

**MANAGEMENT REPORT OF FUND  
PERFORMANCE**

**December 31 2017**

**CHOU ASSOCIATES FUND**

**CHOU ASSOCIATES MANAGEMENT INC.**

## **MANAGEMENT REPORT OF FUND PERFORMANCE**

### **December 31, 2017**

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. 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 year ended December 31, 2017, there were no material changes that affected the Fund's overall level of risk.

As at December 31, 2017, Fairfax Financial Holdings held 29.8% 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.

### Market Review

U.S. equity markets produced strong gains in 2017. The soaring stock market was the result of economic growth and favourable corporate profits. Reflecting the improved outlook for growth and inflation, the U.S. Federal Reserve (Fed) raised base rates by 0.25% three times this year. The American greenback was negatively affected amid rising expectations that central banks in other major developed economies were preparing to tighten monetary policy.

The sweeping tax cuts by U.S. President Donald Trump were a big boost to stock prices in December of 2017. The market remained enthusiastic over the new Trump administration's pro-business agenda to increase infrastructure spending and reduce the regulatory burden on business. However, political uncertainty remained over anti-free trade and restrictive immigration policies, failed attempts at travel bans and healthcare reform and the high White House personnel turnover.

Large technology companies such as Amazon, Facebook, and Alphabet were leading contributors to the growth. Bank stocks were also strong performers, benefitting from higher interest rates, deregulation and the prospect of tax reform. As companies remained expensive and valuation reached record high levels in the current equity market, we continue to be concerned as to how long the rally will last.

### Results of Operations

For the year ended December 31, 2017, the Fund increased 3.8% for Series A units and 4.4% for Series F units, after fees and expenses, while the S&P 500 Total Return Index increased 13.5% in Canadian dollars. In U.S. dollars, the Fund increased by 10.9% for Series A units and 11.5% for Series F units, while the S&P 500 Total Return Index returned 21.8%.

## CHOU ASSOCIATES FUND

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The biggest positive contributors to the Fund's performance in 2017 included JPMorgan Chase and Wells Fargo warrants expiring in October 2018, and the equity securities of Resolute Forest Products, Citigroup Inc., Overstock, and Berkshire Hathaway Class A shares.

Equities of Sears Hometown and Outlet Stores, Ascent Capital Group, and MBIA Inc., as well as EXCO Resources 1.75 lien term loan were the main negative contributors to the Fund's performance during the year.

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

During the period, the Fund decreased its holdings of Overstock, JPMorgan Chase warrants, Citigroup Inc. and Nokia OYJ. The Fund also sold holdings in Chicago Bridge & Iron, General Motors warrants, Valeant Pharmaceuticals, Sears Canada, and EXCO Resources 8.5% bonds, due April 2022.

New additions during the year included equity stakes in DaVita Inc., Teva Pharmaceutical and Endo International. The latter two securities were sold before the year-end.

In 2017, the Fund received \$4,468,988 in income from its securities lending program.

The Fund had no covered call options in its portfolio as at December 31, 2017.

The Fund did not enter into any foreign currency contracts during the period ended December 31, 2017.

The Fund's net redemptions for the period ended December 31, 2017 were approximately \$78,740,700 for Series A units and approximately \$5,921,103 for Series F units. The Fund's average month-end cash position for the period was 7.9% 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. All transactions with the Manager are carried out at the Fund's net asset value as at the transaction date. As of December 31, 2017, the Manager does not hold any units of the Fund.

During the period ended December 31, 2017, 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 year ended December 31, 2017, and for each of the past five years ended December 31, as applicable.

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

	2017	2016	2015	2014	2013	2012
<b>Net Assets, beginning of year</b>	<b>\$ 110.60</b>	<b>\$ 115.50</b>	<b>\$ 124.04</b>	<b>\$ 111.35</b>	<b>\$ 81.21</b>	<b>\$ 65.86</b>
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 4.38	\$ 2.11	\$ 0.01	\$ 1.94	\$ 1.91	\$ 3.37
Total expenses	\$ (2.33)	\$ (2.06)	\$ (2.38)	\$ (2.18)	\$ (2.00)	\$ (1.52)
Realized gains (losses) for the year	\$ 2.42	\$ 12.19	\$ 7.31	\$ 4.36	\$ 11.72	\$ 0.70
Unrealized gains (losses) for the year	\$ (0.98)	\$ (17.19)	\$ (13.35)	\$ 9.19	\$ 21.42	\$ 15.59
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ 3.49</b>	<b>\$ (4.95)</b>	<b>\$ (8.41)</b>	<b>\$ 13.31</b>	<b>\$ 33.05</b>	<b>\$ 18.14</b>
<b>Distributions:</b>						
From income (excluding dividends)	\$ 2.63	\$ 1.54	\$ -	\$ 0.71	\$ 0.10	\$ 2.52
From dividends	\$ -	\$ -	\$ -	\$ -	\$ 0.05	\$ -
From capital gains	\$ -	\$ 0.04	\$ 0.07	\$ -	\$ 3.14	\$ -
Return of capital	\$ -	\$ 0.06	\$ -	\$ -	\$ -	\$ -
<b>Total Distributions<sup>3</sup></b>	<b>\$ 2.63</b>	<b>\$ 1.64</b>	<b>\$ 0.07</b>	<b>\$ 0.71</b>	<b>\$ 3.29</b>	<b>\$ 2.52</b>
<b>Net Assets, end of year</b>	<b>\$ 112.16</b>	<b>\$ 110.60</b>	<b>\$ 115.50</b>	<b>\$ 124.04</b>	<b>\$ 111.35</b>	<b>\$ 81.21</b>
<b>Net Assets, end of year (USD)</b>	<b>\$ 89.23</b>	<b>\$ 82.37</b>	<b>\$ 83.47</b>	<b>\$ 106.88</b>	<b>\$ 104.72</b>	<b>\$ 81.64</b>

### Ratios and Supplemental Data - Class A Units

	2017	2016	2015	2014	2013	2012
<b>Total Net Asset Value (000s)<sup>4</sup></b>	<b>\$ 336,325</b>	<b>\$ 403,678</b>	<b>\$ 468,191</b>	<b>\$ 514,449</b>	<b>\$ 469,149</b>	<b>\$ 402,050</b>
Number of Redeemable Units Outstanding	2,998,503	3,650,048	4,053,774	4,142,334	4,208,995	4,951,551
Management Expense Ratio <sup>5</sup>	1.89%	1.87%	1.82%	1.81%	1.82%	1.86%
Management Expense Ratio before waivers or absorptions <sup>6</sup>	1.89%	1.87%	1.82%	1.81%	1.82%	1.86%
Trading Expense Ratio <sup>7</sup>	0.15%	0.05%	0.02%	0.03%	0.06%	0.12%
Portfolio Turnover Rate <sup>8</sup>	26.03%	16.55%	4.06%	7.73%	9.14%	16.58%
<b>Net Asset Value per Unit</b>	<b>\$ 112.16</b>	<b>\$ 110.60</b>	<b>\$ 115.50</b>	<b>\$ 124.04</b>	<b>\$ 111.35</b>	<b>\$ 81.20</b>

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

	2017	2016	2015	2014	2013	2012
<b>Net Assets, beginning of year</b>	<b>\$ 110.03</b>	<b>\$ 114.76</b>	<b>\$ 123.33</b>	<b>\$ 110.76</b>	<b>\$ 81.01</b>	<b>\$ 65.66</b>
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 4.40	\$ 2.11	\$ 0.01	\$ 1.95	\$ 1.88	\$ 3.37
Total expenses	\$ (1.72)	\$ (1.50)	\$ (1.69)	\$ (1.52)	\$ (1.44)	\$ (1.08)
Realized gains (losses) for the year	\$ 2.56	\$ 12.15	\$ 7.27	\$ 4.35	\$ 11.54	\$ 0.81
Unrealized gains (losses) for the year	\$ (1.67)	\$ (15.42)	\$ (13.89)	\$ 8.99	\$ 21.94	\$ 15.41
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ 3.57</b>	<b>\$ (2.66)</b>	<b>\$ (8.30)</b>	<b>\$ 13.77</b>	<b>\$ 33.92</b>	<b>\$ 18.51</b>
<b>Distributions:</b>						
From income (excluding dividends)	\$ 3.35	\$ 2.03	\$ -	\$ 1.40	\$ 0.68	\$ 2.91
From dividends	\$ -	\$ -	\$ -	\$ -	\$ 0.33	\$ -
From capital gains	\$ -	\$ 0.03	\$ 0.84	\$ -	\$ 3.14	\$ -
Return of capital	\$ -	\$ 0.06	\$ -	\$ -	\$ -	\$ -
<b>Total Distributions<sup>3</sup></b>	<b>\$ 3.35</b>	<b>\$ 2.12</b>	<b>\$ 0.84</b>	<b>\$ 1.40</b>	<b>\$ 4.15</b>	<b>\$ 2.91</b>
<b>Net Assets, end of year</b>	<b>\$ 111.51</b>	<b>\$ 110.03</b>	<b>\$ 114.76</b>	<b>\$ 123.33</b>	<b>\$ 110.76</b>	<b>\$ 81.00</b>
<b>Net Assets, end of year (USD)</b>	<b>\$ 88.71</b>	<b>\$ 81.95</b>	<b>\$ 83.47</b>	<b>\$ 106.27</b>	<b>\$ 104.16</b>	<b>\$ 81.43</b>

## Ratios and Supplemental Data - Class F Units

	2017	2016	2015	2014	2013	2012
<b>Total Net Asset Value (000s)<sup>4</sup></b>	<b>\$ 40,484</b>	<b>\$ 45,074</b>	<b>\$ 45,520</b>	<b>\$ 43,059</b>	<b>\$ 33,864</b>	<b>\$ 24,814</b>
Number of Redeemable Units Outstanding	363,060	409,648	396,647	348,701	305,457	306,407
Management Expense Ratio <sup>5</sup>	1.33%	1.32%	1.26%	1.24%	1.26%	1.30%
Management Expense Ratio before waivers or absorptions <sup>6</sup>	1.33%	1.32%	1.26%	1.24%	1.26%	1.30%
Trading Expense Ratio <sup>7</sup>	0.15%	0.05%	0.02%	0.03%	0.06%	0.12%
Portfolio Turnover Rate <sup>8</sup>	26.03%	16.55%	4.06%	7.73%	9.14%	16.58%
<b>Net Asset Value per Unit</b>	<b>\$ 111.51</b>	<b>\$ 110.03</b>	<b>\$ 114.76</b>	<b>\$ 123.33</b>	<b>\$ 110.76</b>	<b>\$ 80.98</b>

(1) This information is derived from the Fund's audited annual unaudited semi-annual financial statements. For financial reporting purposes, prior to January 1, 2013, under Canadian GAAP, the net assets per security presented in the financial statements differ from the net asset value calculated for fund pricing purposes.

(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 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.

(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.

(8) Information from 2013 and thereafter is in accordance with IFRS. Information for years prior to 2013 is reported under Canadian GAAP.

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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

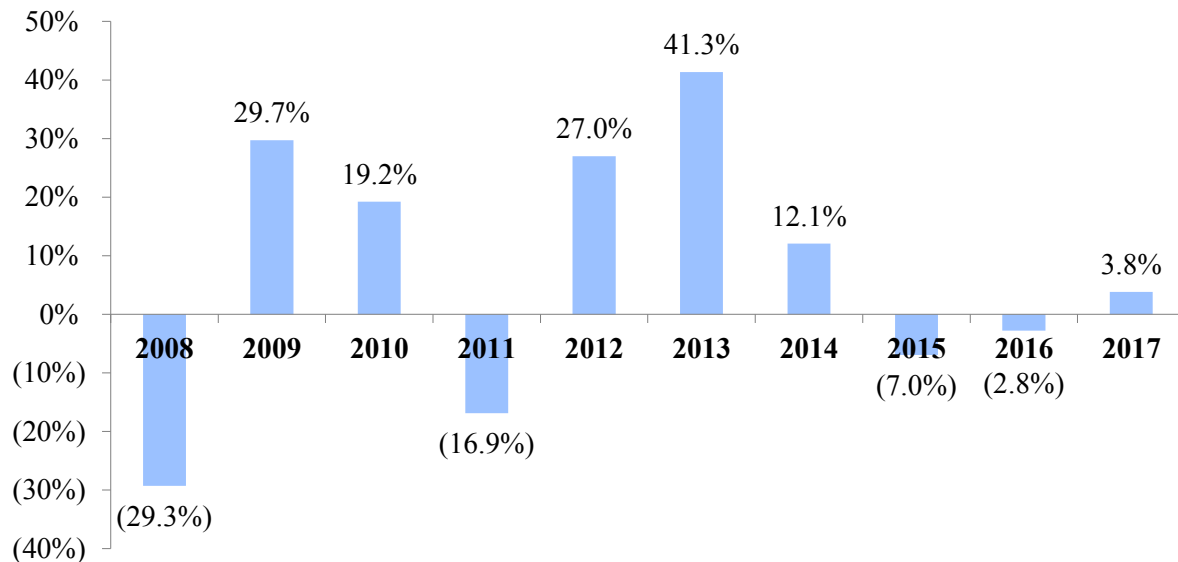
### General

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

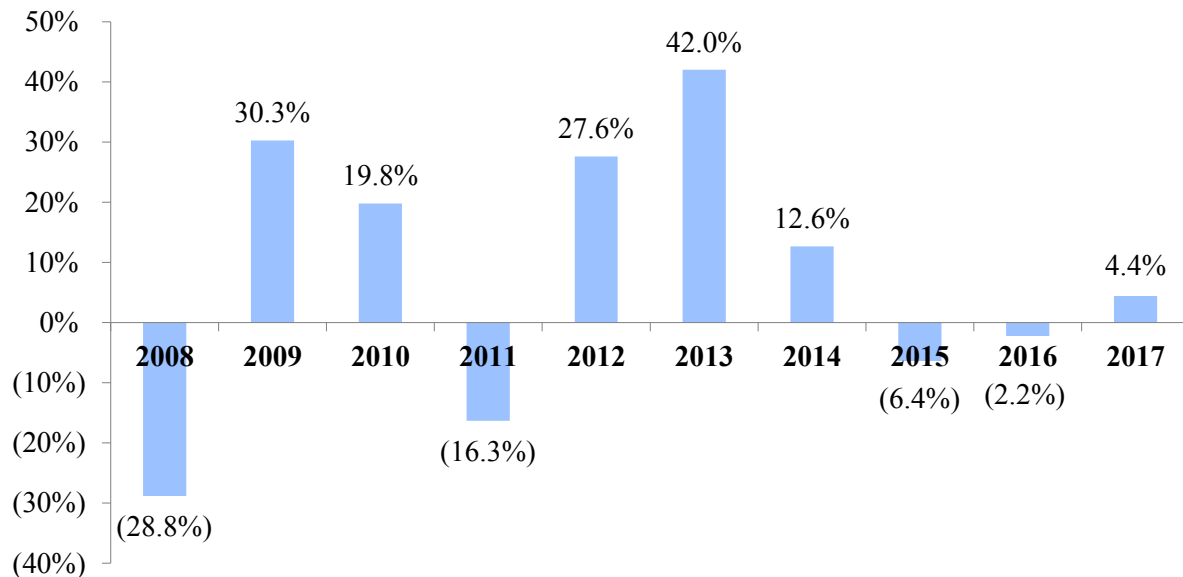
The following bar charts show the annual performance for each of the Series A and Series F units of the Fund for each of the years shown. Each chart shows, in percentage terms, how an investment on January 1 would have increased or decreased by December 31 for each of the years, and how the performance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

### Series A



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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 December 31, 2017 for Series A units and since inception and for the one-, three-, five- and ten-year periods ended on December 31, 2017 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, 2017	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years
Chou Associates Fund	3.80%	-2.08%	8.26%	5.54%	5.85%
S&P 500 (\$CAN)	13.46%	14.26%	21.25%	11.06%	8.25%

### Series F

December 31, 2017	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Chou Associates Fund	4.40%	-1.51%	8.85%	6.13%	6.07%
S&P 500 (\$CAN)	13.46%	14.26%	21.25%	11.06%	9.50%

<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 December 31, 2017.

<u>Sector Mix</u>	<u>of Fund's Net Assets</u>
Financials	42.0%
Basic Materials	12.7%
Oil & Gas	11.2%
Health Care	9.0%
Consumer Discretionary	4.6%
Information Technology	1.3%
Net Cash & Equivalents	19.2%
<b>Total Portfolio</b>	<b>100.0%</b>

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

### Equities

Berkshire Hathaway Inc., Class 'A'	14.9%
Resolute Forest Products Inc.	12.3%
The Goldman Sachs Group Inc.	6.4%
Sanofi, ADR	5.6%
Citigroup Inc.	5.2%
DaVita Inc.	3.4%
MBIA Inc.	2.6%
Sears Holdings Corporation	1.4%
Nokia OYJ, ADR	1.3%
Ascent Capital Group Inc., Series 'A'	1.2%
Sears Hometown and Outlet Stores Inc.	1.1%
Overstock.com Inc., Class 'B'	0.8%
Overstock.com Inc.	0.1%

<b>Total Equities</b>	<b>56.3%</b>
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### Warrants

Wells Fargo & Company Warrants, October 28, 2018	9.2%
JPMorgan Chase & Company Warrants, October 28, 2018	3.7%

<b>Total Warrants</b>	<b>12.9%</b>
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### Bonds

Exco Resources, Inc. Term Loan 1.75 Lien, October 26, 2020	10.9%
Westmoreland Coal Company, 8.750%, January 1, 2022	0.4%
Dex Media LLC Term Loan, December 31, 2018	0.3%

<b>Total Bonds</b>	<b>11.6%</b>
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<b>Total Holdings</b>	<b>80.8%</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, 2018 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, 2018.

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