

**MANAGEMENT REPORT OF FUND  
PERFORMANCE**

**December 31 2018**

**CHOU RRSP 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.

# CHOU RRSP FUND

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## 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, options, 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, 2018, there were no material changes that affected the Fund's overall level of risk.

### Market Review

For the year 2018, Canadian equities ended in negative territory. Corporate earnings remained robust throughout the year with support from favorable economic conditions. However, towards the end of the year, investors became increasingly concerned with global trade tensions, a decline in oil prices, and pessimism regarding the length of the current global economic cycle.

The Bank of Canada raised its benchmark interest rate three times in 2018 to 1.75%. That's the highest it's been in a decade. Concerns regarding further rate hikes also weighed heavily on Canadian equity markets in the last quarter of 2018.

The top performing sectors for Canadian equities were consumer staples and communication services, while the worst performing sectors were energy, health care, and consumer discretionary.

### Results of Operations

For the year ended December 31, 2018, the Fund decreased 7.1% for Series A units and 6.6% for Series F units, after fees and expenses, while the S&P/TSX Total Return Index decreased 8.9% in Canadian dollars. In U.S. dollars, the Fund decreased by 14.5% for Series A units and 14.0% for Series F units, while the S&P/TSX Total Return Index decreased 16.2%.

The largest decliners in the Fund in 2018 were equities holdings of Resolute Forest Products, BlackBerry Limited, Interfor Corporation, TVA Group, and Torstar Corporation, as well as the EXCO Resources 1.75 lien term loans.

The equity holdings of Canfor Pulp Products and TWC Enterprises were the positive contributors to the Fund's performance in 2018.

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During the year of 2018, the Fund reduced its holdings in Canfor Pulp Products and Torstar Corporation. The Fund also sold its shares in Taiga Building Products.

The Fund increased its holdings in Bausch Health Companies (formerly Valeant Pharmaceuticals) and added equities holdings of Linamar Corporation, Fairfax Financial Holdings, and Magna International Inc. to its portfolio in 2018.

In August 2018, the Fund elected to exercise all units of the Bank of America TARP warrants to common shares on a cashless basis.

The Fund wrote covered call options on the common shares of Resolute Forest Products in 2018.

In 2018, the Fund received \$21,303 in income from its securities lending program.

The Fund did not enter into any foreign currency contracts during the period ended December 31, 2018.

The Fund's net redemptions for year 2018 were approximately \$8,734,480 for Series A units and approximately \$617,085 for Series F units. The Fund's average month-end cash position for the period was 13.2% 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 carried out at the Fund's net asset value as at the transaction date. As of December 31, 2018, the Manager does not hold any units of the Fund.

## 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, 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

	2018	2017	2016	2015	2014	2013
<b>Net Assets, beginning of year</b>	<b>\$ 32.55</b>	<b>\$ 27.48</b>	<b>\$ 29.40</b>	<b>\$ 35.29</b>	<b>\$ 30.92</b>	<b>\$ 25.74</b>
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 1.89	\$ 1.37	\$ 1.25	\$ 0.99	\$ 0.69	\$ 0.91
Total expenses	\$ (0.85)	\$ (0.59)	\$ (0.52)	\$ (0.63)	\$ (0.61)	\$ (0.55)
Realized gains (losses) for the year	\$ 1.79	\$ (0.97)	\$ 0.65	\$ 4.38	\$ 1.98	\$ 9.20
Unrealized gains (losses) for the year	\$ (4.90)	\$ 5.65	\$ (2.78)	\$ (9.20)	\$ 2.34	\$ (4.08)
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ (2.07)</b>	<b>\$ 5.46</b>	<b>\$ (1.40)</b>	<b>\$ (4.46)</b>	<b>\$ 4.40</b>	<b>\$ 5.48</b>
<b>Distributions:</b>						
From income (excluding dividends)	\$ -	\$ 0.82	\$ (0.63)	\$ 0.37	\$ -	\$ -
From dividends	\$ 0.15	\$ 0.18	\$ (0.23)	\$ -	\$ -	\$ 0.28
From capital gains	\$ -	\$ -	\$ -	\$ 1.03	\$ -	\$ -
Return of capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Distributions<sup>3</sup></b>	<b>\$ 0.15</b>	<b>\$ 1.00</b>	<b>\$ (0.86)</b>	<b>\$ 1.40</b>	<b>\$ -</b>	<b>\$ 0.28</b>
<b>Net Assets, end of year</b>	<b>\$ 30.08</b>	<b>\$ 32.55</b>	<b>\$ 27.48</b>	<b>\$ 29.40</b>	<b>\$ 35.29</b>	<b>\$ 30.92</b>
<b>Net Assets, end of year (USD)</b>	<b>\$ 22.03</b>	<b>\$ 25.90</b>	<b>\$ 20.47</b>	<b>\$ 21.24</b>	<b>\$ 30.41</b>	<b>\$ 29.08</b>

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

	2018	2017	2016	2015	2014	2013
<b>Total Net Asset Value (000s)<sup>4</sup></b>	<b>\$ 59,989</b>	<b>\$ 73,105</b>	<b>\$ 82,833</b>	<b>\$ 99,334</b>	<b>\$ 123,181</b>	<b>\$ 117,929</b>
Number of Redeemable Units Outstanding	1,994,527	2,245,919	3,013,777	3,379,086	3,486,572	3,811,998
Management Expense Ratio <sup>5</sup>	2.01%	1.92%	1.93%	1.84%	1.81%	1.82%
Management Expense Ratio before waivers or absorption <sup>5</sup>	2.01%	1.92%	1.93%	1.84%	1.81%	1.82%
Trading Expense Ratio <sup>6</sup>	0.03%	0.12%	0.05%	0.04%	0.03%	0.08%
Portfolio Turnover Rate <sup>7</sup>	14.08%	23.45%	7.22%	16.76%	4.77%	11.50%
<b>Net Asset Value per Unit</b>	<b>\$ 30.08</b>	<b>\$ 32.55</b>	<b>\$ 27.48</b>	<b>\$ 29.40</b>	<b>\$ 35.29</b>	<b>\$ 30.92</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>	<b>\$ 32.74</b>	<b>\$ 27.70</b>	<b>\$ 29.42</b>	<b>\$ 35.30</b>	<b>\$ 30.77</b>	<b>\$ 25.75</b>
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 1.92	\$ 1.28	\$ 1.26	\$ 1.00	\$ 0.70	\$ 0.92
Total expenses	\$ (0.66)	\$ (0.44)	\$ (0.38)	\$ (0.45)	\$ (0.43)	\$ (0.39)
Realized gains (losses) for the year	\$ 1.81	\$ (2.18)	\$ 0.65	\$ 4.39	\$ 2.07	\$ 9.11
Unrealized gains (losses) for the year	\$ (5.09)	\$ 7.62	\$ (1.66)	\$ (9.20)	\$ 2.12	\$ (3.94)
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>\$ (2.02)</b>	<b>\$ 6.28</b>	<b>\$ (0.13)</b>	<b>\$ (4.26)</b>	<b>\$ 4.46</b>	<b>\$ 5.70</b>
<b>Distributions:</b>						
From income (excluding dividends)	\$ -	\$ 1.03	\$ (0.61)	\$ 0.55	\$ -	\$ -
From dividends	\$ 0.36	\$ 0.23	\$ (0.22)	\$ -	\$ -	\$ 0.56
From capital gains	\$ -	\$ -	\$ -	\$ 1.02	\$ -	\$ -
Return of capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Distributions<sup>3</sup></b>	<b>\$ 0.36</b>	<b>\$ 1.26</b>	<b>\$ (0.83)</b>	<b>\$ 1.57</b>	<b>\$ -</b>	<b>\$ 0.56</b>
<b>Net Assets, end of year</b>	<b>\$ 30.21</b>	<b>\$ 32.74</b>	<b>\$ 27.70</b>	<b>\$ 29.42</b>	<b>\$ 35.30</b>	<b>\$ 30.77</b>
<b>Net Assets, end of year (USD)</b>	<b>\$ 22.13</b>	<b>\$ 26.05</b>	<b>\$ 20.63</b>	<b>\$ 21.26</b>	<b>\$ 30.42</b>	<b>\$ 28.94</b>

## Ratios and Supplemental Data - Series F Units

	2018	2017	2016	2015	2014	2013
<b>Total Net Asset Value (000s)<sup>4</sup></b>	<b>\$ 6,233</b>	<b>\$ 7,279</b>	<b>\$ 5,932</b>	<b>\$ 4,750</b>	<b>\$ 5,325</b>	<b>\$ 4,763</b>
Number of Redeemable Units Outstanding	206,334	222,317	214,149	161,443	150,685	154,729
Management Expense Ratio <sup>5</sup>	1.44%	1.39%	1.38%	1.29%	1.25%	1.26%
Management Expense Ratio before waivers or absorption <sup>5</sup>	1.44%	1.39%	1.38%	1.29%	1.25%	1.26%
Trading Expense Ratio <sup>6</sup>	0.03%	0.12%	0.05%	0.04%	0.03%	0.08%
Portfolio Turnover Rate <sup>7</sup>	14.08%	23.45%	7.22%	16.76%	4.77%	11.50%
<b>Net Asset Value per Unit</b>	<b>\$ 30.21</b>	<b>\$ 32.74</b>	<b>\$ 27.70</b>	<b>\$ 29.42</b>	<b>\$ 35.34</b>	<b>\$ 30.79</b>

<sup>(1)</sup> This information is derived from the Fund's audited 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 year 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 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.

<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 year.

<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 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

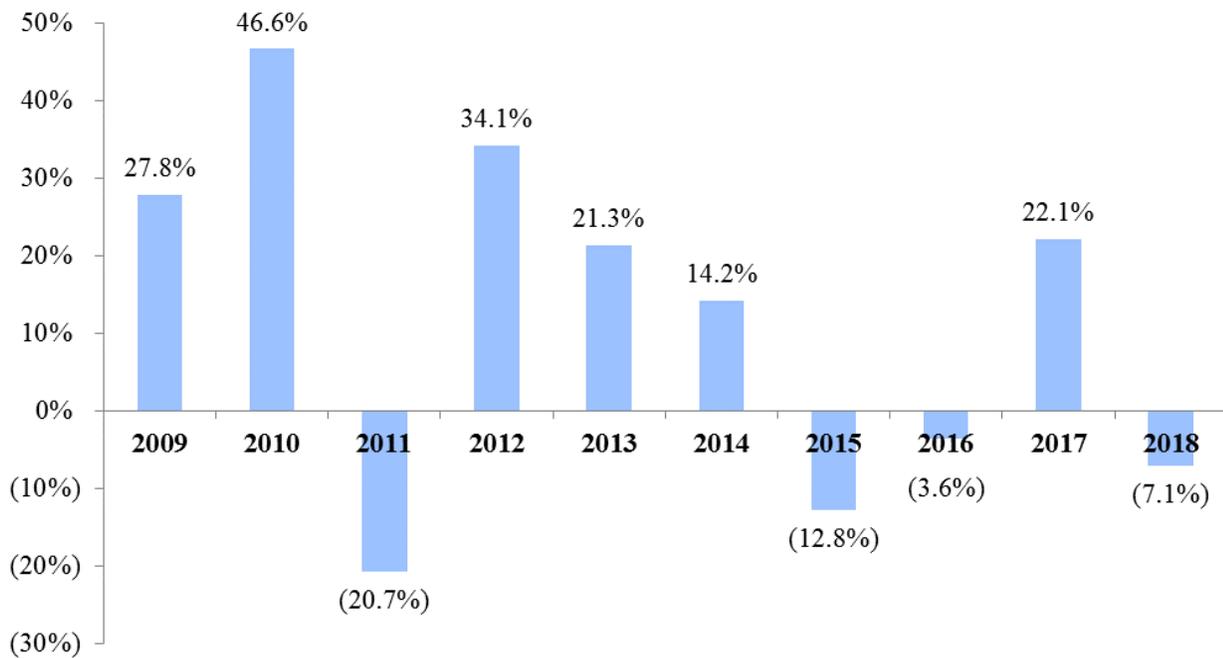
### General

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

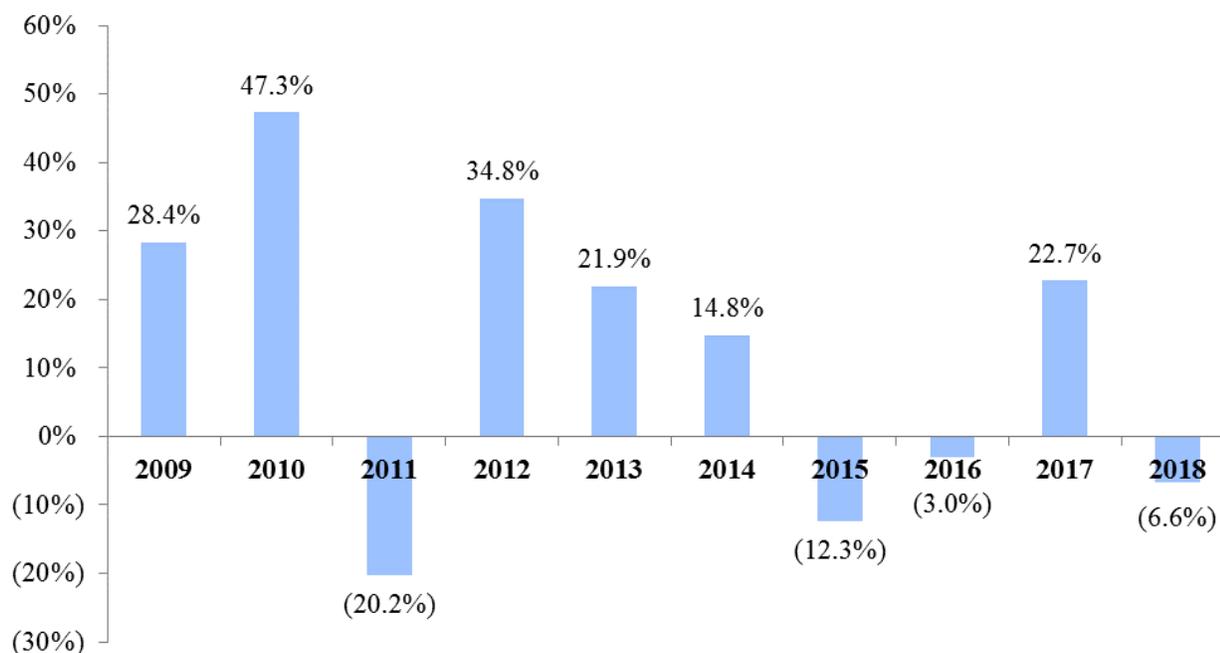
The following bar charts show the annual performance for each of the Series A and Series F units of the Fund for each of the years shown. Each chart shows, in percentage terms, how an investment on January 1 would have increased or decreased by December 31 for each of the years, and how the performance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

### 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 for the one-, three-, five-, ten-, and fifteen-year periods ended on December 31, 2018 for Series A units and since inception and for the one-, three-, five- and ten-year periods ended on December 31, 2018 for Series F units. Also shown for the same periods are the respective historical annual compound total returns 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, 2018	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years
Chou RRSP Fund	-7.15%	3.01%	1.70%	10.15%	4.65%
S&P/TSX (\$CAN)	-8.88%	6.36%	4.05%	7.90%	6.63%

### Series F

December 31, 2018	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Chou RRSP Fund	-6.63%	3.58%	2.27%	10.73%	3.92%
S&P/TSX (\$CAN)	-8.88%	6.36%	4.05%	7.90%	4.95%

<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>Sector Mix</u>	<u>% of Fund's Net Assets</u>
Materials	29.9%
Consumer Discretionary	17.2%
Oil & Gas	11.5%
Health Care	11.4%
Information Technology	7.8%
Financials	7.1%
Industrials	4.9%
Net Cash & Equivalents	10.2%
<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.	20.0%
Bausch Health Companies Inc.	11.4%
BlackBerry Limited	7.8%
Canfor Pulp Products Inc.	7.2%
Bank of America Corporation	4.7%
Reitmans (Canada) Limited, Class 'A'	4.1%
TWC Enterprises Limited	4.0%
Interfor Corporation	2.7%
Reitmans (Canada) Limited	1.9%
TVA Group Inc.	1.9%
Magna International Inc., Class 'A'	1.9%
Fairfax Financial Holdings Limited	1.8%
Linamar Corporation	1.6%
Torstar Corporation, Class 'B'	1.1%
Dundee Corporation, Class 'A'	0.6%
Overstock.com Inc., Class 'B'	0.5%
Wow Unlimited Media Inc.	0.2%
<b>Total Equities</b>	<b>73.4%</b>
<b>Options</b>	
Resolute Forest Products Inc., Call 12.5, 18/01/2019	0.0%
<b>Fixed Income</b>	
Exco Resources Inc., 1.75 Lien Term Loan, October 26, 2020	11.5%
Taiga Building Products Ltd., 7.000%, November 17, 2022, Callable	4.9%
<b>Total Fixed Income</b>	<b>16.4%</b>
<b>Total Holdings</b>	<b>89.8%</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.

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