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 13, 2003

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

Dear Partners:

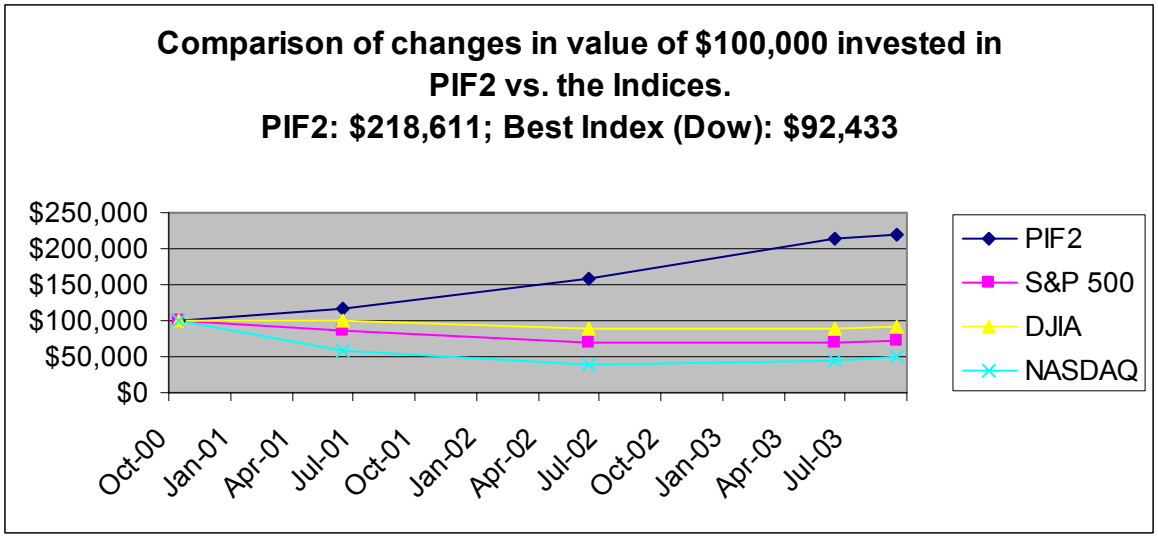
A total of $7.4 Million in new funds were added to the Pabrai Funds on October 1, 2003. Pabrai Investment Fund 4, LP (PIF4) was launched on October 1 as well. The breakup of money that came into the various funds was:

PIF2: $1.2 Million PIF3: $275,000 PIF4: $5.95 Million

Here are the updated performance numbers on all the funds:

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 – 9/30/03	**+3.8%**	**+10.2%**	**+2.7%**	**+2.5%**
1/1/03 – 9/30/03	**+13.1%**	**+34.3%**	**+14.7%**	**+54.7%**
Annualized	**-2.6%**	**-21.1%**	**-10.1%**	**+29.8%**
Cumulative	**-7.6%**	**-50.8%**	**-27.4%**	**+118.6%**

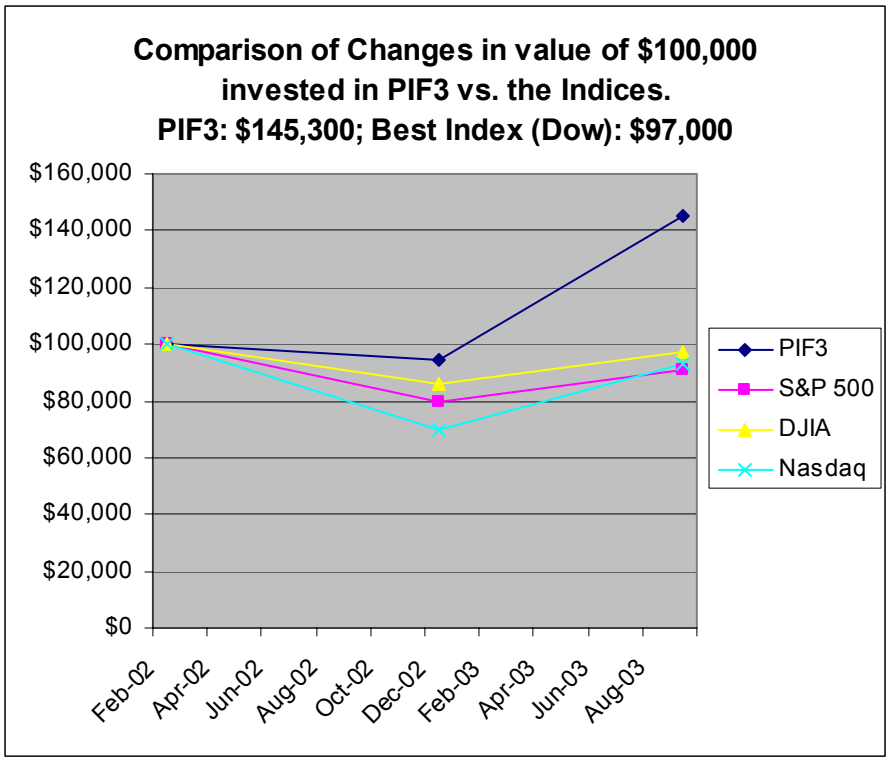


US-based Investors:

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 $306,164 as of Sept. 30, 2003 (net to investors). This equates to an annualized return of 30.1% since inception.

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 – 9/30/03	**+13.1%**	**+34.3%**	**+14.7%**	**+53.3%**
Annualized	**-1.8%**	**-4.2%**	**-5.7%**	**+25.1%**
Cumulative	**-3.0%**	**-6.9%**	**-9.3%**	**+45.3%**



Offshore Investors:

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $145,300 as of Sept. 30, 2003 (net to investors). This equates to an annualized return of 25.1% since inception.

General Comments

The diligent reader will notice that PIF2 and PIF3 are up 54.7% and 53.3% respectively in value for the first 9 months of 2003. Both funds are also at historic highs. While these facts are interesting, investors are best off focusing on long-term performance rather than a few months. Since inception in 1999, PIFI/PIF2 have delivered an annualized return of 30.1%. PIF3 was launched in 2002 and it has delivered an annualized return of 25.1% since then. I'd like to again express that annualized gains of this magnitude are an anomaly and not to be expected going forward.

I do expect the 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 4 years. Partners would be best off setting their expectations for The Pabrai Investment Funds to outperform the best of the three indices by a small margin over the long haul.

PIF4, being mostly cash, is currently valued at a small discount to its intrinsic value. I expect that this discount will rise over the coming years, as I'm able to take advantage of a few good investment ideas annually. PIF2 and PIF3 are clearly far less undervalued than they

were a year ago, but both are presently valued at a 25% or higher discount to my conservative estimate of their respective intrinsic values.

I believe the market as a whole is overvalued. It is very hard to find good investment ideas in these euphoric markets, but I'm in no particular hurry. All markets do eventually get to trading around a fair valuation. Whether this "correction" takes place over a day, a year or ten years is unpredictable. In the meanwhile, I love to crawl through the crevices of inefficiency that exist in all markets to find that rare fat pitch.

Alignment of Interests

On Sept. 30, since PIF2 and PIF3 were at historic highs, management fees were payable. PIF3 paid a management fee of $98,842.50 when it hit a historic high on 8/31/03 and $17,159.87 when it again hit a new high on 9/30/03. Since PIF3 is an offshore fund, I cannot invest in it and am required to take the fee out of the fund.

A management fee of $171,708.34 was paid (wholly owned by me) by PIF2 on 10/1/03. As I have always done, this fee was reinvested in PIF2 on 10/1/03. Dalal Street has 228,935 units of PIF2. This stake was worth about $5 Million as of 10/1/03. Thus I have a deep vested interest in the future performance of The Pabrai Funds. When you win, I win. Our interests are completely aligned. I am very bullish on the long-term future of The Pabrai Funds – as demonstrated by my being the single largest investor in the funds.

Next Opening – December 1, 2004 for US Investors

There are 2 funds open to <u>new investors</u> to add funds - PIF3 and PIF4.

To invest in PIF3, one needs to be a non-US accredited offshore investor. The minimum investment to join PIF3 as a new partner is $100,000 and the next opening is on November 1, 2003.

The next opening for PIF4 is on December 1, 2004. The minimum investment is $250,000 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. Please refer to those documents for the precise definition. Simplistically, individual investors are considered qualified if they are accredited investors (at least a $1 Million net worth) and have at least $5 Million in investments. If, for example, a person owned $5 Million worth of commercial real estate with a $4 Million mortgage on it, she would be considered a qualified investor as she has at least a $1 Million net worth and $5 Million in investments.

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's next opening to add funds is December 1, 2003. PIF3's next opening is November 1, '03. PIF2 and PIF4 typically open six

times a year to add funds (Feb. 1, April 1, June 1, August 1, Oct. 1 and Dec. 1). PIF3 opens monthly on the 1st day of each month to add funds.

Annual Meetings Slides & Transcript

Both the Chicago and Orange County annual meetings for Pabrai Funds, held on 9/13 and 9/20 respectively, went off smoothly. There were about 80 attendees in Chicago and about 25 in Irvine, California. I'd like to thank all the partners, potential partners and their families who took time out of their busy schedules on a Saturday afternoon to attend. Also thanks to Pabrai Funds Office Manager, Julie Shiposh, for organizing the various facets of the meeting and transcribing the presentation and Q&A session.

I have posted the 2003 Annual Meeting Presentation Slides and the Transcript including the rich Q&A session on the Pabrai Funds website.

Presentation to TiE Seattle on Sept. 18. 2003

The Seattle chapter of The Indus Entrepreneurs (www.tie.org; www.tie-seattle.org) invited me to speak to their members on Sept. 18, 2003. The slides of the talk entitled, "Entrepreneurship and Value Investing: Two Sides of the Same Coin.", are on the Pabrai Funds website.

I tend to use PowerPoint slides as a prompter for organizing my thoughts. Thus most of the content of the talk and the rich Q&A are, unfortunately, not on the slides. The best way to learn is to teach. Preparing and giving the talk were terrific learning experiences.

California Summer Reading

The time I get to read books is inversely proportional to the level of the Dow Jones index. When we have times like 2003 when markets are very overvalued, I find myself with more time for general reading and if we were to witness markets like 1974 again, then general reading would go out the window.

I'm periodically questioned on the contents of my bookshelf on the website and specifically where I would suggest getting started. It's a difficult question to answer as it depends on one's aptitudes and interests. However, I decided that I'd periodically discuss a few books read recently and in the not too distant past to help folks decide for themselves if they are likely to enjoy certain books over others.

The best book on Warren Buffett (in my opinion) is The Making of an American Capitalist by Roger Lowenstein. It's a good book to get started on Buffett. Following Lowenstein's book, I'd recommend reading Buffett's Letters to Shareholders from 1977 to 2002. You can also get a hard copy of the letters (3 bound books) by sending proof of shareholding or a check for $35 to Berkshire Hathaway, Inc. 3555 Farnam Street, Suite 1440, Omaha, NE 68131.

The letters should be read and re-read a few times. For $35 one would get a far better education on business (and life in general) than spending 2 years and $100,000 getting a Harvard MBA.

Over the summer, I read two books on games that I have no competency in – baseball and poker. That didn't stop me from learning a few things and thoroughly enjoyed both books. The first, on baseball, is Moneyball: The Art of Winning an Unfair Game by Michael Lewis and the second, on poker, is Positively Fifth Street: Murderers, Cheetahs, and Binion's World Series of Poker by James McManus. Moneyball is a terrific book that's really all about value investing and leveraging Munger's Latticework of Mental Models to exploit glaring inefficiencies in major league baseball salaries vs. talent.

When the author of a book on poker references some of my favorite books like Why Is Sex Fun?, Guns, Germs and Steel (both by Jared Diamond) and How the Mind Works by Steven Pinker (one that's arrived, but not yet read), my curiosity was piqued. McManus and Lewis are very talented writers and I loved the candid writing style. Both books are very entertaining and I found myself laughing out loud on more than one occasion.

This was my first summer in Southern California and I thoroughly enjoyed it. A special unexpected bonus is the amazing cool Mediterranean weather at nights with zero humidity and zero bugs! I do most of my reading after the kids go to bed and it's been very nice to have the doors open – letting in a gentle breeze off the Pacific while settling in with a good book.

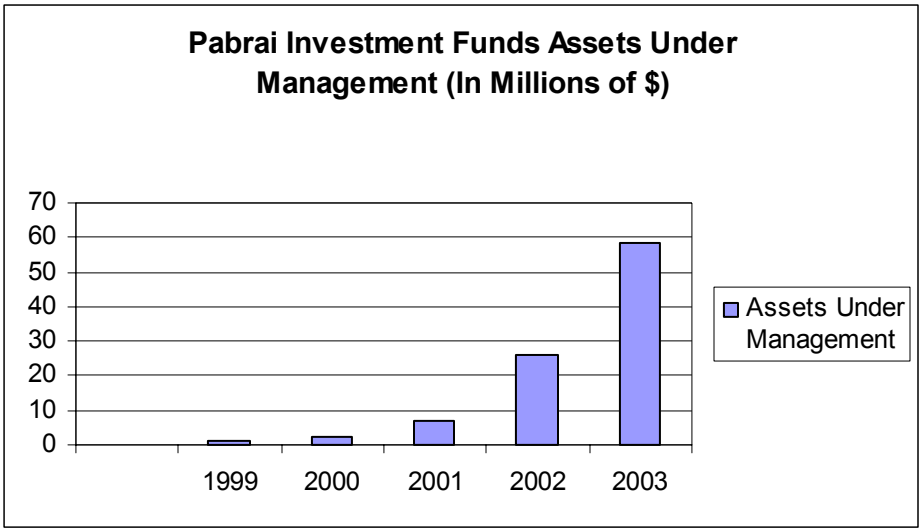
Some of the other good reads this summer included Investment Biker and Adventure Capitalist (both by Jim Rogers). Rogers went around the world on a motorcycle about a decade ago and then he did the same trip at the turn of the millennium in a car. He's been a very successful investor (and a partner of George Soros) for decades and both books are worth reading for their uniqueness. You can't find any other book that in one paragraph describes the beauty of the Victoria Falls and in the next goes into the diverse investing climate in the two countries on either side of the falls. While I don't agree with some of Jim's investing perspectives, he's clearly a smart value guy and one can learn a lot from him about the world we live in.

The only person who comes to mind as being more adventuresome and a better capitalist than Rogers is Richard Branson. His biography, Losing My Virginity, is another terrific read. I highly recommend Branson's book for its candor and insights on starting and growing businesses. Branson reinforces Amar Bhide's (author of The Origin and Evolution of New Businesses) thesis that most startups are low-risk ventures. My talk on Sept. 18 to TiE-Seattle focused on how entrepreneurship and investing are closely related with both being low-risk arbitrage oriented vocations. Finally, I enjoyed reading Fooled by Randomness by Nassim Nicholas Taleb. Taleb is a trader and he does come across occasionally as full of himself. Nonetheless he a bright individual and provides very keen insights on how humans

mistake randomness for a set of determinate patterns. Well worth reading, even for a value investor.

Assets Under Management

There was about $59 Million in assets under management between all the funds as of October 1, 2003. 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
110000	10/1/2000	$10.00
330014	6/30/2001	$11.74
1027795	6/30/2002	$15.89
1950982	6/30/2003	$21.32
2035719	7/31/2003	$20.95
2098511	9/30/2003	$21.86

PIF3's Performance History (Net to Investors)

No. of Units	Date	PIF2 NAV
65100	2/1/2002	$10.00
265919	12/31/2002	$9.48
268596	1/31/2003	$9.34
271250	3/31/2003	$9.42
273270	5/31/2003	$12.38
280694	6/30/2003	$13.47
440620	7/31/2003	$13.60
449337	8/31/2003	$14.34
449337	9/30/2003	$14.53

PIFI's Performance History (Net to Investors)

NAV after all expenses (including accruals) was **$19.79/unit** as of 12/31/02 and PIFI was merged into PIF2 on 12/31/02. All the PIFI investors elected to move their units across to PIF2 at a ratio of 1.4 PIF2 units for every outstanding PIFI unit.

No. of Units	Date	PIFI NAV
100000	7/1/99	$10.00
164453	6/30/00	$15.05
230480	6/30/01	$13.78
216027	6/30/02	$22.54
216027	12/31/02	$19.79

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.