

**INTERIM MANAGEMENT REPORT  
OF FUND PERFORMANCE**

**June 30 2019**

**CHOU EUROPE 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.

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## Management Discussion of Fund Performance

### Investment Objective and Strategies

Chou Europe Fund's (the "Fund") objective is to provide long-term growth of capital by investing primarily in the equity securities of European businesses considered by Chou Associates Management Inc. (the "Manager") to be undervalued. The Fund may also invest in securities other than equities and in businesses located outside of Europe. 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 period ended June 30, 2019, there were no material changes that affected the Fund's overall level of risk.

### Market Review

For the first half of 2019, European equities outperformed all other key asset classes despite continued concerns regarding trade tensions between the U.S. and China and its spillover effects to Europe.

Although political tensions in France eased materially since the start of the year when protests were at their height, other political challenges continued to weigh on European markets such as the resignation of UK Prime Minister Theresa May and the remaining uncertainty over Brexit negotiations.

On the fixed income side, the yield on 10-year German government bonds moved into negative territory during the second quarter for the first time since 2016 while European Central Bank President Mario Draghi hinted at further monetary policy easing if the inflation outlook fails to improve.

### Results of Operations

For the period ended June 30, 2019, the Fund decreased 6.8% for Series A units and 6.6% for Series F units, after fees and expenses, while the MSCI AC Europe Total Return Index increased 12.0% in Canadian dollars. In U.S. dollars, the Fund decreased 2.9% for Series A units and 2.6% for Series F units, while the MSCI AC Europe Total Return Index increased 16.6%.

The major positive contributors to the Fund's performance in the first half of 2019 were the equity holdings of Eurobank Ergasias and Intralot.

The largest decliners in the same period were the equity holdings of Endo International, Teva Pharmaceutical Industries, and Ryanair Holdings. The Euro depreciated against the Canadian currency during the period, which also contributed negatively to the performance of the Fund.

The Fund initiated an equity position in CPL Resources PLC.

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The Fund bought back call options of Endo International PLC expiring in January 2020 with a strike price of US\$15.00. The Fund did not write any new covered call options during the first half of 2019.

The Fund did not enter into any forward currency contracts for pounds sterling or Euros in 2019.

During the first half of 2019, the Fund received \$133 in income from its securities lending program.

The Fund's net redemptions in the first half of 2019 were approximately \$475,941 for Series A units and net purchases of approximately \$604,317 for Series F units. The Fund's average month-end cash position for the year was 26.5% 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 1.2% 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>\$ 9.06</b>	<b>\$ 10.05</b>	<b>\$ 9.70</b>	<b>\$ 11.94</b>	<b>\$ 11.70</b>	<b>\$ 11.62</b>
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 0.26	\$ 0.12	\$ 0.06	\$ (0.64)	\$ 0.24	\$ 0.24
Total expenses	\$ (0.12)	\$ (0.24)	\$ (0.22)	\$ (0.20)	\$ (0.27)	\$ (0.27)
Realized gains (losses) for the period	\$ 0.20	\$ (2.00)	\$ 3.57	\$ (0.21)	\$ (0.33)	\$ 0.36
Unrealized gains (losses) for the period	\$ (0.91)	\$ 1.28	\$ (3.04)	\$ (1.32)	\$ 0.69	\$ (0.46)
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ (0.57)</b>	<b>\$ (0.84)</b>	<b>\$ 0.37</b>	<b>\$ (2.37)</b>	<b>\$ 0.33</b>	<b>\$ (0.13)</b>
<b>Distributions:</b>						
From income (excluding dividends)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.16
From dividends	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
From capital gains	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Return of capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Distributions<sup>3</sup></b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 0.16</b>
<b>Net Assets, end of period</b>	<b>\$ 8.44</b>	<b>\$ 9.06</b>	<b>\$ 10.05</b>	<b>\$ 9.70</b>	<b>\$ 11.94</b>	<b>\$ 11.70</b>
<b>Net Assets, end of period (USD)</b>	<b>\$ 6.44</b>	<b>\$ 6.64</b>	<b>\$ 8.00</b>	<b>\$ 7.22</b>	<b>\$ 8.63</b>	<b>\$ 10.08</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>\$ 3,596</b>	<b>\$ 4,325</b>	<b>\$ 6,695</b>	<b>\$ 12,165</b>	<b>\$ 17,974</b>	<b>\$ 20,919</b>
Number of Redeemable Units Outstanding	426,198	477,657	666,094	1,253,703	1,505,730	1,785,202
Management Expense Ratio <sup>5</sup>	2.06%	2.21%	1.95%	1.89%	1.95%	1.90%
Management Expense Ratio before waivers or absorption <sup>5</sup>	2.06%	2.21%	1.95%	1.89%	1.95%	1.90%
Trading Expense Ratio <sup>6</sup>	0.03%	0.11%	0.14%	0.01%	0.00%	0.02%
Portfolio Turnover Rate <sup>7</sup>	—%	9.01%	21.06%	6.94%	0.00%	9.49%
<b>Net Asset Value per Unit</b>	<b>\$ 8.44</b>	<b>\$ 9.06</b>	<b>\$ 10.05</b>	<b>\$ 9.70</b>	<b>\$ 11.94</b>	<b>\$ 11.70</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>	\$ 9.37	\$ 10.34	\$ 9.92	\$ 12.10	\$ 11.79	\$ 11.74
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 0.28	\$ 0.08	\$ 0.03	\$ (0.65)	\$ 0.24	\$ 0.23
Total expenses	\$ (0.10)	\$ (0.18)	\$ (0.16)	\$ (0.15)	\$ (0.20)	\$ (0.19)
Realized gains (losses) for the period	\$ 0.22	\$ (1.10)	\$ 3.13	\$ (0.22)	\$ (0.34)	\$ 0.39
Unrealized gains (losses) for the period	\$ (1.10)	\$ (1.24)	\$ (2.74)	\$ (1.73)	\$ 0.22	\$ (1.26)
<b>Total increase (decrease) from operations<sup>2</sup></b>	\$ (0.70)	\$ (2.44)	\$ 0.26	\$ (2.75)	\$ (0.08)	\$ (0.83)
<b>Distributions:</b>						
From income (excluding dividends)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.12
From dividends	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
From capital gains	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Return of capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Distributions<sup>3</sup></b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.12
<b>Net Assets, end of period</b>	\$ 8.76	\$ 9.37	\$ 10.34	\$ 9.92	\$ 12.10	\$ 11.79
<b>Net Assets, end of period (USD)</b>	\$ 6.69	\$ 6.86	\$ 8.23	\$ 7.39	\$ 8.75	\$ 10.16

## 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>	\$ 3,450	\$ 3,102	\$ 864	\$ 1,524	\$ 3,827	\$ 2,370
Number of Redeemable Units Outstanding	394,014	330,952	83,511	153,653	316,204	200,686
Management Expense Ratio <sup>5</sup>	1.47%	1.62%	1.30%	1.32%	1.37%	1.31%
Management Expense Ratio before waivers or absorption <sup>5</sup>	1.47%	1.62%	1.30%	1.32%	1.37%	1.31%
Trading Expense Ratio <sup>6</sup>	0.03%	0.11%	0.14%	0.01%	0.00%	0.02%
Portfolio Turnover Rate <sup>7</sup>	-%	9.01%	21.06%	6.94%	0.00%	9.49%
<b>Net Asset Value per Unit</b>	\$ 8.76	\$ 9.37	\$ 10.34	\$ 9.92	\$ 12.10	\$ 11.79

(1) This information is derived from the Fund's audited annual and unaudited semi-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 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.

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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

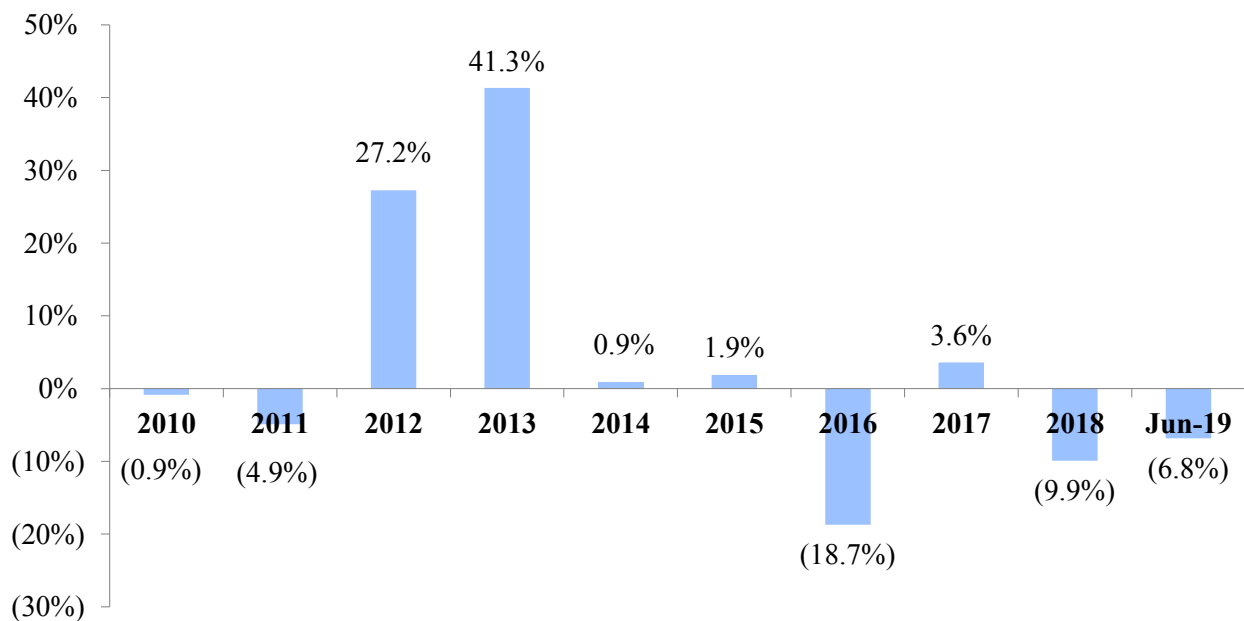
### General

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

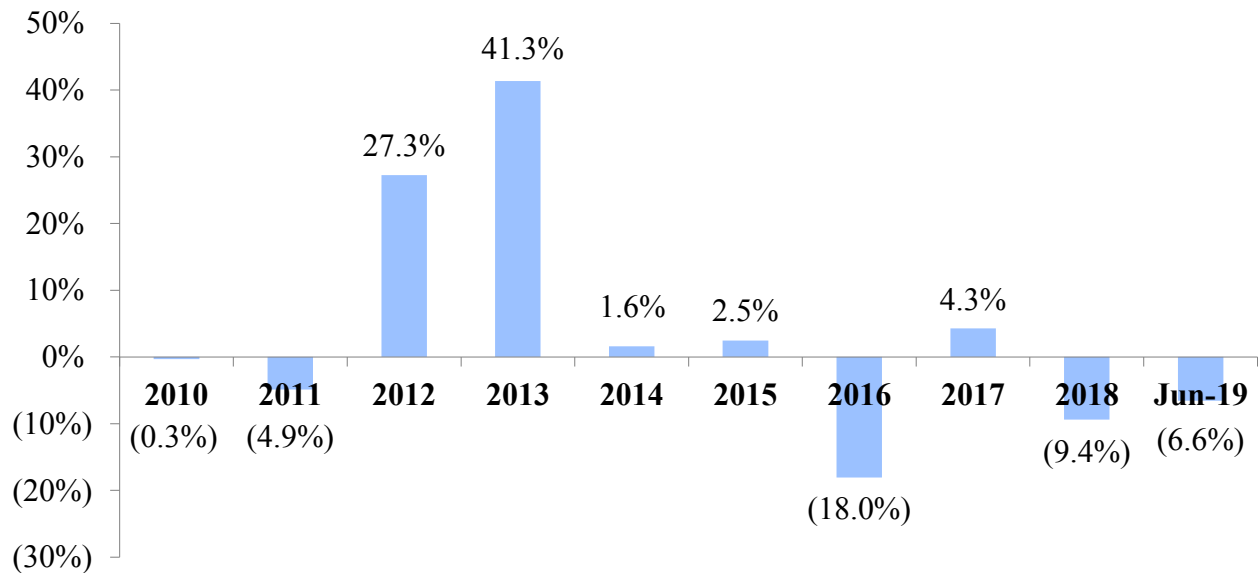
The following bar charts show the annual performance for each of the Series A and Series F units of the Fund for each of the years shown. Each chart shows, in percentage terms, how an investment on January 1 would have increased or decreased by December 31 for each of the years, and how the performance 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 since inception and for the one-, three-, five- and ten-year periods ended on June 30, 2019. Also shown for the same periods are the respective historical annual compound total returns of the MSCI AC Europe Index (the "Index"). The Index is a free-float weighted equity index. 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	Since Inception
Chou Europe Fund	(20.97%)	(2.75%)	(8.17%)	3.34%	0.92%
MSCI AC Europe (\$CAN)	2.59%	10.22%	6.02%	8.72%	6.87%

### Series F

June 30, 2019	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Chou Europe Fund	(20.52%)	(2.09%)	(7.56%)	3.79%	(0.34%)
MSCI AC Europe (\$CAN)	2.59%	10.22%	6.02%	8.72%	5.49%

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



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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>
Health Care	24.8%
Consumer Discretionary	21.0%
Financials	15.6%
Industrials	9.2%
Net Cash & Equivalents	29.4%
<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>	
Sanofi, ADR	16.1%
Bank of Ireland Group PLC	11.0%
Abbey Public Limited Company	8.5%
Fiat Chrysler Automobiles N.V.	7.7%
Endo International PLC	6.1%
Ryanair Holdings PLC, ADR	5.5%
Intralot A.E.	4.8%
Eurobank Ergasias SA	4.6%
CPL Resources PLC	3.7%
Teva Pharmaceutical Industries Limited, ADR	2.6%
<b>Total Holdings</b>	<b>70.6%</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, 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.

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