

**INTERIM MANAGEMENT REPORT  
OF FUND PERFORMANCE**

**June 30 2019**

**CHOU ASSOCIATES FUND**

**CHOU ASSOCIATES MANAGEMENT INC.**

## **INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE**

### **June 30, 2019**

This interim 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. The Fund's investments may include common and preferred shares, convertible debentures, warrants, government and corporate bonds and short-term indebtedness.

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 first half of 2019, there were no material changes that affected the Fund's overall level of risk.

As at June 30, 2019, Fairfax Financial Holdings held 33.6% of the Series A 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 Financial 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 Financial to date.

### Market Review

For the first half of 2019, the U.S. equities performed well, with the S&P 500 up 18% from the beginning of the year. Information technology, consumer discretionary, and industrials all generated robust gains while healthcare and energy remained challenged.

Although trade tensions continued to add volatility to the market, indications of progress in trade talks during the period bolstered U.S. markets. The Fed did not cut rates at its June meeting but signaled that there may be possible rate cuts ahead which was welcomed news to investors.

The U.S. economy continued to perform well with solid job creation and strong consumer spending although manufacturing growth has slumped recently.

### Results of Operations

For the period ended June 30, 2019, the Fund decreased 2.8% for Series A units and 2.5% for Series F units, after fees and expenses, while the S&P 500 Total Return Index increased 13.9% in Canadian dollars. In U.S. dollars, the Fund increased by 1.3% for Series A units and 1.6% for Series F units, while the S&P 500 Total Return Index returned 18.5%.

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The major positive contributors to the Fund's performance in the first half of 2019 were the equity holdings of Bausch Health Companies, Citigroup, and Goldman Sachs Group.

The largest decliners in the same period were the equity holdings of Endo International PLC, Resolute Forest Products, and the EXCO Resources 1.75 lien term loan.

The Canadian currency appreciated against the US dollar, which also negatively affected the Fund.

During the period, the Fund exited its holdings in Sanofi and Sears Holdings Corporation, and reduced holdings in DaVita Inc.

Call options on the common shares of Resolute Forest Products and Sears Hometown and Outlet Stores expired in the first half of 2019. The Fund bought back call options of Endo International PLC expiring in January 2020 with a strike price of US\$15.00, and sold call options of Sears Hometown and Outlet Stores equity expiring in July 2019 with a strike price of US\$2.50.

The Fund did not enter into any foreign currency contracts during the period ended June 30, 2019.

In the first half of 2019, the Fund received \$14,406 in income from its securities lending program.

The Fund's net redemptions for the period ended June 30, 2019 were approximately \$21,084,289 for Series A units and approximately \$1,348,127 for Series F units. The Fund's average month-end cash position for the period was 0.4% of the Fund's net assets.

### **Recent Developments**

There have been no recent market developments of particular note, aside from the normal fluctuations of the markets that are expected to have an undue influence on the portfolio of the Fund when compared to its benchmark.

### **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 officers and directors invest in units of the Fund from time to time in the normal course of business. As of June 30, 2019, the Manager, its officers and directors hold 3.3% 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 period ended June 30, 2019, there were no transactions with related parties except in the capacities and instances set out above.

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## 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 period ended June 30, 2019, and for each of the past five years ended December 31, as applicable.

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

	<u>Jun 2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Net Assets, beginning of period</b>	<b>\$ 103.26</b>	<b>\$ 112.16</b>	<b>\$ 110.60</b>	<b>\$ 115.50</b>	<b>\$ 124.04</b>	<b>\$ 111.35</b>
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 0.49	\$ 3.24	\$ 4.38	\$ 2.11	\$ 0.01	\$ 1.94
Total expenses	\$ (1.11)	\$ (2.71)	\$ (2.33)	\$ (2.06)	\$ (2.38)	\$ (2.18)
Realized gains (losses) for the period	\$ (0.62)	\$ 0.88	\$ 2.42	\$ 12.19	\$ 7.31	\$ 4.36
Unrealized gains (losses) for the period	\$ (1.51)	\$ (8.69)	\$ (0.98)	\$ (17.19)	\$ (13.35)	\$ 9.19
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ (2.75)</b>	<b>\$ (7.28)</b>	<b>\$ 3.49</b>	<b>\$ (4.95)</b>	<b>\$ (8.41)</b>	<b>\$ 13.31</b>
<b>Distributions:</b>						
From income (excluding dividends)	\$ -	\$ -	\$ 2.63	\$ 1.54	\$ -	\$ 0.71
From dividends	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
From capital gains	\$ -	\$ -	\$ -	\$ 0.04	\$ 0.07	\$ -
Return of capital	\$ -	\$ -	\$ -	\$ 0.06	\$ -	\$ -
<b>Total Distributions<sup>3</sup></b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2.63</b>	<b>\$ 1.64</b>	<b>\$ 0.07</b>	<b>\$ 0.71</b>
<b>Net Assets, end of period</b>	<b>\$ 100.37</b>	<b>\$ 103.26</b>	<b>\$ 112.16</b>	<b>\$ 110.60</b>	<b>\$ 115.50</b>	<b>\$ 124.04</b>
<b>Net Assets, end of period (USD)</b>	<b>\$ 76.64</b>	<b>\$ 75.64</b>	<b>\$ 89.23</b>	<b>\$ 82.37</b>	<b>\$ 83.47</b>	<b>\$ 106.88</b>

### Ratios and Supplemental Data - Series A Units

	<u>Jun 2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total Net Asset Value (000s)<sup>4</sup></b>	<b>\$ 222,825</b>	<b>\$ 250,375</b>	<b>\$ 336,325</b>	<b>\$ 403,678</b>	<b>\$ 468,191</b>	<b>\$ 514,449</b>
Number of Redeemable Units Outstanding	2,220,076	2,424,781	2,998,503	3,650,048	4,053,774	4,142,334
Management Expense Ratio <sup>5</sup>	1.95%	2.03%	1.89%	1.87%	1.82%	1.81%
Management Expense Ratio before waivers or absorption <sup>5</sup>	1.95%	2.03%	1.89%	1.87%	1.82%	1.81%
Trading Expense Ratio <sup>6</sup>	0.03%	0.06%	0.15%	0.05%	0.02%	0.03%
Portfolio Turnover Rate <sup>7</sup>	0.03%	31.61%	26.03%	16.55%	4.06%	7.73%
<b>Net Asset Value per Unit</b>	<b>\$ 100.37</b>	<b>\$ 103.26</b>	<b>\$ 112.16</b>	<b>\$ 110.60</b>	<b>\$ 115.50</b>	<b>\$ 124.04</b>

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

	<u>Jun 2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Net Assets, beginning of period</b>	<b>\$ 102.80</b>	<b>\$ 111.51</b>	<b>\$ 110.03</b>	<b>\$ 114.76</b>	<b>\$ 123.33</b>	<b>\$ 110.76</b>
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 0.49	\$ 3.42	\$ 4.40	\$ 2.11	\$ 0.01	\$ 1.95
Total expenses	\$ (0.81)	\$ (2.12)	\$ (1.72)	\$ (1.50)	\$ (1.69)	\$ (1.52)
Realized gains (losses) for the period	\$ (0.57)	\$ 0.06	\$ 2.56	\$ 12.15	\$ 7.27	\$ 4.35
Unrealized gains (losses) for the period	\$ (1.62)	\$ (9.46)	\$ (1.67)	\$ (15.42)	\$ (13.89)	\$ 8.99
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ (2.51)</b>	<b>\$ (8.10)</b>	<b>\$ 3.57</b>	<b>\$ (2.66)</b>	<b>\$ (8.30)</b>	<b>\$ 13.77</b>
<b>Distributions:</b>						
From income (excluding dividends)	\$ -	\$ -	\$ 3.35	\$ 2.03	\$ -	\$ 1.40
From dividends	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
From capital gains	\$ -	\$ 0.43	\$ -	\$ 0.03	\$ 0.84	\$ -
Return of capital	\$ -	\$ -	\$ -	\$ 0.06	\$ -	\$ -
<b>Total Distributions<sup>3</sup></b>	<b>\$ -</b>	<b>\$ 0.43</b>	<b>\$ 3.35</b>	<b>\$ 2.12</b>	<b>\$ 0.84</b>	<b>\$ 1.40</b>
<b>Net Assets, end of period</b>	<b>\$ 100.20</b>	<b>\$ 102.80</b>	<b>\$ 111.51</b>	<b>\$ 110.03</b>	<b>\$ 114.76</b>	<b>\$ 123.33</b>
<b>Net Assets, end of period (USD)</b>	<b>\$ 76.51</b>	<b>\$ 75.30</b>	<b>\$ 88.71</b>	<b>\$ 81.95</b>	<b>\$ 83.47</b>	<b>\$ 106.27</b>

## Ratios and Supplemental Data - Series F Units

	<u>Jun 2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total Net Asset Value (000s)<sup>4</sup></b>	<b>\$ 33,179</b>	<b>\$ 35,383</b>	<b>\$ 40,484</b>	<b>\$ 45,074</b>	<b>\$ 45,520</b>	<b>\$ 43,059</b>
Number of Redeemable Units Outstanding	331,139	344,195	363,060	409,648	396,647	348,701
Management Expense Ratio <sup>5</sup>	1.39%	1.46%	1.33%	1.32%	1.26%	1.24%
Management Expense Ratio before waivers or absorption <sup>5</sup>	1.39%	1.46%	1.33%	1.32%	1.26%	1.24%
Trading Expense Ratio <sup>6</sup>	0.03%	0.06%	0.15%	0.05%	0.02%	0.03%
Portfolio Turnover Rate <sup>7</sup>	0.03%	31.61%	26.03%	16.55%	4.06%	7.73%
<b>Net Asset Value per Unit</b>	<b>\$ 100.20</b>	<b>\$ 102.80</b>	<b>\$ 111.51</b>	<b>\$ 110.03</b>	<b>\$ 114.76</b>	<b>\$ 123.33</b>

<sup>(1)</sup> This information is derived from the Fund's audited annual and unaudited semi-annual financial statements.

<sup>(2)</sup> 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.

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

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

<sup>(5)</sup> 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 weekly 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.

<sup>(6)</sup> 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.

<sup>(7)</sup> 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

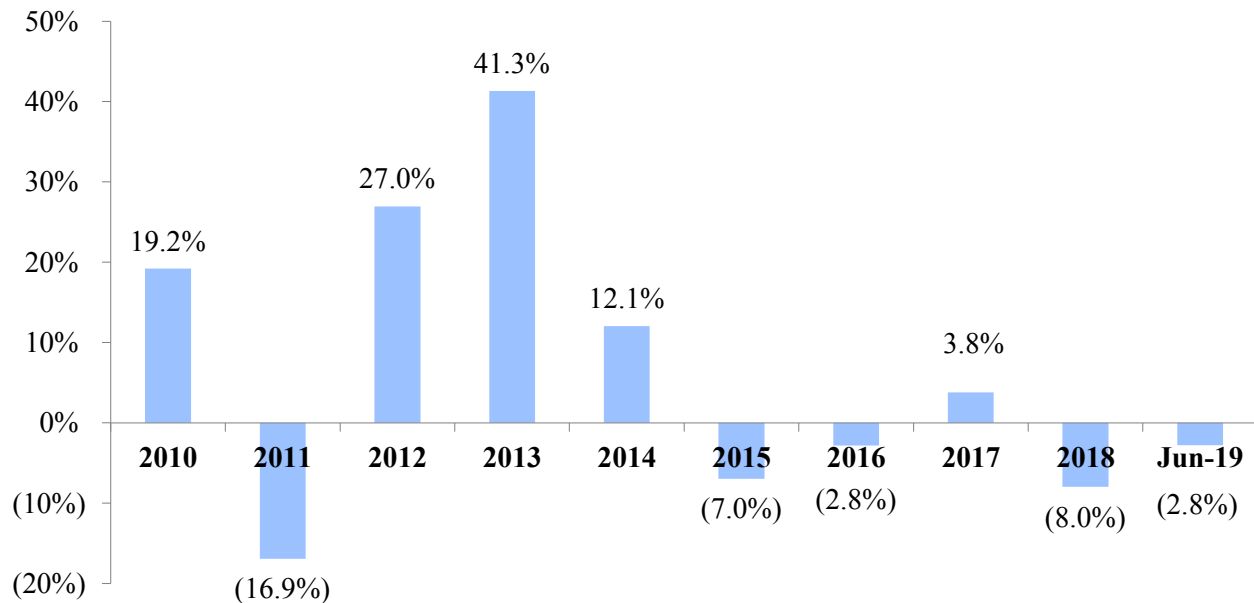
### General

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

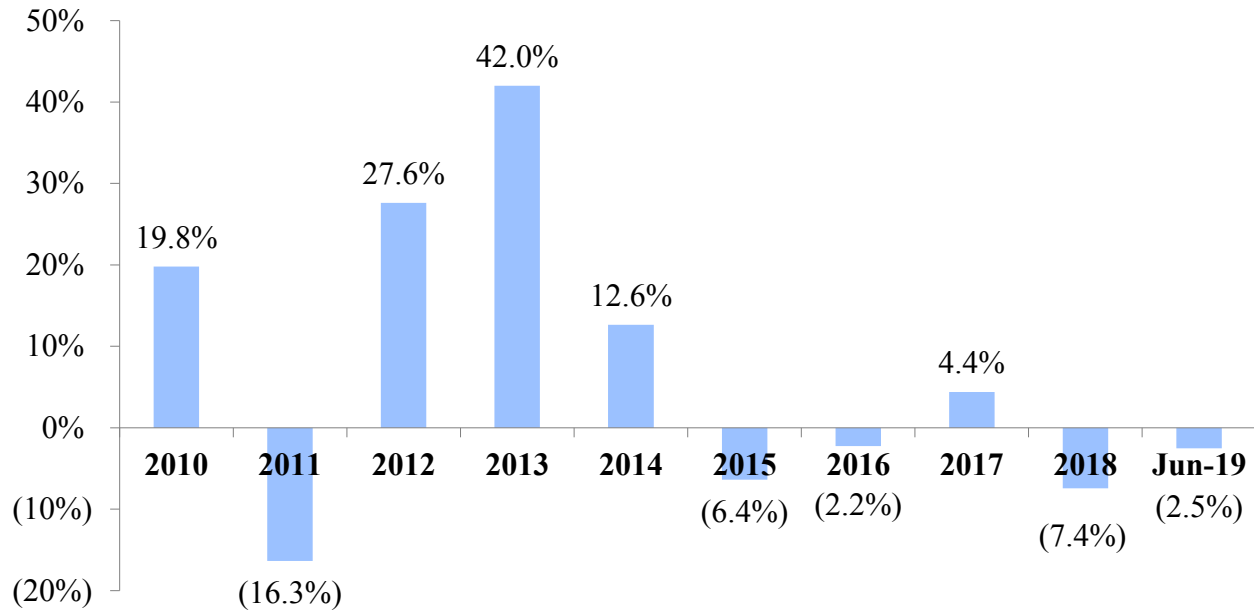
The following bar charts show the annual performance for each of the Series A and Series F units of the Fund for each of the years shown. Each chart shows, in percentage terms, how an investment on January 1 would have increased or decreased by December 31 for each of the years, and how the performance of the Fund varied from year to year. The return for 2019 is for the six-month period from January 1 to June 30.

### Series A



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## 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 June 30, 2019 for Series A units and since inception and for the one-, three-, five- and ten-year periods ended on June 30, 2019 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

June 30, 2019	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years
Chou Associates Fund	(8.55%)	4.02%	(1.51%)	6.84%	4.52%
S&P 500 (\$CAN)	9.97%	14.54%	15.35%	16.08%	8.59%

### Series F

June 30, 2019	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Chou Associates Fund	(8.04%)	4.61%	(0.96%)	7.42%	4.60%
S&P 500 (\$CAN)	9.97%	14.54%	15.35%	16.08%	9.77%

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



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## Summary of Investment Portfolio

The following tables provide a summary of the Fund's portfolio as at June 30, 2019.

<b><u>Sector Mix</u></b>	<b><u>of Fund's Net Assets</u></b>
Financials	55.6%
Health Care	22.6%
Materials	12.3%
Oil & Gas	7.4%
Consumer Discretionary	1.9%
Industrials	1.5%
Net Cash & Equivalents	-1.3%
<b>Total Portfolio</b>	<b>100.0%</b>

<b><u>Total Issuers</u></b>	<b><u>of Fund's Net Assets</u></b>
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*(excluding cash equivalents)*

### **Equities**

Berkshire Hathaway Inc., Class 'A'	24.4%
Bausch Health Companies Inc.	17.4%
Resolute Forest Products Inc.	12.3%
Wells Fargo & Company	10.5%
JPMorgan Chase & Company	6.3%
The Goldman Sachs Group Inc.	5.2%
Citigroup Inc.	4.7%
MBIA Inc.	4.5%
DaVita Inc.	3.5%
Endo International PLC	1.7%
Sears Hometown and Outlet Stores Inc.	1.6%
Spirit Airlines Inc.	1.2%
Allegiant Travel Company	0.3%
Overstock.com Inc., Class 'B'	0.3%
<b>Total Equities</b>	<b>93.9%</b>

### **Bonds**

Exco Resources Inc., 1.75 Lien Term Loans, October 26, 2020	7.4%
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### **Written Call Options - Short**

Sears Hometown and Outlet Stores Inc.	0.0%
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<b>Total Holdings</b>	<b>101.3%</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 September 30, 2019 will be in the Quarterly Portfolio Disclosure and will be posted on our website [www.choufunds.com](http://www.choufunds.com) on or before October 31, 2019.

**Chou Associates Management Inc.**

110 Sheppard Ave. East  
Suite 301, Box 18  
Toronto, Ontario  
M2N 6Y8

Tel: 416-214-0675  
Toll-free: 1-888-357-5070  
Fax: 416-214-1733  
Web: [www.choufunds.com](http://www.choufunds.com)  
E-mail: [admin@choufunds.com](mailto:admin@choufunds.com)

**Recordkeeping and Custodian**

CIBC Mellon  
1 York Street, Suite 900  
Toronto, Ontario  
M5J 0B6

Tel: 416-643-5540  
Toll-free: 1-866-379-3266  
Fax: 1-855-884-0493

**Auditors**

Grant Thornton LLP  
15 Allstate Parkway, Suite 200  
Markham, Ontario  
L3R 5B4

**Legal Counsel**

Owens Wright LLP  
20 Holly Street, Suite 300  
Toronto, Ontario  
M4S 3B1