PABRAI INVESTMENT FUNDS

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

From: Mohnish Pabrai, Managing Partner

Date: December 7, 2004

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

Dear Partners:

On the December 1 subscription date, a total of $6.7 Million was added into the various funds by new and existing investors. In addition, $0.6 Million was added to PIF3 on November 1. Here are the subscriptions by fund for both dates:

PIF2: $0.8 Million

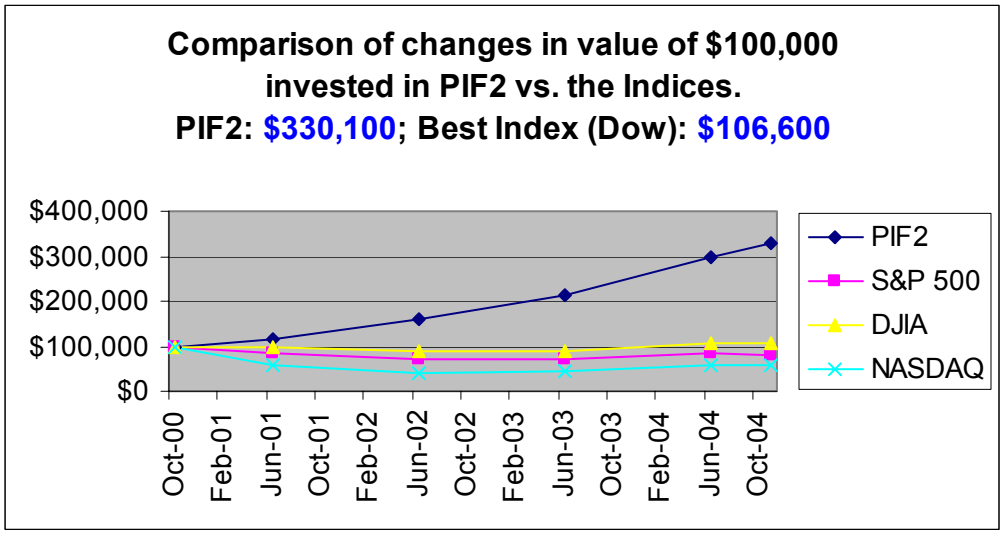
PIF3: $1.0 Million

PIF4: $5.5 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 – 11/30/04	**+0.9 %**	**+2.6%**	**+3.7%**	**+11.6%**
1/1/04 – 11/30/04	**+1.7%**	**+5.1%**	**+7.2%**	**+14.4%**
Annualized	**+1.6%**	**-12.2%**	**-3.2%**	**+33.2%**
Cumulative	**+6.6%**	**-41.9%**	**-12.7%**	**+230.1%**

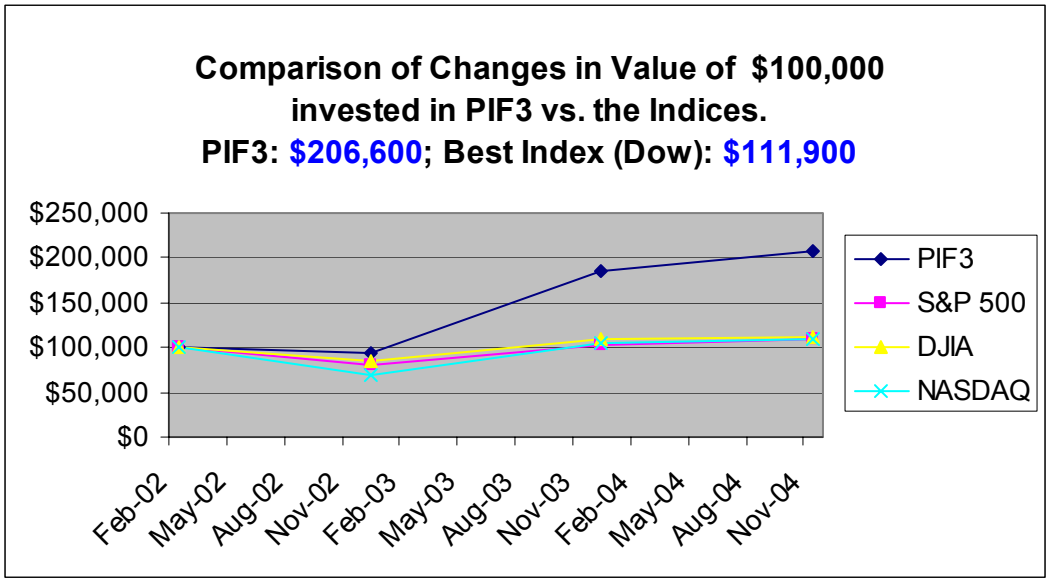


PIF2 Investors:

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 $462,100 as of Nov. 30, 2004 (net to investors). This equates to an annualized return of 32.7% 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 $105,500 on Nov. 30, 2004 – an annualized gain of 1.0%. 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 – 11/30/04	**+1.7%**	**+5.1%**	**+7.2%**	**+10.9%**
Annualized	**+4.0%**	**+3.4%**	**+3.1%**	**+29.1%**
Cumulative	**+11.9%**	**+9.9%**	**+9.1%**	**+106.6%**

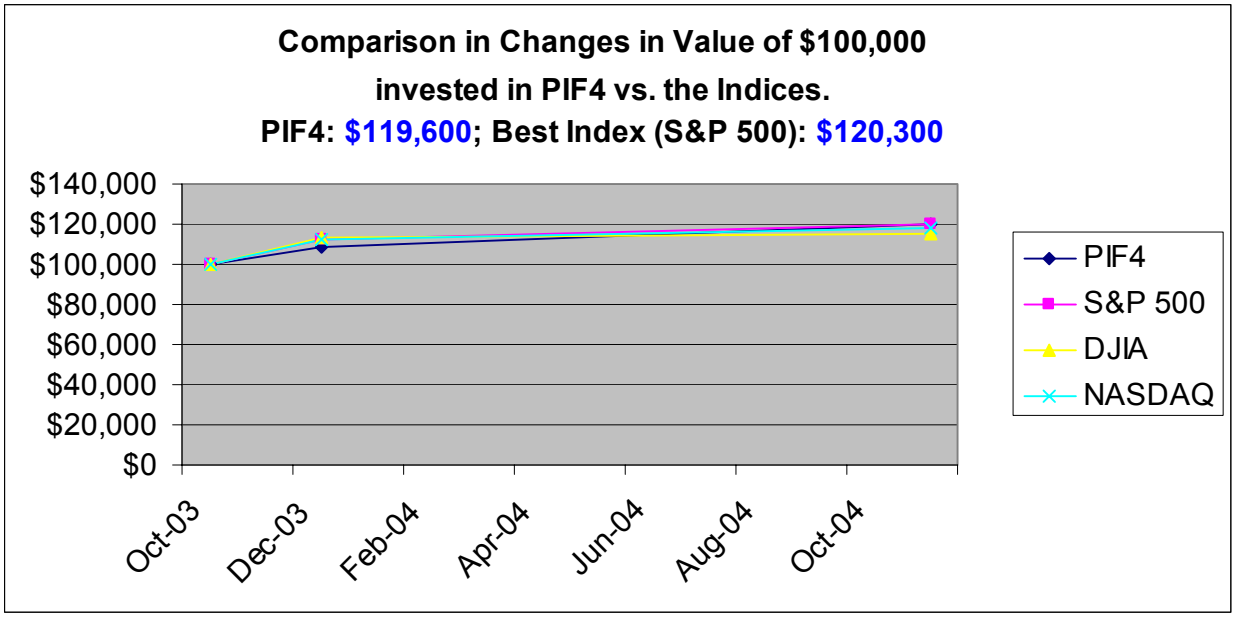


PIF3 Investors:

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $206,600 as of Nov. 30, 2004 (net to investors). This equates to an annualized return of 29.1% 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 $111,900 on Sept. 30, 2004 – an annualized gain of 4.0%. 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 – 11/30/04	**+1.7%**	**+5.1%**	**+7.2%**	**+10.3%**
Annualized	**+13.0%**	**+15.3%**	**+17.2%**	**+16.5%**
Cumulative	**+15.3%**	**+18.1%**	**+20.3%**	**+19.6%**



PIF4 Investors:

A $100,000 investment in PIF4 at inception on October 1, 2003 was worth $119,600 as of Nov. 30, 2004 (net to investors). This equates to an annualized return of 16.5% 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 $120,300 on Nov. 30, 2004 – an annualized gain of 17.2%. The S&P gains include reinvested dividends.

General Comments

All three funds are at all time highs. It means that every investor in every fund has made money on every dollar they've ever entrusted to Pabrai Funds – and that always puts a smile on my face.

A Tale of Three Funds

The three funds, PIF2, PIF3 and PIF4, have identical investment styles. And yet the diligent reader will notice that there are differences in the performance of the three funds. This is primarily due to two reasons:

1. On October 1, 2003, when PIF4 was launched, it was 100% in cash while the other two funds were nearly fully invested. I could only buy a small subset of the holdings in the other two funds for PIF4 as many of the holdings were not trading at a 50% or greater discount to intrinsic value. Similar conditions applied when PIF3 was launched on February 1, 2002 – it could not mirror the PIF2 holdings at launch.

   As new investment ideas become available, typically all the funds are able to participate in them. Over time, the respective portfolios are likely to start looking more and more similar with performance gaps narrowing. However, it can easily be 5 years before there is an 80% or greater overlap.

2. A year ago Pabrai Funds had $81 Million in assets under management (AUM). Today AUM has more than doubled to $186 Million. However, the change in assets in each fund over the last twelve months is widely different:

Fund	**AUM – 12/1/03**	**AUM – 12/1/04**	**% Change**
PIF2:	$60 Million	$84 Million	40%
PIF3:	$8.5 Million	$34 Million	300%
PIF4:	$12.5 Million	$68 Million	444%
TOTAL	$81 Million	$186 Million	130%

   There is a wide variance in the growth of AUM in PIF2 versus PIF3/PIF4 in the last year. In addition, there has been a paucity of good investment ideas over the last year – more so than in previous years. The net result is that, for PIF3 and PIF4 today, capital outstrips available investment ideas. I would estimate that between cash, placeholders and holdings I'd sell today if there were no tax considerations, the un-invested/under-invested capital in the three funds is:

   PIF2: Under 20%
   PIF3: Over 30%
   PIF4: Over 40%

Which begs the question: Why add assets when we are already drowning in cash? There are a few good reasons:

1. On an absolute basis, all three funds are very small in size. With under $100 Million in each fund, it is a very manageable number.

2. I will seal off inflows if we have prolonged multi-year periods of being unable to deploy assets effectively. Having excess cash for a few months is irrelevant. Having excess cash for 2-3 years would serve as a good indicator to me to close the fund(s) and consider returning capital.

3. It is virtually impossible in the money management business to synchronize inflows of cash with a fund manager's ability to effectively deploy capital. A fund manager has the highest ability to put money to work at points of maximum pessimism. Unfortunately, most investors are likely to send money to a fund manager at points of maximum optimism and prefer to redeem their interests at points of maximum pessimism. If the Dow went to 3000, I would have no trouble getting fully invested. Indeed, I'd be ready to take in more capital, but it's unlikely that we'll see vast inflows in that environment. Given these realities, it is a very good idea to have plenty of dry powder around in today's optimistic investing environment.

4. I would like each of the funds to have $100 Million or more in assets to get economies of scale and get expense ratios to be under 10-15 basis points. With additional regulations on their way, the expenses for running investment funds are likely to rise further – and spreading these over a decent asset size is helpful.

With the increased minimums and larger asset base, I consider it very unlikely that we will see percent growth in asset for each fund be anywhere near the last year. And if the past is any indicator, we will get a fat pitch or two sent our way for time to time. It would only take a few to get fully invested.

Alignment of Interests

All three of the funds are at historic highs and hence fees were paid to the investment manager (Dalal Street) is as follows:

PIF2: $1,466,011.45 – fully reinvested into PIF2. Added 44,417 units.
PIF3: $265,937.12 (since PIF3 is offshore, I cannot reinvest my fees)
PIF4: $224,398.03 - fully reinvested into PIF4. Added 18,770 units.

Dalal Street (wholly owned by me) has a stake of 469,929 units of PIF2 and 55,245 units of PIF4. This stake is worth about $16.2 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.

2004 Annual Meeting Transcript & Slides posted on the Website

The 2004 annual meeting transcript is posted online. Thanks to Julie Shiposh for the transcription and editing. Here is the link:

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

The annual meeting presentation is also online and it would be best to peruse the transcript with the slides available as well. Here is the link:

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

Dhandho Presentation – Slides on the Website

At the invitation of the Seattle Chapter of The Indus Entrepreneurs (www.tie.org and www.tie-seattle.org), I spoke to their Charter Members on Nov. 4 in Bellevue, Washington. The subject was "Dhandho: Capital Allocation at its Finest." Here is the link to the slides:

http://www.pabraifunds.com/website/Dhandho_TiE_Seattle_2004.pdf

Synopsis:

The literal translation of Dhandho, a Gujarati word, is business. Given the savvy nature of the stereotypical Gujarati businessman, a better translation is street-smart business sense or as Prof. Amar Bhide puts it, "Heads, I win. Tails, I don't lose much!" Businesses as disparate as The Virgin Group, Berkshire Hathaway, Walmart, Starbucks and the whole "Patel-Motel phenomenon" are based on core Dhandho principles.

In this talk, I laid out timeless Dhandho principles and their applicability to businesses at virtually every stage – startups, growing and mature. They are especially relevant to allocators of capital – CEOs, angel investors, buyout funds and public equity investors.

As Warren Buffett succinctly puts it: "I am a better investor because I am a businessman and I am a better businessman because I am an investor." The cross-pollination of core Dhandho principles are applicable to both active and passive allocators of capital.

Unfortunately, the slides do not capture most of the spoken content or the rich Q&A session, but something is better than nothing.

Next Opening – January 1, 2005 (PIF3) and February 1, 2005 (all funds)

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

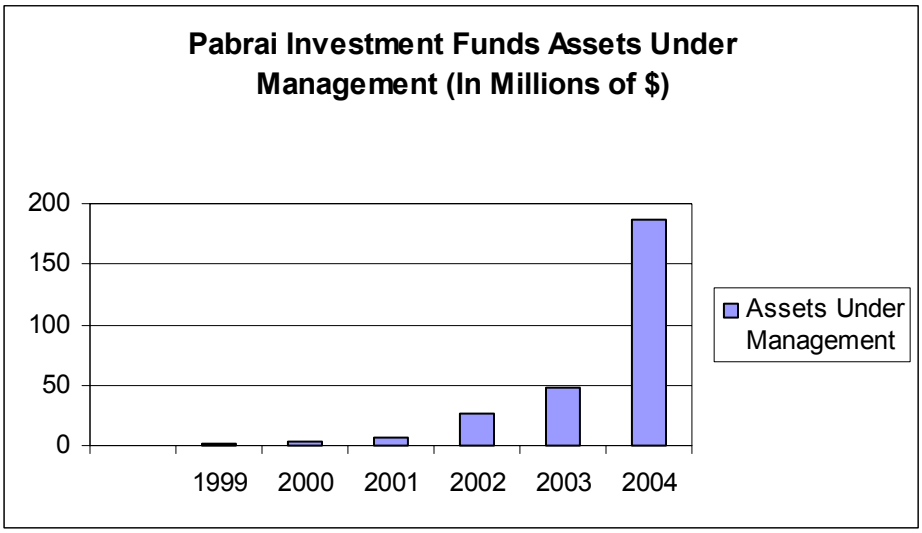
The minimum investment for PIF4 is $1,000,000 and one needs to be a "qualified investor" as defined by the SEC. The offering and subscription documents for PIF4 have details on who is considered a qualified investor. Next opening is February 1, 2005.

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 is January 1, 2005.

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 February 1, 2005 for PIF2 and PIF4 and January 1, 2005 for PIF3.

Assets Under Management

There is about $186 Million in assets under management between all the funds as of December 1, 2004.



Thanks for your continued interest, referrals and support. I'd like to take this opportunity to wish everyone a joyous holiday season and a very happy, healthy and prosperous 2005. 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
2,541,507	11/30/2004	$33.01

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
1,627,993	10/31/2004	$19.06
1,646,070	11/30/2004	$20.66

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
5,669,870	11/30/2004	$11.96

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.