

Item 1  
Cover Page

PART 2A OF FORM ADV: FIRM BROCHURE

**Pabrai Investment Funds**

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This brochure provides information about the qualifications and business practices of Pabrai Investment Funds. If you have any questions about the contents of this brochure, please contact us at 949-453-0609 or [mpabrai@pabraifunds.com](mailto:mpabrai@pabraifunds.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Registration with the United States Securities and Exchange Commission or notice filing with any state securities authority does not imply a certain level of skill or training.

Additional information about Pabrai Investment Funds is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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### **Item 3: Advisory Business**

#### **A. General Description of Advisory Firm**

Dalal Street, LLC, which does business as Pabrai Investment Funds, is a California Limited Liability Company (the "Adviser") that was formed on May 1, 2005. The principal owner of this company is Mohnish Pabrai. The Adviser provides investment management services to limited partnerships or companies (each, a "Client" and, collectively, the "Clients") organized under the laws of the United States or the British Virgin Islands. The Adviser serves as general partner to or manager of each Client and tailors its advisory services as described in the relevant Client's private placement memorandum and/or as set forth in such Client's organizational documents. Please refer to Section 7 for a more detailed description of the Adviser's management strategies as well as the securities and other instruments purchased by the Adviser on behalf of the Clients. As of the date hereof, the Adviser provides investment management services to the following Clients: Pabrai Investment Funds 2, L.P., Pabrai Investment Funds 3, Ltd., and Pabrai Investment Funds IV, L.P.

#### **B. Description of Advisory Services**

Please see Section 7

#### **C. Availability of Customized Services for Individual Clients**

The Advisor tailors its advisory services as described in the relevant Client's private placement memorandum and/or as set forth in such Client's organizational documents.

The Advisor has the right to enter into agreements, such as side letters, with certain underlying investors in the Clients (each, an "Investor" and collectively, the "Investors") that may in each case provide for terms of investment that are more favorable to the terms provided to other Investors. Such terms may include the waiver or reduction of management fees and/or incentive allocations, the provision of additional information or reports and more favorable transfer rights.

Advisory services for each Client are not tailored to the individual needs of Investors. Investors may not impose restrictions on the Adviser with respect to the investments it makes on behalf of the Clients.

Persons reviewing this Form ADV Part 2A should not construe this as an offering of any of the Clients described herein, which will only be made pursuant to the delivery of a private placement memorandum to prospective investors.

#### **D. Wrap Fee Programs**

The Adviser does not participate in wrap fee programs.

#### **E. Assets Under Management**

The collective Client assets under management as of January 1, 2012 was \$455 million.

## **Item 4: Fees and Compensation**

### **A. Advisory Allocations**

For each Client, the Adviser is generally entitled to receive an advisory allocation of 25% of the increase in a Client's net assets over an annual rate of 6% subject to a "high water mark".

### **B. Timing of Advisory Allocation**

With respect to each Client, the advisory allocation due to the Adviser (if any) from such Client is allocated to the Adviser annually on December 31st and on the day immediately preceding (i) a new or existing investment by an Investor in such Client and (ii) any withdrawal by an Investor in such Client of all or any portion of such Investor's investment in such Client in excess of \$25,000.

### **C. Additional Fees and Expenses**

Each Client will pay the costs and operating expenses incurred in the operation and administration of its account, including fees of third-party administrators, accounting, legal, auditing and all investment expenses, such as brokerage commissions, custodial fees, bank service fees, interest on margin accounts and other indebtedness, if any, and other reasonable expenses related to the purchase, sale or transmittal of Client assets. Clients also bear the costs and expenses associated with their organization.

### **D. Prepayment of Fees**

See Section 4A above.

### **E. Additional Compensation and Conflicts of Interest**

Neither the Adviser nor any of its supervised persons accept compensation for the sale of securities or other investment products.

### **Item 5: Performance-Based Fees**

See Item 4A above. As of the date hereof, the Advisor is potentially entitled to performance-based allocations from each Client.

## **Item 6: Types of Clients**

The Adviser provides investment management services and advice to the following Clients:

Pabrai Investment Funds 2, L.P.,  
Pabrai Investment Funds 3, Ltd.,  
Pabrai Investment Funds IV, L.P.

The offering documents of each Client may set minimum amounts for investment by prospective Investors in such Clients. These minimum amounts may be waived by the Adviser.

## **Item 7: Methods of Analysis, Investment Strategies and Risk of Loss**

### Methods of Analysis and Investment Strategies

The Adviser pursues proprietary long-value investment strategies and invests each Client's assets in a portfolio of securities issued by and traded on U.S. and non-U.S. national securities exchanges and well-recognized established financial capital markets. The Adviser may invest or trade in all types of equity and debt securities including common and preferred stock, debt securities convertible into common or preferred stock or other types of securities, bonds, notes, zero coupon bonds, fixed income securities, options and investment company securities. In addition, from time to time, the Adviser invests Client capital in short-term instruments including, but not limited to, commercial paper, bank certificates of deposit, U.S. Treasury Bills and similar investments.

The Investment Manager does not employ leverage in its investment strategy.

### Risks Relating to Investment Strategies

#### **Market Risks**

Clients will be exposed significantly to all of the risks of investing in securities, including the risk that significant changes in the securities markets may adversely affect performance of their account. Therefore, there is a risk that Investors in a Client may not profit from their investment or that they may lose some or all of their investment.

#### **Minimal Restrictions on Concentrations of Investments**

The Adviser is generally not restricted with respect to the amount of Client assets that it can invest in any particular industry or in the percentage of Client assets that may be invested in any particular security. Therefore, each Client may be exposed to greater risk than would otherwise be the case if the Adviser were required to ensure additional portfolio diversification for its Clients.

#### **Lack of Diversification of Investments**

Client portfolios will not generally be diversified among a wide range of issuers, industries or areas. Accordingly, the investment portfolio of a Client may be subject to more rapid changes in value than would be the case if the Adviser were required to maintain a wide diversification among investment areas, securities and types of securities and other instruments on behalf of such Client.

**Lack of Liquidity**

Client assets may, at any given time, consist of significant amounts of securities and other financial instruments or obligations which are thinly-traded or for which no market exists and/or which are restricted as to their transferability under applicable securities laws. The sale of any such investments may be possible only at substantial discounts and it may be extremely difficult to accurately value any such investments.

**Small Cap Stocks**

At any given time, Client assets may be invested in smaller sized companies of a less seasoned nature whose securities are traded in the over-the-counter market. These "secondary" securities often involve significantly greater risks than the securities of larger, better-known companies.

**Portfolio Turnover**

The Adviser will purchase and sell securities at such times as it deems in the best interest of each Client and is not restricted with respect to the amount of portfolio turnover in any Client's account. To the extent that the Adviser trades securities on behalf of a Client for the short - term, such Client's portfolio turnover rate can be expected to increase. The turnover rate may vary from year to year, and at different times during the same year, and may also be affected by such Client's cash requirements. A high turnover rate involves correspondingly greater brokerage commissions and expenses which must be borne directly by the Client and ultimately by its Investors.



### **Item 8: Disciplinary Information**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of the Adviser's advisory business or the integrity of the Adviser's management.

## **Item 9: Other Financial Industry Activities and Affiliations**

### **A. Broker-Dealer Registration Status**

The Adviser and its management persons are not registered as broker-dealers and do not have any application pending to register with the Securities and Exchange Commission (the "SEC") as a broker-dealer or registered representative of a broker-dealer.

### **B. Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Adviser Registration Status**

The Adviser and its management persons are not registered as, and do not have any application to register as, a futures commission merchant, commodity pool operation, commodity trading advisor or an associated person of the foregoing entities.

### **C. Material Relationships or Arrangements with Industry Participants**

The Adviser manages several Clients, each of which have investment programs that are similar or substantially similar. In addition, the Adviser may in the future establish, sponsor and become affiliated with other pooled investment vehicles and companies that have investment programs that are similar or substantially similar to the investment program of its current Clients. As a result of the foregoing, the Adviser and its personnel may have conflicts of interest in allocating their time and resources between clients, in allocating investments among Clients and other entities, and in effecting transactions between Clients and other entities, including ones in which the Adviser or its personnel may have a financial interest. Accordingly, the Adviser will devote so much of its time and will allocate the time and resources of its operations team to its Clients as in its judgment the conduct of each Client's account reasonably requires.

In addition, generally, the Adviser exercises investment responsibility on behalf of, or directly or indirectly purchases, sells, holds or otherwise deals with, any portfolio investment for the account of multiple Clients and multiple businesses. Neither Clients nor their Investors will have any right to participate in any manner in any profits or income earned or derived by or accruing for the Adviser from the conduct of any business or from any transaction in investments effected by the Adviser for any account other than its own.

To address these potential conflicts of interests in its material relationships, the Adviser has adopted policies and procedures, including a Code of Ethics and allocation procedures. For a more detailed discussion of the Adviser's Code of Ethics and allocations and conflicts of interest policies, please see Section 10.

**D. Material Conflicts of Interest Relating to Other Investment Advisers**

Not Applicable

## **Item 10: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **A. Code of Ethics**

The Adviser is committed to the highest standards of ethical conduct. In furtherance thereof, the Adviser's chief compliance officer ("CCO") is charged with the implementation of the adviser's code of ethics (the "Code of Ethics"). The Code of Ethics specifies and prohibits certain types of transactions deemed to create actual conflicts of interest, the potential for conflicts, or the appearance of conflicts, and establishes general guidelines for the conduct of the Adviser's personnel as well as clearance and/or reporting requirements and enforcement procedures.

In recognition of the trust and confidence placed in the Adviser by Investors in each Client, and to give effect to the Adviser's belief that its operations should be directed to the benefit of the Clients, the Adviser adopted the following general principles to guide the actions of their employees:

- The interests of the Clients are paramount. All employees must conduct themselves and their operations to give maximum effect to this tenet by assiduously placing the interests of the Clients before their own.
- All permitted personal transactions in securities by employees must be accomplished so as to avoid the appearance of a conflict of interest on the part of such personnel with the interests of the Clients.
- All employees must avoid actions or activities that allow a person to profit or benefit from his or her position with respect to the Clients or that otherwise improperly bring into question the person's independence or judgment.
- All employees must report any violation(s) of the Code of Ethics or inappropriate conduct to the CCO.
- All employees must comply with all applicable laws, rules and regulations, including Federal securities laws.

The Adviser requires that all Adviser personnel avoid any relationship or activity that might impair, or even appear to impair, such individual's ability to make objective and fair decisions when performing job functions. The Code of Ethics prohibits Adviser personnel from using Adviser property or information for personal gain or personally taking for themselves any opportunity that is discovered through their Adviser position. The Code of Ethics further requires that employees disclose any situation, including situations pertaining to the employee's family members, which reasonably could be expected to give rise to a conflict of interest. The Code of Ethics also contains general prohibitions against fraud, deceit and manipulation, as well as additional restrictions and requirements regarding gifts, entertainment and outside activities.

The Adviser has adopted a securities trading policy that sets forth, among other things, policies and procedures regarding material nonpublic information and proprietary Adviser information, and employee accounts and trading. The policies and procedures contained in the securities trading policy are designed to (a) provide for the proper handling of both

material nonpublic information about companies or other issuers and proprietary information of the Adviser, (b) prevent violations of laws and regulations prohibiting the misuse of material nonpublic information about companies or other issuers and/or proprietary information of the Adviser, and (c) avoid situations that might create an appearance that material nonpublic information about companies or other issuers or proprietary information of the Adviser has been misused. In furtherance thereof, employees are prohibited from misusing material nonpublic information and/or nonpublic proprietary information. The Adviser's securities trading policy sets forth general and specific procedures to restrict the flow of material nonpublic information from employees performing investment, transactional, lending, finance, private research and/or private analysis activities at the Adviser to employees responsible for or involved in the securities trading activities of the Adviser.

The Adviser will provide a copy of the Code of Ethics to any Client or investor of a Private Fund or prospective client or investor in a Private Fund upon request.

Adviser personnel are required to certify to their compliance with the Code of Ethics, including the securities compliance policy, on an annual basis.

#### B. Securities in Which the Adviser or a Related Person Has a Material Financial Interest

From time to time, the Adviser may, on behalf of the Clients, engage in cross-trades. Such cross trades will be executed at the market price (or fair value) consistent with any required approvals. The Adviser has implemented policies and procedures to ensure that cross trades are, in the reasonable determination of the Adviser, in the best interests of each transacting Client. The Adviser will receive no transaction-based compensation in connection with cross trades (other than incentive allocations/fees received in the ordinary course of business). In addition, cross trades generally will be effected without brokerage commissions being charged.

#### C. Investing in Securities That the Adviser or a Related Person Recommends to Clients

See Section 10A

#### D. Conflicts of Interest Created by Contemporaneous Trading

The Adviser may serve as investment advisers to other client accounts and conduct investment activities for their own accounts. Such other entities, clients or accounts may have investment objectives or may implement investment strategies similar to those of a Client. The Adviser may also have investments in certain Clients.

The Adviser may give advice or take action with respect to other Clients that differs from the advice given with respect to any one Client. To the extent a particular investment is suitable for multiple clients, such investments will be allocated between Clients pro rata based on assets under management or in some other manner which the Adviser determines is fair and equitable under the circumstances to all Clients.

As a result of the foregoing, the Adviser and its principal may have conflicts of interest in allocating their time and activity between Clients, in allocating investments among Clients and in effecting transactions for Clients, including ones in which the Adviser may have a greater financial interest.

Although the Adviser will attempt to allocate investment opportunities in a manner which is in the best interests of all Clients, and in general will allocate investment opportunities believed to be appropriate for Clients among Clients on a pro rata basis in proportion to the relative net worth of each, it is possible that an investment opportunity which comes to the attention of the Adviser will not be allocated multiple Clients, or that one or more Clients may be unable to participate in such investment opportunity or participate only on a limited basis. In addition, there may be circumstances under which the Adviser will consider participation by certain Clients in investment opportunities in which the Adviser does not intend to invest, or intends to invest only on a limited basis, on behalf of other Clients. The Adviser evaluates investments for each Client based on numerous factors which may be relevant in determining whether a particular situation or strategy is appropriate and feasible for such Client at a particular time, including the nature of the investment opportunity taken in the context of the other investment or regulatory limitations on such Client and the transaction costs involved. Because these considerations may differ for each Client in the context of any particular investment opportunity, investment activities of Clients may differ considerably from time to time.

The Adviser uses its best efforts in connection with the purposes and objectives of each Client and will devote as much of its time and effort to the affairs of such Client as may, in its judgment, be necessary to accomplish the investment purposes of such Client. The Adviser (and its principals, affiliates or employees) may conduct any other business, including any business within the securities industry, whether or not such business is in competition with a Client. Consequently, the Adviser (or its principals, affiliates or employees) may act as investment adviser for other clients, may have, make and maintain investments in its own name or through other entities, and may serve as an officer, director, consultant, partner or stockholder of one or more investment funds, securities firms or advisory firms. It may not always be possible or consistent with the investment objectives of such persons or entities and of a Client for the same investment positions to be taken or liquidated at the same time or at the same price.

## **Item 11: Brokerage Practices**

### **A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.**

The Adviser has complete discretion, without obtaining specific client consent to (i) buy or sell securities, (ii) the amount of the securities to be bought or sold. (iii) the broker or dealer to be used in such purchase or sale and (iv) the commission rates paid in connection with such purchase or sale.

The Adviser will effect transactions with brokers that (with respect to U.S. securities) are registered with the SEC and are members of the Financial Industry Regulatory Authority. The Adviser will select brokers on the basis of their ability to provide best execution (including both the trade price and commission).

#### **1. Research and Other Soft Dollar Benefits.**

The Adviser will attempt to negotiate the lowest available commission rates commensurate with the assurance of reliable, high quality brokerage services; however, the Adviser may select brokers that charge a higher commission or fee than another broker would have charged for effecting the same transaction; provided, that the selection of a broker will be made on the basis of best execution, taking into consideration various factors, including commission rates, reliability, financial responsibility, strength of the broker and the ability of the broker to efficiently execute transactions, the broker's facilities, and the broker's provision or payment of the costs of research and other services or property that are of benefit to the Adviser or other Clients to which the Adviser provides investment services; provided, further, that the Adviser may be influenced in its selection of brokers by their provision of other services, including, without limitation, capital introduction, marketing assistance, consulting with respect to technology, operations, equipment and office space, and other services or items. Such execution services, research, investment opportunities or other services may be deemed to be "soft dollars"; however, the Adviser has not entered into written soft dollar arrangements.

The provision by a broker of research and other services and property to the Adviser creates an incentive for the Adviser to select such broker since the Adviser would not have to pay for such research and other services and property as opposed to solely seeking the most favorable execution for a Client. Any research, services or property provided by a broker may benefit any Client of the Adviser and such benefits may not be proportionate to commission dollars related to the provision of such research, services or property.

### Brokerage for Client Referrals.

As discussed above, subject to best execution, the Adviser may consider, among other things capital introduction, marketing assistance, consulting with respect to technology, operations, equipment and office space, and other services or items in selecting broker-dealers for Client transactions. The Adviser does not receive Client referrals in exchange for brokerage business.

### 2. Directed Brokerage.

The Adviser does not recommend, request or require that a client direct the Adviser to execute transactions through a specified broker-dealer.

#### B. Aggregated Orders for Various Client Accounts.

If the Adviser determines that the purchase or sale of the same security is in the best interest of more than one Client, the Adviser may, but is not obligated to, aggregate orders in order to reduce transaction costs to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating Client will receive the average price with transaction costs allocated *pro rata* based on the size of each Client's participation in the order as determined by the Adviser. In the event of a partial fill, allocations generally will be made on a *pro rata* basis on the initial order but may be modified on a basis the Adviser deems appropriate, including for example, in order to avoid odd lots or *de minimis* allocations.

#### C. Trade Errors.

Trade errors and allocation errors may occur as a result of mistakes made on the part of an executing broker, or mistakes on the part of Adviser personnel including, but not limited to, portfolio managers, traders and operations staff. To the extent that errors occur, the Adviser maintains trade error and allocation error policies and procedures. In accordance with such procedures, trade errors are: (i) corrected by the Adviser as soon after discovery as practicable; and (ii) corrected in a manner whereby the Adviser minimizes any profit and loss as a result of trade errors. The Advisers strive to correct all trade errors prior to settlement. Any profit that results from a trade error is left in the account of the applicable Client. Broker-dealers ("brokers") that cause trade errors as a result of their own mistakes should be responsible for any losses that result from such errors. The Adviser does not compensate brokers with soft dollars for absorbing trade errors. Should an error be made with regard to the allocation of a particular investment opportunity, the details of the error and its resolution are memorialized in the Adviser's books and records.

Pursuant to various exculpation and indemnification provisions, the Adviser and its personnel generally will not be liable to the Clients for any act or omission, absent bad faith, gross negligence, willful misconduct or fraud. In addition, the Clients generally will be required to indemnify such persons against any losses they may incur by reason of any act or



omission related to the Client, absent bad faith, gross negligence, willful misconduct or fraud. As a result of these provisions, the Client (and not the Adviser) will be responsible for any losses resulting from trading and allocation errors and similar human errors, absent bad faith, gross negligence, willful misconduct or fraud. Trading and allocation errors might include, for example, keystroke errors that occur when entering trades into an electronic trading system, failures of oral communication between and among investment staff, trading staff and operations staff, or typographical or drafting errors related to derivatives contracts or similar agreements and allocation errors and similar human errors, absent bad faith, gross negligence, willful misconduct or fraud. Given the nature of the Clients' business, Investors are advised that trading and allocation errors (and similar errors) may occur and the Clients, in such cases, will be responsible for any resulting losses, even if such losses result from the negligence (but not gross negligence) of the personnel of the Adviser.

## **Item 12: Review of Accounts**

Investors receive audited year-end financial statements annually and annual valuation reports based on actual trading results. Valuation reports are provided quarterly (in the case of Pabrai Investment Fund 2 and Pabrai Investment Fund 4) and monthly (in the case of Pabrai Investment Fund 3).

Investors have the right to inspect the books and records of the Client in which they are invested as described in the operational documents of such Client.

**Item 13: Client Referrals and Other Compensation**

Not Applicable

## **Item 14: Custody**

Rule 206(4)-2 promulgated under the Advisers Act (the "Custody Rule") (and certain related rules and regulations under the Advisers Act) imposes certain obligations on SEC-registered investment advisers that have custody or possession of any funds or securities in which any client of such registered investment adviser has any beneficial interest. An investment adviser is deemed to have custody or possession of client funds or securities if the adviser directly or indirectly holds client funds or securities or has authority to obtain possession of them (regardless of whether the exercise of that authority or ability would be lawful).

The Adviser is required to maintain the funds and securities (except for securities that meet the privately offered securities exemption in the Custody Rule) over which it has custody with a "qualified custodian". Qualified custodians include banks, brokers, futures commission merchants and certain financial institutions.

Rule 206(4)-2 imposes on advisers with custody of clients' funds or securities certain requirements concerning reports to such clients (including underlying investors) and surprise examinations relating to such clients' funds or securities. However, an adviser need not comply with such requirements with respect to pooled investment vehicles subject to audit and delivery if each pooled investment vehicle (i) is audited at least annually by an independent public accountant and (ii) distributes its audited financial statements prepared in accordance with generally accepted accounting principles to their investors, all limited partners, members of other owners within 120 days (180 days in the applicable case of fund of fund adviser) of its fiscal year-end. The Adviser relies upon this audit exception with respect to the Clients.

### **Item 15: Investment Discretion**

The Adviser has been appointed as the investment manager or general partner of the each Client with discretionary trading and investment authorization over each Client's account. The Adviser has full discretionary authority with respect to investment decisions, and its advice with respect to each Client is made in accordance with the investment objectives and guidelines as set forth in such Client's respective private placement memorandum. The Adviser assumes discretionary authority or manages the portfolios of each Client through the authority granted to the Adviser by such Client through execution of an investment management agreement and/or through the organizational documents of such Client. Investors in each Client are required to review the organizational documents of such Client and to sign a subscription agreement before investing in such Client.

### **Item 16: Voting Client Securities**

The Adviser is committed to voting proxies in a manner consistent with the best interest of the Clients. While the decision whether or not to vote a proxy is made on a case-by-case basis, the Adviser generally does not vote a proxy if it believes the proposal is not adverse to the Clients' best interests, or, if adverse, the outcome of the vote is not in doubt.

## **Item 17: Financial Information**

Not Applicable