

**MANAGEMENT REPORT OF FUND  
PERFORMANCE**

**December 31 2018**

**CHOU BOND FUND**

**CHOU ASSOCIATES MANAGEMENT INC.**

# **MANAGEMENT REPORT OF FUND PERFORMANCE**

## **December 31, 2018**

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.

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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](http://www.choufunds.com) and SEDAR at [www.sedar.com](http://www.sedar.com).

During the year ended December 31, 2018, there were no material changes that affected the Fund's overall level of risk.

### Market Review

In 2018, the U.S. high-yield market experienced a period of volatility driven mostly by macroeconomic factors. The escalation of trade tensions between the U.S. and China stoked fears of a global trade war while plunging oil and commodity prices resulted in record amounts of cash being withdrawn from junk bonds.

Inflation in the U.S. remained stable, with wage growth contained despite extremely low unemployment rates. Concerns regarding rising interest rates also weighed heavily on the U.S. high-yield market as the U.S. Federal reserve continued its quarterly rate hikes with four increases in 2018, bringing the total to nine since 2015.

### Results of Operations

For the year ended December 31, 2018, the Fund increased by 14.9% for Series A units and 15.1% for Series F units after fees and expenses, while Barclays Capital U.S. Corporate High Yield Index returned 6.7% in Canadian dollars. In U.S. dollars, the Fund increased by 5.8% for Series A units and 5.9% for Series F units, while Barclays Capital U.S. Corporate High Yield Index decreased 2.1%.

Major positive contributors of the Fund's performance in 2018 were the term loan and equity of Catalyst Paper Corporation, and Atlanticus Holdings 5.875%, due November 2035.

In October 2018, Catalyst Paper was acquired by Paper Excellence Canada Holdings Corporation for a price of \$1.2260 per share for common shareholders and 100 cents on a dollar for debtholders. The deal was closed in March 2019.

Securities that negatively impacted the Fund during the year include debt holdings of Avangardco Investments Public Limited 10.00%, EXCO Resources 1.75 lien term loan, Fortress Paper 7.00%, and common shares of WOW Unlimited.

There was no new addition to the Fund in 2018.

The Fund reduced holdings in Atlanticus Holdings 5.875%, due November 2035 during the year. The Fund also exited positions in the bonds of Ascent Capital Group, Valeant Pharmaceuticals, Dex Media term loan, Sears Roebuck Acceptance preferred shares, and equities of Resolute Forest Products and SandRidge Energy.

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The Fund's net redemptions for the year 2018 were approximately \$11,378,280 for Series A units and net purchases were approximately \$195,173 for Series F units. The Fund's average month-end cash position for the period was 1.1% of the Fund's net assets.

In 2018, the Fund received \$1,587 in income from its securities lending program.

The Fund had no covered call options in its portfolio as at December 31, 2018.

### **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, 2018, the Manager held 23.2% of the Series A units of the Fund.

During the year ended December 31, 2018, 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, 2018, and for each of the past five years ended December 31.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Net Assets, beginning of year</b>	<b>\$ 8.21</b>	<b>\$ 8.79</b>	<b>\$ 8.78</b>	<b>\$ 9.96</b>	<b>\$ 9.64</b>	<b>\$ 8.30</b>
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 0.48	\$ 0.45	\$ 0.23	\$ 0.98	\$ 0.77	\$ 0.71
Total expenses	\$ (0.15)	\$ (0.14)	\$ (0.13)	\$ (0.15)	\$ (0.16)	\$ (0.15)
Realized gains (losses) for the year	\$ (0.33)	\$ 0.41	\$ 0.08	\$ (0.02)	\$ 0.49	\$ 0.39
Unrealized gains (losses) for the year	\$ 0.42	\$ (0.93)	\$ 0.57	\$ (1.14)	\$ (0.22)	\$ 1.07
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ 0.42</b>	<b>\$ (0.21)</b>	<b>\$ 0.75</b>	<b>\$ (0.33)</b>	<b>\$ 0.88</b>	<b>\$ 2.02</b>
<b>Distributions:</b>						
From income (excluding dividends)	\$ 0.42	\$ 0.44	\$ 0.77	\$ 0.83	\$ 0.62	\$ 0.64
From dividends	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
From capital gains	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Return of capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Distributions<sup>3</sup></b>	<b>\$ 0.42</b>	<b>\$ 0.44</b>	<b>\$ 0.77</b>	<b>\$ 0.83</b>	<b>\$ 0.62</b>	<b>\$ 0.64</b>
<b>Net Assets, end of year</b>	<b>\$ 9.01</b>	<b>\$ 8.21</b>	<b>\$ 8.79</b>	<b>\$ 8.78</b>	<b>\$ 9.96</b>	<b>\$ 9.64</b>
<b>Net Assets, end of year (USD)</b>	<b>\$ 6.60</b>	<b>\$ 6.53</b>	<b>\$ 6.55</b>	<b>\$ 6.34</b>	<b>\$ 8.58</b>	<b>\$ 9.07</b>

### Ratios and Supplemental Data - Series A Units

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Total Net Asset Value (000s)<sup>4</sup></b>	<b>\$ 15,016</b>	<b>\$ 25,485</b>	<b>\$ 38,982</b>	<b>\$ 39,631</b>	<b>\$ 45,810</b>	<b>\$ 38,761</b>
Number of Redeemable Units Outstanding	1,666,054	3,104,049	4,432,708	4,515,187	4,599,226	4,020,643
Management Expense Ratio <sup>5</sup>	1.85%	1.56%	1.54%	1.45%	1.41%	1.52%
Management Expense Ratio before waivers or absorption <sup>5</sup>	1.85%	1.56%	1.54%	1.45%	1.41%	1.52%
Trading Expense Ratio <sup>6</sup>	0.05%	0.05%	0.05%	0.00%	0.05%	0.01%
Portfolio Turnover Rate <sup>7</sup>	13.97%	36.79%	50.15%	4.44%	23.91%	13.42%
<b>Net Asset Value per Unit</b>	<b>\$ 9.01</b>	<b>\$ 8.21</b>	<b>\$ 8.79</b>	<b>\$ 8.78</b>	<b>\$ 9.96</b>	<b>\$ 9.64</b>

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

	2018	2017	2016	2015	2014	2013
<b>Net Assets, beginning of year</b>	\$ 8.41	\$ 8.94	\$ 8.85	\$ 10.05	\$ 9.72	\$ 8.33
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 0.49	\$ 0.46	\$ 0.23	\$ 0.99	\$ 0.78	\$ 0.69
Total expenses	\$ (0.14)	\$ (0.12)	\$ (0.12)	\$ (0.13)	\$ (0.14)	\$ (0.13)
Realized gains (losses) for the year	\$ (0.11)	\$ 0.40	\$ 0.08	\$ (0.02)	\$ 0.50	\$ 0.23
Unrealized gains (losses) for the year	\$ 1.16	\$ (0.99)	\$ 0.77	\$ (1.16)	\$ (0.14)	\$ 1.55
<b>Total increase (decrease) from operations<sup>2</sup></b>	\$ 1.40	\$ (0.25)	\$ 0.96	\$ (0.32)	\$ 1.00	\$ 2.34
<b>Distributions:</b>						
From income (excluding dividends)	\$ 0.50	\$ 0.40	\$ 0.74	\$ 0.85	\$ 0.64	\$ 0.61
From dividends	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
From capital gains	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Return of capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Distributions<sup>3</sup></b>	\$ 0.50	\$ 0.40	\$ 0.74	\$ 0.85	\$ 0.64	\$ 0.61
<b>Net Assets, end of year</b>	\$ 9.17	\$ 8.41	\$ 8.94	\$ 8.85	\$ 10.05	\$ 9.71
<b>Net Assets, end of year (USD)</b>	\$ 6.72	\$ 6.69	\$ 6.66	\$ 6.40	\$ 8.66	\$ 9.14

## Ratios and Supplemental Data - Series F Units

	2018	2017	2016	2015	2014	2013
<b>Total Net Asset Value (000s)<sup>4</sup></b>	\$ 2,863	\$ 2,273	\$ 3,611	\$ 3,174	\$ 3,691	\$ 3,527
Number of Redeemable Units Outstanding	312,347	270,473	403,615	358,475	367,482	362,911
Management Expense Ratio <sup>5</sup>	1.71%	1.37%	1.37%	1.28%	1.25%	1.35%
Management Expense Ratio before waivers or absorption <sup>5</sup>	1.71%	1.37%	1.37%	1.28%	1.25%	1.35%
Trading Expense Ratio <sup>6</sup>	0.05%	0.05%	0.05%	0.00%	0.05%	0.01%
Portfolio Turnover Rate <sup>7</sup>	13.97%	36.79%	50.15%	4.44%	23.91%	13.42%
<b>Net Asset Value per Unit</b>	\$ 9.17	\$ 8.41	\$ 8.94	\$ 8.85	\$ 10.05	\$ 9.71

(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 1.15% 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

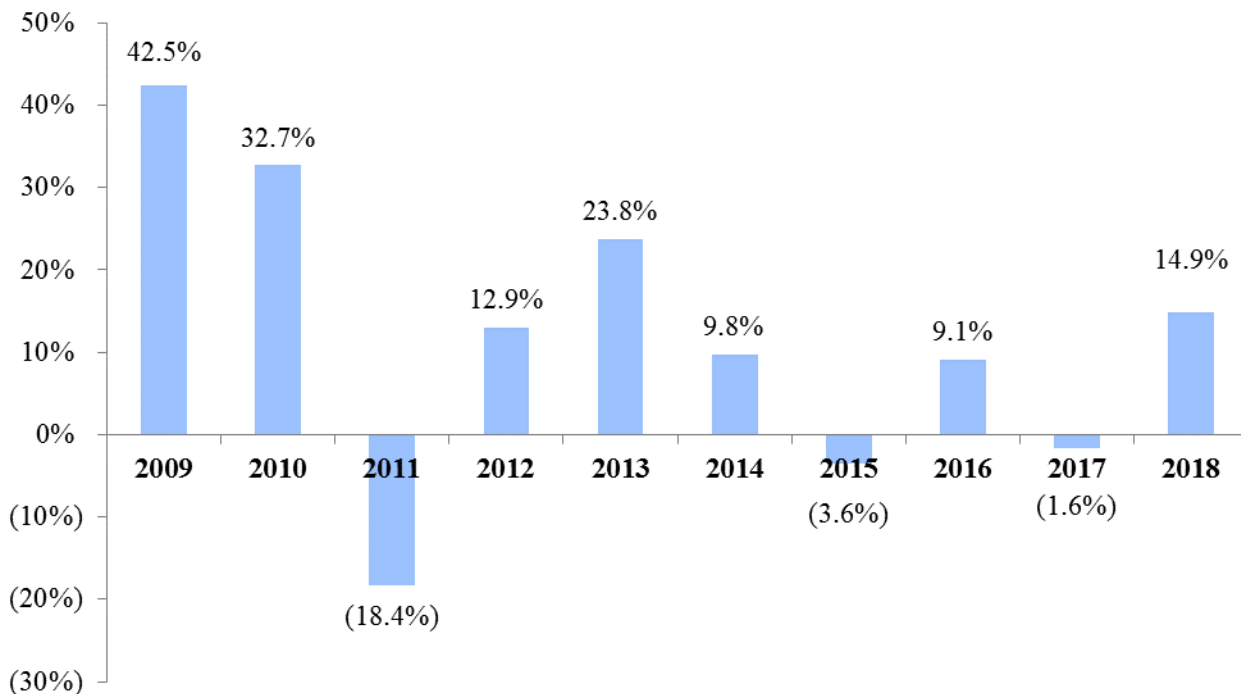
### General

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

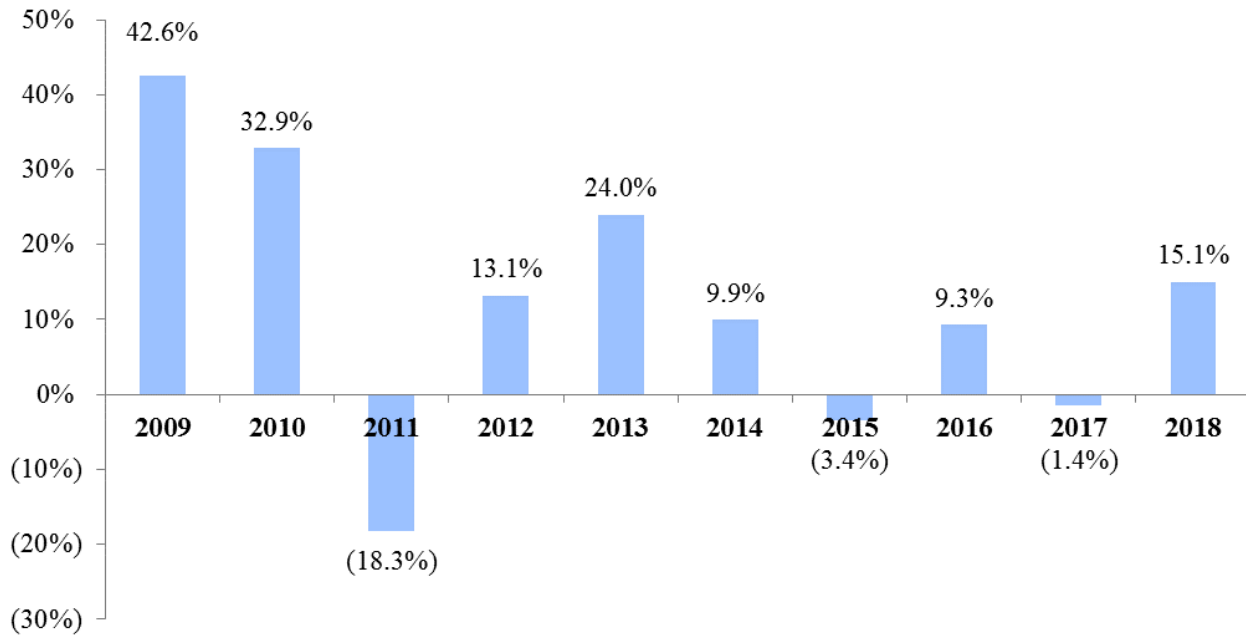
The following bar charts show the annual performance for each of the Series A and Series F units of the Fund for each of the years shown. Each chart shows, in percentage terms, how an investment on January 1 would have increased or decreased by December 31 for each of the years, and how the performance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

### Series A



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## Series F



## Annual Compound Returns

The following tables<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 since inception and for the one-, three-, five- and ten-year periods ended on December 31, 2018. Also shown for the same periods are the respective historical annual compound total returns 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, 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, 2018	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Chou Bond Fund	14.85%	7.23%	5.47%	10.90%	5.98%
Barclays U.S. Corp. High Yield Index (\$CAN)	6.74%	6.62%	9.17%	12.25%	8.30%

### Series F

December 31, 2018	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Chou Bond Fund	15.05%	7.42%	5.65%	11.07%	6.14%
Barclays U.S. Corp. High Yield Index (\$CAN)	6.74%	6.62%	9.17%	12.25%	8.30%

<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, 2018.

<u>Geographic Distribution</u>	<u>% of Fund's Net Assets</u>
Canada	55.4%
United States	34.4%
Continental Europe	11.2%
Net Cash Equivalents	-1.0%
<b>Total Portfolio</b>	<b>100.0%</b>

<u>Total Issuers</u> <i>(excluding cash equivalents)</i>	<u>% of Fund's Net Assets</u>
<b>Equities</b>	
Catalyst Paper Corporation	16.4%
Wow Unlimited Media Inc.	7.8%
<b>Total Equities</b>	<b>24.2%</b>
<b>Fixed Income</b>	
Fortress Global Enterprises Inc., 7.000%, December 31, 2019, Convertible	20.5%
Atlanticus Holdings Corporation, 5.875%, November 30, 2035, Convertible	20.3%
Exco Resources Inc., 1.75 Lien Term Loan, October 26, 2020	14.1%
Catalyst Paper Corporation, term loan, January 27, 2022	8.1%
Ukrlandfarming PLC, 10.875%, November 29, 2018	7.9%
Avangardco Investments Public Limited, 10.000%, October 29, 2018	3.2%
Taiga Building Products Limited, 7.000%, November 17, 2022, Callable	2.7%
<b>Total Fixed Income</b>	<b>76.8%</b>
<b>Total Holdings</b>	<b>101.0%</b>

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, 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 May 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