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 7, 2009

Re: **Q3 2009 Results**

Dear Partners:

For the quarter ended September 30, 2009, $1.7 Million was added to the various funds by existing and new partners. The additions on a per fund basis are:

PIF2 (US Accredited): $0.3 Million

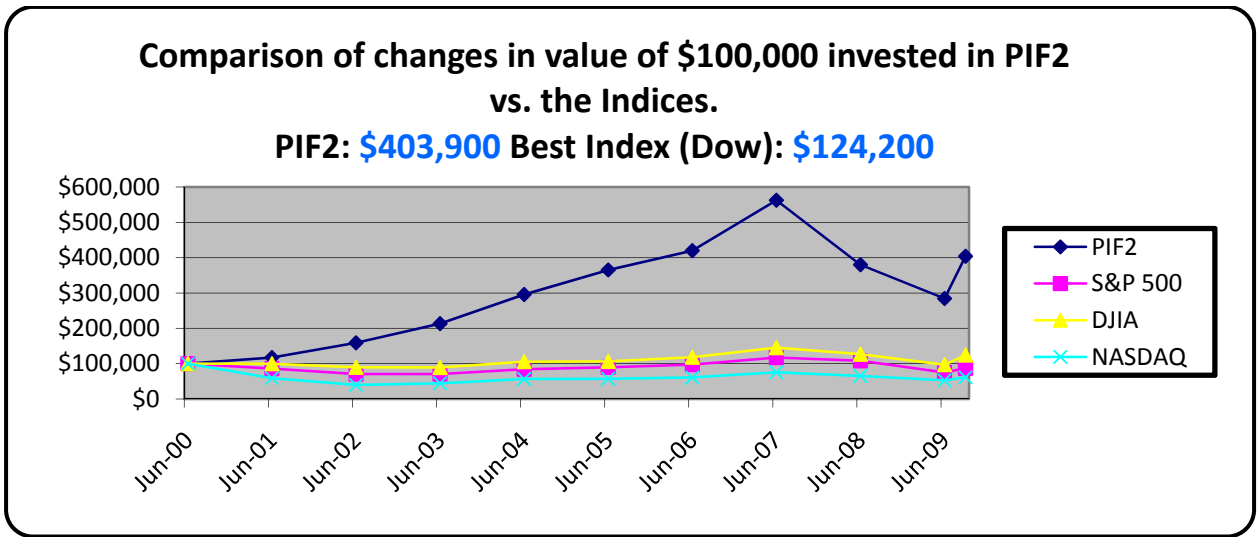
PIF3 (Offshore/IRA): $0.4 Million

PIF4 (US Qualified): $1.0 Million

The updated performance numbers on all the funds are:

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 – 6/30/06	+11.1%	+6.5%	+8.6%	+15.0%
7/1/06 – 6/30/07	+23.0%	+20.7%	+20.6%	+34.0%
7/1/07 – 6/30/08	-13.3%	-11.2%	-13.1%	-32.4%
7/1/08 – 6/30/09	-23.0%	-19.1%	-26.2%	-25.2%
7/1/09 – 9/30/09	+15.8%	+15.9%	+15.6%	+42.0%
1/1/09 – 9/30/09	+13.5%	+35.6%	+19.3%	+112.5%
Annualized	+2.4%	-5.3%	-1.5%	+16.8%
Cumulative	+24.2%	-38.8%	-13.1%	+303.9%

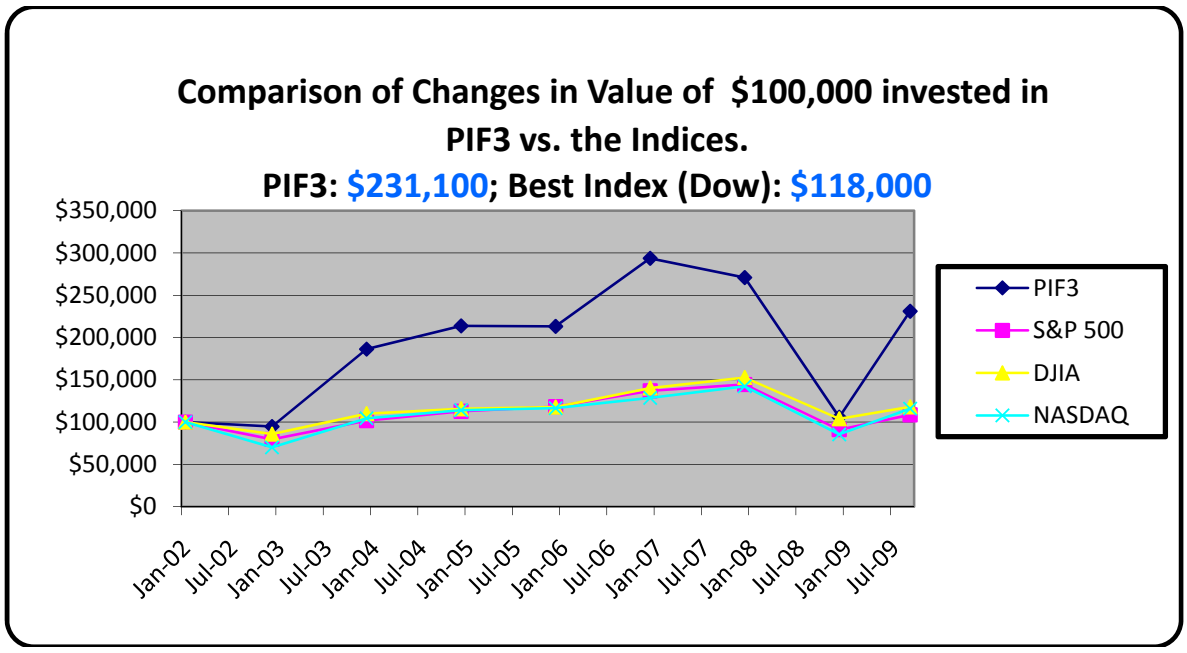


PIF2 Investors:

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 $565,900 as of Sept. 30, 2009 (net to investors). This equates to an annualized return of 18.4% 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 $112,800 on Sept. 30, 2009 – an annualized gain of 1.2%. The Dow gains include reinvested dividends. In the graph above, the start date for PIF2 is shown as June 2000 for readability. The correct start date is October 2000.

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 – 12/31/05	+1.7%	+2.1%	+4.9%	-0.2%
1/1/06 – 12/31/06	+19.0%	+10.4%	+15.8%	+37.8%
1/1/07 – 12/31/07	+8.9%	+10.7%	+5.5%	-7.8%
1/1/08 – 12/31/08	-31.9%	-39.9%	-37.0%	-60.9%
1/1/09 – 9/30/09	+13.5%	+35.6%	+19.3%	+118.6%
Annualized	+2.2%	+1.9%	+1.1%	+11.5%
Cumulative	+18.0%	+15.8%	+8.6%	+131.1%

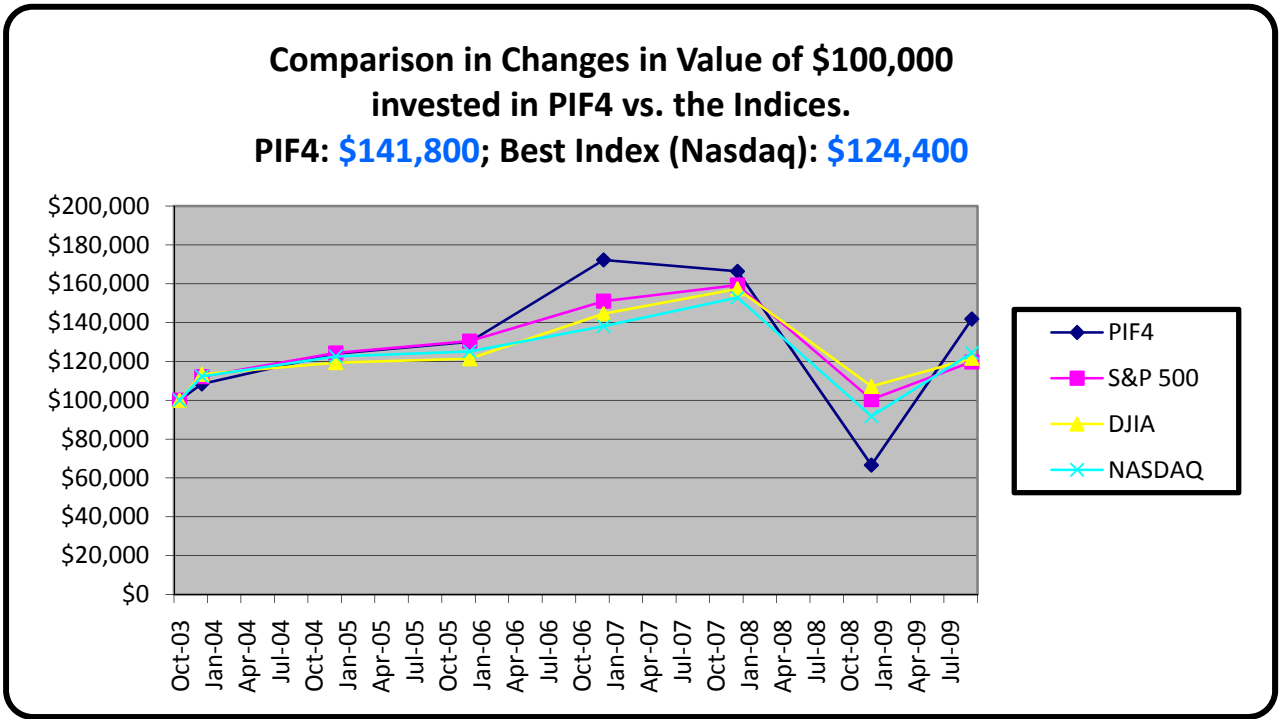


PIF3 Investors:

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $231,100 as of Sept. 30, 2009 (net to investors). This equates to an annualized return of 11.5% since inception. The best index over the same period was the Dow and an investment of $100,000 in the Dow on February 1, 2002 was worth $118,000 on Sept. 30, 2009 – an annualized gain of 2.2%. The Dow 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 – 12/31/05	+1.7%	+2.1%	+4.9%	+4.9%
1/1/06 – 12/31/06	+19.0%	+10.4%	+15.8%	+32.4%
1/1/07 – 12/31/07	+8.9%	+10.7%	+5.5%	-3.4%
1/1/08 – 12/31/08	-31.9%	-39.9%	-37.0%	-60.0%
1/1/09 – 9/30/09	+13.5%	+35.6%	+19.3%	+113.0%
Annualized	+3.3%	+3.7%	+3.0%	+6.0%
Cumulative	+21.6%	+24.4%	+19.7%	+41.8%



PIF4 Investors:

A $100,000 investment in PIF4 at inception on October 1, 2003 was worth $141,800 as of Sept. 30, 2009 (net to investors). This equates to an annualized gain of 6.0% since inception. The best index over the same period was the Nasdaq Composite and an investment of $100,000 in the Nasdaq Composite on October 1, 2003 was worth $124,400 on Sept. 30, 2009 – an annualized gain of 3.7%. The Nasdaq gains include reinvested dividends.

General Comments

All three funds are up over 110% thus far in 2009 and are beating all three indices by meaningful margins. Our year-to-date (YTD) performance is the best in Pabrai Funds ten year history. It's worth keeping all of this in perspective. We have yet to fully make up all the ground we lost in 2008. We are, however, making great progress towards that near-term goal.

While the quarter and YTD results look great, my focus has always been on our long term results. And they must be superior to the indices – after all fees and expenses – to justify Pabrai Funds' existence. As we can clearly see in the preceding three pages, all three funds have performed meaningfully better than the indices since their respective inceptions.

A Tale of Two Periods

It is instructive to look at Pabrai Funds performance numbers as two distinct periods. The first is from inception of each fund through 6/30/07. And the second is 7/1/07 to the present.

The First Period: Inception to 6/30/07
(Annualized Returns)

	Launch Date	Fund	Best Index
PIFI/PIF2	7/1/99	+29.4%	+4.6% (Dow)
PIF3	2/1/02	+22.0%	+7.9% (Dow)
PIF4	10/1/03	+20.2%	+13.7% (S&P 500)

As is evident from the table above, the funds did exceptionally well from inception through mid-2007. The annualized degree of outperformance versus the best index ranges from 6.5% to an incredible 24.8%. The funds fully delivered on their objectives (and then some) during this period.

The data for the second period follows:

The Second Period: 7/1/07 to 9/30/09
(Annualized Returns)

	Fund	The Indices
PIFI/PIF2	**-13.7%**	**-10.8%** (Dow)
PIF3	**-15.8%**	**-12.5%** (S&P 500)
PIF4	**-14.1%**	**-7.8%** (Nasdaq)

The 2007-09 period has been a difficult one for equity investors. The best index has delivered a negative 7.8% return (annualized) over this period. And all three Pabrai funds have done worse. In the coming quarters/years, the first datapoint I'm looking forward to is when we've outperformed the indices from 2007 onwards. And the second more interesting datapoint will be when Pabrai Funds delivers positive results as measured from 2007 onwards. I'm unable to predict when that'll happen, but have some confidence that we'll be there in the coming quarters/years. I shall present updated data on this front periodically in future letters.

All three funds are beating all three indices for periods ranging from three years to five years to life of fund. Here is the detailed data:

Performance Comparison: PIF2 vs. The Best Index
(Annualized – as of 9/30/09)

	3 Years	5 Years	Life of Fund (10 ¼ years)
PIF2	**+1.6%**	**+6.8%**	**+18.4%**
Best Index	**-1.2%** (Nasdaq)	**+3.1%** (Nasdaq)	**+1.2%** (Dow)
Margin of Outperformance	**+2.8%**	**+3.7%**	**+17.2%**

Performance Comparison: PIF3 vs. The Best Index
(Annualized – as of 9/30/09)

	3 Years	5 Years	Life of Fund (7.7 years)
PIF3	+0.2%	+4.5%	+11.5%
Best Index	-1.2% (Nasdaq)	+3.1% (Nasdaq)	+2.2% (Dow)
Margin of Outperformance	+1.4%	+1.4%	+9.3%

Performance Comparison: PIF4 vs. The Best Index
(Annualized – as of 9/30/09)

	3 Years	5 Years	Life of Fund (6 years)
PIF4	+0.2%	+5.6%	+6.0%
Best Index	-1.2% (Nasdaq)	+3.1% (Nasdaq)	+3.7% (Nasdaq)
Margin of Outperformance	+1.4%	+2.5%	+2.3%

I'm singularly focused on endeavoring to continue to deliver positive results and outperform the best index by decent margins. We own some tremendous assets managed by some of the very best managers on the planet. These positions will eventually change hands at substantially higher levels.

Pabrai Funds 2009 Annual Meeting Slides

We had two very successful annual meetings in September in Chicago and Southern California. I'm very grateful to Cari, Diana, Nickii, and Isabelle for all their diligence in organizing the various facets of the meetings and dinners so flawlessly. We had about 140 and 200 folks attend the meetings respectively in Chicago and California and it was a pleasure meeting old friends and welcoming new ones.

The annual meeting slides are now on the website for your perusal:

http://www.pabraifunds.com/website/2009_PIF_AM_Slides.pdf

Alignment of Interests

All three funds are below their historic NAVs and hence no fees were earned by any of the funds for the quarter. My immediate family has a stake of 479,206 units of PIF2, 8417 units of PIF3 and 1,249,637 units of PIF4. This stake is worth over $37 Million.

Besides the previously disclosed stake and small investment in Dardashti Capital (worth about $1.1 Million), my family has no interests in any other mutual funds, hedge funds or private equity funds. 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. Investors who add funds when we are below the high-water mark (like now), get a free ride (no fees) until we're back at the high water mark plus 6% annualized from that date. It is a great deal.

2010 Annual Meetings – Save the Date

As is our usual modus operandi, there will be two annual meetings sequentially at Orange County, California & Chicago, Illinois.

The **California** meeting is scheduled to be on **Saturday, Sept. 11, 2010** 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 will have 10 rooms set aside for the event at a TBD rate. Please call the hotel directly and book your room 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.

The Chicago meeting is thus scheduled to be on **Saturday, Sept. 25, 2010** at 4:00 PM at 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. Good deals on O'Hare hotels are usually available on the major travel-related websites.

Agenda:

4:00 – 4:30 PM:	Meet and Greet
4:30 – 6:30 PM:	Presentation and Q&A
6:30 – 7:15 PM:	Cocktail Hour
7:15 PM:	Dinner

The invites will go out in July 2010. Your significant other and kids of all ages are welcome to attend. I look forward to seeing you in September.

Annual Book Gift

We send a book as a gift every year to all investors. This year the book I'd like to send won't be released till right after year-end. So, as a heads-up, we haven't forgotten about you. You'll just receive it in January. I'm sure you'll enjoy it.

Next Opening – January 1, 2010 (all funds); November 1, 2009 (PIF3)

There are two funds open to <u>new investors</u> to add funds - PIF3 and PIF4.

The minimum investment for PIF4 is now reduced to $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 January 1, 2010.

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 $10,000,000 for US Tax-exempt accounts and $1,000,000 for offshore investors. Next opening date for PIF3 is November 1, 2009.

Existing partners in any of the Pabrai Funds can add funds in increments of $25,000 at each opening (with a $25,000 minimum).

PIF2/PIF4 open once every quarter to add funds from new/existing investors (1/1, 4/1, 7/1, 10/1) while PIF3 is open to add funds on the 1st day of every month.

Redemptions

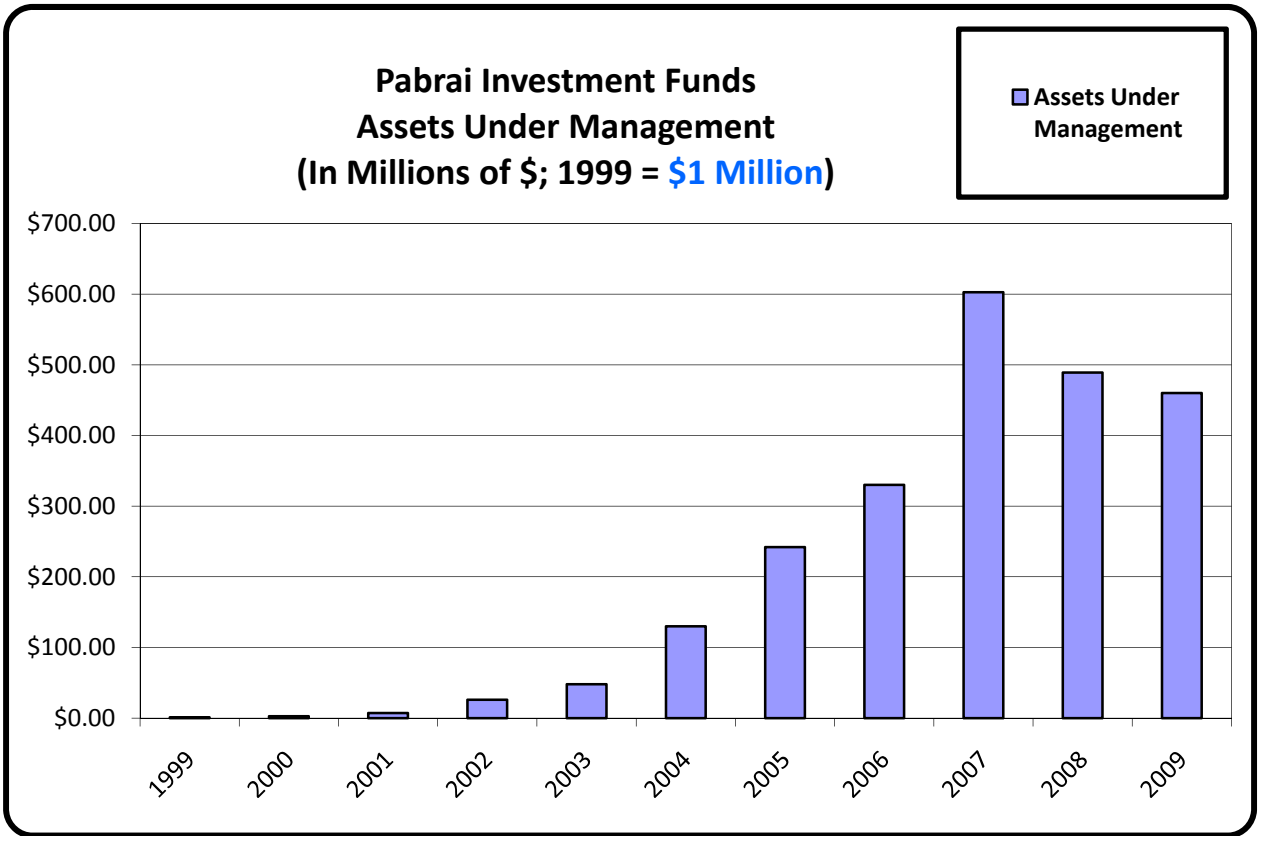
Please note that if you plan to redeem funds, we need to have the request in writing by November 1, 2009. Funds go out by mid-January based on the December 31 NAV.

Estimated K-1's (for US Investors)

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

Assets Under Management

There is over $460 Million in assets under management between all the funds as of Oct. 1, 2009.



Thanks for your continued interest, referrals and support. Feel free to call me at +1949.453.0609 or email me at mp@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
2,646,687	6/30/2006	$41.99
3,013,111	6/30/2007	$56.25
2,934,990	6/30/2008	$38.01
2,468,091	6/30/2009	$28.45
2,476,137	9/30/2009	$40.39

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
2,478,793	12/31/2005	$21.32
2,930,608	12/31/2006	$29.37
6,438,615	12/31/2007	$27.09
5,415,189	12/31/2008	$10.57
5,415,189	1/31/2009	$10.36
5,483,667	2/28/2009	$9.27
5,483,667	3/31/2009	$10.38
5,491,177	4/30/2009	$13.31
5,499,075	5/31/2009	$15.82
5,499,075	6/30/2009	$15.77
5,503,733	7/31/2009	$19.31
5,513,826	8/31/2009	$21.30
5,517,313	9/30/2009	$23.11

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
9,314,803	12/31/2005	$13.01
11,528,331	12/31/2006	$17.23
16,899,746	12/31/2007	$16.64
15,737,042	12/31/2008	$6.66
15,913,793	3/31/2009	$6.54
16,321,169	6/30/2009	$10.01
16,393,431	9/30/2009	$14.18

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.