

**MANAGEMENT REPORT OF FUND  
PERFORMANCE**

**December 31 2016**

**CHOU RRSP FUND**

**CHOU ASSOCIATES MANAGEMENT INC.**

## **MANAGEMENT REPORT OF FUND PERFORMANCE**

### **December 31, 2016**

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 RRSP FUND

---

## Management Discussion of Fund Performance

### Investment Objective and Strategies

The Chou RRSP Fund's ("the Fund") objective is to provide long-term growth of capital by investing in equity and debt instruments of primarily Canadian businesses considered by Chou Associates Management Inc. (the "Manager") to be undervalued. The Fund may invest in equity and debt instruments of U.S. and foreign 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, 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 decreased 3.6% for Series A units and 3.0% for Series F units, after fees and expenses, while the S&P/TSX Total Return Index returned 21.1% in Canadian dollars. In U.S. dollars, the Fund decreased by 0.6% for Series A units and 0.1% for Series F units, while the S&P/TSX Total Return Index returned 24.5%.

The Canadian equity market rallied more than any other developed market in 2016, primarily driven by an overall recovery of commodity prices. The energy, materials and financial services sectors rebounded most strongly, with respective annual returns of 35.5%, 41.2% and 24.1%. Health care was the only sector of the Canadian index that yielded a negative return during the year, led by significant declines in Valeant Pharmaceuticals. Canadian stocks were also relatively sheltered from the volatilities in the world markets in 2016. Compared to the Brexit in Europe and the American election, Canadian stocks appeared stable.

However, the rising consumer debt level in relation to income growth and the housing surge in recent years continued to be alarming. Domestic demand was supported by a strong real estate market, which was further supported by cheap debt and low interest rates. The introduction of new restrictive measures by Canadian authorities aimed at containing price spikes and reducing buyers' borrowing capacity have had limited effect. Despite the recent rally, interest rates remained low with the Bank of Canada's key interest rate kept at 0.5% throughout 2016.

While a weak loonie should stimulate Canadian exports, any increase in manufacturing exports has yet to offset the decline in the value of resource exports. Canada continued to lose its competitive edge in the U.S. market, with Mexico displacing Canada as the second largest source of American imports by Q3 of 2016. Efforts by the Trump administration to reduce regulations and corporate taxes could further erode Canada's relative competitiveness in the long run. What remains to be seen are the potential impacts that the proposed protectionist policies of U.S. President Trump will have on the Canadian economy.

## CHOU RRSP FUND

---

The equity holdings of Overstock.com and Reitmans Limited, as well as the Bank of America warrants and the 2<sup>nd</sup> lien term loan of Exco Recourses were the major positive contributors to the Fund's performance in 2016.

The largest equity decliners in 2016 were Resolute Forest Products, Torstar Corporation, BlackBerry Limited, Canfor Pulp Products and Valeant Pharmaceuticals.

In the first half of the year, the Fund exited holdings in Canadian Oil Sands Limited.

The Fund purchased shares of Valeant Pharmaceuticals International Inc, and the 2<sup>nd</sup> lien term loan of Exco Resources Inc. due October 2020. Equity stakes in Resolute Forest Products were significantly increased in 2016.

In 2016, the Fund received \$12,992 in income from its securities lending program.

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

The Fund did not enter into any foreign currency contracts during the year ended December 31, 2016.

The Fund's net redemptions for the year ended December 31, 2016 were approximately \$11,985,891 for Series A units and the Series F units had a net purchases of \$1,209,411. The Fund's average month-end cash position for the year was 13.7% 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 measured at the exchange amounts.

During the year, the Manager has entered into an agreement with Fuel Industries Inc. ("Fuel") to extend an additional credit facility to Fuel on June 22, 2016 for an amount of \$1,100,000 CAD. Part of the amount of credit extended to Fuel was used during the year ended December 31, 2016 towards an interest repayment of \$543,673 on the Fuel term loan held by the Fund.

In March 2017, the Manager agreed to unconditionally guarantee the principal loan amount of \$6,429,765 (the "Guaranteed Amount") by Fuel to the Fund. The Manager shall pay to the Fund an amount equal to the Guaranteed Amount less the amount actually received by the Fund in respect of the Guaranteed Amount from Fuel on or before 5:00 p.m. on December 31, 2018 (the "Shortfall Amount"). The Guaranteed Amount is secured by all past, present and future entitlements of Fuel to receive Ontario Interactive Digital Media Tax Credits.

## CHOU RRSP FUND

### 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 Unit<sup>1</sup> - Class A Units

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Net Assets, beginning of period</b>	<b>\$ 29.40</b>	<b>\$ 35.29</b>	<b>\$ 30.92</b>	<b>\$ 25.74</b>	<b>\$ 19.10</b>
<b>Increase (decrease) from operations:</b>					
Total revenue	\$ 1.25	\$ 0.99	\$ 0.69	\$ 0.91	\$ 0.59
Total expenses	\$ (0.52)	\$ (0.63)	\$ (0.61)	\$ (0.55)	\$ (0.40)
Realized gains (losses) for the period	\$ 0.65	\$ 4.38	\$ 1.98	\$ 9.20	\$ 0.08
Unrealized gains (losses) for the period	\$ (2.78)	\$ (9.20)	\$ 2.34	\$ (4.08)	\$ 6.20
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ (1.40)</b>	<b>\$ (4.46)</b>	<b>\$ 4.40</b>	<b>\$ 5.48</b>	<b>\$ 6.47</b>
<b>Distributions:</b>					
From income (excluding dividends)	\$ (0.63)	\$ 0.37	\$ -	\$ -	\$ -
From dividends	\$ (0.23)	\$ -	\$ -	\$ 0.28	\$ 0.10
From capital gains	\$ -	\$ 1.03	\$ -	\$ -	\$ -
Return of capital	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Distributions<sup>3</sup></b>	<b>\$ (0.86)</b>	<b>\$ 1.40</b>	<b>\$ -</b>	<b>\$ 0.28</b>	<b>\$ 0.10</b>
<b>Net Assets, end of period</b>	<b>\$ 27.48</b>	<b>\$ 29.40</b>	<b>\$ 35.29</b>	<b>\$ 30.92</b>	<b>\$ 25.62</b>
<b>Net Assets, end of period (USD)</b>	<b>\$ 20.47</b>	<b>\$ 21.24</b>	<b>\$ 30.41</b>	<b>\$ 29.08</b>	<b>\$ 25.76</b>

#### Ratios and Supplemental Data - Class A Units

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Total Net Asset Value (000s)<sup>4</sup></b>	<b>\$ 82,833</b>	<b>\$ 99,334</b>	<b>\$ 123,181</b>	<b>\$ 117,929</b>	<b>\$ 110,170</b>
Number of Units Outstanding	3,013,777	3,379,086	3,486,572	3,811,998	4,279,790
Management Expense Ratio <sup>5</sup>	1.93%	1.84%	1.81%	1.82%	1.87%
Management Expense Ratio before waivers or absorptions <sup>6</sup>	1.93%	1.84%	1.81%	1.82%	1.87%
Trading Expense Ratio <sup>7</sup>	0.05%	0.04%	0.03%	0.08%	0.06%
Portfolio Turnover Rate <sup>8</sup>	7.22%	16.76%	4.77%	11.50%	1.43%
<b>Net Asset Value per Unit</b>	<b>\$ 27.48</b>	<b>\$ 29.40</b>	<b>\$ 35.29</b>	<b>\$ 30.92</b>	<b>\$ 25.74</b>

# CHOU RRSP FUND

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

	2016		2015		2014		2013		2012	
<b>Net Assets, beginning of period</b>	\$	<b>29.42</b>	\$	<b>35.30</b>	\$	<b>30.77</b>	\$	<b>25.75</b>	\$	<b>19.09</b>
<b>Increase (decrease) from operations:</b>										
Total revenue	\$	1.26	\$	1.00	\$	0.70	\$	0.92	\$	0.59
Total expenses	\$	(0.38)	\$	(0.45)	\$	(0.43)	\$	(0.39)	\$	(0.28)
Realized gains (losses) for the period	\$	0.65	\$	4.39	\$	2.07	\$	9.11	\$	0.08
Unrealized gains (losses) for the period	\$	(1.66)	\$	(9.20)	\$	2.12	\$	(3.94)	\$	6.23
<b>Total increase (decrease) from operations<sup>2</sup></b>	\$	<b>(0.13)</b>	\$	<b>(4.26)</b>	\$	<b>4.46</b>	\$	<b>5.70</b>	\$	<b>6.62</b>
<b>Distributions:</b>										
From income (excluding dividends)	\$	(0.61)	\$	0.55	\$	-	\$	-	\$	-
From dividends	\$	(0.22)	\$	-	\$	-	\$	0.56	\$	0.23
From capital gains	\$	-	\$	1.02	\$	-	\$	-	\$	-
Return of capital	\$	-	\$	-	\$	-	\$	-	\$	-
<b>Total Distributions<sup>3</sup></b>	\$	<b>(0.83)</b>	\$	<b>1.57</b>	\$	<b>-</b>	\$	<b>0.56</b>	\$	<b>0.23</b>
<b>Net Assets, end of period</b>	\$	<b>27.70</b>	\$	<b>29.42</b>	\$	<b>35.30</b>	\$	<b>30.77</b>	\$	<b>25.59</b>
<b>Net Assets, end of period (USD)</b>	\$	<b>20.63</b>	\$	<b>21.26</b>	\$	<b>30.42</b>	\$	<b>28.94</b>	\$	<b>25.73</b>

## Ratios and Supplemental Data - Class F Units

	2016		2015		2014		2013		2012	
<b>Total Net Asset Value (000s)<sup>4</sup></b>	\$	<b>5,932</b>	\$	<b>4,750</b>	\$	<b>5,325</b>	\$	<b>4,763</b>	\$	<b>2,675</b>
Number of Units Outstanding		214,149		161,443		150,685		154,729		104,004
Management Expense Ratio <sup>5</sup>		1.38%		1.29%		1.25%		1.26%		1.31%
Management Expense Ratio before waivers or absorptions <sup>6</sup>		1.38%		1.29%		1.25%		1.26%		1.31%
Trading Expense Ratio <sup>7</sup>		0.05%		0.04%		0.03%		0.08%		0.06%
Portfolio Turnover Rate <sup>8</sup>		7.22%		16.76%		4.77%		11.50%		1.43%
<b>Net Asset Value per Unit</b>	\$	<b>27.70</b>	\$	<b>29.42</b>	\$	<b>35.34</b>	\$	<b>30.79</b>	\$	<b>25.72</b>

(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.

# CHOU RRSP FUND

---

## 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

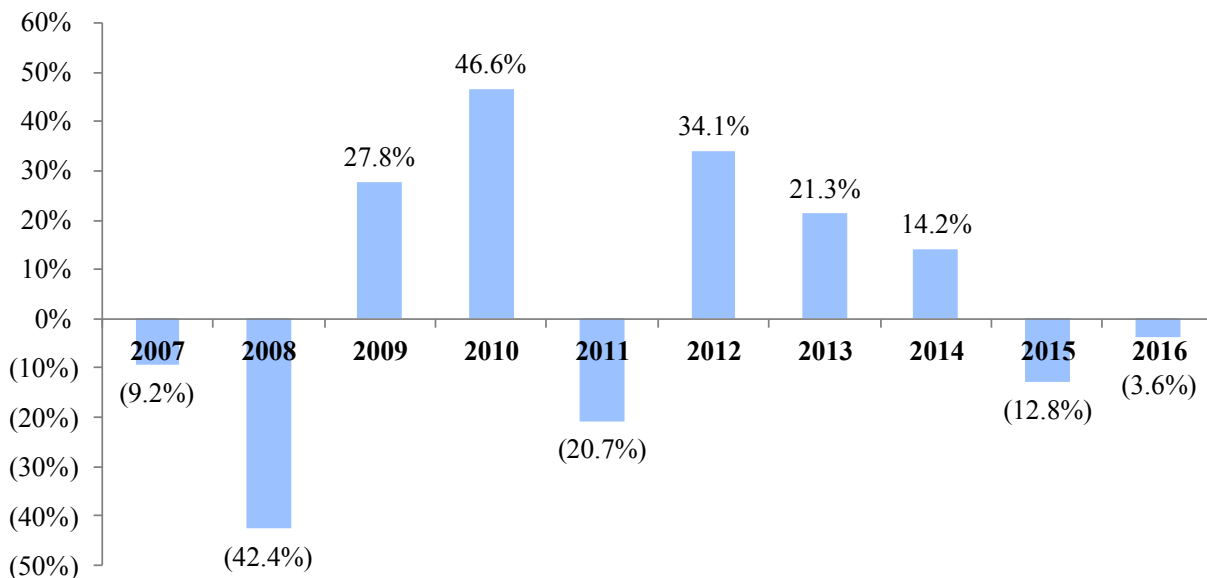
### General

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

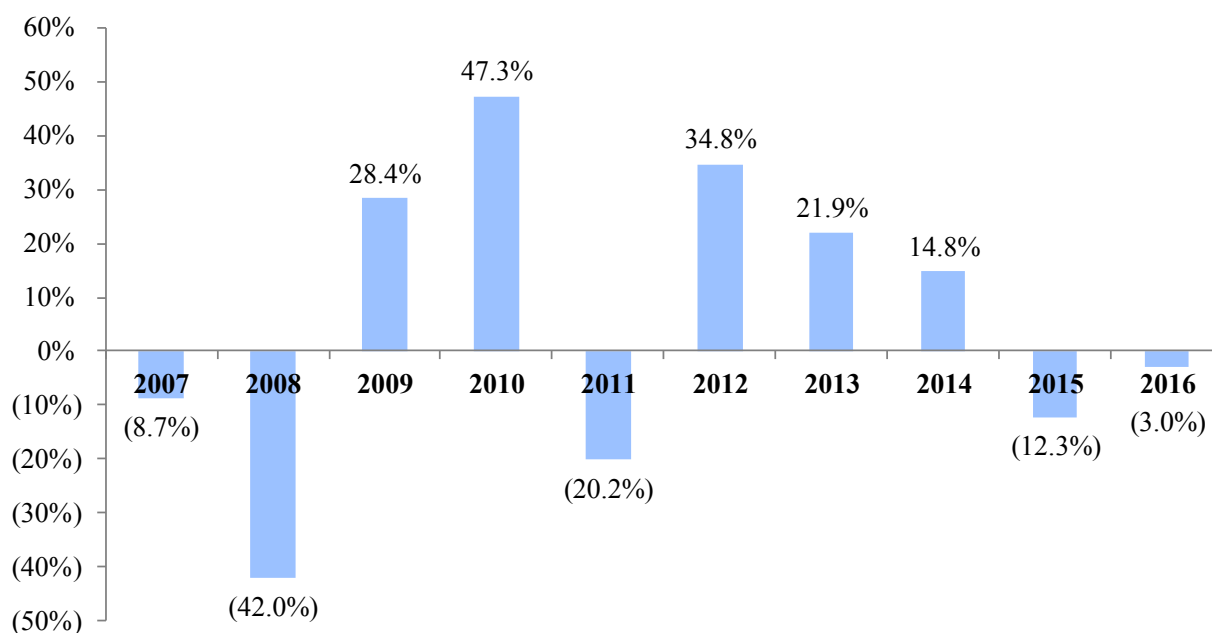
The following bar charts show the annual performance for each of the Series A and Series F units of the Fund for each of the years shown. Each chart shows, in percentage terms, how an investment on January 1 would have increased or decreased by December 31 for each of the years, and how the performance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

### Series A



# CHOU RRSP FUND

## 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-, fifteen- and twenty-year periods ended on December 31, 2016 for Series A units and since inception and for the one-, three-, five- and ten-year periods ended on December 31, 2016 for Series F units. Also shown for the same periods are the respective historical annual compound total returns or changes of the S&P/TSX (the "Index"). The Index is the headline index for the Canadian equity market. The Toronto Stock Exchange serves as the distributor of this 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

December 31, 2016	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years
Chou RRSP Fund	-3.57%	-1.36%	9.32%	1.95%	6.49%
S&P/TSX (\$CAN)	21.08%	7.06%	8.23%	4.68%	7.39%

## Series F

December 31, 2016	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Chou RRSP Fund	-3.04%	-0.80%	9.90%	2.51%	3.37%
S&P/TSX (\$CAN)	21.08%	7.06%	8.23%	4.68%	5.90%

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



## CHOU RRSP FUND

---

### Summary of Investment Portfolio

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

<u>Sector Mix</u>	<u>% of Fund's Net Assets</u>
Materials	22.8%
Consumer Discretionary	19.7%
Financials	14.7%
Energy	13.4%
Information Technology	12.8%
Industrials	8.4%
Health Care	7.9%
Net Cash & Equivalents	0.3%
<b>Total Portfolio</b>	<b>100.0%</b>

<u>Total Issuers</u>	<u>% of Fund's Net Assets</u>
<i>(excluding cash equivalents)</i>	
<b>Equities</b>	
Resolute Forest Products Inc.	9.9%
Valeant Pharmaceuticals International Inc.	7.9%
Interfor Corporation	7.2%
Canfor Pulp Products Inc.	5.7%
BlackBerry Limited	5.5%
Reitmans (Canada) Limited, Class 'A'	4.6%
Overstock.com Inc.	4.0%
TVA Group Inc.	2.9%
TWC Enterprises Limited	2.4%
Torstar Corporation, Class 'B'	2.3%
Reitmans (Canada) Limited	2.2%
Dundee Corporation, Class 'A'	2.0%
Sears Canada Inc.	0.7%
Overstock.com Inc., Preferred	0.4%
Taiga Building Products Limited	0.2%
Wow Unlimited Media Inc.	0.2%
Danier Leather Inc.	0.0%
<b>Total Equities</b>	<b>58.2%</b>
<b>Warrants</b>	
Bank of America Corporation, warrants, January 16, 2019	12.6%
<b>Bonds</b>	
Exco Resources Inc., term loans, October 20, 2020	13.4%
Taiga Building Products Ltd. Callable, 14.00%, September 01, 2020	8.2%
Fuel Industries Inc., term loans, March 31, 2017	3.9%
Guarantee Asset of Fuel Industries Term Loans	3.4%
<b>Total Bonds</b>	<b>28.9%</b>
<b>Total Holdings</b>	<b>99.7%</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 March 31, 2017 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, 2017.

**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

320 Bay St

Toronto, Ontario

M5H 4A6

Tel: 416-643-5540

Toll-free: 1-866-379-3266

Fax: 1-855-884-0493

**Auditors**

KPMG LLP

Bay Adelaide Centre

333 Bay Street, Suite 4600

Toronto, Ontario

M5H 2S5

**Legal Counsel**

Owens Wright LLP

20 Holly Street, Suite 300

Toronto, Ontario

M4S 3B1