PABRAI INVESTMENT FUNDS

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

From: Mohnish Pabrai, Managing Partner

Date: October 10, 2004

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

Dear Partners:

On the October 1 subscription date, a total of $10.8 Million was added into the various funds by new and existing investors. In addition, $2.8 Million was added to PIF3 on Sept 1. Here are the subscriptions by fund for both dates:

PIF2: $0.3 Million

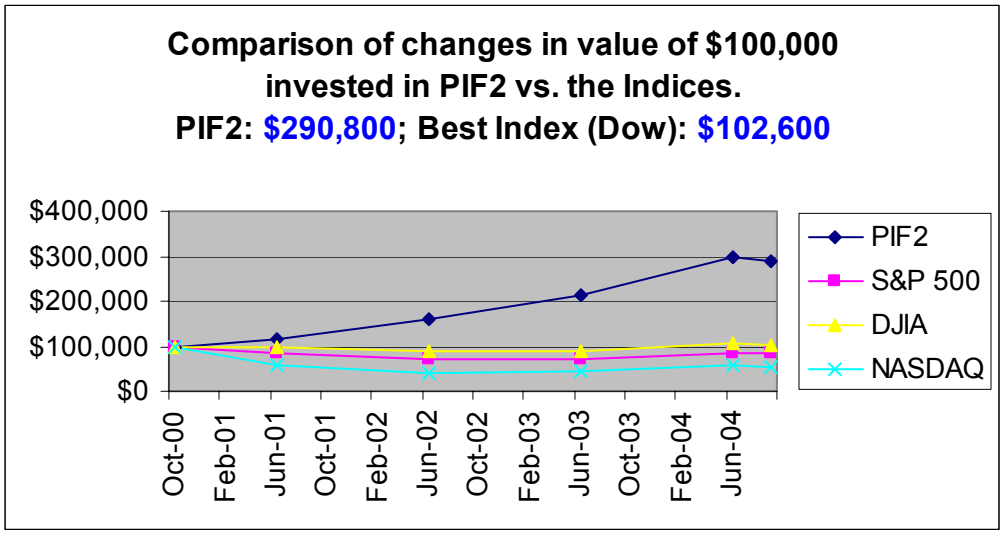
PIF3: $5.6 Million

PIF4: $7.7 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 – 9/30/04	**-2.9 %**	**-7.2%**	**-1.9%**	**-1.7%**
1/1/04 – 9/30/04	**-2.1%**	**-5.0%**	**+1.5%**	**+0.8%**
Annualized	**+0.6%**	**-14.9%**	**-4.7%**	**+30.6%**
Cumulative	**+2.6%**	**-47.5%**	**-17.3%**	**+190.8%**

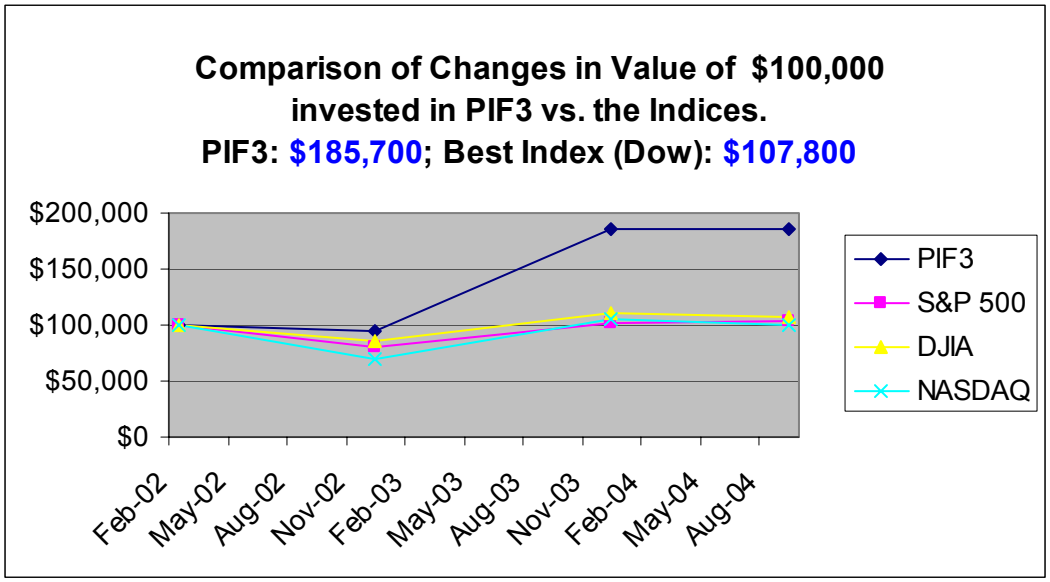


PIF2 Investors:

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 $407,141 as of Sept. 30, 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 $101,546 on Sept. 30, 2004 – an annualized gain of 0.3%. 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 – 9/30/04	**-2.1%**	**-5.0%**	**+1.5%**	**-0.3%**
Annualized	**+2.8%**	**-0.3%**	**+1.2%**	**+26.1%**
Cumulative	**+7.7%**	**-0.7%**	**+3.3%**	**+85.7%**

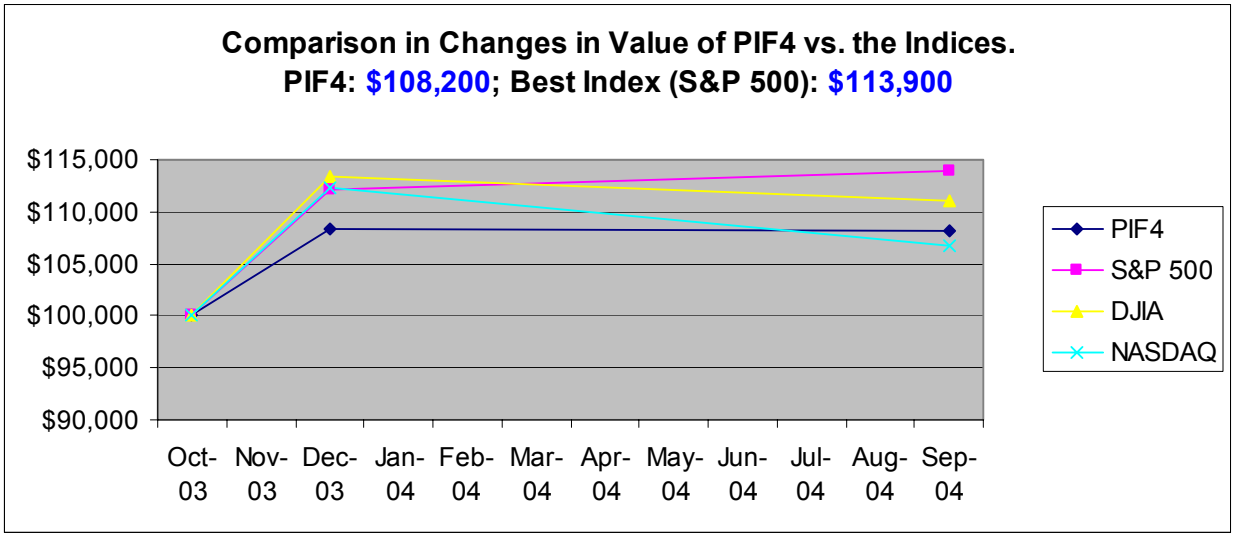


PIF3 Investors:

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $185,700 as of Sept. 30, 2004 (net to investors). This equates to an annualized return of 26.1% 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 $107,800 on Sept. 30, 2004 – an annualized gain of 2.2%. 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 – 9/30/04	**-2.1%**	**-5.0%**	**+1.5%**	**-0.2%**
Annualized	**+11.0%**	**+6.7%**	**+13.9%**	**+8.2%**
Cumulative	**+11.0%**	**+6.7%**	**+13.9%**	**+8.2%**



PIF4 Investors:

A $100,000 investment in PIF4 at inception on October 1, 2003 was worth $108,200 as of Sept. 30, 2004 (net to investors). This equates to an annualized return of 8.2% 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 $113,900 on Sept. 30, 2004 – an annualized gain of 13.9%. The S&P gains include reinvested dividends.

General Comments

While I have always had a paucity of good investment ideas since Pabrai Funds inception in 1999, they have been in especially scarce supply over the last several months. I could use a couple of good ideas, but am quite content to wait patiently until they appear on the horizon.

"A handful of patience is worth more than a bushel of brains."

So goes a dutch saying. Or as Mr. Buffett succinctly put it:

"You do things when the opportunity comes along. I've had periods in my life when I've had a bundle of ideas come along, and I've had long dry spells. If I get an idea next week, I'll do something. If not, I won't do a damn thing."

(Warren E. Buffett, as quoted in USA Today, August 9, 1989)

Pabrai Funds is entirely opportunistic in its approach. There is no mandate to be fully invested or have exposure to certain sectors or industries. Capital allocation is very flexible - focused on making investments where the odds are heavily in our favor. And I have no qualms about waiting patiently for that rare fat pitch. I'm ready to backup the truck for the right set of goodies.

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 $12.8 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.

Finally, 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.

Annual Meetings Well Attended

There were two annual meetings held sequentially at Chicago and Orange County, California on Sept. 18 and Oct. 2 respectively. Both were very well attended with about 130 folks at the Chicago meeting and about 100 at Orange County. There were a large number of out-of-towners who flew in for the meetings. We even had a couple of celebrities. I'm very appreciative of all the time everyone took to attend. Feedback I have received so far has been very positive – it was a good mix of fun, learning and making new friends. I enjoyed meeting many of the partners and their families.

The annual meeting presentation is now online. Here is the link:

http://www.pabraifunds.com/website/2004_PIF_AM_Slides.pdf

In a few days, I hope to have the annual meeting transcript online as well.

It is very much worth reading all the past annual meeting transcripts and slides. Over the last few years, I have discussed a total of 14 past positions as well as extensively discussed the investment style. They are all archived on the website since 2001. All the meetings have had rich discussions on specific past holdings and the Q&A sessions are insightful. Here are the links:

2003:

http://www.pabraifunds.com/website/PIF2003AnnualMeeting.pdf

http://www.pabraifunds.com/website/2003%20Annual%20Meeting%20Transcript.pdf

2002:

http://www.pabraifunds.com/website/pif2002annualmeeting.pdf

http://www.pabraifunds.com/website/meetingminutes20021.pdf

2001:

http://www.pabraifunds.com/website/pif_2001_annual_meeting.pdf

http://www.pabraifunds.com/website/PIF_Minutes_2001.pdf

The only annual meeting that has not been archived is the first one in 2000. I believe there were twenty or so brave souls who came for that first meeting in the fall of 2000 in Downers Grove, Illinois.

Next Opening – November 1, 2004 (PIF3) and December 1, 2004 (all funds)

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

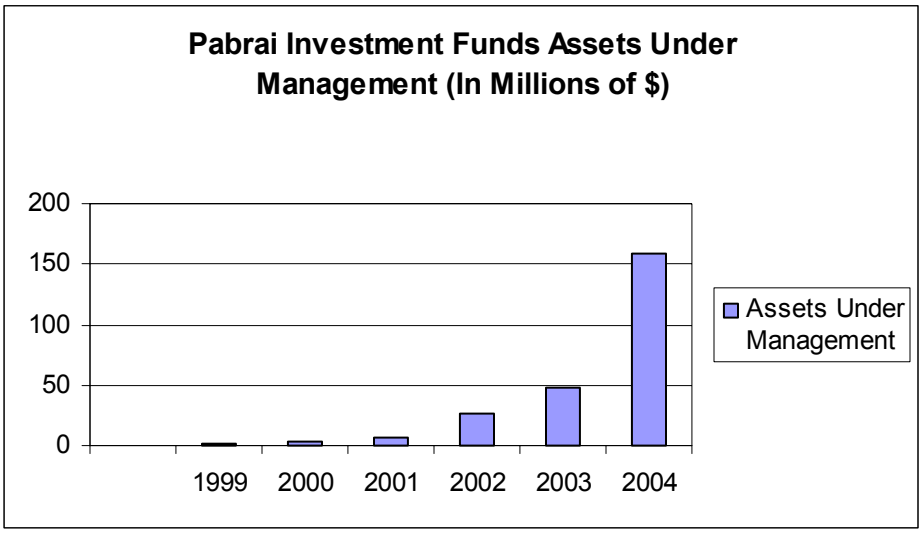
The minimum initial investment for PIF4 is now $1,000,000 and one needs to be a "qualified investor" as defined by the SEC. The offering and subscription documents for PIF4 have details on who is considered a qualified investor. Next opening is December 1.

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 is November 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 December 1, 2004 for PIF2 and PIF4 and November 1, 2004 for PIF3.

Assets Under Management

There is about $158 Million in assets under management between all the funds as of October 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
2,471,654	9/30/2004	$29.08

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
1,291,857	7/31/2004	$18.35
1,442,911	8/31/2004	$18.41
1,596,513	9/30/2004	$18.57

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
4,487,217	7/31/2004	$10.70
5,194,402	9/30/2004	$10.82

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.