

**MANAGEMENT REPORT OF FUND  
PERFORMANCE**

**December 31 2020**

**CHOU ASSOCIATES FUND**

**CHOU ASSOCIATES MANAGEMENT INC.**

# **MANAGEMENT REPORT OF FUND PERFORMANCE**

## **December 31, 2020**

This annual management report of fund performance contains financial highlights but does not contain the complete financial statements of the Fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling Toll-free: 1-888-357-5070, by writing to us at 110 Sheppard Ave. East, Suite 301, Box 18, Toronto, Ontario M2N 6Y8 or by visiting our website at [www.choufunds.com](http://www.choufunds.com) and SEDAR at [www.sedar.com](http://www.sedar.com).

Unitholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance, or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements.

Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons including, but not limited to, market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Fund may invest, and the risks detailed from time to time in the Fund's Simplified Prospectus. We caution that the foregoing list of factors is not exhaustive, and that when relying on forward-looking statements to make decisions with respect to investing in the Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the family of Chou Funds does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

Chou Associates Management Inc. ("the Manager") manages the overall business of the Fund, including the selection of the securities in the Fund's portfolio and promoting sales of the Fund's units. For the purposes of this document, the terms Chou Associates Management Inc. and "the Manager" are interchangeable. Full contact information for the Manager is located at the end of this report.

# CHOU ASSOCIATES FUND

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## Management Discussion of Fund Performance

### Investment Objective and Strategies

Chou Associates Fund's (the "Fund") objective is to provide long-term growth of capital by investing primarily in equity securities of United States ("U.S.") and foreign businesses considered by Chou Associates Management Inc. (the "Manager") to be undervalued. The Fund may also invest in the equity securities of Canadian businesses. Investments may include common and preferred shares, convertible debentures, government and corporate bonds and short-term debt. The Fund may also use derivatives such as, but not limited to, futures, options, swaps and forward contracts to gain exposure to securities and asset classes consistent with the objectives of the Fund, and to hedge portfolio exposure against losses from foreign currency and domestic currency exposure and changes in securities prices.

The Fund's investment strategy follows a strong discipline with regard to the prices paid to acquire portfolio investments. The level of investments in a particular entity's securities is generally commensurate with the current price of the company's securities in relation to the Manager's assessment of such entity's intrinsic value as determined by various factors. This approach is designed to provide an extra margin of safety, which in turn, serves to reduce the Fund's overall portfolio risk.

### Risk

The risks of investing in the Fund are disclosed in the Fund's most recently filed Simplified Prospectus which can be found on the Fund's website at [www.choufunds.com](http://www.choufunds.com) and SEDAR at [www.sedar.com](http://www.sedar.com).

During the year ended December 31, 2020, there were no material changes that affected the Fund's overall level of risk.

As at December 31, 2020, Fairfax Financial Holdings held 25.8% of the units of the Fund. If Fairfax redeems its units, a significant portion of the Fund's investments may have to be liquidated in order to effect this transaction. The timing of such a liquidation may not be appropriate and all investors may suffer a proportionate loss as a result of such a liquidation.

Fairfax agreed in 2002 that it would not exercise any voting rights attached to units of the Fund or otherwise in any manner attempt to influence the affairs of the Chou Funds. This agreement remains in full force and effect and has been complied with by Fairfax to date.

### Market Review

For the year 2020, U.S. equities ended in positive territory. The S&P 500 ended the year up 18.3%, at a record high, while the Dow Jones Industrial Average was up 9.7%, both in U.S. dollars. The top performing sectors for U.S. equities were Information Technology, Consumer Discretionary, and Communication Services, while the worst performing sectors were Energy, Real Estate, and Financials.

For investors, the year was characterized by sharp swings for both U.S. and global equities. As the pandemic worsened over Q1 and Q2, investors experienced the quickest and deepest bear market decline in history, negative oil prices, and trillions of dollars of global stimulus. This was followed by the fastest recovery from a bear market as several vaccine breakthroughs were announced towards the end of the year.

In 2020, the U.S. Federal Reserve slashed the Federal Funds rate to near zero and launched a massive USD\$700 billion quantitative easing program. The U.S. government also launched multiple programs, including the CARES Act, which provided USD\$2.3 trillion of support to individuals and businesses. U.S. equities also benefitted from a resilient consumer base, less-strict lockdowns and a jump in health care stocks.

## CHOU ASSOCIATES FUND

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### Results of Operations

For the year ended December 31, 2020, the Fund decreased 9.5% for Series A units and 8.9% for Series F units, after fees and expenses, while the S&P 500 Total Return Index increased 16.4% in Canadian dollars. In U.S. dollars, the Fund decreased by 7.6% for Series A units and 7.1% for Series F units, while the S&P 500 Total Return Index increased 18.3%.

The equity holdings of Overstock.com Inc., DaVita Inc., Resolute Forest Products and Goldman Sachs Group contributed positively to the Fund's performance during the year.

The main negative contributors to the Fund's performance in 2020 were the equity holdings of Wells Fargo & Company, Bausch Health Companies, MBIA Inc., Citigroup and EXCO Resources Inc. The Canadian currency appreciated against the US dollar, which also negatively affected the Fund.

During the period, the Fund reduced its holdings of DaVita Inc., Goldman Sachs Group, Berkshire Hathaway Inc., JPMorgan Chase and MBIA Inc. The Fund also sold the equity holdings of Allegiant Travel Company and Spirit Airlines Inc.

The Fund received units of Overstock.com Inc. Pref. Series A-1 as dividends in April 2020. The Fund also wrote two covered call options on Resolute Forest Products during the year.

In 2020, the Fund received \$11,727 in income from its securities lending program.

The Fund did not enter into any foreign currency contracts in 2020.

The Fund's net redemptions for the period ended December 31, 2020 were approximately \$23,232,531 for Series A units and approximately \$9,205,921 for Series F units. The Fund's average month-end cash position for the period was 3.4% of the Fund's net assets.

### Recent Developments

On March 11, 2020, the World Health Organization declared the global outbreak of the COVID-19 pandemic. Market disruptions associated with the COVID-19 pandemic have had a global impact, and uncertainty exists as to its long-term implications. Such disruptions can adversely impact the financial instrument risks and the fair values of the Funds' portfolios.

### Related Party Transactions

The Manager manages the overall business of the Fund, including selection of the securities in the Fund's portfolio and promoting the sale of the Fund's units.

The Manager is also the trustee of the Fund. Investors receive units of a trust when they invest in the Fund. The Manager, as trustee, holds actual title to the property in the Fund, the cash and portfolio securities, on behalf of the Fund's investors.

The Manager, its employees and directors invest in units of the Fund from time to time in the normal course of business. As of December 31, 2020, the Manager, its employees and directors held 5.0% of the Series A units of the Fund. All transactions with the Manager are carried out at the Fund's net asset value as at the transaction date.

During the year, there were no transactions with related parties except in the capacities and instances set out above.

# CHOU ASSOCIATES FUND

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the year ended December 31, 2020, and for each of the past five years ended December 31.

### The Fund's Net Assets per Unit<sup>1</sup> - Series A Units

	2020	2019	2018	2017	2016	2015
<b>Net Assets, beginning of year</b>	<b>\$ 103.28</b>	<b>\$ 103.26</b>	<b>\$ 112.16</b>	<b>\$ 110.60</b>	<b>\$ 115.50</b>	<b>\$ 124.04</b>
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 0.49	\$ 0.90	\$ 3.24	\$ 4.38	\$ 2.11	\$ 0.01
Total expenses	(1.66)	(2.13)	(2.71)	(2.33)	(2.06)	(2.38)
Realized gains (losses) for the year	9.62	(2.26)	0.88	2.42	12.19	7.31
Unrealized gains (losses) for the year	(20.66)	3.23	(8.69)	(0.98)	(17.19)	(13.35)
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ (12.21)</b>	<b>\$ (0.26)</b>	<b>\$ (7.28)</b>	<b>\$ 3.49</b>	<b>\$ (4.95)</b>	<b>\$ (8.41)</b>
<b>Distributions:</b>						
From income (excluding dividends)	\$ -	\$ 1.31	\$ -	\$ 2.63	\$ 1.54	\$ -
From dividends	-	-	-	-	-	-
From capital gains	-	-	-	-	0.04	0.07
Return of capital	-	-	-	-	0.06	-
<b>Total Distributions<sup>3</sup></b>	<b>\$ -</b>	<b>\$ 1.31</b>	<b>\$ -</b>	<b>\$ 2.63</b>	<b>\$ 1.64</b>	<b>\$ 0.07</b>
<b>Net Assets, end of year</b>	<b>\$ 93.50</b>	<b>\$ 103.28</b>	<b>\$ 103.26</b>	<b>\$ 112.16</b>	<b>\$ 110.60</b>	<b>\$ 115.50</b>
<b>Net Assets, end of year (USD)</b>	<b>\$ 73.45</b>	<b>\$ 79.53</b>	<b>\$ 75.64</b>	<b>\$ 89.23</b>	<b>\$ 82.37</b>	<b>\$ 83.47</b>

### Ratios and Supplemental Data - Series A Units

	2020	2019	2018	2017	2016	2015
<b>Total Net Asset Value (000s)<sup>4</sup></b>	<b>\$ 137,794</b>	<b>\$ 180,517</b>	<b>\$ 250,375</b>	<b>\$ 336,325</b>	<b>\$ 403,678</b>	<b>\$ 468,191</b>
Number of Redeemable Units Outstanding	1,473,749	1,747,907	2,424,781	2,998,503	3,650,048	4,053,774
Management Expense Ratio <sup>5</sup>	1.85%	1.87%	2.03%	1.89%	1.87%	1.82%
Management Expense Ratio before waivers or absorption <sup>5</sup>	1.85%	1.87%	2.03%	1.89%	1.87%	1.82%
Trading Expense Ratio <sup>6</sup>	0.06%	0.08%	0.06%	0.15%	0.05%	0.02%
Portfolio Turnover Rate <sup>7</sup>	0.03%	14.98%	31.61%	26.03%	16.55%	4.06%
<b>Net Asset Value per Unit</b>	<b>\$ 93.50</b>	<b>\$ 103.28</b>	<b>\$ 103.26</b>	<b>\$ 112.16</b>	<b>\$ 110.60</b>	<b>\$ 115.50</b>

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## The Fund's Net Assets per Unit<sup>1</sup> - Series F Units

	2020	2019	2018	2017	2016	2015
<b>Net Assets, beginning of year</b>	\$ 102.34	\$ 102.80	\$ 111.51	\$ 110.03	\$ 114.76	\$ 123.33
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 0.50	\$ 0.89	\$ 3.42	\$ 4.40	\$ 2.11	\$ 0.01
Total expenses	(1.18)	(1.53)	(2.12)	(1.72)	(1.50)	(1.69)
Realized gains (losses) for the year	10.33	(2.14)	0.06	2.56	12.15	7.27
Unrealized gains (losses) for the year	(26.18)	4.40	(9.46)	(1.67)	(15.42)	(13.89)
<b>Total increase (decrease) from operations<sup>2</sup></b>	\$ (16.53)	\$ 1.62	\$ (8.10)	\$ 3.57	\$ (2.66)	\$ (8.30)
<b>Distributions:</b>						
From income (excluding dividends)	\$ -	\$ 2.31	\$ -	\$ 3.35	\$ 2.03	\$ -
From dividends	-	-	-	-	-	-
From capital gains	-	-	0.43	-	0.03	0.84
Return of capital	-	-	-	-	0.06	-
<b>Total Distributions<sup>3</sup></b>	\$ -	\$ 2.31	\$ 0.43	\$ 3.35	\$ 2.12	\$ 0.84
<b>Net Assets, end of year</b>	\$ 93.19	\$ 102.34	\$ 102.80	\$ 111.51	\$ 110.03	\$ 114.76
<b>Net Assets, end of year (USD)</b>	\$ 73.21	\$ 78.81	\$ 75.30	\$ 88.71	\$ 81.95	\$ 83.47

## Ratios and Supplemental Data - Series F Units

	2020	2019	2018	2017	2016	2015
<b>Total Net Asset Value (000s)<sup>4</sup></b>	\$ 15,443	\$ 28,449	\$ 35,383	\$ 40,484	\$ 45,074	\$ 45,520
Number of Redeemable Units Outstanding	165,723	277,980	344,195	363,060	409,648	396,647
Management Expense Ratio <sup>5</sup>	1.28%	1.30%	1.46%	1.33%	1.32%	1.26%
Management Expense Ratio before waivers or absorption <sup>5</sup>	1.28%	1.30%	1.46%	1.33%	1.32%	1.26%
Trading Expense Ratio <sup>6</sup>	0.06%	0.08%	0.06%	0.15%	0.05%	0.02%
Portfolio Turnover Rate <sup>7</sup>	0.03%	14.98%	31.61%	26.03%	16.55%	4.06%
<b>Net Asset Value per Unit</b>	\$ 93.19	\$ 102.34	\$ 102.80	\$ 111.51	\$ 110.03	\$ 114.76

(1) This information is derived from the Fund's audited annual financial statements.

(2) Net assets and distributions are based on the actual number of redeemable units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of redeemable units outstanding over the financial period.

(3) Distributions were reinvested in additional units of the Fund or paid in cash upon request.

(4) This information is provided as at year end shown and is rounded to the nearest thousand.

(5) Management expense ratio ("MER") is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. The Manager may, at its discretion, waive or absorb certain operating expenses. MER includes the waiver or absorption by the Manager of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by the Manager.

(6) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net asset value during the year.

(7) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

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## Management Fees

The Manager manages the Fund. The Manager is entitled to an investment management fee calculated daily as a percentage of the market value of the net assets equal to 1.5% per annum for Series A units and 1.0% per annum for Series F units, payable monthly. The Manager pays 50 basis points per year trailer fees to dealers out of management fees for Series A units. There is no trailer fee paid out for Series F units.

## Past Performance

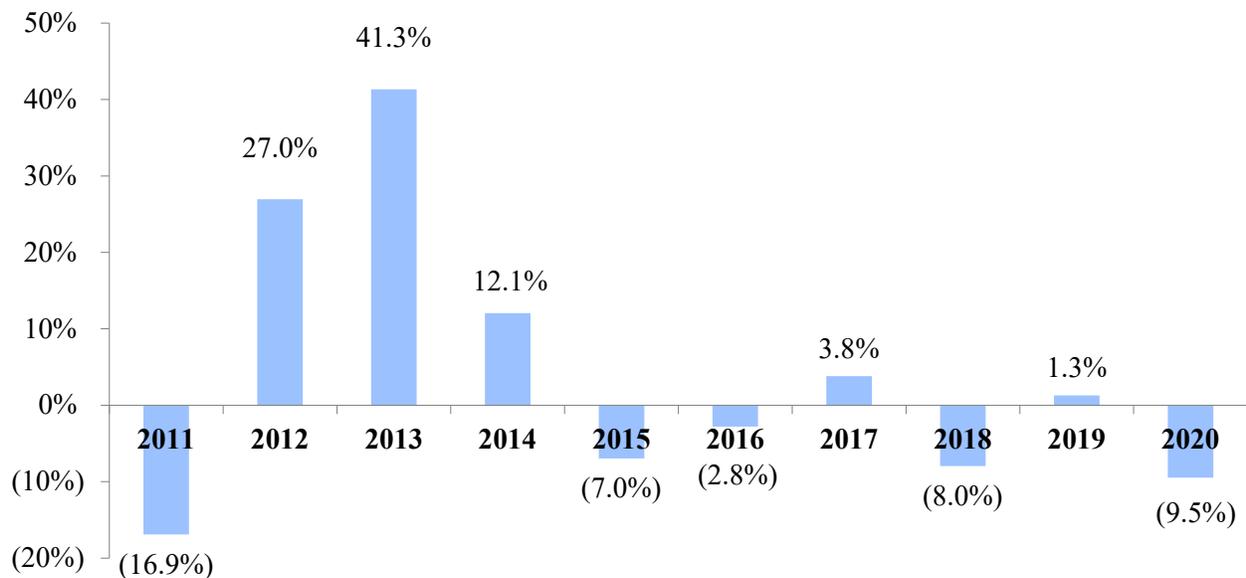
### General

The following charts and tables show the Fund's past performance. Rates of return are historical total returns that include changes in unit prices and assume the reinvestment of all distributions. These returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that the Fund's investors have to pay and which could reduce these returns. The Fund's past performance does not necessarily indicate its future performance.

### Year-by-Year Returns

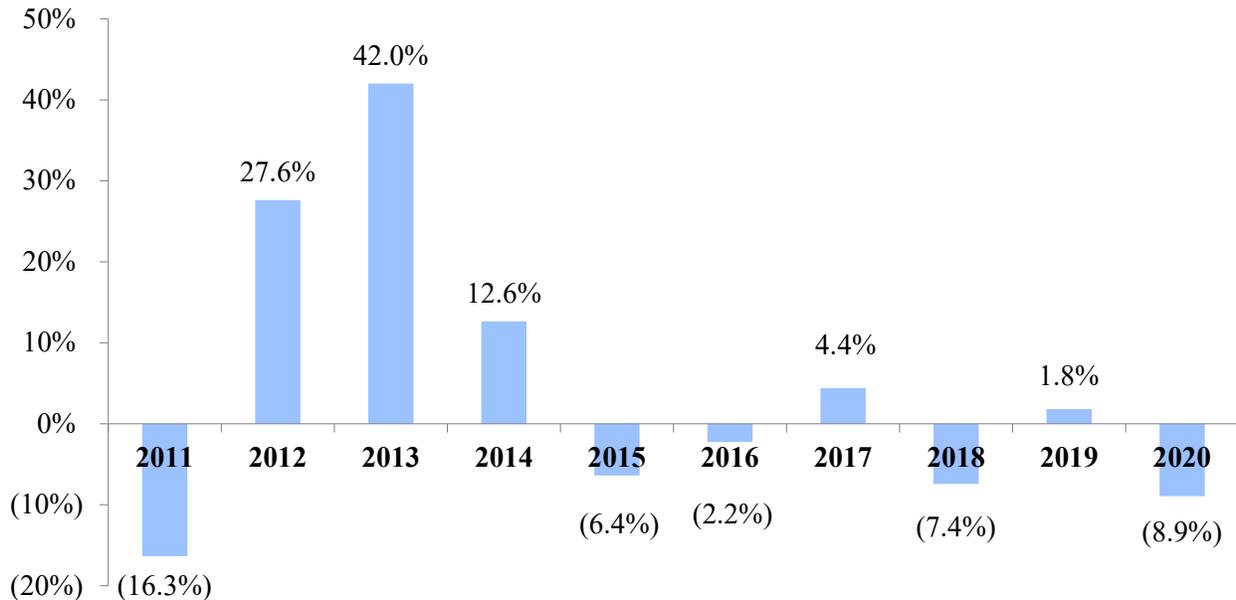
The following bar charts show the annual performance for each of the Series A and Series F units of the Fund for each of the years shown. Each chart shows, in percentage terms, how an investment on January 1 would have increased or decreased by December 31 for each of the years, and how the performance of the Fund varied from year to year.

### Series A



# CHOU ASSOCIATES FUND

## Series F



## Annual Compound Returns

The following tables<sup>(1)</sup> show the annual compound total return for each of the Series A and Series F units of the Fund. The tables outline the Fund's past performance for the one-, three-, five-, ten-, and fifteen-year periods ended on December 31, 2020 for Series A units and since inception and for the one-, three-, five- and ten-year periods ended on December 31, 2020 for Series F units. Also shown for the same periods are the respective historical annual compound total returns of the S&P 500 (the "Index"). The Index is based on the market capitalizations of 500 leading companies publicly traded in the U.S. stock market representing all major industries, as determined by Standard & Poor's. The Index is one of the most commonly followed equity indices and has been widely regarded as the best single gauge of the large cap U.S. equities market since the Index was first published in 1957. The benchmark Index is calculated without the deduction of management fees and fund expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses.

### Series A

December 31, 2020	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years
Chou Associates Fund	-9.47%	-5.49%	-3.16%	2.80%	2.94%
S&P 500 (\$CAN)	16.42%	14.85%	13.37%	16.74%	10.56%

### Series F

December 31, 2020	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years
Chou Associates Fund	-8.95%	-4.97%	-2.62%	3.42%	3.49%
S&P 500 (\$CAN)	16.42%	14.85%	13.37%	16.74%	10.56%

<sup>(1)</sup> Tables assume the reinvestment of all distributions.

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## Summary of Investment Portfolio

The following tables provide a summary of the Fund's portfolio as at December 31, 2020.

<u>Sector Mix</u>	<u>% of Fund's Net Assets</u>
Financials	48.6%
Health Care	23.9%
Materials	18.2%
Energy	8.8%
Consumer Discretionary	1.4%
Communication Services	0.1%
Options	(0.1)%
Net Cash & Equivalents	(0.9)%
<b>Total Portfolio</b>	<b>100.0%</b>

<u>Total Issuers</u>	<u>% of Fund's Net Assets</u>
<i>(excluding cash equivalents)</i>	
<b>Equities</b>	
Berkshire Hathaway Inc., Class 'A'	28.9%
Bausch Health Companies Inc.	22.9%
Resolute Forest Products Inc.	18.2%
EXCO Resources Inc.	8.8%
Wells Fargo & Company	5.3%
The Goldman Sachs Group Inc.	3.9%
JPMorgan Chase & Company	3.6%
Citigroup Inc.	3.5%
MBIA Inc.	3.4%
Overstock.com Inc., Class 'B'	1.4%
DaVita Inc.	1.0%
Overstock.com Inc., Class 'A-1'	0.1%
<b>Total Equities</b>	<b>101.0%</b>
<b>Written Call Options - Short</b>	
Resolute Forest Products Inc.	0%
Resolute Forest Products Inc.	(0.1)%
<b>Total Written Call Options</b>	<b>(0.1)%</b>

<b>Total Holdings</b>	<b>100.9%</b>
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The summary of the Fund's investment portfolio may change due to ongoing portfolio transactions of the Fund. The next quarterly update as at March 31, 2020 will be in the Quarterly Portfolio Disclosure and will be posted on our website [www.choufunds.com](http://www.choufunds.com) on or before May 31, 2020.

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