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 10, 2003

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

Dear Partners:

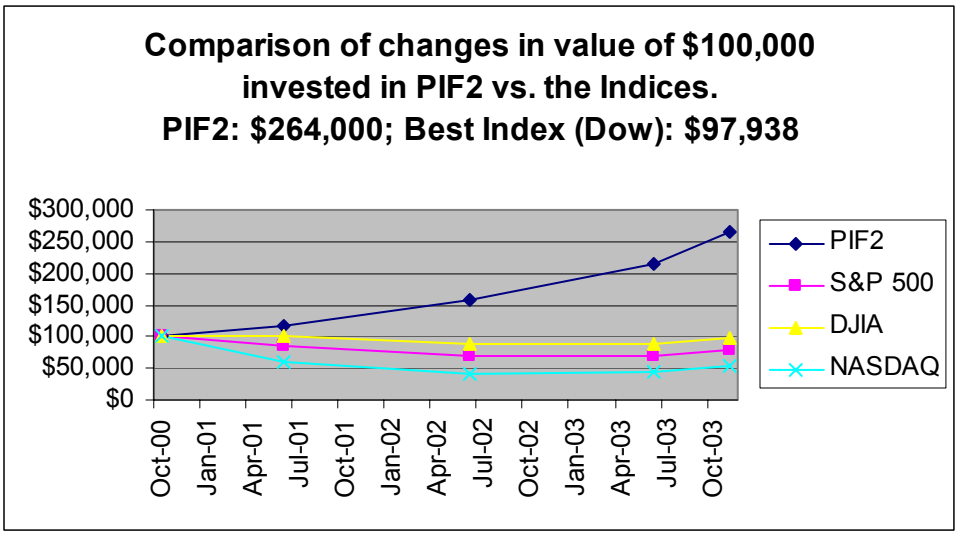
A total of about $8 Million in new funds were added to the Pabrai Funds on December 1, 2003. The breakup of money that came into the various funds was:

PIF2: $1.4 Million PIF3: $0.4 Million PIF4: $6.2 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 – 11/30/03	**+10.0%**	**+21.0%**	**+9.4%**	**+23.8%**
1/1/03 – 11/30/03	**+19.9%**	**+47.3%**	**+22.3%**	**+86.9%**
Annualized	**-0.7%**	**-17.7%**	**-7.8%**	**+35.9%**
Cumulative	**-2.1%**	**-46.0%**	**-22.6%**	**+164.0%**

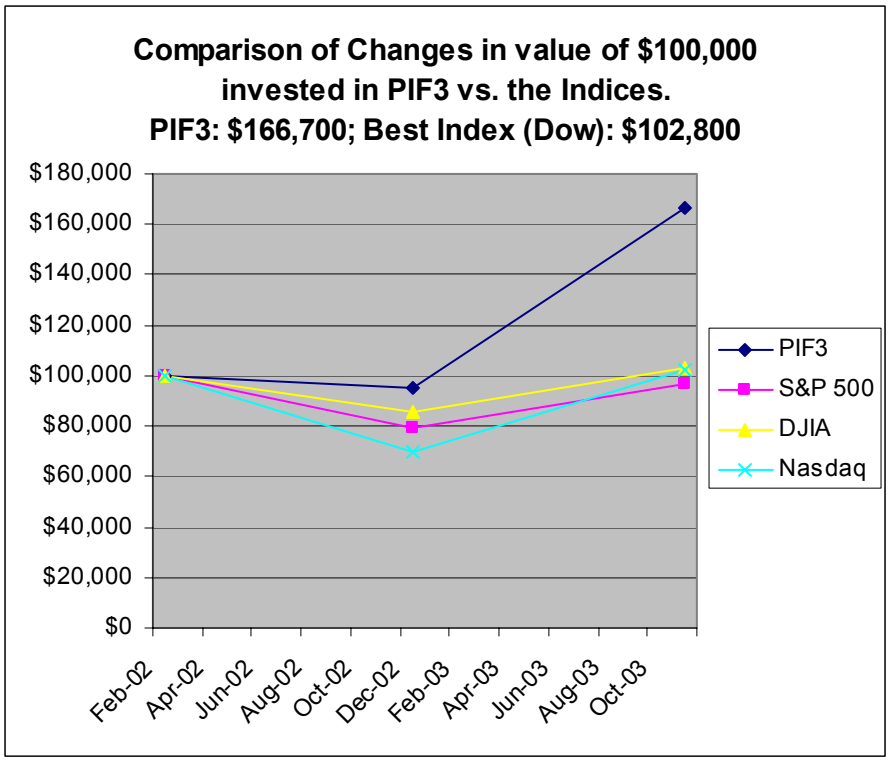


US-based Investors:

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 $369,826 as of Nov. 30, 2003 (net to investors). This equates to an annualized return of 34.5% since inception. 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 $96,944 on Nov. 30, 2003 – an annualized loss of 0.7%.

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 – 11/30/03	**+19.9%**	**+47.3%**	**+22.3%**	**+75.8%**
Annualized	**+1.5%**	**+1.2%**	**-1.8%**	**+32.1%**
Cumulative	**+2.8%**	**+2.2%**	**-3.3%**	**+66.7%**



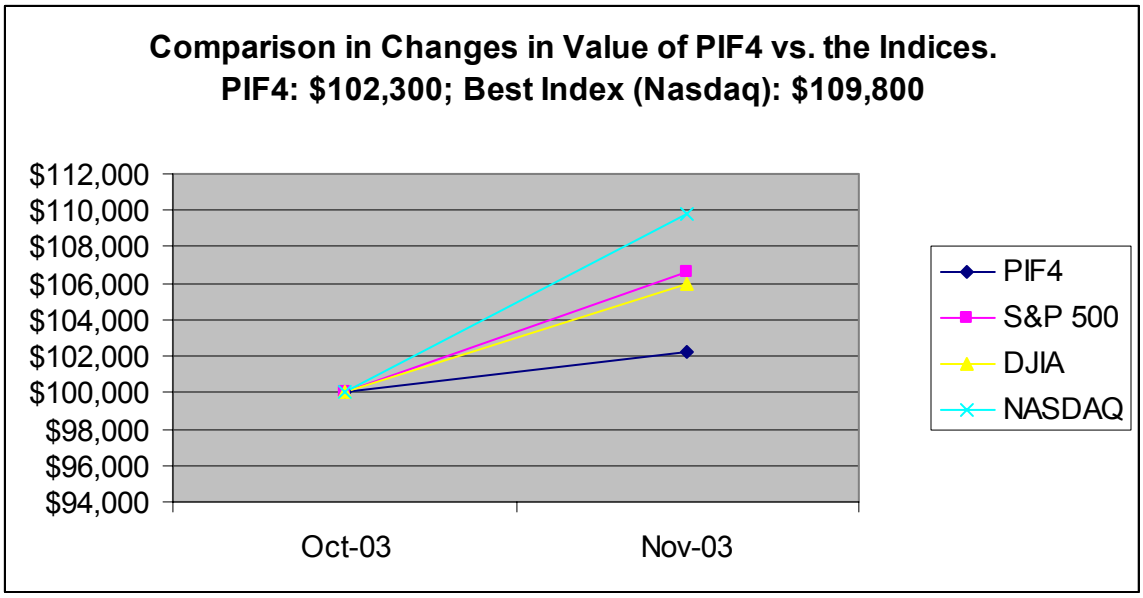
Offshore Investors:

A $100,000 investment in PIF3 at inception on February 1, 2002 was worth $166,700 as of Nov. 30, 2003 (net to investors). This equates to an annualized return of 32.1% since inception. 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 $102,792 on Nov. 30, 2003 – an annualized gain of 1.5%.

PABRAI INVESTMENT FUND 4 Performance Summary:

	DJIA	NASDAQ	S&P 500	PIF3 (net to investors)
10/1/03 – 11/30/03	**+6.0%**	**+9.8%**	**+6.6%**	**+2.3%**
Cumulative	**+6.0%**	**+9.8%**	**+6.6%**	**+2.3%**

Note: Per AIMR guidelines, annualized performance numbers for periods totaling less than a year are not being provided. Such data can being misleading.



General Comments

PIF2 and PIF3 are up 86.9% and 75.8% respectively in value for the first 11 months of 2003. I'd like to again express that annualized gains of this magnitude are an anomaly and not to be expected going forward. Before fees, the PIF2 YTD returns are over 100% - and that is amazing to me.

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.

The Nasdaq was up an amazing 9.8% over the last two months – far outpacing the 2.3% that PIF4's valued increased over the same period. Due to its newness, PIF4 has a large cash position. There just isn't much on sale and I'm in no hurry. The money will be put to work as and when good opportunities present themselves. Over the long haul it should outperform the best of the three indices by a small margin after fees and expenses.

I believe the market as a whole is overvalued. 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 crawling through the crevices of inefficiency looking for that rare fat pitch.

Alignment of Interests

Since all three funds were at historic highs on Nov. 30, management fees were payable. PIF3 was also paid a management fee of $196,403.24 when it hit a historic high on

10/31/03 and $115,151.75 when it again hit a new high on 11/30/03. 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 $3,038,701.73 was paid by PIF2 on 11/30/03. As I have always done, this fee was reinvested back in PIF2. A management fee of $25,677.25 was paid by PIF4 on 11/30/03. This fee was reinvested into PIF4. Dalal Street, Inc. (wholly owned by me) has 344,049 units of PIF2 and 2510 units of PIF4. This stake was worth about $9.1 Million. 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.

Declining Expense Ratios

Pabrai Funds has always focused on minimizing frictional costs for the investor. To that end, I'm very pleased to see that PIF2 is likely to have annual expenses of under 10 basis points (or less than 0.1% of assets) from 2004 onwards. The only thing investors pay for until the fund achieves a 6% annualized return is direct fund expenses like accounting, audit, tax and administration.

Getting these down under 10 basis points for all the funds is one of my objectives. While the difference between having expenses of 1% a year versus 0.1% many not seem like much in a year when we're up over 80%, it is very meaningful in down years (yes, we'll see a few of those) or even years when we barely eke out a positive return. These expense ratio declines have been accomplished while upgrading our service providers to best in class – like engaging PricewaterhouseCoopers to do the audit and tax work. As assets under management rise, PIF3 and PIF4 will get to 10 basis points as well.

As a comparison, the wonderful Vanguard S&P 500 Index Fund has over $66 Billion in assets and an expense ratio of 0.18% - nearly double of PIF2. PIF2 is cheaper than Vanguard's fund until we get to a return above about 6.3% for investors. With virtually all other mutual funds and hedge funds, Pabrai Funds is cheaper until annualized returns are above 10%. With the 1/20 structure of most hedge funds, Pabrai Funds has lower fees and expenses until annualized returns are <u>over 50% a year</u>.

Next Opening – February 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. Tax-exempt accounts like IRAs, Roth IRAs and US Family Foundations can now invest in PIF3 as well. The minimum investment to join PIF3 as a new partner is $100,000 and the next opening is on January 1, 2004.

The next opening for PIF4 is on February 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 February 1, 2004. PIF3's next opening is January 1, 2004. 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.

Musings on Probabilities, Uncertainties and Investing

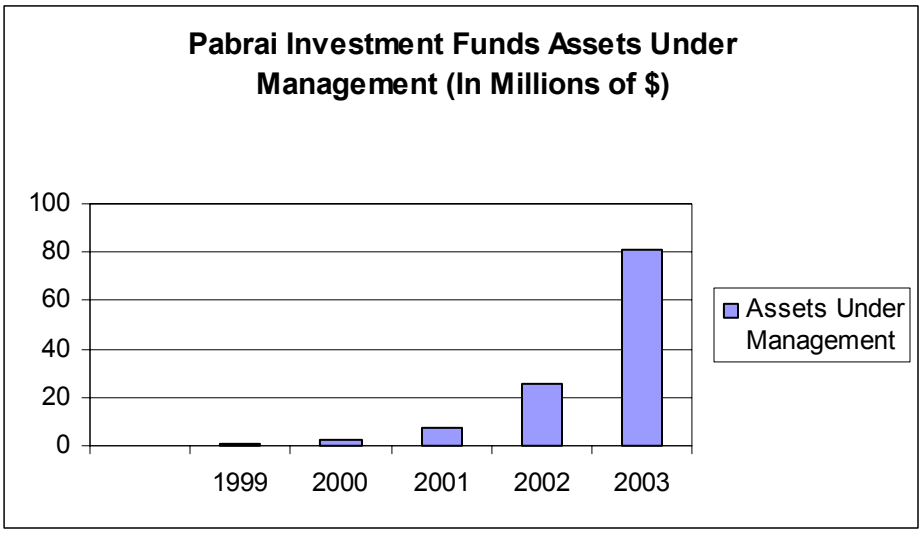
I'm in the midst of reading In an Uncertain World: Tough Choices from Wall Street to Washington by Robert E. Rubin and thoroughly enjoying it. Formerly Secretary of the Treasury, Rubin is a gifted writer. He comes across as a very low-ego matter-of-fact likeable individual. Rubin thinks that there are no absolute certainties in life and one has to make decisions based on varying degrees of uncertainty and incomplete datasets. His perspectives resonate very well with me – especially as applied to investing in equities.

The future of even the best business on the planet is far from assured. And when one invests in any business one needs to make some objective assessments about the manner in which one expects the future to unfold. The key is to only make bets when the odds are heavily in favor of your thesis. No single investment of mine has ever been a guaranteed winner at the time the investment was made, but all of them were made with perceived odds being heavily in my favor. The results have been quite acceptable thus far – even as a few bets have gone against me – as they are going to from time to time.

At the Blackjack table in a casino, depending on the rules, the house has a 1-2% odds advantage. It's usually 48:50 odds against you. Even with those slim odds against you and even betting a small sum on each bet, the house is likely to wipe out a fairly large bankroll in a matter of hours. With investing, there are times when the odds are 80:20 or 90:10 in the investor's favor of generating a 30% (or higher) annual return. One needs to fully capitalize on these opportunities. The trick is to make bets very sparingly – only when the odds are heavily in your favor. Few Bets…Big Bets…Infrequent Bets – that's the simple mantra.

Assets Under Management

There was about $81 Million in assets under management between all the funds as of December 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
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
2,035,719	7/31/2003	$20.95
2,098,511	9/30/2003	$21.86
2,267,268	11/30/2003	$26.40

PIF3's Performance History (Net to Investors)

No. of Units	Date	PIF2 NAV
65,100	2/1/2002	$10.00
265,919	12/31/2002	$9.48
268,596	1/31/2003	$9.34
271,250	3/31/2003	$9.42
273,270	5/31/2003	$12.38
280,694	6/30/2003	$13.47
440,620	7/31/2003	$13.60
449,337	8/31/2003	$14.34
468,263	9/30/2003	$14.53
469,839	10/31/2003	$15.86
494,435	11/30/2003	$16.67

PIF4's Performance History (Net to Investors)

No. of Units	Date	PIF4 NAV
595,030	10/1/2003	$10.00
1,198,742	11/30/2003	$10.23

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.