/00	$9.65	$9.60	$9.34	1341.77	$9.83	10470.23	$7.91	2904.38
249318	1/26/01	$11.38	$11.06	$9.43	1354.95	$10.05	10706.78	$7.57	2781.3
275717	3/30/01	$9.67	$9.47	$8.08	1160.33	$9.32	9925.58	$5.01	1840.26
326924	5/25/01	$11.60	$11.35	$8.90	1277.89	$10.42	11095.79	$6.13	2251.03
330046	6/30/01	$12.09	$11.74	$8.52	1224.42	$10.46	11140.05	$5.88	2160.54
377287	7/27/01	$13.41	$12.70	$8.39	1205.82	$9.91	10551.35	$5.52	2029.07

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.