

**INTERIM MANAGEMENT REPORT  
OF FUND PERFORMANCE**

**June 30 2020**

**CHOU BOND FUND**

**CHOU ASSOCIATES MANAGEMENT INC.**

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

### **June 30, 2020**

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.

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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, along with capital appreciation. 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 securities include, but are not limited to Government of Canada, provincial, municipal and corporate issues, including convertibles and high yield fixed income securities, and fixed income securities outside of Canada and U.S. No more than 35% of the net assets of the fund, at the time of purchase, will be invested in fixed income securities outside of Canada and 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 period ended June 30, 2020, there were no material changes that affected the Fund's overall level of risk.

### Market Review

The U.S. high yield had a roller coaster ride in the first half of 2020, as companies heavily impacted by COVID-19 struggled to make interest and debt payments, and many were pushed into restructuring or bankruptcy. In the first quarter, the high-yield bond market declined more than 10%, and then recovered back to about 3% to 4% down year to date.

Global bond yields plummeted to historic lows, as central banks cut interest rates to near 0% and investors resorted to safe-haven assets. As a result, longer-duration bonds outperformed relative to their shorter-term counterparts. Meanwhile, high-yield bonds underperformed investment-grade bonds, delivering a negative absolute return.

### Results of Operations

For the period ended June 30, 2020, the Fund increased by 18.8% for Series A units and 19.4% for Series F units after fees and expenses, while Barclays Capital U.S. Corporate High Yield Index returned 1.0% in Canadian dollars. In U.S. dollars, the Fund increased 13.6% for Series A units and 14.2% for Series F units, while Barclays Capital U.S. Corporate High Yield Index decreased 3.8%.

The major positive contributors to the Fund's performance in the first half of 2020 were the fixed income holdings of Continental Resources, Athabasca Oil Corporation, PDC Energy, and Antero Resources Corporation.

The largest decliners in the same period were the fixed income holdings of Signet UK Finance, GameStop Corporation, and the equity holdings of EXCO Resources.

The Canadian currency depreciated against the US dollar, which also positively affected the Fund.

### Portfolio Update

During the period, the Fund reduced exposure to EXCO Resources shares and sold its debt holdings in Atlanticus Holdings.

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The Fund made a series of new bond investments in the oil and gas sector. These include the following bonds:

- Continental Resources Inc., 3.800%, due June 1, 2024
- Athabasca Oil Corporation, 9.875%, due February 24, 2022
- Southwestern Energy Company, 7.500%, due April 1, 2026
- Antero Resources Corporation, 5.625%, due June 1, 2023
- Occidental Petroleum Corporation, 2.700%, due August 15, 2022
- PDC Energy Inc., 6.250%, due December 1, 2025
- PDC Energy Inc., 5.750%, due May 15, 2026

The Fund did not enter into any foreign currency contracts during the period, and had no covered call options in its portfolio as at June 30, 2020.

In the first half of 2020, the Fund received \$5,368 in income from its securities lending program.

The Fund's net redemptions in the first half of 2020 were approximately \$1,090,126 for Series A units and net purchases of approximately \$341,898 for Series F units. The Fund's average month-end cash position for the period was 29.2% of the Fund's net assets.

### **Recent Developments**

Since March 11, 2020, the outbreak of COVID-19 and related global responses have caused material disruptions to businesses around the world, leading to adverse impacts on domestic and international equity markets and fixed income yields.

While governments and central banks have reacted with monetary and fiscal interventions designed to stabilize economic conditions, the duration and extent of the impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time.

Based on this increased uncertainty, we expect the performance of the Fund's portfolio to be affected to some degree in the near term.

### **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, 2020, the Manager, its officers and directors does not hold any 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, 2020, an affiliate of the Manager purchased 60,136 units of the EXCO Resources shares from the Fund in June 2020 to reduce the Fund's exposure to illiquid securities. The security was sold at the fair market value at the time of the trade. To avoid any potential conflict of interest concerns, the transaction was approved by the Independent Review Committee and received exemption relief from the Ontario Securities Commission.

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## Fund Valuation Adjustment

Subsequent to June 30, 2020, the Chou Bond Fund identified an interest income accrual of \$178,377 from a Level 3 term loan investment that did not meet the IFRS interest income recognition criteria as at June 30, 2020. This resulted in an overstatement of the net asset value as at June 30, 2020. In early July 2020, this error was retroactively corrected, and the net asset value was restated for the affected period of February 18, 2020 to July 3<sup>rd</sup>, 2020.

## 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, 2020, 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 2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Net Assets, beginning of period</b>	\$ 5.91	\$ 9.01	\$ 8.21	\$ 8.79	\$ 8.78	\$ 9.96
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 0.14	\$ 1.08	\$ 0.48	\$ 0.45	\$ 0.23	\$ 0.98
Total expenses	\$ (0.04)	\$ (0.12)	\$ (0.15)	\$ (0.14)	\$ (0.13)	\$ (0.15)
Realized gains (losses) for the period	\$ 0.02	\$ 1.26	\$ (0.33)	\$ 0.41	\$ 0.08	\$ (0.02)
Unrealized gains (losses) for the period	\$ 0.95	\$ (4.54)	\$ 0.42	\$ (0.93)	\$ 0.57	\$ (1.14)
<b>Total increase (decrease) from operations<sup>2</sup></b>	\$ 1.07	\$ (2.32)	\$ 0.42	\$ (0.21)	\$ 0.75	\$ (0.33)
<b>Distributions:</b>						
From income (excluding dividends)	\$ -	\$ 0.84	\$ 0.42	\$ 0.44	\$ 0.77	\$ 0.83
From dividends	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
From capital gains	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Return of capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Distributions<sup>3</sup></b>	\$ -	\$ 0.84	\$ 0.42	\$ 0.44	\$ 0.77	\$ 0.83
<b>Net Assets, end of period</b>	\$ 7.02	\$ 5.91	\$ 9.01	\$ 8.21	\$ 8.79	\$ 8.78
<b>Net Assets, end of period (USD)</b>	\$ 5.17	\$ 4.55	\$ 6.60	\$ 6.53	\$ 6.55	\$ 6.34

### Ratios and Supplemental Data - Series A Units

	<u>Jun 2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Total Net Asset Value (000s)<sup>4</sup></b>	\$ 7,912	\$ 7,713	\$ 15,016	\$ 25,485	\$ 38,982	\$ 39,631
Number of Redeemable Units Outstanding	1,127,648	1,305,522	1,666,054	3,104,049	4,432,708	4,515,187
Management Expense Ratio <sup>5</sup>	1.40%	1.60%	1.85%	1.56%	1.54%	1.45%
Management Expense Ratio before waivers or absorption <sup>5</sup>	1.40%	1.60%	1.85%	1.56%	1.54%	1.45%
Trading Expense Ratio <sup>6</sup>	–%	0.05%	0.05%	0.05%	0.05%	0.00%
Portfolio Turnover Rate <sup>7</sup>	46.07%	11.84%	13.97%	36.79%	50.15%	4.44%
<b>Net Asset Value per Unit</b>	\$ 7.02	\$ 5.91	\$ 9.01	\$ 8.21	\$ 8.79	\$ 8.78

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

	Jun 2020	2019	2018	2017	2016	2015
<b>Net Assets, beginning of period</b>	\$ 6.06	\$ 9.17	\$ 8.41	\$ 8.94	\$ 8.85	\$ 10.05
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 0.17	\$ 1.32	\$ 0.49	\$ 0.46	\$ 0.23	\$ 0.99
Total expenses	\$ (0.04)	\$ (0.11)	\$ (0.14)	\$ (0.12)	\$ (0.12)	\$ (0.13)
Realized gains (losses) for the period	\$ 0.05	\$ 0.98	\$ (0.11)	\$ 0.40	\$ 0.08	\$ (0.02)
Unrealized gains (losses) for the period	\$ 0.96	\$ (4.34)	\$ 1.16	\$ (0.99)	\$ 0.77	\$ (1.16)
<b>Total increase (decrease) from operations<sup>2</sup></b>	\$ 1.14	\$ (2.15)	\$ 1.40	\$ (0.25)	\$ 0.96	\$ (0.32)
<b>Distributions:</b>						
From income (excluding dividends)	\$ -	\$ 0.82	\$ 0.50	\$ 0.40	\$ 0.74	\$ 0.85
From dividends	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
From capital gains	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Return of capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Distributions<sup>3</sup></b>	\$ -	\$ 0.82	\$ 0.50	\$ 0.40	\$ 0.74	\$ 0.85
<b>Net Assets, end of period</b>	\$ 7.23	\$ 6.06	\$ 9.17	\$ 8.41	\$ 8.94	\$ 8.85
<b>Net Assets, end of period (USD)</b>	\$ 5.33	\$ 4.67	\$ 6.72	\$ 6.69	\$ 6.66	\$ 6.40

## Ratios and Supplemental Data - Series F Units

	Jun 2020	2019	2018	2017	2016	2015
<b>Total Net Asset Value (000s)<sup>4</sup></b>	\$ 2,122	\$ 2,094	\$ 2,863	\$ 2,273	\$ 3,611	\$ 3,174
Number of Redeemable Units Outstanding	293,321	345,626	312,347	270,473	403,615	358,475
Management Expense Ratio <sup>5</sup>	1.24%	1.40%	1.71%	1.37%	1.37%	1.28%
Management Expense Ratio before waivers or absorption <sup>5</sup>	1.24%	1.40%	1.71%	1.37%	1.37%	1.28%
Trading Expense Ratio <sup>6</sup>	-%	0.05%	0.05%	0.05%	0.05%	0.00%
Portfolio Turnover Rate <sup>7</sup>	46.07%	11.84%	13.97%	36.79%	50.15%	4.44%
<b>Net Asset Value per Unit</b>	\$ 7.23	\$ 6.06	\$ 9.17	\$ 8.41	\$ 8.94	\$ 8.85

<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 period 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 period.

<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 financial period. 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

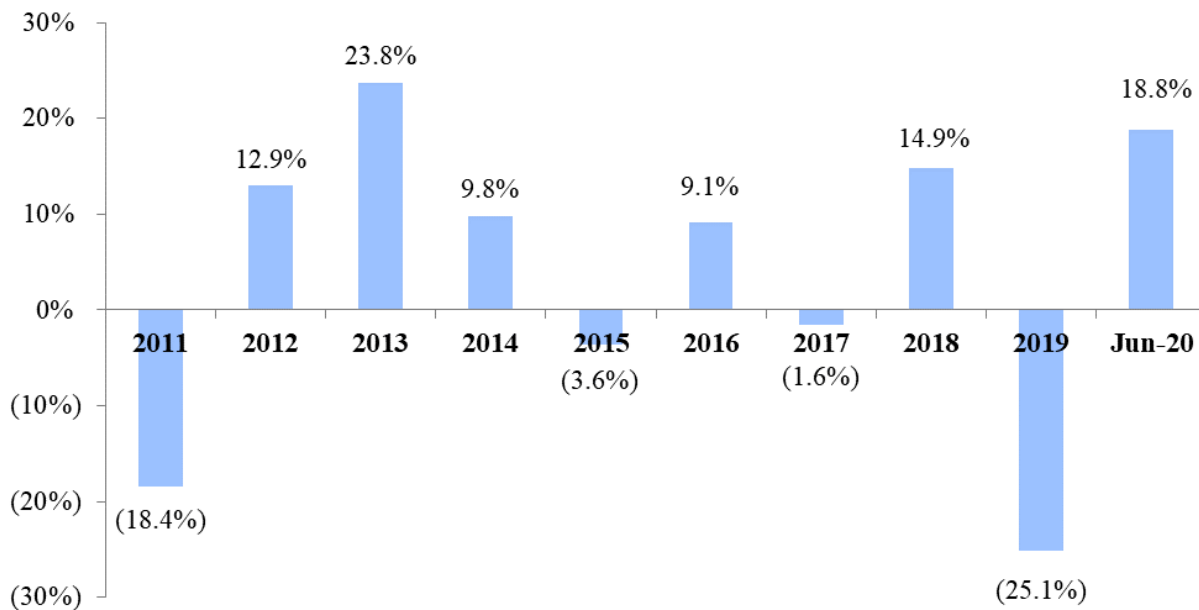
### General

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

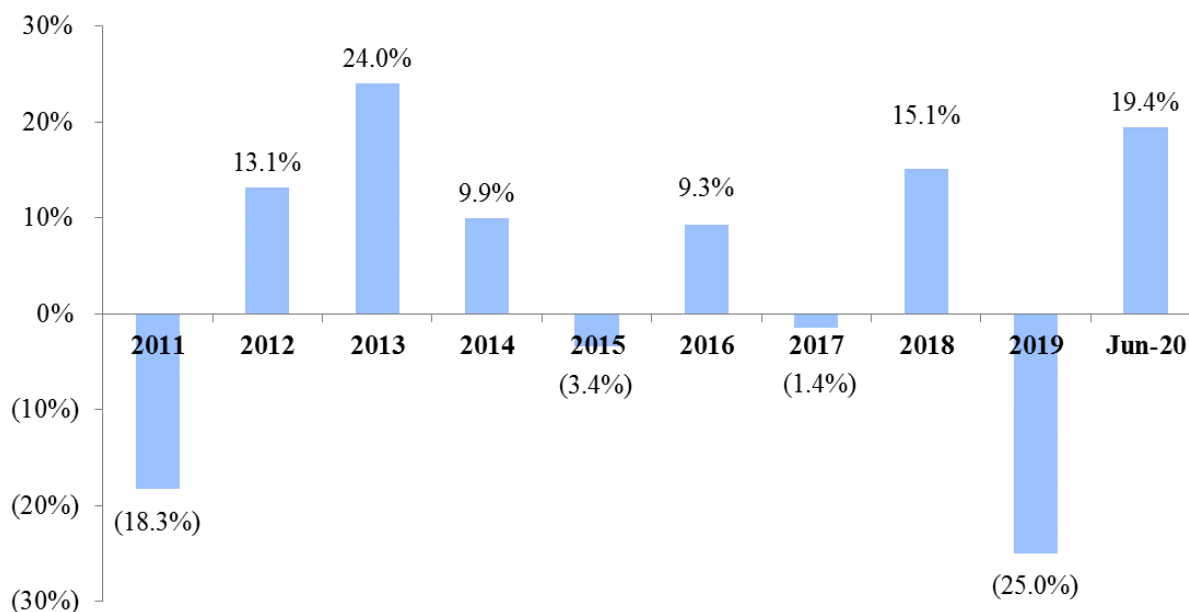
The following bar charts show the annual performance for each of the Series A and Series F units of the Fund for each of the years shown. Each chart shows, in percentage terms, how an investment on January 1 would have increased or decreased by December 31 for each of the years, and how the performance of the Fund varied from year to year. The return for 2020 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 since inception and for the one-, three-, five- and ten-year periods ended on June 30, 2020. 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

June 30, 2020	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Chou Bond Fund	6.11%	1.85%	1.15%	3.74%	4.52%
Barclays U.S. Corp. High Yield Index (\$CAN)	4.26%	4.98%	6.62%	9.36%	8.10%

### Series F

June 30, 2020	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Chou Bond Fund	6.77%	2.19%	1.42%	3.96%	4.72%
Barclays U.S. Corp. High Yield Index (\$CAN)	4.26%	4.98%	6.62%	9.36%	8.10%

<sup>(1)</sup> 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 June 30, 2020.

<b><u>Geographic Distribution</u></b>	<b><u>% of Fund's Net Assets</u></b>
United States	52.9%
Canada	19.1%
Continental Europe	8.0%
United Kingdom	4.7%
Net Cash Equivalents	15.3%
<b>Total Portfolio</b>	<b>100.0%</b>

<b><u>Total Issuers</u></b>	<b><u>% of Fund's Net Assets</u></b>
<i>(excluding cash equivalents)</i>	
<b>Equities</b>	
Wow Unlimited Media Inc.	3.4%
EXCO Resources Inc.	1.7%
<b>Total Equities</b>	<b>5.1%</b>
<b>Fixed Income</b>	
Continental Resources Inc., 3.800%, June 1, 2024	12.5%
Athabasca Oil Corporation, 9.875%, February 24, 2022	10.9%
Southwestern Energy Company, 7.500%, April 1, 2026	9.4%
Antero Resources Corporation, 5.625%, June 1, 2023	8.6%
Occidental Petroleum Corporation, 2.700%, August 15, 2022	6.2%
Ukrlandfarming PLC, 10.875%, March 26, 2018	5.6%
PDC Energy Inc., 6.250%, December 1, 2025	5.6%
GameStop Corporation, Series '144A', 6.750%, March 15, 2021	5.3%
Taiga Building Products Limited, 7.000%, November 17, 2022	4.7%
Signet UK Finance PLC, 4.700%, June 15, 2024	4.7%
PDC Energy Inc., 5.750%, May 15, 2026	3.7%
Avangardco Investments Public Limited, 10.000%, October 29, 2018	2.4%
Fortress Global Enterprises Inc., 9.750%, December 31, 2021	0.0%
<b>Total Fixed Income</b>	<b>79.6%</b>
<b>Total Holdings</b>	<b>84.7%</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 September 30, 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 October 31, 2020.

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