

Welcome!

**2004 Annual Meeting
Sept. 18/Oct. 2, 2004**

Mohnish Pabrai
Managing Partner

Agenda

- ◆ **Performance Review & Expectations**
 - ◆ **The Evolution of a Focused Value Investor**
 - ◆ **Investment Style & Past Holdings**
 - ◆ **Q&A**

PIF2 Performance Review

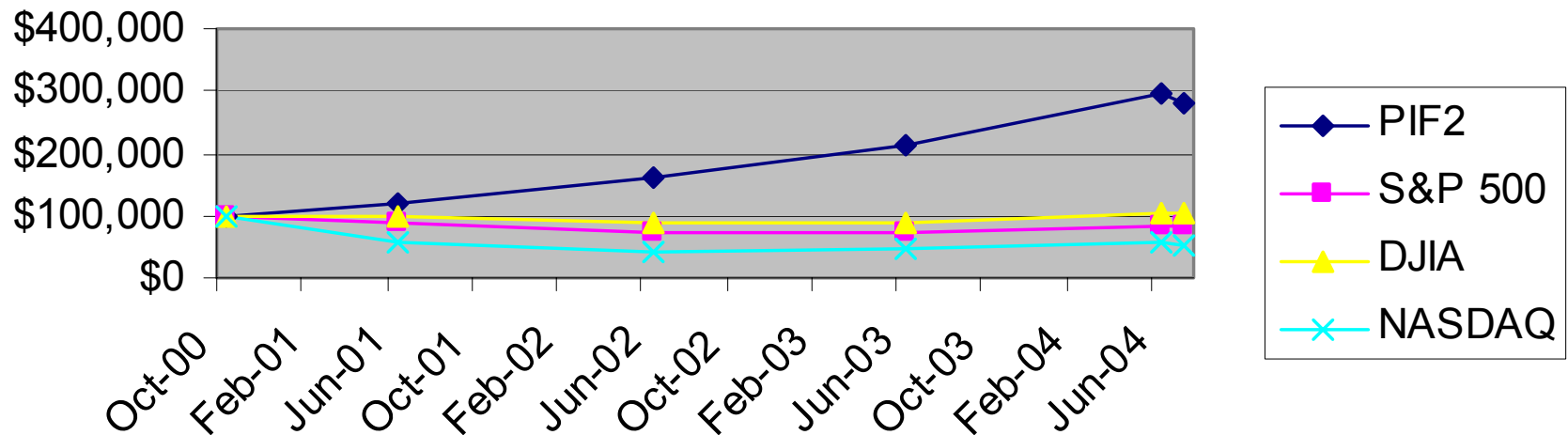
Pabrai Investment Fund 2 Performance Summary

	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 – 7/31/04	-2.7%	-7.8%	-3.3%	-5.7%
1/1/03 – 7/31/04	-1.9%	-5.6%	+0.0%	-3.3%
Annualized	+0.7%	-15.6%	-5.2%	+30.7%
Cumulative	+2.8%	-47.8%	-18.6%	+179.0%

PIF2 Performance Review

Comparison of changes in value of \$100,000
invested in PIF2 vs. the Indices.

PIF2: **\$279,000**; Best Index (Dow): **\$102,814**



PIF2 Performance Review

♦ A \$100,000 investment in PIFI at inception in 1999 was worth \$390,600 on July 31, 2004.

- ♦ **Annualized Return:** +30.7%
- ♦ **Cumulative Return:** +290.6%

PIF3 Performance Review

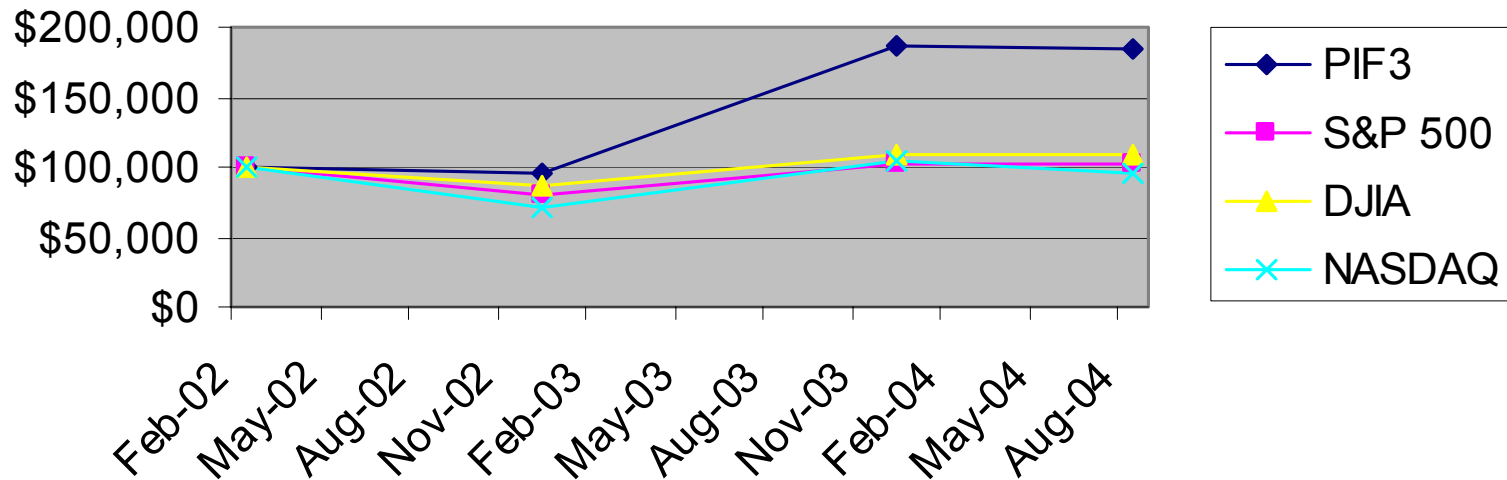
Pabrai Investment Fund 3 Performance Summary

	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 – 8/31/04	-1.3%	-8.0%	+0.4%	-1.2%
Annualized	+3.2%	-1.5%	+0.8%	+26.6%
Cumulative	+8.5%	-3.8%	+2.2%	+84.1%

PIF3 Performance Review

Comparison of Changes in Value of \$100,000
invested in PIF3 vs. the Indices.

PIF3: **\$184,100**; Best Index (Dow): **\$108,500**



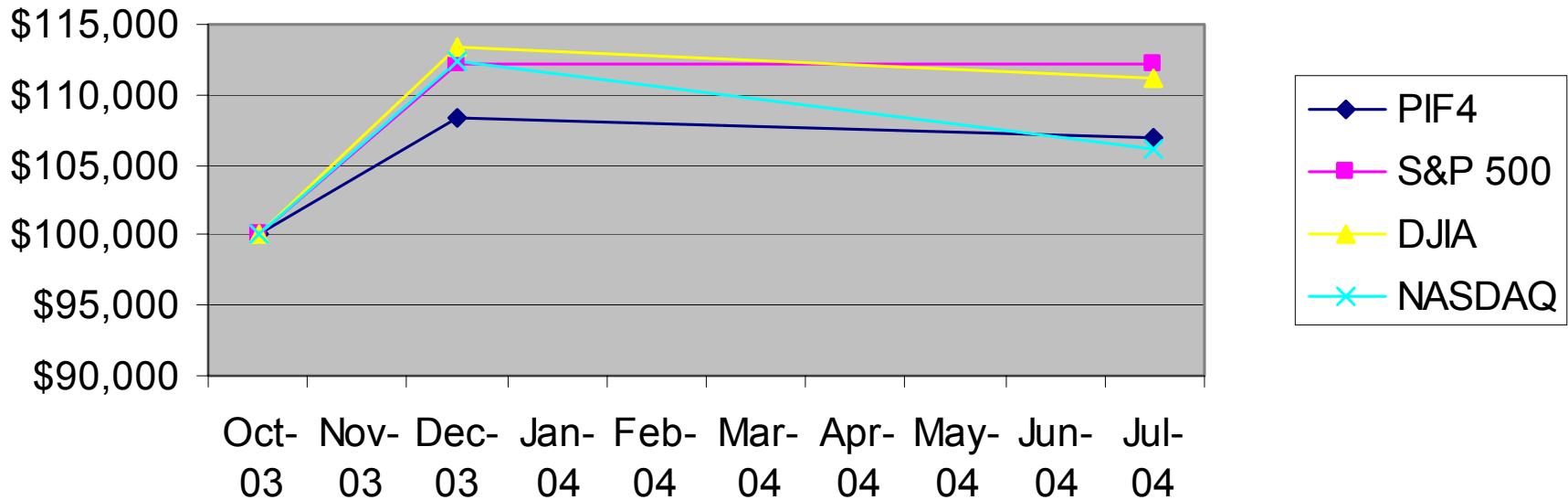
PIF4 Performance Review

Pabrai Investment Fund 4 Performance Summary

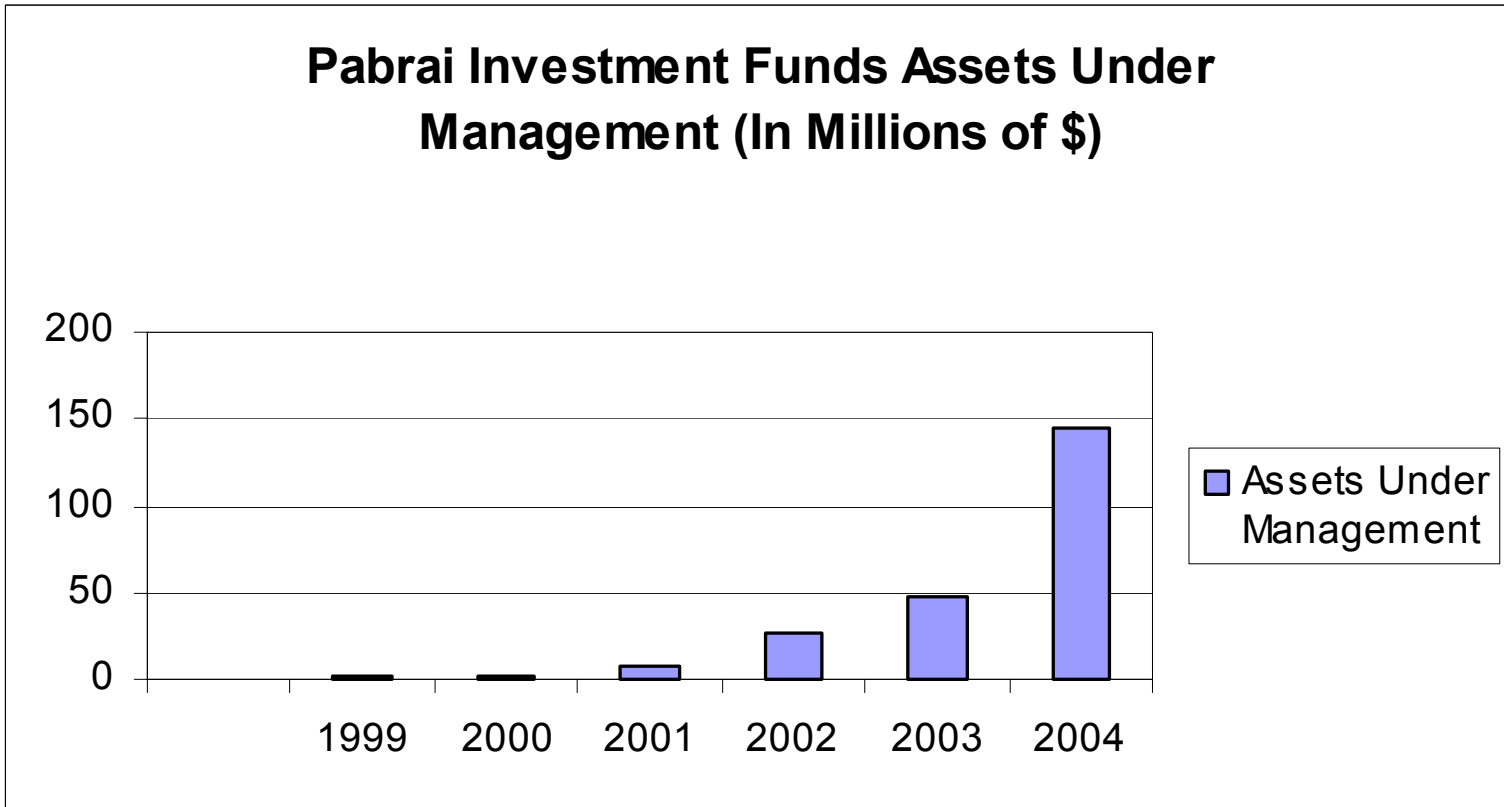
	DJIA	NASDAQ	S&P 500	PIF3 (net to investors)
10/1/03 – 12/31/03	+13.4%	+12.3%	+12.2%	+8.4%
1/1/04 – 7/31/04	-1.9%	-5.6%	+0.0%	-1.3%
Cumulative	+11.2%	+6.0%	+12.2%	+7.0%

PIF4 Performance Review

Comparison in Changes in Value of PIF4 vs. the Indices.
PIF4: \$107,000; Best Index (S&P 500): \$112,193



Assets Under Management (\$145 Million)



Performance Expectations

- ◆ **85% of mutual funds lag the S&P 500 Index after all fees and expenses. Just 0.5% of Mutual Funds beat the Indices by over 3%. (Source: Bogle)**
- ◆ **The Pabrai Funds stated goal is to beat the three indices over the long haul. Beating all three indices is likely to put us in the top 10% of funds.**
- ◆ **I'm quite confident we'll beat the indices over the long haul. Not sure by how much.**

The Evolution of a Focused Value Investor

- ♦ **1994 – Heard about Warren Buffett for the first time. Read “The Warren Buffett Way”. It was an epiphany.**
- ♦ **Core Constructs have been constant over the last 10 years – concentrated portfolio, buy value, circle of competence, buying a business not a stock.**
- ♦ **Understanding Buffett and Value Investing has been a lot like peeling an onion. There are subtle aspects that only the inner layers reveal.**

The Evolution: 1995-2000

- ◆ Buy great businesses cheap and then hold on to them forever (i.e. Coca Cola, American Express)
 - ◆ The Transtech Experience led to a growth bias.
 - ◆ (A \$30K equity investment eventually grew to several million dollars over 10 years – over a 65% compounded annual growth rate). My direct experience strongly suggested that GARP was the best way to go. Also instilled a small-cap bias.
 - ◆ Buy and hold forever – regardless of being over IV.
-

The Next Layer – Meeting Tim Vick in 2000

- ♦ I had read some of the stuff about Buffett's adventures with workouts/arbitrage/special situations in the 1950s and 1960s, but then also read that Munger showed Buffett the better model in the 1970s (i.e. See's Candy and Coke)
 - ♦ In the summer of 2000, I read both of Tim Vick's books (Wall Street on Sale, How to Pick Stocks Like Warren Buffett) and subsequently met with him.
 - ♦ Tim opened my eyes to Special Situations Investing.
-

The Investing Environment in 2000-2004

- ◆ **Overvalued Markets**
- ◆ **Buffett's essays and thoughts on the 17 year market rhythms:**
 - ◆ **Maggie Mahar's Book (Bull)**
 - ◆ **1999-2016 is likely to be under 3-5% real annual returns in the US Market. Big drops possible.**
- ◆ **Became a no-brainer argument to move heavily to Special Situations based value investing.**

Value Investing: The Peeling of The Onion

- ◆ **In 2004, I'm a far better investor than 1995 or 2000:**
 - ◆ **Every mistake has led to better insights.**
 - ◆ **Have learned to appreciate the many subtleties of focused value investing.**
 - ◆ **Have learnt the importance of special situation based investing.**
 - ◆ **Best style for the 1999 through 2016 period and possibly beyond.**

The Many Flavors of Value Investing

- ◆ **Bill Miller - Valuing the Intangibles (Amazon, Netflix)**
- ◆ **Longleaf Partners – Good/Great businesses under temporary distress (Aon, Fairfax, Level 3)**
- ◆ **Sequoia – Great business, Great Managers, Good Price; Buy and Hold Forever (Progressive, Fifth Third)**
- ◆ **Buffett – Across the Spectrum (Finova Liquidation to Coke to Level 3 Converts)**

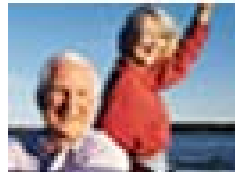
The Many Flavors of Value Investing

- ◆ **Marty Whitman – Bankruptcy Investing (K-Mart)**
 - ◆ **Joel Greenblatt – Spinoffs (Liberty, Marriott)**
 - ◆ **Walter Schloss – Graham/Dodd heavily quantitative**
 - ◆ **Eddie Lampert – Bankruptcy; Control/Influence
(K-Mart, MCI, Autozone)**
 - ◆ **John Templeton – International - diversified**
 - ◆ **...many many more with distinct nuances on value...**
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A Cross-section of recent past holdings



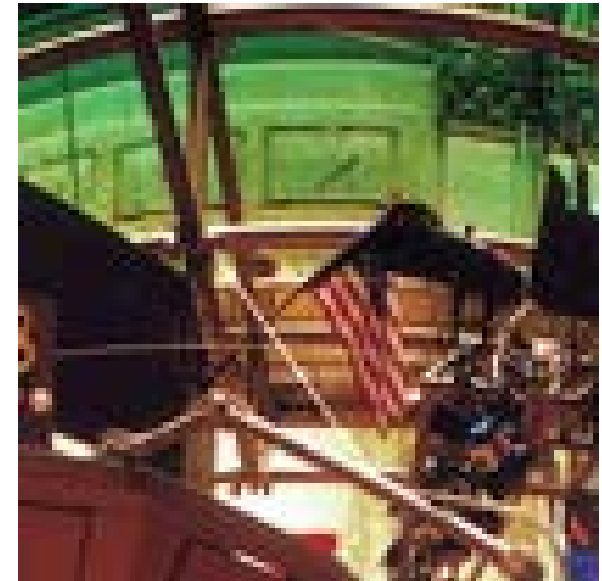
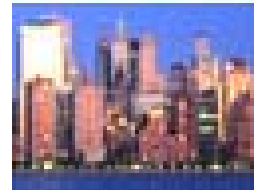
Insured
Deposit
Accounts



Wholesale
Residential
Lending



Commercial
Real Estate
Lending



SPECIALIST
N Y S E

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Tesoro Petroleum

- ◆ First bought on June 24, 2002 for \$7.44/share
- ◆ Last sold on March 12, 2004 for \$17.28/share
- ◆ Average Buy Price - \$7.52/share
- ◆ Average Sell Price - \$15.00/share
- ◆ Return on Investment: About 99%

***Note: All data for all securities is for PIF2**



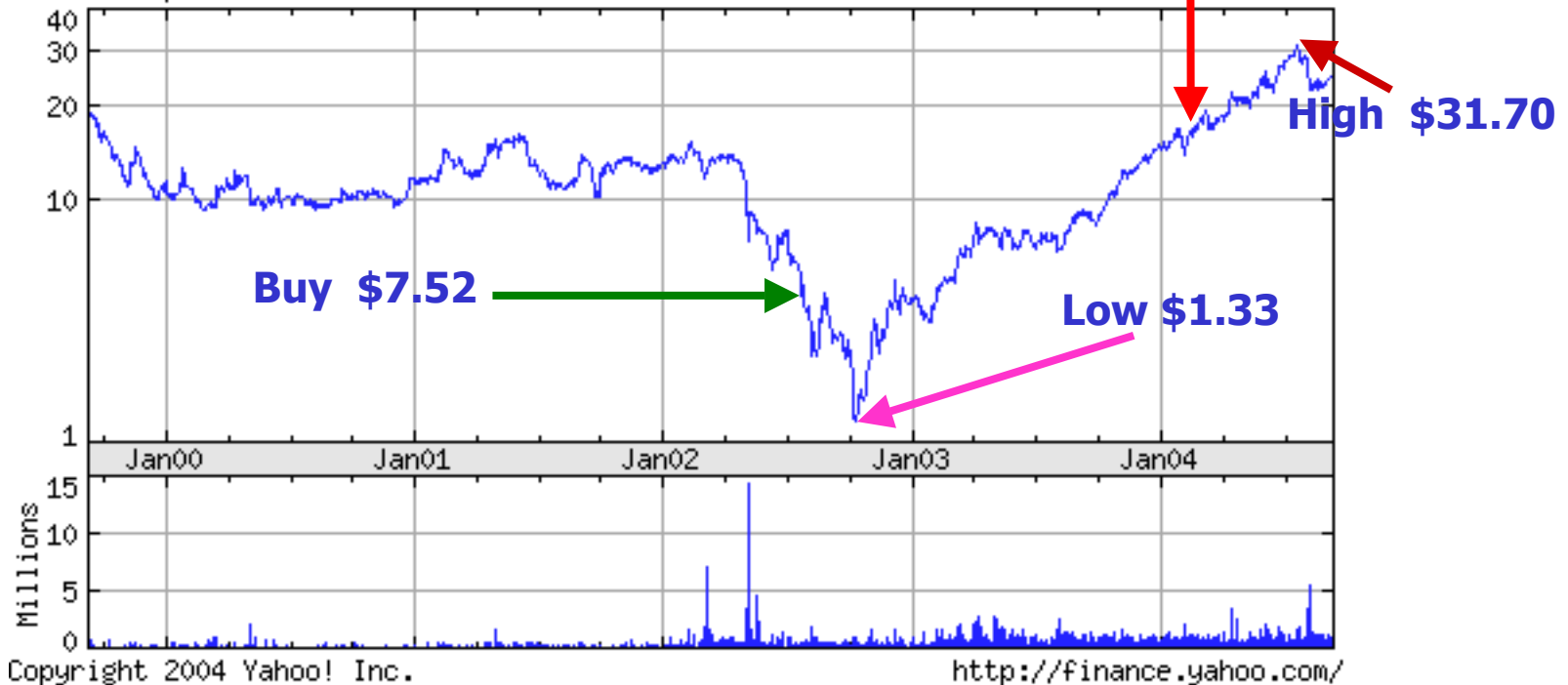
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Tesoro Petroleum

TESORO PETROLEUM CORP
as of 7-Sep-2004



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Tesoro Petroleum



- ◆ **Fortune 500 Company - \$8.8 Billion in '03 Revenue**
- ◆ **Independent Oil Refiner and Marketer**
- ◆ **Six Refineries in the Western US – 560,000 bpd**

- ◆ **Feb. 2002 – TSO bought the Gold Eagle Refinery. Valero/Ultramar were forced to sell due to anti-trust concerns. Quick Sale at good price for TSO.**

- ◆ **TSO leveraged its balance sheet to get this asset.**
 - **Stock dropped from \$14 to \$7 shortly thereafter as refining margins fell.**

Tesoro Petroleum



- ♦ Refining looks like a commodity on the surface, but TSO has a very solid moat around its business.
 - ♦ No new refineries built in the US for 20 years
 - ♦ Total Refineries down to 150 (from 220)
 - ♦ Special Environmental Regulations make markets like CA look like oligopolies for refiners – very few suppliers and mostly tight supply – high spreads.
- ♦ High debt levels lead to distressed pricing on the stock
 - ♦ In a severe cash crunch individual refineries could easily be sold.

Tesoro Petroleum



- ◆ **Based on normalized cash flow and sum of the parts, the company's equity was worth over \$1 Billion. It was trading at \$482 Million.**
 - ◆ **Company had hunkered down, was selling non-core assets to shore up balance sheet.**
 - ◆ **High uncertainty with daily changes in refining margin, but five year average spread was solid.**
- ◆ **High Uncertainty, Low Risk, Good Business, Good Management – translates into keen interest by Pabrai Funds – Back-up the Truck.**



The Vagaries of Mr. Market

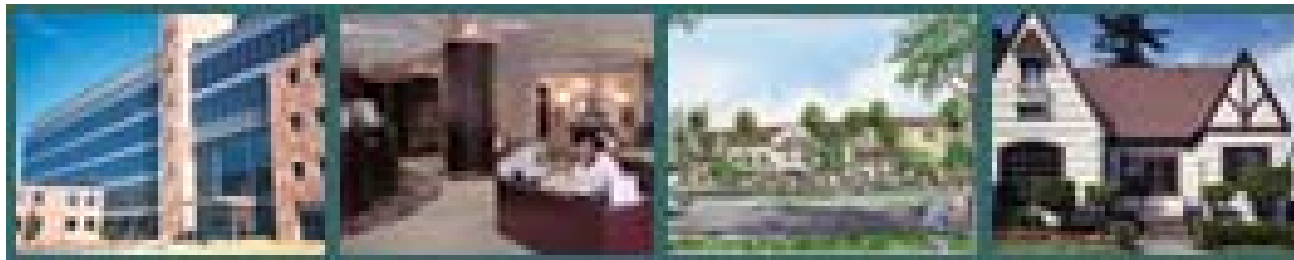
TESORO PETROLEUM CORP
as of 7-Sep-2004



Fremont General



- ◆ First bought on Dec. 17, 2002 for \$4.65/share
- ◆ Last sold on March 11, 2004 for \$25.10/share
- ◆ Average Buy Price - \$4.57/share
- ◆ Average Sell Price - \$18.03/share
- ◆ Return on Investment: About 295%
- ◆ Average Holding Period: Under 13 months
 - ◆ All Long-Term gains



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Fremont General



FREMONT GENERAL CP
as of 8-Sep-2004

Splits: ▼



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Fremont General



- ◆ **Financial Services Holding Company**
 - ◆ **Retail Bank, Home & Commercial Mortgages**
 - ◆ **Had entered the Workers Compensation Insurance business in early 1990s with disastrous results – 259% combined ratio in 2000!**
 - ◆ **Discontinued/Sold Insurance. Got a cap on liability through agreement with CA Dept. of Ins. (July '02)**
 - ◆ **Stock traded at a P/E of 3.3; ¾ of BV**
 - ◆ **Solid Bank with solid mortgage operation.**

Fremont General



- ♦ FMT always had terrific shareholder centric mgt. that simply got its head handed to it when they delved into Worker's Comp. (like everyone else)
 - ♦ They fixed the problem and went back to basics.
 - ♦ Large insider buying and ownership.
 - ♦ The market did not believe them. Stock was heavily shorted – all the better for us.
 - ♦ As it became clear that insurance was truly history and they rode the mortgage boom magnificently, the stock advanced – shorts fried!

Van der Moolen



- ◆ First bought on April 28, '03 for \$9.99/share
- ◆ Last sold on Oct. 2, '03 for \$10.52/share
- ◆ Average Buy Price - \$10.50/share
- ◆ Average Sell Price - \$10.48/share
- ◆ Return on Investment: About -0.2%



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Van der Moolen



VAN DER MOOLEN NV ADS
as of 9-Sep-2004



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Van der Moolen



- ◆ **Primary business is being a Specialist on NYSE**
 - ◆ **Sanctioned regulated monopoly. About 10% of NYSE Volume – one of just 7 specialists.**
 - ◆ **License to print money. The ultimate toll-bridge.**

- ◆ **The Overhang**
 - ◆ **Had a writeoff in 2002 on one of its trading businesses unrelated to Specialist operation.**
 - ◆ **Q103 Specialist numbers were disappointing due to lack of trading volume (bear market).**

Van der Moolen



- ♦ **Stock dropped from over \$20 to under \$10 in Q103.**
- ♦ **Normalized FCF of at least \$1.50/share.**
 - ♦ **Trading volumes have risen dramatically over time. So the FCF was likely to rise.**
- ♦ **Upside from other businesses/trading operations.**
- ♦ **Policy of 40% of earnings paid as dividend.**
 - ♦ **6-7% dividend yield. Plus stock buybacks.**

- ♦ **IV was easily north of \$20/share for this unique franchise.**

Van der Moolen



- ◆ Traders/Investors have always been skeptical of the skimming specialists did.
 - ◆ The flip side is that they serve a very valuable function with providing market liquidity.
 - ◆ Critical for moving large blocks of stock.
- ◆ VDM has been around for over 100 years. Their NYSE specialist operation has been around for over 70 yrs.
- ◆ I figured a very high probability of a double in under 3 years. Sell and move on at that point.

Grasso Pay Fiasco



- ◆ In Sept. '03, the Grasso pay fiasco broke.
- ◆ Reed appointed chairman – known for technology initiatives – possible end of specialists.
- ◆ Everything about the NYSE went under the microscope – including the specialists.

- ◆ After all these events, I could still exit at break-even. Unable to handicap the way this would play out, I sold the entire position in all funds.

Past Holdings – A Cross-section

Gartner



E. W. Blanch



Imperial Parking

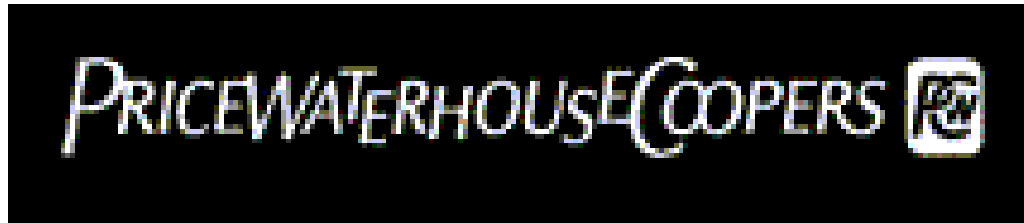


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Pabrai Funds vs. The S&P 500

- ♦ **10-15 Positions vs. 500**
 - ♦ **Uncorrelated Industries gives us diversification.**
 - ♦ **What's the correlation between:**
 - ♦ **Van der Moolen and Tesoro?**
 - ♦ **Register.com and Budget?**
 - ♦ **Stewart and Gartner?**
 - ♦ **Between All of Them?**
- ♦ **I can think of no single event that would have a worse long-term impact on our portfolio vs. the S&P.**
- ♦ **Very high probability of beating S&P 500 long term.**

The Company We Keep



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Administrators



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Thank you!!

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