

**MANAGEMENT REPORT OF FUND
PERFORMANCE**

December 31 2016

CHOU BOND FUND

CHOU ASSOCIATES MANAGEMENT INC.

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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 and SEDAR at 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.

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Management Discussion of Fund Performance

Investment Objective and Strategies

Chou Bond Fund's (the "Fund") objective is to provide conservation of principal and income production with capital appreciation as a secondary consideration. The Fund invests primarily in Canadian and U.S. fixed income instruments considered by Chou Associates Management Inc. (the "Manager") to be undervalued. These fixed income instruments include, but are not limited to Government of Canada, provincial, municipal and corporate issues, including convertibles and high yield fixed income instruments. The Fund may also invest in fixed income instruments outside of Canada and the U.S.

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 and SEDAR at www.sedar.com.

During the year ended December 31, 2016, there were no material changes that affected the Fund's overall level of risk.

Results of Operations

For the year ended December 31, 2016, the Fund increased by 9.1% for Series A units and 9.3% for Series F units after fees and expenses, while Barclays Capital U.S. Corporate High Yield Index returned 13.9% in Canadian dollars. In U.S. dollars, the Fund increased by 12.4% for Series A units and 12.6% for Series F units, while Barclays Capital U.S. Corporate High Yield Index returned 17.1%.

The U.S. corporate high yield bond market benefited greatly from the cyclical recovery of commodity prices and further credit repair within the energy sector as crude oil prices rallied in 2016. U.S. corporate profits have continued to grow as the overall economic environment improves with higher GDP growth, an important tailwind for the U.S. corporate credit market overall. Bonds with longer duration and lower credit quality outperformed in the low-rate environment. The U.S. high yield bonds market has proved to be resilient despite increased volatility due to the surprising Brexit outcome. The bond market continued to climb as U.S. President Donald Trump raises the prospect of faster economic growth and higher inflation in the U.S.

Contributing to the positive performance of the Fund in 2016 were the debt securities of Exco Resources 2nd lien term loan and its 8.50% unsecured loan due April 2022, as well as Fortress Paper Limited 7.00% due December 2019 and Ascent Capital Group 4.00% due July 2020.

The major decliners in the Fund's performance resulted from the equity holdings of Resolute Forest Products Inc., as well as the debt securities of UkrLandFarming PLC 10.875%, due March 2018, and Avangardco Investments Public Limited 10.00%, due October 2018, as well as the term loan of RH Donnelley Inc., due December 2016 (converted to Dex Media 1st lien term loan and warrants in May due to Chapter 11 reorganization).

New additions to the Fund in 2016 were Valeant Pharmaceuticals 6.125% due April 2025, Exco Resources 2nd lien term loan, and Resolute Forest Products 5.875% due May 2023.

The Fund sold all the debt securities of Fortress Paper Limited 6.50% due December 2016 and Dex Media's private equity shares received from the company's Chapter 11 reorganization. The Fund also significantly reduced holdings in the bonds of Taiga Building Products Limited 14.00% due September 2020 and Exco Resources 8.50% unsecured loan due April 2022.

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The Fund's net redemptions for the year ended December 31, 2016 were approximately \$3,878,315 for Series A units and the Series F funds had net purchases of approximately \$99,091. The Fund's average month-end cash position for the year was 16.2% of the Fund's net assets.

The Fund had no covered call options in its portfolio as at December 31, 2016.

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 measured at the exchange amounts.

During the year ended December 31, 2016, 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, 2016, and for each of the past five years ended December 31, as applicable.

The Fund's Net Assets per Unit¹ - Class A Units

	2016		2015		2014		2013		2012	
Net Assets, beginning of period	\$	8.78	\$	9.96	\$	9.64	\$	8.30	\$	7.98
Increase (decrease) from operations:										
Total revenue	\$	0.23	\$	0.98	\$	0.77	\$	0.71	\$	0.74
Total expenses	\$	(0.13)	\$	(0.15)	\$	(0.16)	\$	(0.15)	\$	(0.12)
Realized gains (losses) for the period	\$	0.08	\$	(0.02)	\$	0.49	\$	0.39	\$	(0.37)
Unrealized gains (losses) for the period	\$	0.57	\$	(1.14)	\$	(0.22)	\$	1.07	\$	0.76
Total increase (decrease) from operations²	\$	0.75	\$	(0.33)	\$	0.88	\$	2.02	\$	1.01
Distributions:										
From income (excluding dividends)	\$	0.77	\$	0.83	\$	0.62	\$	0.64	\$	0.72
From dividends	\$	-	\$	-	\$	-	\$	-	\$	-
From capital gains	\$	-	\$	-	\$	-	\$	-	\$	-
Return of capital	\$	-	\$	-	\$	-	\$	-	\$	-
Total Distributions³	\$	0.77	\$	0.83	\$	0.62	\$	0.64	\$	0.72
Net Assets, end of period	\$	8.79	\$	8.78	\$	9.96	\$	9.64	\$	8.30
Net Assets, end of period (USD)	\$	6.55	\$	6.34	\$	8.58	\$	9.07	\$	8.34

Ratios and Supplemental Data - Class A Units

	2016		2015		2014		2013		2012	
Total Net Asset Value (000s)⁴	\$	38,982	\$	39,631	\$	45,810	\$	38,761	\$	36,850
Number of Units Outstanding		4,432,708		4,515,187		4,599,226		4,020,643		4,434,113
Management Expense Ratio ⁵		1.54%		1.45%		1.41%		1.52%		1.45%
Management Expense Ratio before waivers or absorptions ⁶		1.54%		1.45%		1.41%		1.52%		1.45%
Trading Expense Ratio ⁷		0.05%		0.00%		0.05%		0.01%		0.01%
Portfolio Turnover Rate ⁸		50.15%		4.44%		23.91%		13.42%		11.59%
Net Asset Value per Unit	\$	8.79	\$	8.78	\$	9.96	\$	9.64	\$	8.31

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The Fund's Net Assets per Unit¹ - Class F Units

	2016		2015		2014		2013		2012	
Net Assets, beginning of period	\$	8.85	\$	10.05	\$	9.72	\$	8.33	\$	7.99
Increase (decrease) from operations:										
Total revenue	\$	0.23	\$	0.99	\$	0.78	\$	0.69	\$	0.74
Total expenses	\$	(0.12)	\$	(0.13)	\$	(0.14)	\$	(0.13)	\$	(0.11)
Realized gains (losses) for the period	\$	0.08	\$	(0.02)	\$	0.50	\$	0.23	\$	(0.40)
Unrealized gains (losses) for the period	\$	0.77	\$	(1.16)	\$	(0.14)	\$	1.55	\$	0.75
Total increase (decrease) from operations²	\$	0.96	\$	(0.32)	\$	1.00	\$	2.34	\$	0.98
Distributions:										
From income (excluding dividends)	\$	0.74	\$	0.85	\$	0.64	\$	0.61	\$	0.72
From dividends	\$	-	\$	-	\$	-	\$	-	\$	-
From capital gains	\$	-	\$	-	\$	-	\$	-	\$	-
Return of capital	\$	-	\$	-	\$	-	\$	-	\$	-
Total Distributions³	\$	0.74	\$	0.85	\$	0.64	\$	0.61	\$	0.72
Net Assets, end of period	\$	8.94	\$	8.85	\$	10.05	\$	9.71	\$	8.33
Net Assets, end of period (USD)	\$	6.66	\$	6.40	\$	8.66	\$	9.14	\$	8.37

Ratios and Supplemental Data - Class F Units

	2016		2015		2014		2013		2012	
Total Net Asset Value (000s)⁴	\$	3,611	\$	3,174	\$	3,691	\$	3,527	\$	7,180
Number of Units Outstanding		403,615		358,475		367,482		362,911		861,551
Management Expense Ratio ⁵		1.37%		1.28%		1.25%		1.35%		1.29%
Management Expense Ratio before waivers or absorptions ⁶		1.37%		1.28%		1.25%		1.35%		1.29%
Trading Expense Ratio ⁷		0.05%		0.00%		0.05%		0.01%		0.01%
Portfolio Turnover Rate ⁸		50.15%		4.44%		23.91%		13.42%		11.59%
Net Asset Value per Unit	\$	8.94	\$	8.85	\$	10.05	\$	9.71	\$	8.33

(1) This information is derived from the Fund's audited annual and 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 units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of 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 period 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 period.

(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 1.15% per annum for Series A units and 1.0% per annum for Series F units, payable monthly. The Manager pays 15 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

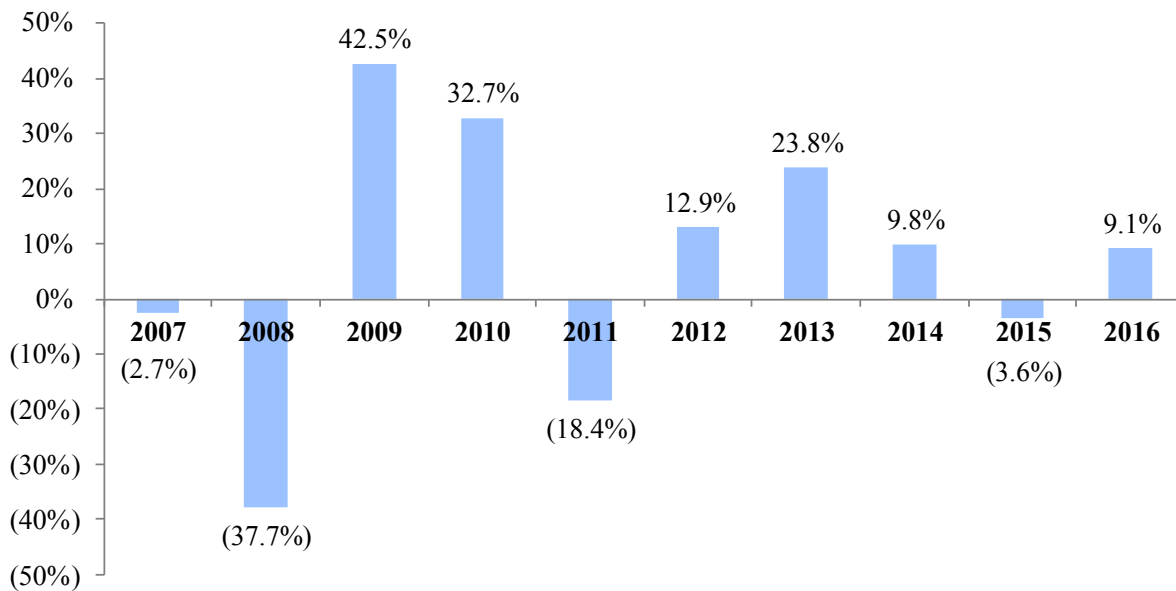
General

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

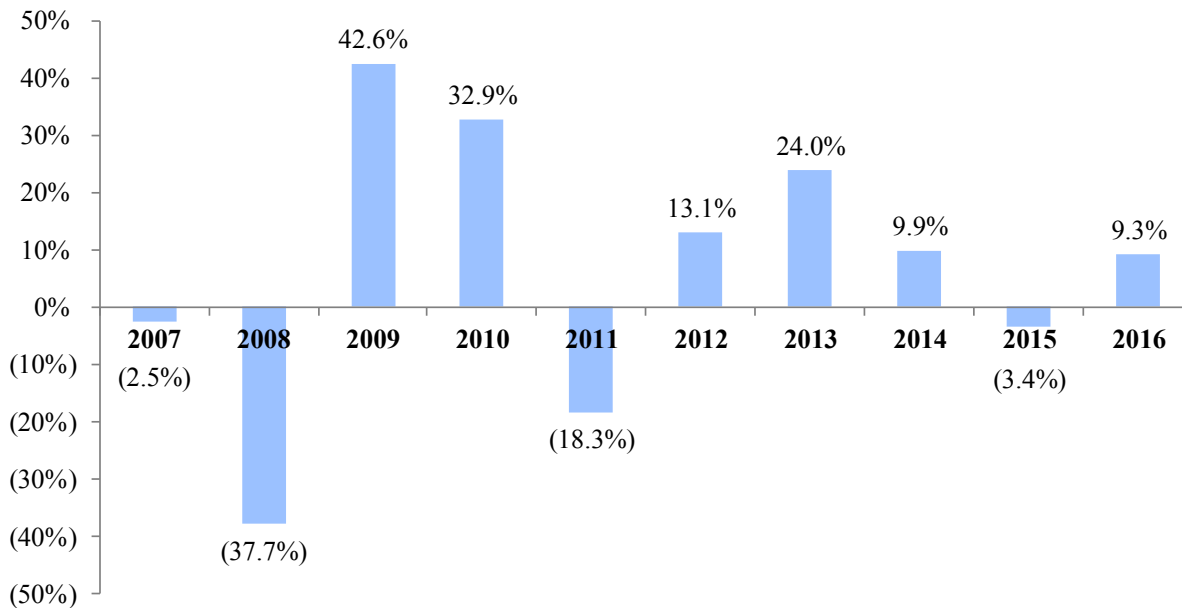
The following bar charts show the annual performance for each of the Series A and Series F units of the Fund for each of the years shown. Each chart shows, in percentage terms, how an investment on January 1 would have increased or decreased by December 31 for each of the years, and how the performance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

Series A



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Series F



Annual Compound Returns

The following tables⁽¹⁾ 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 since inception and for the one-, three-, five- and ten-year periods ended on December 31, 2016. Also shown for the same periods are the respective historical annual compound total returns or changes of the Barclays U.S. Corporate High Yield Index (the "Index"). The Index is a broad-based benchmark that measures the non-investment grade, fixed-rate, taxable, corporate bond market. It includes \$US-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers that meet specified maturity, liquidity, and quality requirements. The 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, 2016	Past Year	Past 3 Years	Past 5 Years	Past 10 Years
Chou Bond Fund	9.10%	4.91%	10.05%	4.21%
Barclays U.S. Corp. High Yield Index (\$CAN)	13.93%	13.21%	13.53%	8.99%

Series F

December 31, 2016	Past Year	Past 3 Years	Past 5 Years	Past 10 Years
Chou Bond Fund	9.28%	5.08%	10.23%	4.34%
Barclays U.S. Corp. High Yield Index (\$CAN)	13.93%	13.21%	13.53%	8.99%

⁽¹⁾ Tables assume the reinvestment of all income.

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Summary of Investment Portfolio

The following tables provide a summary of the Fund's portfolio as at December 31, 2016.

<u>Geographic Distribution of Portfolio</u>	<u>% of Fund's Net Assets</u>
United States	46.2%
Canada	30.7%
Continental Europe	9.3%
Net Cash Equivalents	13.8%
Total Portfolio	100.0%

<u>Total Issuers</u>	<u>% of Fund's Net Assets</u>
<i>(excluding cash equivalents)</i>	
Equities	
Resolute Forest Products Inc.	6.6%
Wow Unlimited Media Inc.	4.7%
Sandridge Energy Inc.	3.6%
Catalyst Paper Corporation	0.1%
Total Equities	15.0%
Warrants	
Dex Media West Inc., Warrants, August 15, 2023	0.0%
Bonds	
Atlantius Holdings Corporation, 5.875%, November 30, 2035, Convertible Bonds	11.5%
Fortress Paper Limited, 7.000%, December 31, 2019, Convertible Bonds, Callable	9.8%
Sandridge Energy Inc., Zero Coupon, October 3, 2020	8.0%
Exco Resources Inc., term loans, October 20, 2020	6.9%
Ukrlandfarming PLC, 10.875%, Mar 26, 2018	6.5%
Ascent Capital Group Inc., 4.000%, July 15, 2020, Convertible Bonds	6.4%
Valeant Pharmaceuticals International Inc., 6.125%, April 15, 2025, Callable	4.8%
Dex Media West Inc., term loans, December 31, 2017	4.0%
Catalyst Paper Corporation, 11.000%, October 30, 2017, Callable	3.7%
Resolute Forest Products Inc., 5.875%, May 15, 2023, Callable	2.9%
Avangardco Investments Public Limited, 10.000%, October 29, 2018	2.8%
Taiga Building Products Limited, 14.000%, September 1, 2020, Callable	2.6%
Exco Resources Inc., 8.500%, April 15, 2022	1.0%
Catalyst Paper Corporation, 11.000%, October 30, 2017	0.3%
Total Bonds	71.1%
Total Holdings	86.2%

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, 2017 will be in the Quarterly Portfolio Disclosure and will be posted on our website www.choufunds.com on or before May 31, 2017.

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