PABRAI INVESTMENT FUNDS

1220 Roosevelt, Suite 200
Irvine, CA 92620-3667
USA

Tel. +1949.453.0609
mp@pabraifunds.com
www.pabraifunds.com

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

From: Mohnish Pabrai, Managing Partner

Date: October 11, 2012

Re: **Q3 2012 Results et. al.**

Dear Partners:

For the quarter ended September 30, 2012, $15.8 million was added to PIF3 by existing and new partners.

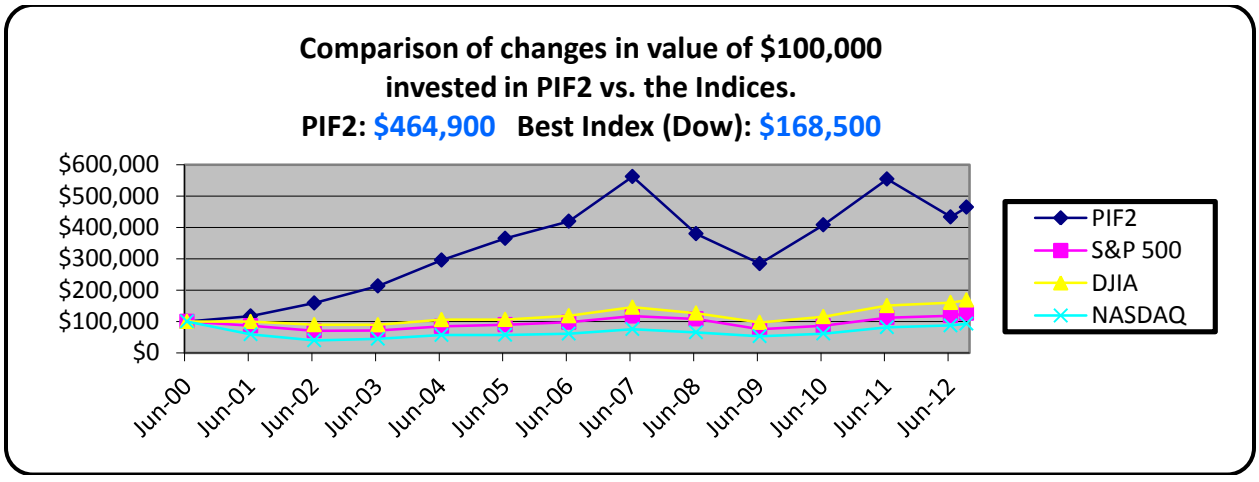
After almost 2 years of having closed all the funds to new money/investors, PIF3 re-opened to new money from existing or new investors on August 1, 2012. PIF3 is our offshore fund for Accredited Investors and Institutions based outside the United States. To invest in PIF3, one needs to be a non-US accredited offshore investor, private foundation, endowment, or IRA.

The minimum investment to join as a new partner is $2.5 million for individuals and $10 million for IRAs/Foundations/Endowments. For current investors, the minimum increase to their current investment is $25,000. The next opening is on November 1, 2012. If you are interested or would like more information, please contact us at mp@pabraifunds.com.

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%
7/1/09-6/30/10	+18.9%	+16.0%	+14.4%	+43.6%
7/1/10-6/30/11	+30.4%	+32.9%	+30.7%	+35.8%
7/1/11-6/30/12	+5.2%	+5.4%	+3.9%	-21.8%
7/1/12-9/30/12	+5.0%	+6.5%	+6.4%	+7.2%
1/1/12-9/30/12	+12.2%	+20.7%	+16.5%	+8.1%
Annualized	+4.4%	-0.6%	+2.0%	+13.7%
Cumulative	+68.5%	-7.1%	+26.1%	+364.9%

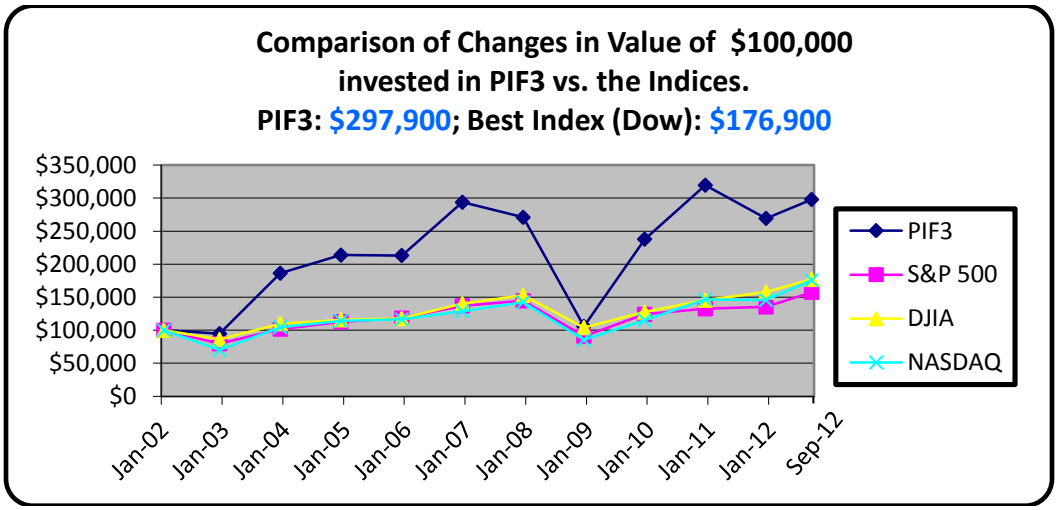


PIF2 Investors:

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 $651,400 as of September 30, 2012 (net to investors). This equates to an annualized return of 15.2% 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 $166,800 on September 30, 2012 – an annualized gain of 3.9%. 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%
1/1/09-12/31/09	+22.7%	+45.4%	+26.5%	+125.0%
1/1/10-12/31/10	+14.1%	+18.2%	+15.1%	+34.4%
1/1/11-12/31/11	+8.4%	-0.8%	+2.1%	-15.7%
1/1/12-9/30/12	+12.2%	+20.7%	+16.5%	+10.6%
Annualized	+5.5%	+5.4%	+4.4%	+10.8%
Cumulative	+76.9%	+75.7%	+57.5%	+197.9%

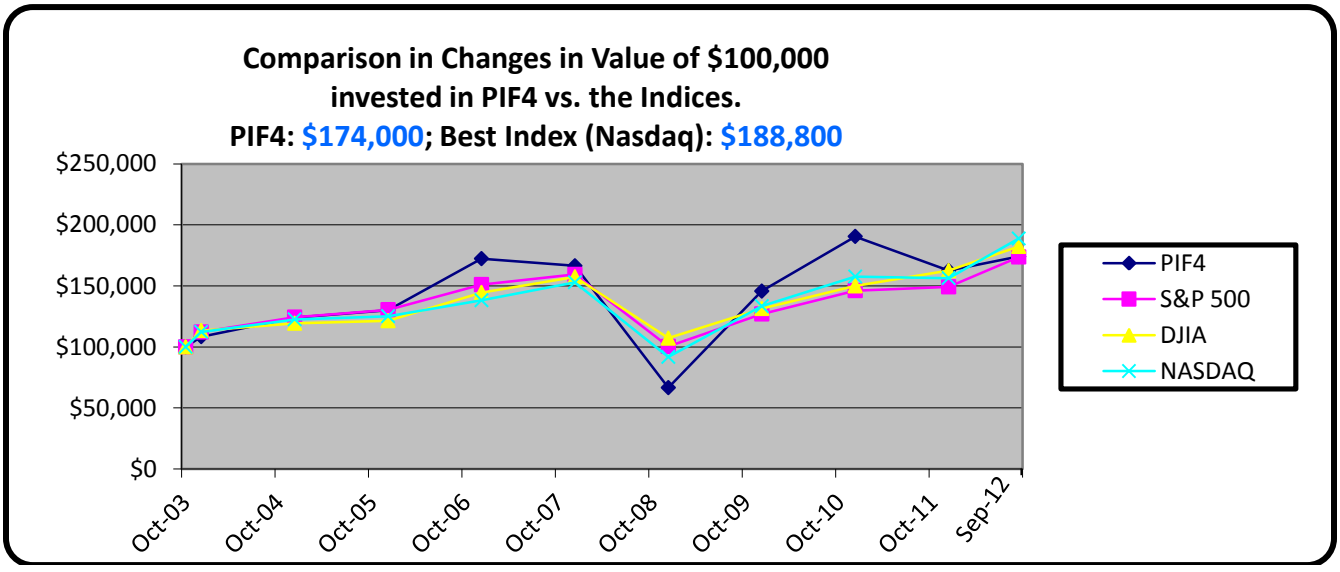


PIF3 Investors:

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $297,900 as of September 30, 2012 (net to investors). This equates to an annualized return of 10.8% 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 $176,900 on September 30, 2012 – an annualized gain of 5.5%. The Dow gains include reinvested dividends. In the graph above, the start date for PIF3 is shown as Jan. 1, 2002 for readability. The correct start date is Feb. 1, 2002.

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%
1/1/09-12/31/09	+22.7%	+45.4%	+26.5%	+118.8%
1/1/10-12/31/10	+14.1%	+18.2%	+15.1%	+30.7%
1/1/11-12/31/11	+8.4%	-0.8%	+2.1%	-14.8%
1/1/12-9/30/12	+12.2%	+20.7%	+16.5%	+7.1%
Annualized	+6.9%	+7.3%	+6.3%	+6.3%
Cumulative	+82.3%	+88.8%	+73.7%	+74.0%



PIF4 Investors:

A $100,000 investment in PIF4 at inception on October 1, 2003 was worth $174,000 as of September 30, 2012 (net to investors). This equates to an annualized gain of 6.3% since inception. The best index over the same period was the Nasdaq Composite and an investment of $100,000 in the Nasdaq on October 1, 2003 was worth $188,800 on September 30, 2012 – an annualized gain of 7.3%. The Dow gains include reinvested dividends.

General Comments:

I continue to be very pleased with the overall portfolio. We own a set of exceptional businesses run by exceptional managers bought at exceptional prices. In aggregate, they are priced today at a massive discount to my estimation of underlying intrinsic value – which likely bodes well for us in the years ahead. Of the $510 Million in assets, over $110 Million is sitting on the sidelines - in cash. I haven't found anything interesting in the last few months to invest in – which is typical for us. I'm very content to hold that cash - pretty much indefinitely – until compelling opportunities surface.

TARP Warrants

In the fall on 2008, in the wake of the greatest financial crisis in over three quarters of a century, the United States Congress approved and President Bush signed into law the Troubled Asset Relief Program (TARP). TARP allowed the US Treasury to purchase up to $700 Billion in "troubled assets." Treasury Secretary Paulson mostly used the program to shore up the country's banks by injecting massive doses of equity into them. In return for the much needed equity infusion, the banks issued preferred stock to the US Treasury and supplemented them with warrants as an additional kicker. As warrants go, these TARP Warrants are highly unusual and heavily favor the investor (over the issuer).

Over the last few quarters, the US Treasury has been a seller of these warrants – and many of them trade like stocks. In addition TARP-like warrants were issued by the likes of AIG and General Motors as part of their bailouts. It is clear from reading the fine print on the TARP warrants that the documents were prepared by Treasury staff. The institutions were pretty much told where to sign.

Take the example of the GM Class B Warrants. Besides the US Government, GM creditors got some of these warrants in lieu of their claims in bankruptcy court. A single GM Class B Warrant gives one the right to acquire one share of GM stock at a price of $18.33 anytime until July 10, 2019. In addition, the exercise price gets adjusted downward if there are dividends or stock splits. The dividend adjustment is an unusual feature and very much pro-investor. These warrants were issued with a ten-year life – which is also unusual.

GM stock (which Pabrai Funds owns) is presently changing hands at around $24.45/share. The Class B Warrants are also publicly traded and can be bought for about $9.40/warrant. The warrant is $6.12 in the money. If one has a view that GM is significantly undervalued, the warrant is likely to yield a higher return.

For example, if GM were to trade at $50, $75 or $100 in 2019, an investor in GM stock would end up with a gross return of 105%, 207% or 309%, respectively. An investor in the warrant would end up with a return of 137%, 503% and 770%, respectively. Once GM gets past $30, the warrant delivers a higher return. Of course, should GM languish below $29, holding the stock would be a better bet.

I was under the mistaken belief that the fund docs explicitly prohibited delving into derivative instruments. My confidence stemmed from the fact that I had myself insisted that such restrictive language be in there. As I went back and took a look at all three fund docs in preparation for writing this section, I was surprised to find that these restrictions are only in place in PIF4. The PIF2 and PIF3 legal offering

documents explicitly allow delving into derivatives. As an aside, none of the funds have delved into any derivatives in the past.

Except for some of the TARP and TARP-like warrants I have zero interest in investing any of the funds' assets in derivative instruments. Warren Buffett rightfully calls them financial weapons of mass destruction.

The good news is that two of the three funds can invest in these TARP Warrants – and I am again taking a closer look at them. For PIF4, the funds can delve into derivatives if over 50% of the asset holders are in favor. $1 gets one vote. To this end, before putting it to a formal vote, I'd like to hear from PIF4 investors if they are in favor or opposed to some PIF4 assets being invested in TARP Warrants. Please send me an email (mpabrai@pabraifunds.com) expressing your candid view. If the feedback is overwhelmingly favorable, I'll put it to a formal vote.

Pabrai Funds 2011 Annual Meeting Slides

We had two very successful annual meetings in September in Chicago and at our new venue in California. I'm very grateful to Nickii, Lynn, Jeneva and Julie for all their diligence in organizing the various facets of the meetings and dinners so flawlessly. We had 150 folks at each of the meetings and it was a pleasure to meet old friends and partners and welcome new ones.

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

http://www.pabraifunds.com/website/2012_PIF_AM_Slides.pdf

Webcast with University of California, Davis MBA Students

In August, Guy Spier (the Managing Director of Aquamarine Funds in Zurich) and I participated in a video conference with the MBA Value Investing class at UC Davis. Here is the link to this discussion with the UCD students:

http://tinyurl.com/9r2ox5z

Estimated K-1's (for US Investors)

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 the second through November 30th. We hope to get these mailed by late-October and late-December, respectively. Your final K-1s are issued in March.

Redemptions

Please note that if you plan to redeem funds, we must have the request in writing by November 1, 2012. Funds go out by January 20th based on the December 31 NAV. To get the redemption form emailed to you, please nudge Julie Teltscher at jteltscher@pabraifunds.com.

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 372,782 units of PIF2; 8417 units of PIF3; 1,224,824 units of PIF4 and about 38,000 units of PIF4 in a retirement account. This stake is worth over $39 Million.

Besides the previously disclosed stake and small investment in Dardashti Capital (worth about $1.2 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.

2013 Annual Meetings – Save the Date

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

The **California** meeting is scheduled to be on **Saturday, Sept. 7, 2013** at 4:00 PM. We were very pleased with our new venue this year and will return to Soka University next year.

Soka University
Performing Arts Center
1 University Drive, Aliso Viejo, California 92656 Tel. +1949.480.4000

Soka University has a spectacular campus nestled in the scenic hills of Aliso Viejo. It is a 20 minute drive from Orange County Airport (SNA), and about an hour drive from LAX.

There is a fantastic Marriott Club Sport hotel about 3 miles from Soka University:

Marriott Renaissance ClubSport
50 Enterprise
Aliso Viejo, CA 92656
Reservations: 800-468-3571
Phone: 949-643-6700

There are many hotels in the area. Here is a link to other hotels near Soka University:

http://tinyurl.com/8dmevvu

The Chicago meeting is thus scheduled to be on **Saturday, Sept. 21, 2012** at 4:00 PM at the same 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. Good deals on O'Hare hotels are usually available on the major travel-related websites.

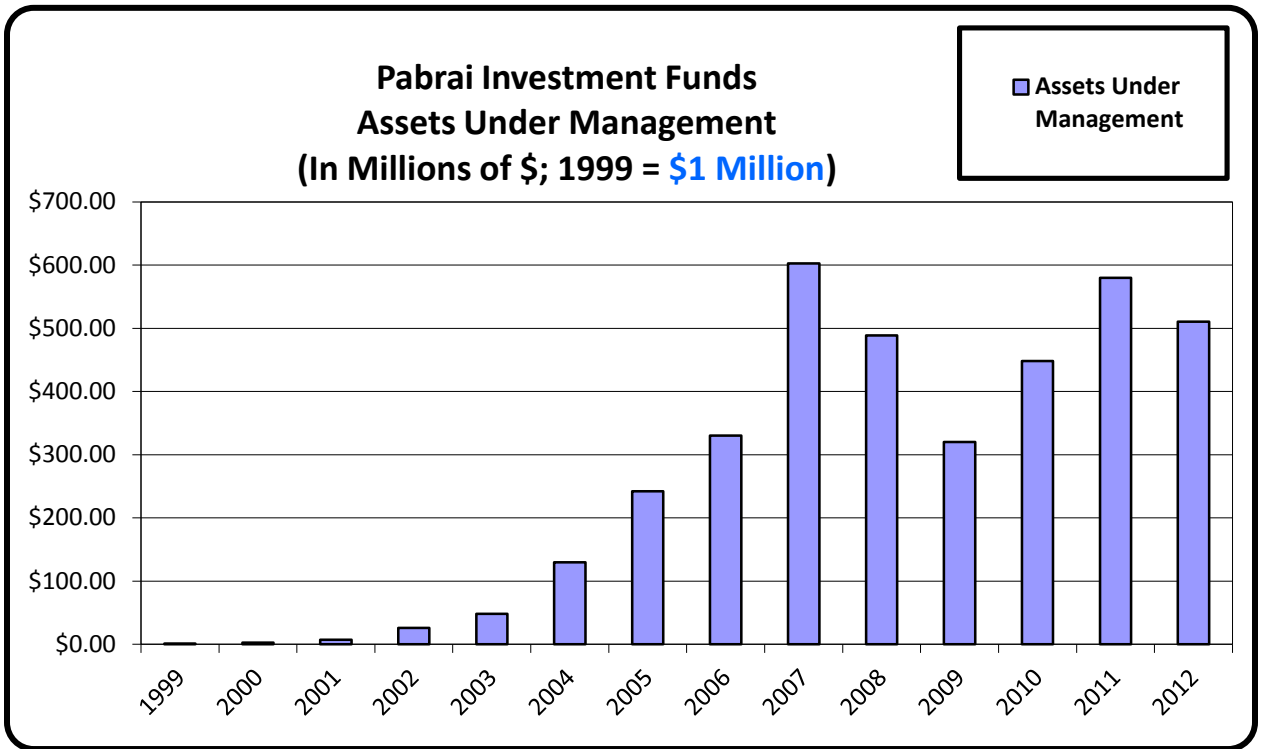
Agenda:

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, 2013. Your significant other and kids of all ages are welcome to attend. I look forward to seeing you in September.

Assets Under Management

There is over $510 million in assets under management between all the funds as of October 1, 2012.



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

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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
2,409,165	6/30/2010	$40.84
2,257,421	6/30/2011	$55.46
2,180,892	6/30/2012	$43.36
2,180,892	9/30/2012	$46.49

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
5,038,658	12/31/2009	$23.79
4,885,267	12/31/2010	$31.95
4,701,613	12/31/2011	$26.92
4,701,613	1/31/2012	$31.24
4,701,613	2/29/2012	$32.96
4,701,613	3/31/2012	$33.21
4,701,613	4/30/2012	$31.40
4,701,613	5/31/2012	$27.39
4,701,613	6/30/2012	$27.96
5,236,648	7/30/2012	$27.52
5,268,587	8/30/2012	$28.77
5,272,461	9/30/2012	$29.79

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
15,725,066	12/31/2009	$14.57
15,251,129	12/31/2010	$19.05
14,493,835	12/31/2011	$16.24
14,494,087	3/31/2012	$19.63
14,532,117	6/30/2012	$16.26
14,532,342	9/30/2012	$17.39

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.