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 12, 2005

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

Dear Partners:

On the October 1 subscription date a total of $3.4 Million was added to the various funds by new and existing partners. In addition $0.5 Million was added to PIF3 on September 1. Here are the additions on a per fund basis:

PIF2: $0.6 Million

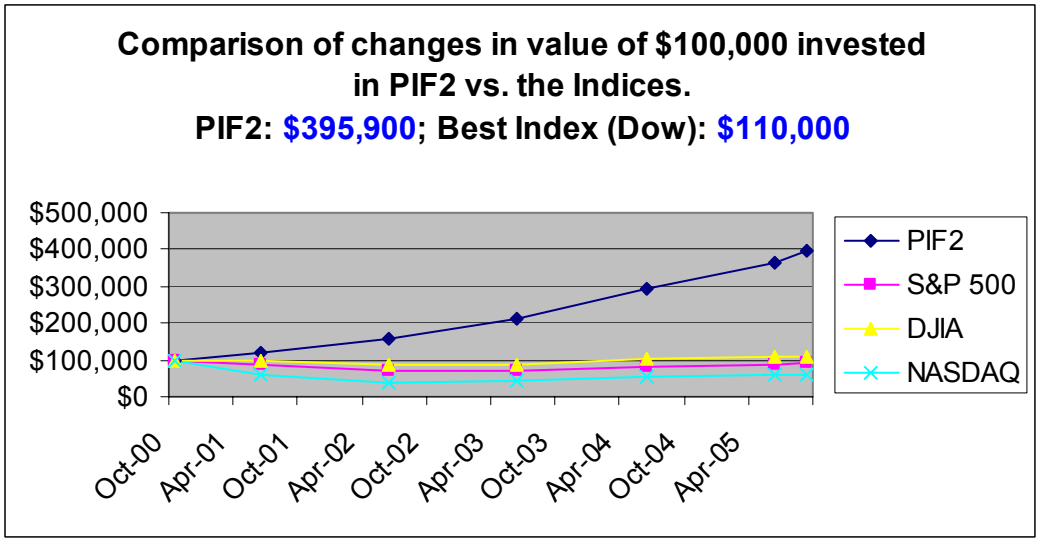
PIF3: $0.9 Million

PIF4: $2.4 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 – 9/30/05	**+3.4%**	**+4.8%**	**+3.6%**	**+8.4%**
1/1/05 – 9/30/05	**-0.3%**	**-0.6%**	**+2.8%**	**+15.5%**
Annualized	**+1.9%**	**-9.7%**	**-1.5%**	**+31.7%**
Cumulative	**+10.0%**	**-40.0%**	**-7.2%**	**+295.9%**

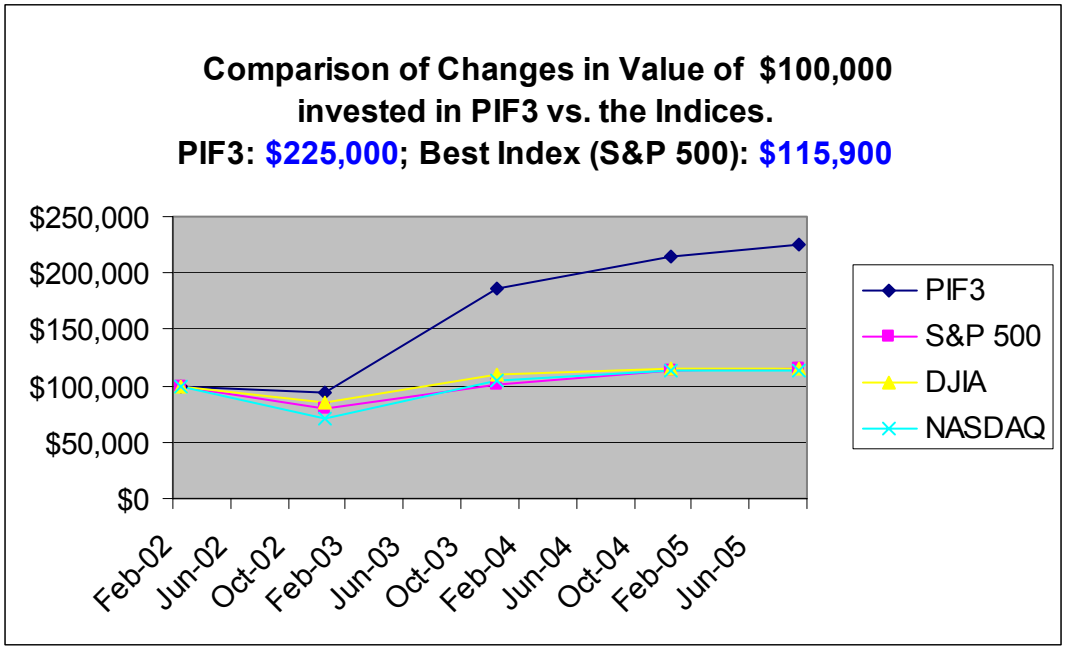


PIF2 Investors:

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 $554,700 as of September 30, 2005 (net to investors). This equates to an annualized return of 31.5% 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 $108,800 on September 30, 2005 – an annualized gain of 1.4%. 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 – 9/30/05	**-0.3%**	**-0.6%**	**+2.8%**	**+5.3%**
Annualized	**+4.0%**	**+3.5%**	**+4.1%**	**+24.8%**
Cumulative	**+15.5%**	**+13.4%**	**+15.9%**	**+125.0%**

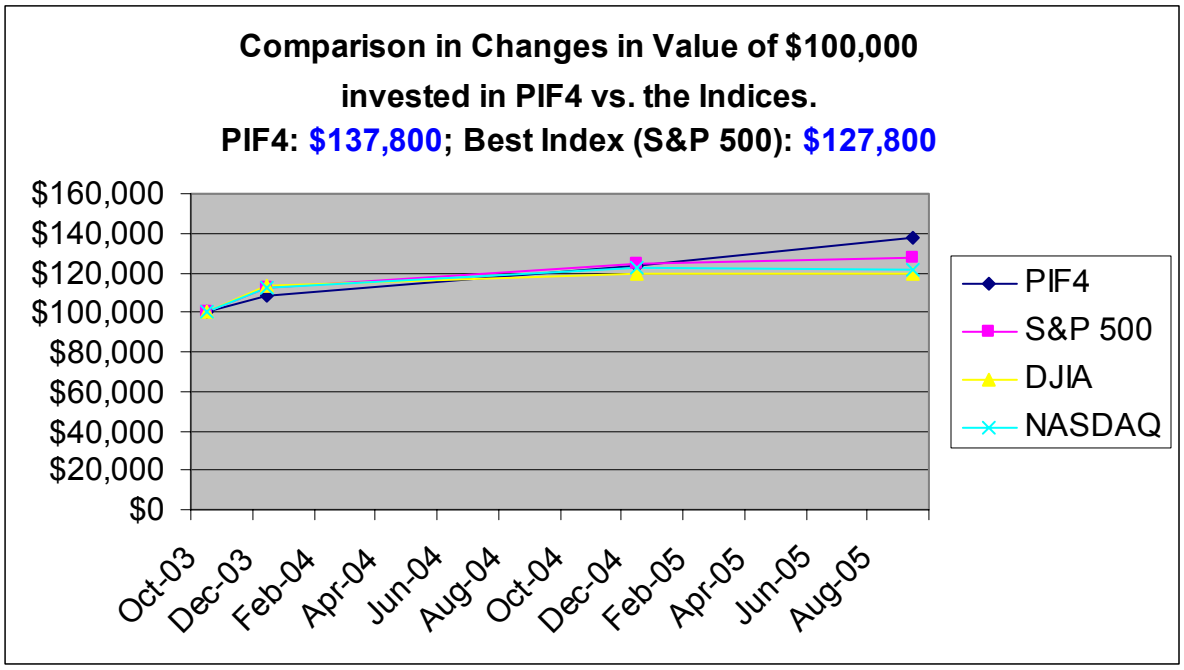


PIF3 Investors:

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $225,000 as of September 30, 2005 (net to investors). This equates to an annualized return of 24.8% 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 $115,900 on September 30, 2005 – an annualized gain of 4.1%. 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 – 9/30/05	**-0.3%**	**-0.6%**	**+2.8%**	**+11.1%**
Annualized	**+9.1%**	**+10.4%**	**+13.1%**	**+17.4%**
Cumulative	**+19.0%**	**+21.8%**	**+27.8%**	**+37.8%**



PIF4 Investors:

A $100,000 investment in PIF4 at inception on October 1, 2003 was worth $137,800 as of September 30, 2005 (net to investors). This equates to an annualized return of 17.4% 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 $127,800 on July 31, 2005 – an annualized gain of 13.1%. The S&P gains include reinvested dividends.

General Comments

All three funds increased the lead between them and all the indices over the last two months. While that's welcome news, it should be noted that PIF3 is less than four years old, while PIF4 has been around for just two years – not a very long time. Periods of five years or longer covering significant bull and bear markets is a far better timeframe over which to judge the merits of any investment fund or manager. Nonetheless, it does appear that the ship is sailing in the right direction.

The 2005 Pabrai Funds Annual Meetings

In September we had two very successful Pabrai Funds annual meetings in Chicago and Southern California. We had about 120 attendees at each meeting from all over the country and even had a few Europeans PIF3 investors fly over. It was a pleasure seeing many familiar faces and meeting several new partners. I do appreciate the time and effort everyone took to attend. The annual meeting slides are on the website for your perusal:

http://www.pabraifunds.com/website/2005_PIF_AM_Slides.pdf

(to access, the id is pabraifunds and password is warren)

Much of my presentation content and all of the rich Q&A session at both meetings is not on the slides. With Isabelle's help, I hope to have the transcript prepared and posted to the website by the time the next letter to partners is out in December.

PIF2 Completes Five Years

On Sept. 30, PIF2 completed exactly five years – which is a milestone of sorts. Here is the summarized annualized performance data for PIF2 since inception:

Performance Comparison: PIF2 vs. The Best Index
(Annualized – as of 9/30/05)

	1 Year	3 Years	5 Years (Life of Fund)
PIF2	**+36.1%**	**+54.6%**	**+31.7%**
Best Index	**+14.2%** (Nasdaq)	**+23.1%** (Nasdaq)	**+1.9%** (Dow)

Benchmarking PIF2 Versus Other Funds

PIF2 is not a mutual fund and is typically classified as a hedge fund. However, with no shorting, no leverage and no use of derivatives we are much closer (in typical portfolio holdings) to a mutual fund than a hedge fund. Here is how we compared to the very best performing mutual funds over the last five years:

	Best Performing Funds	Annualized Returns (10/1/00 – 9/30/05 – Five Years)
1.	ING Russia;A	37.99%
2.	US Glbl:East European	37.92%
3.	CGM Tr:Focus Fund	34.48%
4.	Bruce Fund	33.66%
5.	Evergreen Prc Mt;A	33.14%
6.	USAA Metals & Minerals	33.13%
7.	Blackrock: Gl Res;IA	33.12%
8.	US Glbl:World Prec Min	33.11%
9.	Vanguard Prc Mtl&M;Inv	32.43%
10.	**PIF2**	**31.68%**
11.	First Eagle:Gold;A	31.36%
12.	Tocqueville: Gold Fund	31.04%
13.	Scudder Gld & Prc;S	30.68%
14.	Gabelli Gold Fund;AAA	30.60%
15.	World Fds:TM Rus A	30.36%

Data Source: Wall Street Journal (October 4, 2005, Page R19)

PIF2 ranked in the top 10 best performers out of a universe of more than 8600 mutual funds listed by the Wall Street Journal. We've delivered better performance than over 99.8% of all US mutual funds since inception. It is also worth noting that the 31.7% annualized returns are net to investors – after all fees and expenses. Before fees and expenses, we averaged over 40% a year – better than every mutual fund tracked by the Wall Street Journal.

Lest we get overly exuberant, let me again state the obvious: 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 5-6 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. Just one in 200 money managers beats the indices by over 3% consistently. I consider a 3% out-performance versus the best index to be a superb long-term accomplishment.

Amendments Approved

In August I had recommended that three amendments be made to the PIF2 and PIF4 partnership agreements. These are:

1. Changing the General Partner to Dalal Street, LLC from Dalal Street, Inc. for tax efficiency for myself in California. (Approved by 100% of units in both funds)

2. Putting a 2-year lock-up on all funds that come into Pabrai Funds in 2006 and beyond from all investors (new and existing). This lock-up has no impact on any investments made through the end of 2005. (Approved by over 97% of units in both funds)

3. Adding a three-person advisory board to each fund to oversee a streamlined liquidation and return of proceeds to investors in the event of my death or mental disability. (Approved by 100% of units in both funds)

For PIF3, the aforementioned required approval by the directors and that was also approved and put in place. The most visible change the ammendments create is that funds added in 2006 and beyond are subject to a 2-year lock-up. I am not a big fan of lock-ups, but preferred it to the onerous upcoming fund registration requirements imposed by the SEC. The lock-up allows us to continue to be exempt from registration.

Alignment of Interests

All three funds are at alltime highs and higher than 6% annualized than the last time a fee was paid. A fee of $1,074,688 was paid for PIF2, $138,668 for PIF3 and $1,545,693 for PIF4. As I have always done, I've reinvested this fee back into PIF2 and PIF4 respectively. As a US Citizen, I cannot reinvest fees into PIF3.

Dalal Street (wholly owned by me) and myself (IRA etc.) have a stake of 585,335 units of PIF2, 7126 units of PIF3 and 280,350 units of PIF4. This stake is worth over $27 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.

My First Redemption

Even with mostly long-term gains, a $27 Million equity position leads to a very significant tax bill. Over the last six years, I've paid several million dollars in taxes out of my family's assets outside Pabrai Funds. As a result, this pool has dwindled over the years and inadequate to cover future taxes. On December 31, I will be making a redemption to cover estimated residual 2005 taxes, estimated 2006 taxes and funds to cover Dalal Street's 2006 expenses. I will have a better idea as to the exact number when I get PwC's estimated K-1 for PIF2 and PIF4 later this month. I will be redeeming from PIF2 only and will disclose the redemption amount in the December Letter to Partners.

Quarterly Reporting and Openings

Over the years several partners have requested that we report results on even quarterly boundaries. Starting in 2006, PIF2 and PIF4 will be open to add funds four times a year (down from the present six) and will be reporting results at the end of each quarter (assuming there is atleast one subscriber). PIF3 will continue to add funds and subscribers every month. Thus, from 2006 onwards, PIF2 and PIF4 investors will get statements and NAV reports for March 31, June 30, September 30 and December 31. My letter to partners will also go down to 4 times a year from the present 8. A positive side effect is that it'll reduce annual fund administration expenses for PIF2 and PIF4.

We will thus be open to add funds in PIF2 and PIF4 on January 1, April 1, July 1 and October 1. For PIF3, we'll be open to adding funds on the 1st day of each month.

Estimated K-1's

For PIF2 and PIF4 investors, we provide estimated K-1s in October and December. The first one gives their estimated gains through September 30 and 2nd through November 30th. We hope to get these mailed by mid-October and mid-December respectively. Your final K-1s are issued in March.

Also, please note that if you plan to redeem funds, we need to have the request in writing by November 1. Funds usually go out by mid-January based on the December 31 NAV.

Next Opening – November 1 (PIF3) and December 1, 2005 (all funds)

There are 2 funds open to <u>new investors</u> 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 December 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 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).

Please note that December 1 is the last date where new and existing investors can add funds without being subject to the 2-year lock-up period. Starting in January 2006, all moneys received from existing and new subscribers for all three funds will be subject to the 2-year lockup period.

2006 Annual Meetings – Save the date

As we did this year, there will be two annual meeting sequentially at Chicago and Orange County, California. The Chicago meeting is scheduled to be on Saturday, Sept. 16, 2006 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. 30, 2006 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 $190/night for the 30th. 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:

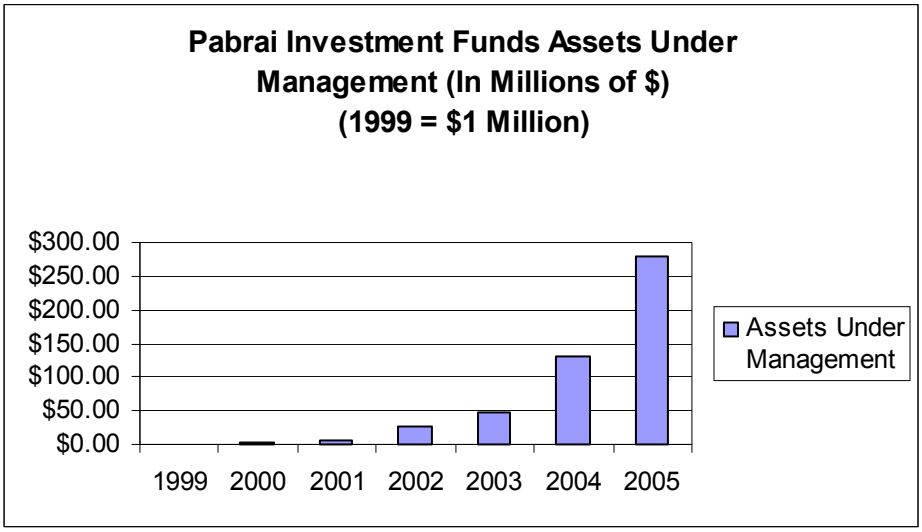
4:00 – 4:30 PM: Meet and Greet

4:30 – 6:30 PM: Presentation and Q&A
6:30 – 7:30 PM: Cocktail Hour
7:30 PM: Dinner

The invites will go out in June '06. Your significant other and kids of all ages are welcome to attend. I look forward to seeing you in September '06.

Assets Under Management

There is about $278 Million in assets under management between all the funds as of October 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
2,776,126	9/30/2005	$39.59

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
2,431,985	8/31/2005	$21.84
2,452,547	9/30/2005	$22.50

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
7,921,141	7/31/2005	$13.07
8,203,815	9/30/2005	$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.