

PABRAI INVESTMENT FUNDS

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To: All Limited Partners and Investors of the Pabrai Investment Funds
From: Mohnish Pabrai, Managing Partner
Date: January 13, 2011
Re: **2010 Results et. al.**

Dear Partners:

Happy New Year!

For the quarter ended December 31, 2010, a total of \$25,000 was added to PIF2. Note that the funds are closed to additions at this time (from existing and new investors). This specific subscription missed the Oct. 1, 2010 opening due to an unsigned check.

In addition, Dec. 31 was also the annual redemption date. A total of \$33.1 Million was redeemed from the various funds. The redemptions on a per fund basis are:

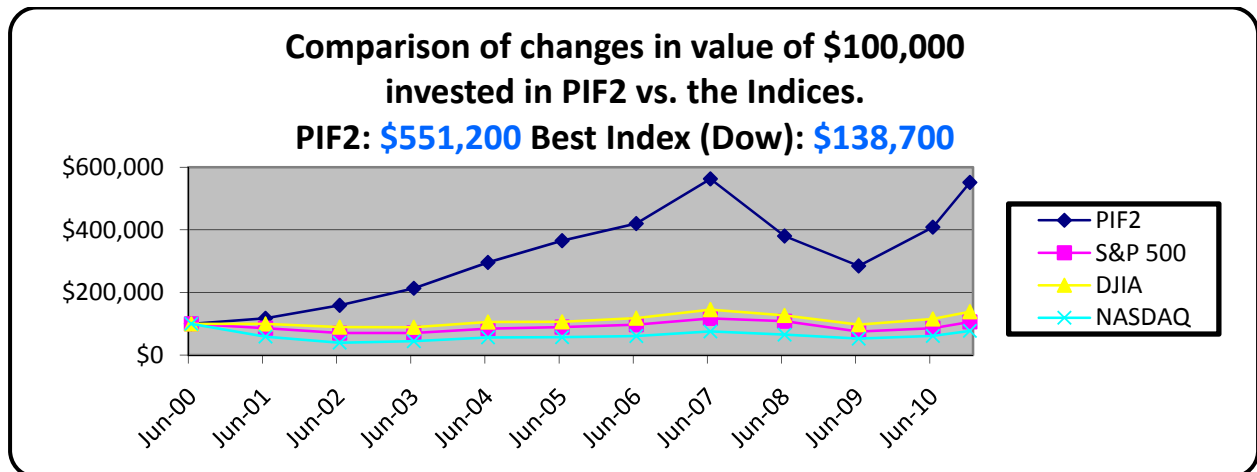
PIF2: \$8.9 Million PIF3: \$7.2 Million PIF4: \$17.0 Million

Included in the above redemptions is \$2 Million from PIF2 by Dalal Street, Inc. This is Pabrai family redemptions to cover any residual 2010 taxes, non-reimbursed Pabrai Funds operating expenses and our contributions to The Dakshana Foundation for 2011. I chose to redeem all of it from PIF2 as it is the fund with the largest Pabrai family stake – thus making the absolute amounts invested in PIF2 and PIF4 by the family more balanced.

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 – 12/31/10	+20.1%	+26.5%	+23.3%	+35.0%
1/1/10 – 12/31/10	+14.1%	+18.2%	+15.1%	+30.3%
Annualized	+3.2%	-2.5%	+0.6%	+18.1%
Cumulative	+38.7%	-22.4%	+6.1%	+451.2%

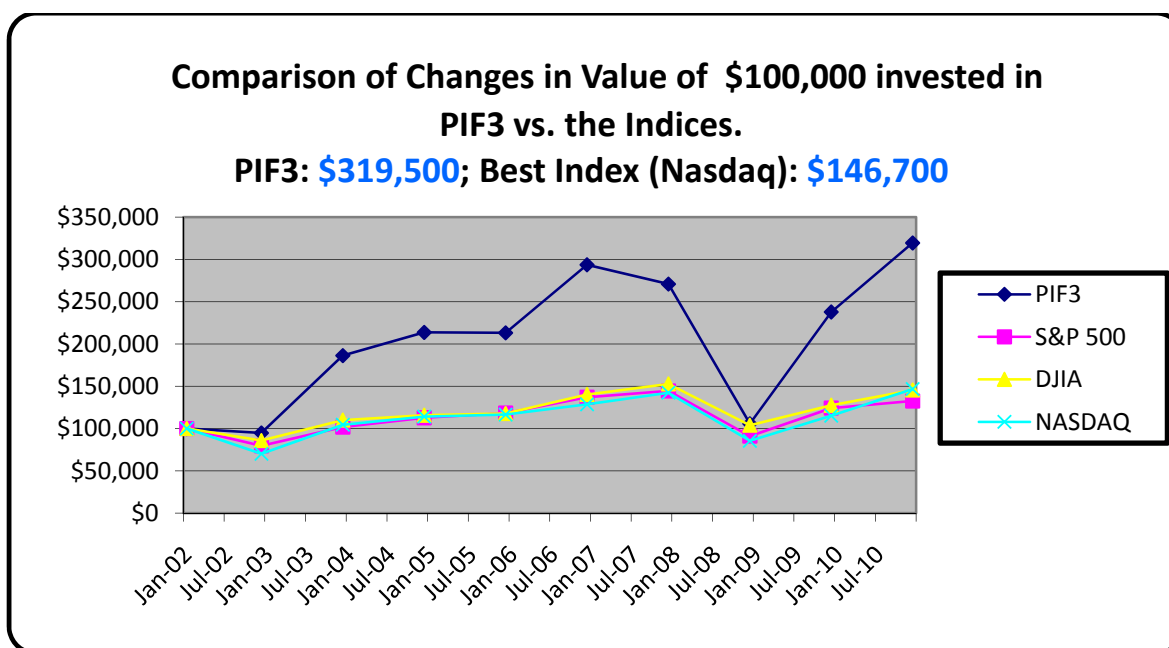


PIF2 Investors:

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 \$772,300 as of December 31, 2010 (net to investors). This equates to an annualized return of 19.5% 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 \$137,300 on December 31, 2010 – an annualized gain of 2.8%. 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%
Annualized	+4.3%	+4.4%	+3.2%	+13.9%
Cumulative	+45.5%	+46.7%	+32.5%	+219.5%

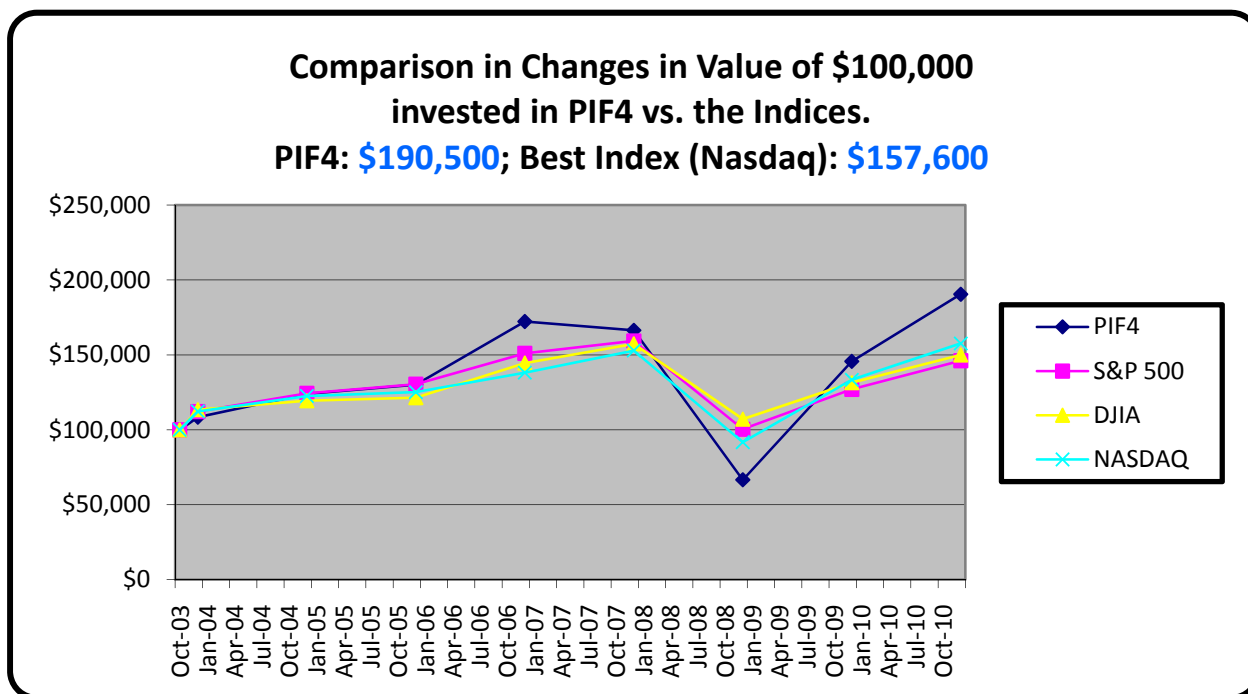


PIF3 Investors:

A \$100,000 investment in PIF3 at inception on February 1, 2002 was worth \$319,500 as of December 31, 2010 (net to investors). This equates to an annualized return of 13.9% since inception. The best index over the same period was the Nasdaq Composite and an investment of \$100,000 in the Nasdaq on February 1, 2002 was worth \$146,700 on December 31, 2010 – an annualized gain of 4.4%. The Nasdaq 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%
Annualized	+5.8%	+6.5%	+5.4%	+9.3%
Cumulative	+50.0%	+57.6%	+46.1%	+90.5%



PIF4 Investors:

A \$100,000 investment in PIF4 at inception on October 1, 2003 was worth \$190,500 as of December 31, 2010 (net to investors). This equates to an annualized gain of 9.3% 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 \$157,600 on December 31, 2010 – an annualized gain of 6.5%. The Nasdaq gains include reinvested dividends.

Annual Report – Will be out in April, 2011

As stated previously, I intend to prepare an annual report for the funds that would include an annual letter to partners and the most recent audit reports for all three funds. This is slated to be published in late April, 2011 – after the audit reports are out. We'll continue to have 4 quarterly letters like this one. However, general commentary in these quarterly missives is now minimal.

Pabrai Funds is Moving to New Offices

We are excited to be moving to our new digs in mid-February. Our new coordinates are:

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

There will be no change to our phone numbers, fax number etc.

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 419,279 units of PIF2; 8,417 units of PIF3; 1,224,824 units of PIF4 and about 25,000 units of PIF4 in a retirement account. This stake is worth over \$47 Million.

Besides the previously disclosed stake and small investment in Dardashti Capital (worth about \$1.4 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.

I intend to eliminate my 49% GP interest in Dardashti Capital on April 1, 2011. Control over the investment decisions made at Dardashti Capital has always been with Shai Dardashti - 100%. While passive ownership of a GP interest in a top-performing fund can be highly lucrative, I have come to appreciate that it is inherently unfair to the active manager. My value addition to Shai declines with every passing day. It is close to zero nowadays. However the stake (theoretically at least) becomes more valuable over time! I'd rather have fully aligned business relationships – and thus need to do the right thing here.

Shai and I are very good friends and he would have preferred no changes. I'd like to stress that this change has nothing to do with Shai's abilities as a value investor. He is a very good investor who is likely to do quite well in the years ahead. While I will no longer be a general partner, my family's investment of \$1.4 Million in Dardashti Funds remains unchanged. However, I eventually intend move these assets over to being managed by 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.

Final K-1's (for US Investors)

For PIF2 and PIF4 investors, we expect your final K-1s to be emailed to you (password protected) by March 31, 2010.

2011 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 Chicago meeting is thus scheduled to be on **Saturday, Sept. 10, 2011** at 4:00 PM at [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.

The **California** meeting is scheduled to be on **Saturday, Sept. 17, 2011** at 4:00 PM at our usual venue:

[Hyatt Regency Huntington Beach Resort and Spa](#)
(Grand Ballroom)

21500 Pacific Coast Highway, Huntington Beach, CA 92648 Tel. +1714.698.1234

We will have 10 rooms set aside for the event at a TBD rate. Please call the hotel directly and book your room mentioning Pabrai Investment Funds. Alternately, Hyatt.com usually has good rates and you can book online as well. Please book early as the hotel usually is fully booked around that time. The hotel is closest to Orange County Airport (SNA), though LAX and Long Beach (LGB) are convenient as well.

Agenda:

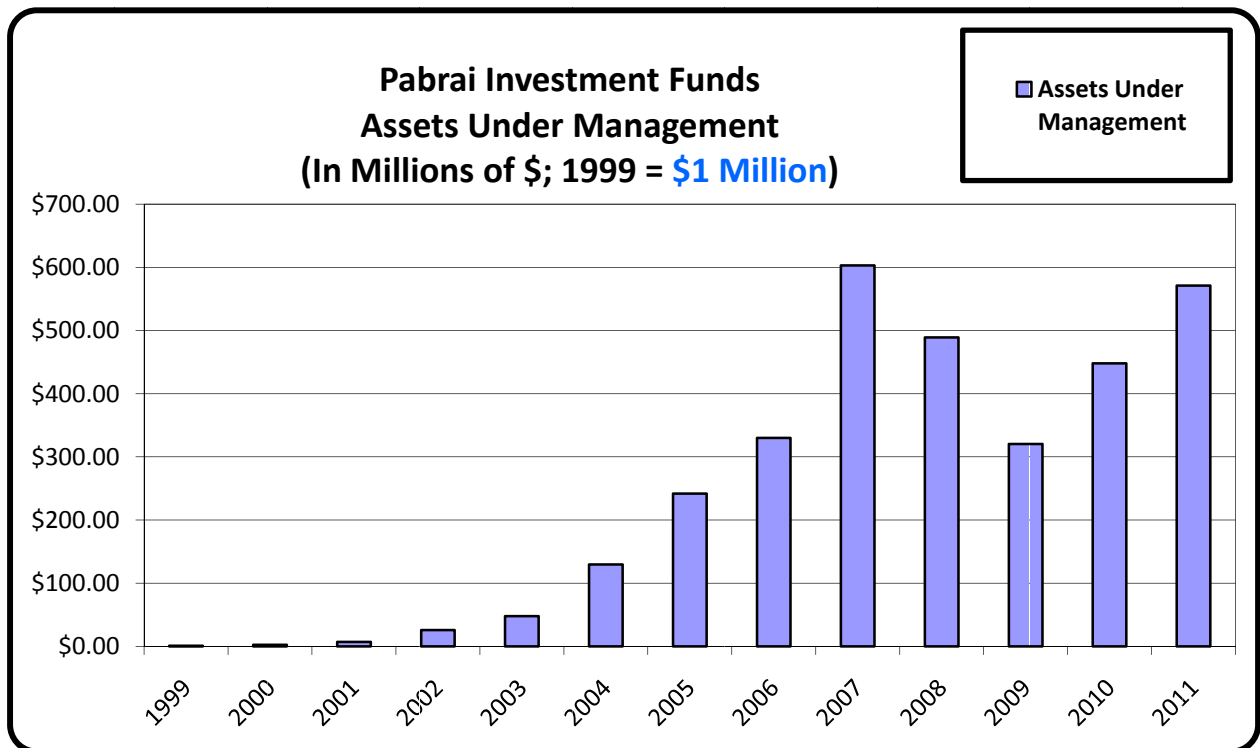
4:00 – 4:30 PM: Meet and Greet
4:30 – 6:30 PM: Presentation and Q&A
6:30 – 7:15 PM: Cocktail Hour

7:15 PM: Dinner

The invites will go out in July, 2011. 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 \$571 Million in assets under management between all the funds as of January 1, 2011.



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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Appendix

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
2,417,765	9/30/2010	\$49.42
2,257,421	12/31/2010	\$55.12

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

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