

**CHOU ASSOCIATES FUND  
CHOU ASIA FUND  
CHOU EUROPE FUND  
CHOU BOND FUND  
CHOU RRSP FUND**

**SEMI-ANNUAL REPORT 2021**

**Illustration of an assumed investment of \$10,000 in Canadian dollars (Unaudited)**

**CHOU ASSOCIATES FUND**

<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 1986	\$10,000
Dec.31, 1987	10,502
Dec.31, 1988	12,001
Dec.31, 1989	14,244
Dec.31, 1990	12,722
Dec.31, 1991	15,681
Dec.31, 1992	18,817
Dec.31, 1993	21,863
Dec.31, 1994	21,300
Dec.31, 1995	27,904
Dec.31, 1996	34,235
Dec.31, 1997	48,035
Dec.31, 1998	59,187
Dec.31, 1999	53,489
Dec.31, 2000	57,967
Dec.31, 2001	70,397
Dec.31, 2002	91,504
Dec.31, 2003	94,773
Dec.31, 2004	103,319
Dec.31, 2005	117,462
Dec.31, 2006	139,511
Dec.31, 2007	125,258
Dec.31, 2008	88,553
Dec.31, 2009	114,854
Dec.31, 2010	136,916
Dec.31, 2011	113,776
Dec.31, 2012	144,446
Dec.31, 2013	204,142
Dec.31, 2014	228,754
Dec.31, 2015	212,854
Dec.31, 2016	206,905
Dec.31, 2017	214,775
Dec.31, 2018	197,699
Dec.31, 2019	200,244
Dec.31, 2020	181,288
<b>Jun.30, 2021</b>	<b>\$249,459</b>

NOTE: Rates of return are historical total returns, include changes in unit prices, and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and that could reduce these returns. The returns are not guaranteed. The Fund's past performance does not necessarily indicate future performance.

The table is presented only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

## **PERFORMANCE OF THE FUNDS**

Six months ended June 30, 2021 (unaudited)

---

### **Chou Associates Fund**

Series A \$CAN	37.6%
Series A \$US	41.3%
Series F \$CAN	37.9%
Series F \$US	41.6%

### **Chou Asia Fund**

Series A \$CAN	12.6%
Series A \$US	15.7%
Series F \$CAN	12.8%
Series F \$US	15.8%

### **Chou Europe Fund**

Series A \$CAN	(0.6%)
Series A \$US	2.0%
Series F \$CAN	(0.5%)
Series F \$US	2.1%

### **Chou Bond Fund**

Series A \$CAN	26.1%
Series A \$US	29.5%
Series F \$CAN	26.2%
Series F \$US	29.6%

### **Chou RRSP Fund**

Series A \$CAN	43.9%
Series A \$US	47.8%
Series F \$CAN	44.3%
Series F \$US	48.1%

## TABLE OF CONTENTS

Chou Associates Fund Manager's Letter	1-6
Management's Responsibility for Financial Reporting	7
<b>Chou Associates Fund</b>	
Statements of Financial Position	8
Statements of Comprehensive Income	9
Statements of Changes in Net Assets	10
Statements of Cash Flows	11
Schedule of Investments	12
Discussion of Financial Risk Management	13-14
<b>Chou Asia Fund</b>	
Fund Manager's Letter	15-17
Statements of Financial Position	18
Statements of Comprehensive Income	19
Statements of Changes in Net Assets	20
Statements of Cash Flows	21
Schedule of Investments	22
Discussion of Financial Risk Management	23-24
<b>Chou Europe Fund</b>	
Fund Manager's Letter	25-28
Statements of Financial Position	29
Statements of Comprehensive Income	30
Statements of Changes in Net Assets	31
Statements of Cash Flows	32
Schedule of Investments	33
Discussion of Financial Risk Management	34-35
<b>Chou Bond Fund</b>	
Fund Manager's Letter	36-39
Statements of Financial Position	40
Statements of Comprehensive Income	41
Statements of Changes in Net Assets	42
Statements of Cash Flows	43
Schedule of Investments	44
Discussion of Financial Risk Management	45-46
<b>Chou RRSP Fund</b>	
Fund Manager's Letter	47-50
Statements of Financial Position	51
Statements of Comprehensive Income	52
Statements of Changes in Net Assets	53
Statements of Cash Flows	54
Schedule of Investments	55
Discussion of Financial Risk Management	56-57
<b>Notes to Financial Statements</b>	58-82

**CHOU ASSOCIATES FUND**  
(unaudited)

August 20, 2021

Dear Unitholders of Chou Associates Fund,

The net asset value per unit (“NAVPU”) of a Series A unit of Chou Associates Fund at June 30, 2021 was \$128.66 compared to \$93.50 at December 31, 2020, an increase of 37.6%; during the same period, the S&P 500 Total Return Index increased 12.0% in Canadian dollars. In U.S. dollars, a Series A unit of Chou Associates Fund increased by 41.3% while the S&P 500 Total Return Index increased 15.2%.

The table shows our one-year, three-year, five-year, 10-year, 15-year and 20-year annual compound rates of return.

<b>June 30, 2021 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>	<b>15 Years</b>	<b>20 Years</b>
Chou Associates Fund (\$CAN)	76.0%	5.9%	7.9%	6.0%	4.7%	7.1%
S&P 500 (\$CAN)	28.3%	16.4%	16.6%	17.8%	11.5%	7.5%
Chou Associates Fund (\$US) <sup>1</sup>	92.8%	8.0%	8.8%	3.4%	3.9%	8.1%
S&P 500 (\$US)	40.8%	18.6%	17.6%	14.8%	10.7%	8.6%

Rates of return are historical total returns that include changes in unit prices, and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and that could reduce these returns. The returns are not guaranteed. The Fund's past performance does not necessarily indicate future performance. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

### **Factors Influencing the First Six-Month Results**

The largest increase in the period were the equity holdings of Resolute Forest Products Inc., MBIA Inc., Overstock.com and Wells Fargo & Company. The Canadian currency appreciated against the US dollar, which also negatively affected the Fund.

During the period, the Fund reduced its holdings in The Goldman Sachs Group Inc., Resolute Forest Products Inc., Wells Fargo & Company and Citigroup Inc. The Fund eliminated its holdings in DaVita Inc.

The Fund did not make any new investments or enter into any foreign currency contracts in the first half of 2021. The Fund sold a few covered call options on the equity holdings of Resolute Forest Products Inc., MBIA Inc., and Bausch Health Companies Inc. during the period ending June 30, 2021.

---

<sup>1</sup> The alternative method of purchasing Chou Associates Fund in \$US has been offered since September 2005. Performance for years prior to September 2005 is based on the \$US equivalent conversion of the results of the Chou Associates Fund (\$CAN). The investments in the Chou Associates Fund (\$CAN) are the same as the investments in Chou Associates Fund (\$US) except for the currency applied.

## **Portfolio Commentary**

### **Financials – Banks and Insurance**

Banks – In general, we do not think that the intrinsic values of the banks have depreciated much in the long-term. In the short-term, the revenues and net interest margins may take a hit due to low interest rates (close to zero), and defaults on bad loans will likely increase under the current anemic economic conditions. However, we think the loose monetary policy of today will benefit the banks in the long-term with its excessive printing of money, since banks are always the first beneficiary of easy money. Having endured the annual stress tests, banks are also in much better financial shape than they were during the Great Recession of 2008.

### **Resolute Forest Products Inc. (“RFP”)**

As of June 30, 2021, the market price of RFP was US\$12.20 per share, up 86.5% from the price of US\$6.54 at year end 2020. In spite of that, RFP has been a huge disappointment since our initial purchase some eight years ago. It shows how tough it is to turn around a troubled company despite the best efforts of management. Having said that, it is quite comical to experience how a commodity stock can be hammered beyond all logical comprehension. RFP paid a special dividend of US\$1.50 a share in 2018, and it was trading as low as US\$1.17 per share in April 2020. Back in March 2020, the company announced that it would buy back 15% of its common shares for US\$100 million. At the lowest price of US\$1.17, the whole market capitalization would be approximately US\$99 million. In other words, instead of buying back 15% of the company with US\$100 million, it could repurchase 100% of the company. RFP shares have since recovered 942.7% to US\$12.20 as at June 30, 2021.

Rarely do we see such a depressed valuation but when it occurs, the most important thing is not to capitulate when the relevant facts and the investment rationale are strongly in our favor. Our goal is to buy companies at 60 cents on a dollar but if it falls to 10 cents on a dollar, we get more excited. If we had the room to buy more RFP, we would have certainly done so. These declines can really test our fortitude and our conviction on being a value manager but we felt that, in time, RFP would be trading closer to its intrinsic value. That was what happened during the first six months of 2021.

One bright spot for the company has been its lumber operations. The high prices for lumber should make up for the declines in its newsprint and specialty papers business segments. The COVID-19 pandemic has shifted management’s focus more towards its lumber/pulp/tissue operations and we believe that should generate greater cash flow in the future.

In general, our experience with a commodity business that has virtually no pricing power is to be cautious when management talks about investing in new equipment or upgrades that would significantly lower the cost structure compared to its competitors. That may be true for six months to a couple of years, but in time, competitors will have a new cost structure that is as competitive if not superior to the company. It is the same treadmill where hardly anyone in the industry can make a decent return on the assets invested in the company. The same story can be seen repeatedly in various commoditized industries. There is no sustainable long-term advantage in a mediocre business with no pricing power. It is important not to get seduced by discount to

book value. If the company cannot generate a decent return on book value over a long period of time, that book value is not worth much.

### **Bausch Health Companies Inc. (“Bausch Health”)**

In early August 2020, Bausch Health announced that it is planning to spin off its eye care business, Bausch + Lomb, into an independent publicly traded company. This will allow the company to concentrate on its gastroenterology, aesthetics/dermatology, neurology and international pharma business.

Chairman and CEO Joseph Papa said, "We've looked at the value of our pure health companies like Alcon and Cooper and believe that Bausch + Lomb would compare very favorably when investors have an opportunity to make a judgment about the relative value of the stand-alone business".

Comparable companies like Cooper Companies and Alcon Inc. are currently trading between 18 and 20 times 2022 EBITDA estimates and 25-30 times trailing EBITDA estimates. If Bausch + Lomb trades at similar multiples as a stand-alone company, the total value of Bausch Health using a sum-of-the-parts method would be worth north of US\$45 per share (net of debt). We felt that Bausch has been undervalued for a long time, but investors were not giving credit for management doing a good job in running the operations, selling non-core assets, as well as deleveraging its balance sheet. They felt the process was too slow. We hope the spin-off of the Bausch + Lomb unit will be the much-needed catalyst for investors to price the company closer to its intrinsic value.

### **EXCO Resources Inc. (“EXCO”)**

In early July 2019, the company emerged from bankruptcy and the 1.75 lien term loans were converted into 28.38 equity shares for every US\$1,000 in par value, after netting out certain adjustments. We received 1,518,570 shares of EXCO in the Fund. The equivalent price was US\$9.51 per share of EXCO.

Looking back on this investment, we underestimated how long the price of natural gas would stay low for and how low it has been relative to the price of oil. Historically, there had been a strong relationship between the prices of oil and natural gas. Thinking about the two fuels in terms of energy equivalency, 6,000 cubic feet (6 mcf) of natural gas has the same amount of energy content as 1 barrel of oil. In the past, this 6 to 1 ratio guided the relationship between oil and natural gas prices but for the last few years the ratio between prices has gone up to as high as 50 to 1.

Long story short, it was not such a great idea to invest in the 1.75 lien term loans of EXCO.

### **MBIA Inc.**

Our investment in MBIA Inc. dates back to 2012, with an initial cost at about US\$6.00 per share. It is one of the most interesting investments in a long time, and we have watched the company's development with great attention over the years. To use a baseball analogy, we believe that we are somewhere in the sixth or seventh inning of the game. We are much closer to a more

definitive resolution on the company's various lawsuits with regards to the ongoing bankruptcy proceedings in restructuring the Puerto Rico bonds.

To understand the parent company MBIA Inc., one has to separate out its two principal subsidiaries – the “Good One” called National Public Finance Guarantee Corporation (“National”) and the “Bad One” called MBIA Insurance Corporation (“MBIA Corp.”). As far as our analysis shows, the parent company and National have been ring-fenced from the operations of MBIA Corp. since 2014. In the latest 10-K of MBIA Inc., the company stated that:

*“Given the separation of MBIA Inc. and MBIA Corp. as distinct legal entities, the absence of any cross defaults between the entities, and the lack of reliance by MBIA Inc. on MBIA Corp. for the receipt of dividends, we do not believe that a rehabilitation or liquidation proceeding of MBIA Insurance Corporation by the NYSDFS would have any material economic impact on MBIA Inc.”*

National’s primary business has been to provide financial guarantee insurance to the United States’ public finance markets, their financial guarantee insurance policies provide investors with unconditional and irrevocable guarantees of the payment of the principal, interest or other amounts owing on insured obligations when due. National has ceased pursuing the writing of new financial guarantee policies, and its primary activity today is to provide ongoing surveillance, including remediation activity where warranted, of its existing insured portfolio of US\$41.9 billion gross par outstanding as of December 31, 2020. This is the side of the business with exposure to the Puerto Rico bonds.

We won’t go into details of the “Bad One” MBIA Corp., but simply to highlight that its book value is negative US\$31.97 per share as of year-end 2020.

We would like you to forget the operations of the companies for a second and concentrate on the following: the ferocity of the company’s share buybacks, the change in adjusted book value per share (“adjusted BVPS”) and the change in GAAP book value per share (“GAAP BVPS”) over the years.

	2020	2019	2018	2017	2016	2015	2014
Shares Outstanding (Mils)	53.7	79.4	89.8	91.5	135.2	151.5	191.9
GAAP BVPS	\$2.53	\$10.40	\$12.46	\$15.44	\$23.87	\$24.61	\$20.47
Adjusted BVPS	\$35.95	\$31.96	\$27.38	\$29.32	\$31.88	\$28.98	\$24.21
Price Paid on Buybacks	\$7.50	\$9.10	\$8.28	\$7.56	\$6.33	\$7.30	\$9.44

*Source: Capital IQ and company filings, all currencies in USD.*

As seen from the chart above, the number of shares outstanding were reduced significantly from 191.9 million shares to 53.7 million shares from 2014 to 2020. Also, notice the increase of adjusted BVPS from US\$24.21 in 2014 to US\$35.95 in 2020 and a decrease in GAAP BVPS from US\$20.47 to US\$2.53 over the same period.

We want to pay special attention to the adjusted BVPS because the financial impact of the “Bad One” is subtracted from the calculation. In our view, it should more closely represent the intrinsic value of the company. The GAAP BVPS of the combined company has decreased due to the decrease of the GAAP BVPS of the “Bad One” over the years. It is interesting to note how management has shifted its focus from highlighting how high the adjusted BVPS was up until 2018, to showcasing how low the GAAP BVPS was from 2019 onwards.

While the company explained it as an accounting change, the timing conveniently suits their purposes. Compare the company’s presentation of its financials in the 10-K before and after 2018:

### **2018 and prior:**

In millions except share and per share amounts	<u>As of December 31,</u>	<u>As of December 31,</u>
	<u>2018</u>	<u>2017</u>
Total shareholders' equity of MBIA Inc.	\$ 1,119	\$ 1,413
Common shares outstanding	89,821,713	91,484,447
Book value per share	\$ 12.46	\$ 15.44
Book value per share adjustments:		
Remove negative book value of MBIA Corp.	10.93	8.84
Remove net unrealized (gains) losses on available-for-sale securities included in other comprehensive income (loss)	0.46	0.26
Add net unearned premium revenue in excess of expected losses	3.53	4.23
Total book value per share adjustments	14.92	13.33
Adjusted book value per share	<u>\$ 27.38</u>	<u>\$ 28.77</u>

### **After 2018 (Excluded total BVPS adjustment and adjusted BVPS lines):**

In millions except share and per share amounts	<u>As of December 31,</u>	<u>As of December 31,</u>
	<u>2020</u>	<u>2019</u>
Total shareholders' equity of MBIA Inc.	\$ 136	\$ 826
Common shares outstanding	53,677,148	79,433,293
GAAP book value per share	<u>\$ 2.55</u>	<u>\$ 10.40</u>
Management's adjustments described above:		
Remove negative book value per share of MBIA Corp.	(31.97)	(16.81)
Remove net unrealized gains (losses) on available-for-sale securities included in other comprehensive income (loss)	2.86	1.29
Include net unearned premium revenue in excess of expected losses	4.29	3.46

*Source: MBIA Inc. 10-K company filings for 2018 and 2020.*

Although the parent company has used up the authorization to buy back shares, it still has another US\$300 million at National that can be used for share buybacks. Assuming that management gets new authorization for more share buybacks at US\$10 per share, the adjusted BVPS could then jump to a whopping US\$68.80 per share. Such is the power of the buy backs when it is bought at such a low price relative to adjusted book value per share. What management is doing with the amount of buybacks and the significant discount to adjusted BVPS is unprecedented in corporate history.

As for National’s business, it is an asset play that is in runoff. We believe the assets as presented by management are solid, and that there are potential tailwinds from the restructuring of the Puerto Rico bonds and the various lawsuits related to that.

In 2008, when MBIA Inc. got into trouble with its misadventures in toxic securities, MBIA was nicknamed “Management Brain Injury Association”. In a few years, that nickname will be buried forever.

## **Caution to the Investors**

Investors should be advised that we run a highly focused portfolio, frequently just three to five securities may comprise close to 50% of the assets of the Fund. In addition, the Fund has securities that are non-U.S. and could be subjected to geopolitical risks, which may trump or at least negatively influence the financial performance of the company. Also, we may enter into some derivative contracts, such as credit default swaps when we feel that the market conditions are right to use those instruments. Because of any or all of these factors, the net asset value of the Fund can be from time to time more volatile than at other times. However, we are not bothered by this volatility because our focus has always been, and continues to be, on how inexpensive we believe the Fund's portfolio holdings are relative to what we believe to be their intrinsic value.

## **Other Matters**

FOREIGN CURRENCY CONTRACTS: None existed at June 30, 2021.

CREDIT DEFAULT SWAPS: None existed at June 30, 2021.

U.S. DOLLAR VALUATION: Any investor who wishes to purchase the Chou Funds in U.S. dollars may do so.

REDEMPTION FEE: We have a redemption fee of 2% if unitholders redeem their units in less than 3 months. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders.

INDEPENDENT REVIEW COMMITTEE: The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Peter Gregoire and Joe Tortolano. The 2020 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of August 20, 2021, the NAVPU of a Series A unit of the Fund was \$133.30 and the cash position was approximately 6.0% of net assets. The Fund is up 42.6% from the beginning of the year. In U.S. dollars, it is up 41.5%.

Except for the performance numbers of the Chou Associates Fund, this letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained or implied herein may not be suitable for all investors.

Yours truly,

*Francis Chou*

Francis Chou  
Fund Manager

---

## **Management's Responsibility for Financial Reporting**

---

To the unitholders of the Chou Funds:

The accompanying financial statements have been prepared by the management of Chou Associates Management Inc. Management is responsible for the information and representations made in these financial statements.

Management has applied appropriate processes to ensure that the statements contain relevant and reliable financial information. The financial statements have been produced in accordance with International Financial Reporting Standards (“IFRS”) and include certain amounts based on estimates and judgements. The significant accounting policies that management believes are appropriate for the Chou Funds are described in Note 2 to the financial statements.

The Trustee of each of the Trusts is responsible for reviewing and approving the financial statements, and for overseeing management’s performance of its financial reporting responsibilities. The Trustee reviews the financial statements, the adequacy of internal controls, the audit process and the financial data with management and the external auditors.

The Board of Directors of Chou Associates Management Inc. is responsible for reviewing and approving the financial statements, and for overseeing management’s performance of its financial reporting responsibilities. It reviews the financial statements, the adequacy of internal controls, the audit process and the financial data with management and the external auditors. Once satisfied, the Board approves the financial statements.

Grant Thornton LLP is the external auditor of the Chou Funds. They are appointed by the respective Boards and cannot be changed without the prior approval of the Independent Review Committee and on 60 days notice to the unitholders.



Francis Chou  
Chou Associates Management Inc.  
August 20, 2021

# CHOU ASSOCIATES FUND

## Statements of Financial Position

June 30, 2021 (Unaudited) and December 31, 2020

	June 30, 2021	December 31, 2020
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,637,703	\$ 18,151
Investments (note 8)	191,232,196	154,714,419
Receivable for redeemable units subscribed	25,000	500
Dividends receivable	3,008,385	42,093
Total assets	198,903,284	154,775,163
<b>Liabilities</b>		
Current liabilities:		
Derivatives	6,424,537	149,566
Accrued expenses	334,467	664,519
Payable for units redeemed	400,951	723,739
Total liabilities	7,159,955	1,537,824
Net assets attributable to unitholders of redeemable units	<u>\$ 191,743,329</u>	<u>\$ 153,237,339</u>
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 177,152,455	\$ 137,794,110
Series F	14,590,874	15,443,229
	<u>\$ 191,743,329</u>	<u>\$ 153,237,339</u>
Number of redeemable units outstanding (note 4):		
Series A	1,376,922	1,473,749
Series F	113,526	165,723
Net assets attributable to unitholders of redeemable units per unit:		
Canadian dollars:		
Series A	\$ 128.66	\$ 93.50
Series F	128.52	93.19
U.S. dollars:		
Series A	103.79	73.45
Series F	103.68	73.21

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors of Chou Associates Management Inc.:

Francis Chou

# CHOU ASSOCIATES FUND

## Statements of Comprehensive Income (Loss)

Six months ended June 30, 2021 and 2020 (Unaudited)

	2021	2020
<b>Income:</b>		
Dividends	\$ 3,689,491	\$ 589,483
Securities lending income (note 7)	3,132	4,871
Other income	234,642	—
Foreign currency gain (loss) on cash and other net assets	148,548	(500,226)
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain on disposal of investments	4,829,220	17,973,782
Net realized loss on derivatives	(736,119)	—
Change in unrealized appreciation (depreciation) on investments	50,403,208	(74,983,231)
Change in unrealized depreciation on derivatives	(326,402)	—
	58,245,720	(56,915,321)
<b>Expenses:</b>		
Management fees (note 5)	1,313,503	1,345,763
Filing fees	23,999	—
Independent review committee fees	62,662	—
FundSERV fees	12,127	14,221
Legal fees	9,050	9,100
Transaction costs (note 6)	203,219	65,588
Foreign withholding taxes	554,470	87,146
Other	—	23,657
	2,179,030	1,545,475
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ 56,066,690	\$ (58,460,796)
Increase (decrease) in net assets attributable to unitholders of redeemable units per series:		
Series A	\$ 50,750,170	\$ (50,634,930)
Series F	5,316,520	(7,825,866)
	\$ 56,066,690	\$ (58,460,796)
Average number of redeemable units outstanding for the period for the Series:		
Series A	1,419,878	1,658,335
Series F	138,692	258,667
Increase (decrease) in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ 35.74	\$ (30.53)
Series F	38.33	(30.25)

See accompanying notes to financial statements.

# CHOU ASSOCIATES FUND

## Statements of Changes in Net Assets Attributable to Unitholders of Redeemable Units

Six months ended June 30, 2021 and 2020 (Unaudited)

	2021	2020
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	\$ 137,794,110	\$ 180,516,920
Increase (decrease) in net assets attributable to unitholders of redeemable units	50,750,170	(50,634,930)
Proceeds from issue of redeemable units	1,468,741	530,093
Payments on redemption of redeemable units	(12,860,566)	(14,436,019)
Net assets attributable to unitholders of redeemable units, end of period	\$ 177,152,455	\$ 115,976,064
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	\$ 15,443,229	\$ 28,449,077
Increase (decrease) in net assets attributable to unitholders of redeemable units	5,316,520	(7,825,866)
Proceeds from issue of redeemable units	383,936	447,690
Payments on redemption of redeemable units	(6,552,811)	(3,597,939)
Net assets attributable to unitholders of redeemable units, end of period	\$ 14,590,874	\$ 17,472,962
Total net assets attributable to unitholders of redeemable units, end of period	\$ 191,743,329	\$ 133,449,026

See accompanying notes to financial statements.

# CHOU ASSOCIATES FUND

## Statements of Cash Flows

Six months ended June 30, 2021 and 2020 (Unaudited)

	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ 56,066,690	\$ (58,460,796)
Adjustments for:		
Foreign currency (gain) loss on cash and other net assets	(148,548)	500,226
Net realized gain on disposal of investments and derivatives	(4,093,101)	(17,973,782)
Change in unrealized (appreciation) depreciation on investments and derivatives	(50,076,806)	74,983,231
Change in non-cash operating working capital:		
(Increase) decrease in dividends receivable	(2,966,292)	122,675
(Decrease) increase in accrued expenses	(330,052)	314,554
Purchase of investments	(5,400,553)	(48,177)
Proceeds from sales of investments	29,327,654	35,225,339
Net cash generated from operating activities	<u>22,378,992</u>	<u>34,663,270</u>
<b>Cash flows from financing activities:</b>		
Distributions paid to unitholders	–	(73,106)
Proceeds from redeemable units issued	1,828,177	987,456
Amount paid on redemption of redeemable units	(19,736,165)	(22,128,728)
Net cash used in financing activities	<u>(17,907,988)</u>	<u>(21,214,378)</u>
Foreign currency gain (loss) on cash and other net assets	148,548	(500,226)
Increase in cash and cash equivalents	4,619,552	12,948,666
Cash and cash equivalents, beginning of period	18,151	(1,032,848)
<b>Cash and cash equivalents, end of period</b>	<b>\$ 4,637,703</b>	<b>\$ 11,915,818</b>
Supplemental information:		
Dividends received, net of withholding tax	168,729	625,012
Security lending income received	3,132	4,871

See accompanying notes to financial statements.

# CHOU ASSOCIATES FUND

## Schedule of Investments

June 30, 2021 (Unaudited)

	<b>Number of securities</b>	<b>Cost</b>	<b>Fair value</b>
<b>Equities*</b>			
Bausch Health Companies Inc.	1,295,000	\$ 27,987,715	\$ 47,066,868
Berkshire Hathaway Inc., Class 'A'	100	10,546,612	51,889,780
Citigroup Inc.	57,695	1,457,677	5,059,950
EXCO Resources Inc.	1,281,244	31,646,701	13,301,427
JPMorgan Chase & Company	34,275	2,395,497	6,608,473
MBIA Inc.	599,530	4,148,920	8,174,951
Overstock.com Inc., Series 'A-1'	4,273	48,177	450,229
Overstock.com Inc., Series 'B'	42,730	883,806	3,231,055
Resolute Forest Products Inc.	2,816,272	42,257,934	42,590,819
The Goldman Sachs Group Inc.	7,100	888,365	3,340,304
Wells Fargo & Company	169,542	9,046,775	9,518,340
Total long		131,308,179	191,232,196
Total investments		131,308,179	191,232,196
Transaction costs		(755,082)	—
Total Investments in Non-Derivative Financial Assets		130,553,097	191,232,196
Derivative Liabilities		—	(6,424,537)
<b>Portfolio total</b>		<b>\$ 130,553,097</b>	<b>\$ 184,807,659</b>

## Schedule of Derivative Instruments

<b>Security Name</b>	<b>Strike Price</b>	<b>Expiry Date</b>	<b>Currency</b>	<b>No. Contracts</b>	<b>Proceeds</b>	<b>Fair Value</b>
<b>Options</b>						
<i>Written Call Options</i>						
Bausch Health Companies Inc.	40.00	01-21-23	USD	(2,000)	(1,307,968)	(582,612)
Bausch Health Companies Inc.	50.00	01-21-23	USD	(2,000)	(901,857)	(252,878)
MBIA Inc.	12.00	04-15-22	USD	(4,000)	(424,651)	(696,655)
Resolute Forest Products Inc.	11.50	03-19-22	USD	(5,000)	(1,237,458)	(1,921,380)
Resolute Forest Products Inc.	6.50	07-17-21	USD	(500)	(56,917)	(353,286)
Resolute Forest Products Inc.	9.00	07-17-21	USD	(5,435)	(570,025)	(2,021,168)
Resolute Forest Products Inc.	16.50	11-20-21	USD	(5,500)	(1,590,318)	(596,558)
<b>Total Written Call Options</b>					<b>\$ (6,089,194)</b>	<b>\$ (6,424,537)</b>

\* Common shares unless indicated otherwise

See accompanying notes to financial statements.

# **CHOU ASSOCIATES FUND**

## **Discussion of Financial Risk Management**

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### **Investment objective and strategies:**

The Fund's objective is to provide long-term growth of capital by investing primarily in equity securities of U.S. and foreign businesses considered by the Manager to be undervalued. The Fund may also invest in the equity securities of Canadian businesses. Investments may include common and preferred shares, convertible debentures, government and corporate bonds and short-term debt. The Fund may also use derivatives such as, but not limited to, futures, options, swaps and forward contracts to gain exposure to securities and asset classes consistent with the objectives of the Fund, and to hedge portfolio exposure against losses from foreign currency and domestic currency exposure and changes in securities prices.

The investment process followed in selecting equity investments for the Fund is a value-oriented approach to investing. The level of investments in the Fund's securities is generally commensurate with the current price of the Fund's securities in relation to its intrinsic value. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

### **Financial risk management:**

The Fund's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's objectives and risk tolerance.

#### **(a) Other price risk:**

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 92.8% (December 31, 2020 – 92.2%) of the Fund's net assets held at June 30, 2021 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at June 30, 2021, the net assets of the Fund would have increased or decreased by approximately \$8,896,538 or 4.64% (December 31, 2020 – \$7,065,015 or 4.61%) of the net assets, all other factors remaining constant.

In practice, the actual trading results may differ and the difference could be material.

#### **(b) Foreign currency risk:**

Currencies to which the Fund had exposure as at June 30, 2021 and December 31, 2020 expressed in CAD are as follows:

<b>June 30, 2021</b>	<b>Investments and derivatives</b>	<b>Cash and cash equivalents</b>	<b>Other assets and liabilities</b>	<b>Total</b>	<b>Percentage of net asset value</b>
United States dollar (USD)	\$ 184,807,659	\$ 4,602,775	\$ 3,008,384	\$ 192,418,818	100.4%

<b>December 31, 2020</b>	<b>Investments and derivatives</b>	<b>Cash and cash equivalents</b>	<b>Other assets and liabilities</b>	<b>Total</b>	<b>Percentage of net asset value</b>
United States dollar (USD)	\$ 154,564,853	\$ 18,617	\$ 42,093	\$ 154,625,563	100.9%

# **CHOU ASSOCIATES FUND**

## **Discussion of Financial Risk Management**

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### **Financial risk management (continued):**

#### **(b) Foreign currency risk (continued):**

The amounts in the above tables are based on the market value of the Fund's financial instruments. This includes cash and cash equivalents, investments, dividends receivable, receivable for units subscribed, derivatives and payable for units redeemed that are denominated in foreign currencies.

As at June 30, 2021, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$1,924,188 (December 31, 2020 - \$1,546,256).

In practice, the actual trading results may differ and the difference could be material.

**CHOU ASIA FUND**  
(unaudited)

August 20, 2021

Dear Unitholders of Chou Asia Fund

The net asset value per unit (“NAVPU”) of a Series A unit of Chou Asia Fund at June 30, 2021 was \$32.28 compared to \$28.66 at December 31, 2020, an increase of 12.6%; during the same period, the MSCI AC (Morgan Stanley Capital International All Country) Asia Pacific Total Return Index in Canadian dollars increased 2.1%. In U.S. dollars, a Series A unit of Chou Asia Fund was up 15.7% while the MSCI AC Asia Pacific Total Return Index increased 5.1%.

The table shows our one-year, three-year, five-year, 10-year and 15-year annual compound rates of return.

<b>June 30, 2021 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>	<b>15 Years</b>
Chou Asia Fund (\$CAN)	87.8%	20.8%	15.5%	11.2%	9.4%
MSCI AC Asia Pacific TR (\$CAN)	22.9%	8.7%	12.1%	10.2%	7.1%
Chou Asia Fund (\$US) <sup>1</sup>	105.7%	23.2%	16.5%	8.5%	8.6%
MSCI AC Asia Pacific TR (\$US)	34.8%	10.8%	13.1%	7.5%	6.3%

Rates of return are historical total returns that include changes in unit prices, and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and that could reduce these returns. The returns are not guaranteed. The Fund's past performance does not necessarily indicate future performance. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

### **Factors Influencing the First Six-Month Results**

The major advancers in the first half of 2021 were the equity holdings of IDFC Limited, Shriram Transport Finance Company Limited, and BYD Electronic (International) Company. The Canadian currency appreciated against the Hong Kong dollar, which also negatively affected the Fund.

The largest decliners in the same period were the equity holdings of Samsung Electronics Company Limited and China Yuchai International Limited.

During the period, the Fund reduced its holdings in BYD Company Limited.

The Fund did not make any new investments or sell any covered call options in the first half of 2021.

---

<sup>1</sup> The alternative method of purchasing Chou Asia Fund in \$US has been offered since September 2005. Performance for years prior to September 2005 is based on the \$US equivalent conversion of the results of the Chou Asia Fund (\$CAN). The investments in the Chou Asia Fund (\$CAN) are the same as the investments in Chou Asia Fund (\$US) except for the currency applied.

## **Portfolio Commentary**

### **BYD Company Limited and BYD Electronic (International) Company**

BYD Company Limited, together with its subsidiaries, engages in the rechargeable battery and photovoltaic, handset components and assembly, and automobile businesses worldwide. We first heard about the story of Wang Chuanfu, a person who combines two traits that are extremely rare in business: a brilliant chemist with a great business acumen. So, we kept track of the two companies that he founded — BYD Company Limited and BYD Electronic (International) Company. The latter is an investment holding company that manufactures, assembles, and sells mobile handset components and modules. As it happens in the stock market, we felt that at some point in time, his two companies would fall out of favor and a buying opportunity may present itself with an undervalued price. The opportunity came in late 2011 and in 2012, we were able to buy 250,000 shares of BYD Company Limited at \$11.70 HKD per share and one million shares of BYD Electronic (International) Company at \$1.58 HKD per share. You would not believe that we bought BYD Electronic (International) Company at a discount to its net-net working capital. Both have worked out well since our purchase. On June 30, 2021, BYD Company Limited and BYD Electronic (International) Company closed at \$232.20 HKD and \$51.00 HKD per share, respectively.

During the six-month period, we sold 50,000 shares of BYD Company Limited at 233.00 HKD per share.

### **India**

As mentioned in previous letters, we have started to look closely at the market in India. With a current population of 1.3 billion, India is the world's second most populous country. It has one of Asia's youngest populations with the median age of 27.3 compared to China at 37.6 and Japan at 47.1.

In recent years, the Indian government has enacted reforms to further support the growth of India's economy. India's performance on the World Bank's Ease of Doing Business index, which ranks countries on parameters such as regulations for businesses and protections for private property, has increased from a rank of 132 out of 190 in 2016 to 63 out of 190 in 2019.

As with any foreign ventures, the investments in India will face the risk of negative currency movements. As a result, we are awaiting further developments and remain cautious of the market. Compared to other markets, the Indian stock market has not recovered anywhere close to pre-COVID levels. In addition, we are also looking at the South Korean, Japanese, Singaporean, and Taiwanese markets for any potential bargains.

### **Caution to the Investors**

Investors should be advised that we run a highly focused portfolio, frequently just three to five securities may comprise more than 50% of the assets of the Fund. In addition, the Fund has securities that are non-U.S. and could be subjected to geopolitical risks, which may trump or at least negatively influence the financial performance of the company. Also, we may enter into some derivative contracts, such as credit default swaps when we feel that the market conditions

are right to use those instruments. Because of any or all of these factors, the net asset value of the Fund can be from time to time more volatile than at other times. However, we are not bothered by this volatility because our focus has always been, and continues to be, on how inexpensive we believe the Fund's portfolio holdings are relative to what we believe to be their intrinsic value.

Also, the Fund's cash position was approximately 9.2% of net assets as at June 30, 2021 . This large cash position may depress returns for a while as we hunt for undervalued securities. Obviously, if there is a severe correction in the market in the near future, it will cushion the Fund against losses while providing us with the wherewithal to find good investment opportunities. But for now, it could be a drag on returns. If we cannot find any bargains, the large cash position may stay for a long time.

## **Other Matters**

FOREIGN CURRENCY CONTRACTS: None existed at June 30, 2021.

U.S. DOLLAR VALUATION: Any investor who wishes to purchase the Chou Funds in U.S. dollars may do so.

REDEMPTION FEE: We have a redemption fee of 2% if unitholders redeem their units in less than 3 months. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders.

INDEPENDENT REVIEW COMMITTEE: The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Peter Gregoire and Joe Tortolano. The 2020 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of August 20, 2021, the NAVPU of a Series A unit of the Fund was \$29.27 and the cash position was approximately 13.2% of net assets. The Fund is up 2.1% from the beginning of the year. In U.S. dollars, it is up 1.3%.

Except for the performance numbers of the Chou Asia Fund, this letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained or implied herein may not be suitable for all investors.

Yours truly,

*Francis Chou*

Francis Chou  
Fund Manager

# CHOU ASIA FUND

## Statements of Financial Position

June 30, 2021 (Unaudited) and December 31, 2020

	June 30, 2021	December 31, 2020
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,109,805	\$ 1,388,935
Investments (note 8)	20,838,073	20,328,918
Receivable for redeemable units subscribed	—	5,000
Due from broker	—	26,560
Interest receivable	2,233	1,288
Dividends receivable	217,888	15,834
Total assets	23,167,999	21,766,535
<b>Liabilities</b>		
Current liabilities:		
Accrued expenses	46,918	82,995
Payable for units redeemed	54,952	128,217
Total liabilities	101,870	211,212
Net assets attributable to unitholders of redeemable units	\$ 23,066,129	\$ 21,555,323
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 21,385,750	\$ 19,785,504
Series F	1,680,379	1,769,819
	\$ 23,066,129	\$ 21,555,323
Number of redeemable units outstanding (note 4):		
Series A	662,596	690,428
Series F	50,772	60,312
Net assets attributable to unitholders of redeemable units per unit:		
Canadian dollars:		
Series A	\$ 32.28	\$ 28.66
Series F	33.10	29.34
U.S. dollars:		
Series A	26.04	22.52
Series F	26.70	23.05

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors of Chou Associates Management Inc.:

Francis Chou

# CHOU ASIA FUND

## Statements of Comprehensive Income (Loss)

Six months ended June 30, 2021 and 2020 (Unaudited)

	2021	2020
<b>Income:</b>		
Interest for distribution purposes and other	\$ 654	\$ 48
Dividends	324,983	96,503
Securities lending income (note 7)	9,633	82,267
Other income	31,401	—
Foreign currency loss on cash and other net assets	(44,140)	(148,488)
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain on disposal of investments	1,772,125	2,193,652
Change in unrealized appreciation (depreciation) on investments	599,906	(2,164,796)
	2,694,562	59,186
<b>Expenses:</b>		
Management fees (note 5)	171,804	120,380
Audit	4,561	—
Filing fees	5,400	—
Independent review committee fees	5,573	—
FundSERV fees	1,165	1,396
Legal fees	—	679
Transaction costs (note 6)	4,675	7,096
Foreign withholding taxes	20,093	10,594
Other	—	2,015
	213,271	142,160
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ 2,481,291	\$ (82,974)
Increase (decrease) in net assets attributable to unitholders of redeemable units per Series:		
Series A	\$ 2,262,596	\$ (70,674)
Series F	218,695	(12,300)
	\$ 2,481,291	\$ (82,974)
Average number of redeemable units outstanding for the period for the Series:		
Series A	691,434	780,996
Series F	54,598	78,820
Increase (decrease) in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ 3.27	\$ (0.09)
Series F	4.01	(0.16)

See accompanying notes to financial statements.

# CHOU ASIA FUND

## Statements of Changes in Net Assets Attributable to Unitholders of Redeemable Units

Six months ended June 30, 2021 and 2020 (Unaudited)

	2021	2020
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	\$ 19,785,504	\$ 14,729,651
Increase (decrease) in net assets attributable to unitholders of redeemable units	2,262,596	(70,674)
Proceeds from issue of redeemable units	1,880,484	77,693
<u>Payments on redemption of redeemable units</u>	<u>(2,542,834)</u>	<u>(2,353,911)</u>
Net assets attributable to unitholders of redeemable units, end of period	\$ 21,385,750	\$ 12,382,759
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	\$ 1,769,819	\$ 1,512,131
Increase (decrease) in net assets attributable to unitholders of redeemable units	218,695	(12,300)
Proceeds from issue of redeemable units	33,586	56,844
<u>Payments on redemption of redeemable units</u>	<u>(341,721)</u>	<u>(342,533)</u>
Net assets attributable to unitholders of redeemable units, end of period	\$ 1,680,379	\$ 1,214,142
Total net assets attributable to unitholders of redeemable units, end of period	<u>\$ 23,066,129</u>	<u>\$ 13,596,901</u>

See accompanying notes to financial statements.

# CHOU ASIA FUND

## Statements of Cash Flows

Six months ended June 30, 2021 and 2020 (Unaudited)

	2021	2020
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ 2,481,291	\$ (82,974)
Adjustments for:		
Foreign currency loss on cash and other net assets	44,140	148,488
Net realized gain on disposal of investments	(1,772,125)	(2,193,652)
Change in unrealized (appreciation) depreciation on investments	(599,906)	2,164,796
Change in non-cash operating working capital:		
Increase in interest receivable	(945)	(2,458)
Increase in dividends receivable	(202,054)	(5,237)
(Decrease) increase in accrued expenses	(36,077)	33,921
Proceeds from sales of investments	1,889,436	4,147,241
Net cash generated from operating activities	<u>1,803,760</u>	<u>4,210,125</u>
<b>Cash flows from financing activities:</b>		
Distributions paid to unitholders	—	(24,258)
Proceeds from redeemable units issued	1,919,070	106,537
Amount paid on redemption of redeemable units	(2,957,820)	(2,847,039)
Net cash used in financing activities	(1,038,750)	(2,764,760)
Foreign currency loss on cash and other net assets	(44,140)	(148,488)
Increase in cash and cash equivalents	720,870	1,296,877
Cash and cash equivalents, beginning of period	1,388,935	1,096,539
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,109,805</b>	<b>\$ 2,393,416</b>
Supplemental information:		
Dividends received, net of withholding taxes	\$ 102,836	\$ 80,672
Security lending income received	9,633	82,267

See accompanying notes to financial statements.

# CHOU ASIA FUND

## Schedule of Investments

June 30, 2021 (Unaudited)

	<b>Number of securities</b>	<b>Cost</b>	<b>Fair value</b>
<b>Equities*</b>			
AirAsia Group Berhad	650,000	\$ 670,997	\$ 172,735
AJIS Company Limited	30,400	213,157	1,226,221
Atlas Corporation, Series 'H'	19,711	619,056	630,880
BYD Company Limited, Class 'H'	123,000	212,473	4,559,808
BYD Electronic (International) Company Limited	798,000	193,535	6,497,590
China Yuchai International Limited	73,364	1,242,575	1,458,710
Hanfeng Evergreen Inc.	95,850	228,548	—
IDFC Limited	1,010,000	750,376	907,878
POSCO, ADR	21,000	1,259,883	1,998,446
Pyne Gould Corporation Limited	5,177,219	1,157,556	1,300,924
Samsung Electronics Company Limited, GDR	420	500,073	928,547
Shriram Transport Finance Company Limited	51,642	942,551	1,156,334
 Total long		 7,990,780	 20,838,073
Total investments		7,990,780	20,838,073
Transaction costs		(25,899)	—
 Portfolio total		 \$ 7,964,881	 \$ 20,838,073

\* Common shares unless indicated otherwise

See accompanying notes to financial statements.

# **CHOU ASIA FUND**

## **Discussion of Financial Risk Management**

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### **Investment objective and strategies:**

The Fund's objective is to provide long-term growth of capital by investing primarily in equity securities of Asian businesses considered by the Manager to be undervalued. Investments may be made in securities other than equities and in businesses located outside of Asia. Investments may include common and preferred shares, convertible debentures, government and corporate bonds and short-term debt. The Fund may also use derivatives such as, but not limited to, futures, options, swaps and forward contracts to gain exposure to securities and asset classes consistent with the objectives of the Fund, and to hedge portfolio exposure against losses from foreign currency and domestic currency exposure and changes in securities prices.

The investment process followed in selecting equity investments for the Fund is a value-oriented approach to investing that focuses on the Asian market. The investment strategy follows strong disciplines with regard to price paid to acquire portfolio investments. The level of investments in the Fund's securities is generally commensurate with the current price of the company's securities in relation to its intrinsic value as determined by the above factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

### **Financial risk management:**

The Fund's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's objectives and risk tolerance.

#### **(a) Other price risk:**

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 90.3% of the Fund's net assets held at June 30, 2021 were publicly traded equities (December 31, 2020 – 94.3%). If equity prices on the exchange had increased or decreased by 5% as at June 30, 2021, the net assets of the Fund would have increased or decreased by approximately \$1,041,904 or 4.52% (December 31, 2020 – \$1,016,446 or 4.72%) of the net assets, all other factors remaining constant.

In practice, the actual trading results may differ and the difference could be material.

# CHOU ASIA FUND

## Discussion of Financial Risk Management (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

### Financial risk management (continued):

#### (b) Foreign currency risk:

Currencies to which the Fund had exposure as at June 30, 2021 and December 31, 2020 expressed in CAD are as follows:

<b>June 30, 2021</b>	<b>Investments and derivatives</b>	<b>Cash and cash equivalents</b>	<b>Other assets and liabilities</b>	<b>Total</b>	<b>Percentage of net asset value</b>
Hong Kong dollar (HKD)	\$ 11,057,398	\$ 11,524	\$ 37,239	\$ 11,106,161	48.2%
United States dollar (USD)	\$ 5,016,583	\$ 1,868,074	\$ 174,290	\$ 7,058,947	30.6%
Indian Rupee (₹)	\$ 2,064,212	\$ 155,601	\$ 4,093	\$ 2,223,906	9.6%
New Zealand dollar (NZD)	\$ 1,300,924	\$ 25,128	\$ -	\$ 1,326,052	5.8%
Japanese yen (¥)	\$ 1,226,221	\$ 42,672	\$ 77	\$ 1,268,970	5.5%
Malaysian Ringgit (RM)	\$ 172,735	\$ -	\$ -	\$ 172,735	0.7%
China Renminbi (CNY)	\$ -	\$ -	\$ 4,421	\$ 4,421	0.0%

<b>December 31, 2020</b>	<b>Investments and derivatives</b>	<b>Cash and cash equivalents</b>	<b>Other assets and liabilities</b>	<b>Total</b>	<b>Percentage of net asset value</b>
Hong Kong dollar (HKD)	\$ 11,091,648	\$ 11,852	\$ -	\$ 11,103,500	51.5%
United States dollar (USD)	\$ 4,805,986	\$ 976,745	\$ 16,970	\$ 5,799,701	26.9%
Indian Rupee (₹)	\$ 1,592,501	\$ 158,435	\$ -	\$ 1,750,936	8.1%
New Zealand dollar (NZD)	\$ 1,375,058	\$ -	\$ 26,559	\$ 1,401,617	6.5%
Japanese yen (¥)	\$ 1,281,690	\$ 22,935	\$ 85	\$ 1,304,710	6.1%
Malaysian Ringgit (RM)	\$ 182,035	\$ -	\$ -	\$ 182,035	0.8%

The amounts in the above tables are based on the market value of the Fund's financial instruments. This includes cash and cash equivalents, investments, dividends receivable, interest receivable, receivable for units subscribed, due from broker and payable for units redeemed that are denominated in foreign currencies.

As at June 30, 2021, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$231,612 (December 31, 2020 – \$215,425).

In practice, the actual trading results may differ and the difference could be material.

**CHOU EUROPE FUND**  
(unaudited)

August 20, 2021

Dear Unitholders of Chou Europe Fund,

The net asset value per unit (“NAVPU”) of a Series A unit of Chou Europe Fund at June 30, 2021 was \$11.10 compared to \$11.17 at December 31, 2020, a decrease of 0.6%; during the same period, the MSCI AC (Morgan Stanley Capital International All Country) Europe Total Return Index in Canadian dollars increased 9.2%. In U.S. dollars, a Series A unit of Chou Europe Fund was up 2.0% while the MSCI AC Europe Total Return Index increased 12.4%.

The table shows our one-year, three-year, five-year, 10-year and 15-year annual compound rates of return.

<b>June 30, 2021 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>	<b>15 Years</b>
Chou Europe Fund (\$CAN)	38.6%	1.3%	3.9%	5.1%	0.9%
MSCI AC Europe TR (\$CAN)	23.7%	7.2%	10.0%	8.6%	5.5%
Chou Europe Fund (\$US) <sup>1</sup>	51.7%	3.3%	4.7%	2.4%	0.1%
MSCI AC Europe TR (\$US)	35.8%	9.3%	11.0%	5.9%	4.8%

Rates of return are historical total returns that include changes in unit prices, and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and that could reduce these returns. The returns are not guaranteed. The Fund's past performance does not necessarily indicate future performance. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

### **Factors Influencing the First Six-Month Results**

The largest decliners in the period were the equity holdings of Jet2 PLC, Rolls-Royce Holdings PLC and Cairo Mezz PLC. The increase in prices of Stellantis N.V., Abbey Public Limited Company, and Wizz Air Holdings PLC helped to offset some of the losses.

The euro depreciated against the Canadian currency during the period, which contributed negatively to the performance of the Fund.

During the period, the Fund initiated investments in Liberty Global PLC shares. The Fund also sold its holdings in Cpl Resources PLC.

The Fund did not enter into any forward currency contracts for pounds sterling or euros in the first half of 2021. The Fund also had no covered call options in its portfolio as at June 30, 2021 .

---

<sup>1</sup> The alternative method of purchasing Chou Europe Fund in \$US has been offered since September 2005. Performance for years prior to September 2005 is based on the \$US equivalent conversion of the results of the Chou Europe Fund (\$CAN). The investments in the Chou Europe Fund (\$CAN) are the same as the investments in Chou Europe Fund (\$US) except for the currency applied.

## Portfolio Commentary

### **Ultra Low Cost Carriers (“ULCC”)**

The airline industry got clobbered by the COVID-19 pandemic. With all the restrictions regarding social distancing and face masks to limit virus spread, it may be a while before revenues come back to pre-COVID levels. After 9/11, it took the airline industry close to six years to return to normal. However, we believe there is bright spot in a small segment of the airline industry, the Ultra Low Cost Carrier (ULCC) airlines. Their success depends on unbundling services to focus on travel only. Most major airlines offer other services such as drinks, food, lounge access and conveniences of major airports, however ULCCs are only interested in charging passengers for going from point A to point B with no frills. Everything else is eschewed. Airfares are substantially reduced as a result. For example, you can fly from Brussels, Belgium to Barcelona, Spain and back again for a total cost of less than €50. However, if you want to use the washroom while in flight, you have to pay one Euro for it. In spite of that, it is a terrific deal for the passengers. And they have made bundles of money doing that for the last 20 years.

We believe ULCCs will be the first to recover from the COVID-19 pandemic. However, there are several things they have to do, chief among them are:

1. Passengers have to be assured about their personal safety from the virus. Airlines have to enhance cabin cleaning and air filtration systems and require all passengers to wear masks or coverings.
2. Steps need to be taken to leave middle seats open or restrict ticket sales.

Below are the companies we have invested in. We bought them cheap and at the point of maximum pessimism. We believe that they have a bright future.

<b>ULCC Common Shares</b>	<b>Average Cost Base (“ACB”)</b>	<b>Price on June 30, 2021</b>	<b>% Increase from ACB</b>
Ryanair Holdings	US\$27.61	US\$108.21	292%
Jet2 PLC	£4.00	£11.84	196%
Wizz Air Holdings	£19.83	£64.48	225%
EasyJet <sup>(1)</sup>	£4.90	£7.44	52%

*(1) EasyJet were sold in 2020 at £7.44.*

Since our initial purchase we have sold 100% of EasyJet and 50% of Jet2 PLC.

### **Fiat Chrysler Automobiles (“FIAT”)**

We initiated a position in FIAT back in late 2018 since it was a cheap stock with good amounts of cash. It caught our attention when its controlling shareholders stated that it wanted to unlock value either by paying special dividends, buying back shares or through strategic mergers and acquisitions. Since our purchase in December 2018, we have received US\$2.70 in regular and

special dividends, accounting for over 30% of the original price paid. We expect the regular and special dividend payments to continue once the COVID-19 crisis abates.

After much anticipation, the merger between Fiat and Peugeot S.A. was finally completed on January 16, 2021. The new company is called Stellantis N.V. (“Stellantis”).

We are excited with this merger, as it is of the reasons why we initially invested in Fiat – the capital allocation skills of the executives. We liked what the CEO of Stellantis said in a recent interview, “*I don't know what the valuation will be, but I can tell you that we are not going to be a legacy carmaker cornered in legacy products... We want to have a good result in 2021. We have also put a strong focus and a strong monitoring on the synergy plan. This is our commitment to you. We created this merger because it represents north of EUR 25 billion of value creation through the implementation of the synergies that were presented, which represents on a run rate EUR 5 billion per year.* So we have a very detailed plan that we follow up with a specific dedicated team that we call the Synergy Implementation Office. So every decision we make is facing the synergy that is expected from that decision, and we are continuously trying to improve and make sure that we deliver on our commitments, and we will.”

In other words, they are going to have cost savings of EUR 5 billion a year for a total of EUR 25 billion in 5 years. The market capitalization of Stellantis is currently at EUR 51.8 billion, with much room for upside if some of those cost savings come to pass.

### **Caution to the Investors**

Investors should be advised that we run a highly focused portfolio, frequently just three to five securities may comprise close to 50% of the assets of the Fund. In addition, the Fund has securities that are non-U.S. and could be subjected to geopolitical risks, which may trump or at least negatively influence the financial performance of the company. Also, we may enter into some derivative contracts, such as credit default swaps when we feel that the market conditions are right to use those instruments. Because of any or all of these factors, the net asset value of the Fund can be from time to time more volatile than at other times. However, we are not bothered by this volatility because our focus has always been, and continues to be, on how inexpensive we believe the Fund’s portfolio holdings are relative to what we believe to be their intrinsic value.

Also, the Fund’s cash position was approximately 16.5% of net assets as at June 30, 2021 . This large cash position may depress returns for a while as we hunt for undervalued securities. Obviously, if there is a severe correction in the market in the near future, it will cushion the Fund against losses while providing us with the wherewithal to find good investment opportunities. But for now, it could be a drag on returns. If we cannot find any bargains, the large cash position may stay for a long time.

### **Other Matters**

FOREIGN CURRENCY CONTRACTS: None existed at June 30, 2021.

CREDIT DEFAULT SWAPS: None existed at June 30, 2021.

**U.S. DOLLAR VALUATION:** Any investor who wishes to purchase the Chou Funds in U.S. dollars may do so.

**REDEMPTION FEE:** We have a redemption fee of 2% if unitholders redeem their units in less than 3 months. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders.

**INDEPENDENT REVIEW COMMITTEE:** The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Peter Gregoire and Joe Tortolano. The 2020 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of August 20, 2021, the NAVPU of a Series A unit of the Fund was \$11.48 and the cash position was approximately 6.3% of net assets. The Fund is up 2.8% from the beginning of the year. In U.S. dollars, it is up 2.0%.

Except for the performance numbers of the Chou Europe Fund, this letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained or implied herein may not be suitable for all investors.

Yours truly,

*Francis Chou*

Francis Chou  
Fund Manager

# CHOU EUROPE FUND

## Statements of Financial Position

June 30, 2021 (Unaudited) and December 31, 2020

	June 30, 2021	December 31, 2020
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 377,469	\$ 1,854,244
Investments (note 8)	3,427,885	3,758,191
Receivable for redeemable units subscribed	—	25,248
Due from broker	—	17,628
Interest receivable	18	2,235
<u>Total assets</u>	<u>3,805,372</u>	<u>5,657,546</u>
<b>Liabilities</b>		
Current liabilities:		
Accrued expenses	7,012	13,148
Payable for units redeemed	14,272	145,622
Due to broker	—	17,748
<u>Total liabilities</u>	<u>21,284</u>	<u>176,518</u>
<u>Net assets attributable to unitholders of redeemable units</u>	<u>\$ 3,784,088</u>	<u>\$ 5,481,028</u>
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 2,691,947	\$ 3,045,434
Series F	1,092,141	2,435,594
	<u>\$ 3,784,088</u>	<u>\$ 5,481,028</u>
Number of redeemable units outstanding (note 4):		
Series A	242,575	272,660
Series F	94,842	210,388
Net assets attributable to unitholders of redeemable units per unit:		
Canadian dollars:		
Series A	\$ 11.10	\$ 11.17
Series F	11.52	11.58
U.S. dollars:		
Series A	8.95	8.77
Series F	9.29	9.09

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors of Chou Associates Management Inc.:

Francis Chou

# CHOU EUROPE FUND

## Statements of Comprehensive Income (Loss)

Six months ended June 30, 2021 and 2020 (Unaudited)

	2021	2020
<b>Income:</b>		
Interest for distribution purposes and other	\$ —	\$ 2,724
Dividends	135,660	5,350
Securities lending income (note 7)	656	152
Derivative income	3	—
Other income	4,241	—
Foreign currency (loss) gain on cash and other net assets	(34,358)	7,225
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain on investments	283,916	376,932
Change in unrealized depreciation on investments	(379,566)	(939,935)
	10,552	(547,552)
<b>Expenses:</b>		
Management fees (note 5)	29,146	41,785
Custodian fees	4,808	4,271
Filing fees	3,475	533
Independent review committee fees	1,978	—
FundSERV fees	362	584
Legal fees	—	332
Transaction costs (note 6)	921	6,930
Foreign withholding taxes	—	331
Other	—	638
	40,690	55,404
Decrease in net assets attributable to unitholders of redeemable units	\$ (30,138)	\$ (602,956)
Decrease in net assets attributable to unitholders of redeemable units per Series:		
Series A	\$ (16,865)	\$ (312,679)
Series F	(13,273)	(290,277)
	\$ (30,138)	\$ (602,956)
Average number of redeemable units outstanding for the period for the Series:		
Series A	257,962	360,317
Series F	132,448	363,876
Decrease in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ (0.07)	\$ (0.87)
Series F	(0.10)	(0.80)

See accompanying notes to financial statements.

# CHOU EUROPE FUND

## Statements of Changes in Net Assets Attributable to Unitholders of Redeemable Units

Six months ended June 30, 2021 and 2020 (Unaudited)

	2021	2020
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	\$ 3,045,434	\$ 3,481,204
Decrease in net assets attributable to unitholders of redeemable units	(16,865)	(312,679)
Proceeds from issue of redeemable units	313,072	15,920
<u>Payments on redemption of redeemable units</u>	<u>(649,694)</u>	<u>(530,134)</u>
Net assets attributable to unitholders of redeemable units, end of period	\$ 2,691,947	\$ 2,654,311
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	\$ 2,435,594	\$ 3,351,917
Decrease in net assets attributable to unitholders of redeemable units	(13,273)	(290,277)
Proceeds from issue of redeemable units	500	100,804
<u>Payments on redemption of redeemable units</u>	<u>(1,330,680)</u>	<u>(229,596)</u>
Net assets attributable to unitholders of redeemable units, end of period	\$ 1,092,141	\$ 2,932,848
Total net assets attributable to unitholders of redeemable units, end of period	\$ 3,784,088	\$ 5,587,159

See accompanying notes to financial statements.

# CHOU EUROPE FUND

## Statements of Cash Flows

Six months ended June 30, 2021 and 2020 (Unaudited)

	2021	2020
<b>Cash flows from operating activities:</b>		
Decrease in net assets attributable to unitholders of redeemable units	\$ (30,138)	\$ (602,956)
Adjustments for:		
Foreign currency loss (gain) on cash and other net assets	34,358	(7,225)
Net realized gain on investments	(283,916)	(376,932)
Change in unrealized depreciation on investments	379,566	939,935
Change in non-cash operating working capital:		
Decrease in interest receivable	2,217	779
Decrease in dividends receivable	–	6,391
(Decrease) increase in accrued expenses	(6,136)	12,890
Purchase of investments	(426,116)	(1,380,371)
Proceeds from sales of investments	660,652	1,448,620
Net cash generated from operating activities	<u>330,487</u>	<u>41,131</u>
<b>Cash flows from financing activities:</b>		
Distributions paid to unitholders	–	(18)
Proceeds from redeemable units issued	338,820	121,486
Amount paid on redemption of redeemable units	(2,111,724)	(1,794,165)
Net cash used in financing activities	<u>(1,772,904)</u>	<u>(1,672,697)</u>
Foreign currency (loss) gain on cash and other net assets	(34,358)	7,225
Decrease in cash and cash equivalents	(1,476,775)	(1,624,341)
Cash and cash equivalents, beginning of period	1,854,244	2,889,903
Cash and cash equivalents, end of period	<u>\$ 377,469</u>	<u>\$ 1,265,562</u>
<b>Supplemental information:</b>		
Interest received, net of withholding tax	\$ 2,217	\$ 3,503
Dividends received, net of withholding taxes	135,660	11,410
Security lending income received	656	152

See accompanying notes to financial statements.

# CHOU EUROPE FUND

## Schedule of Investments

June 30, 2021 (Unaudited)

	<b>Number of securities</b>	<b>Cost</b>	<b>Fair value</b>
<b>Equities*</b>			
Abbey Public Limited Company	9,371	\$ 72,315	\$ 249,309
Cairo Mezz PLC	20,833	1,130	3,668
Jet2 PLC	30,000	201,224	608,817
Liberty Global PLC, Class 'A'	12,000	373,934	404,011
Rolls-Royce Holdings PLC	56,666	244,269	96,118
Ryanair Holdings PLC, ADR	4,575	132,084	613,677
Stellantis NV	30,000	594,276	732,976
Wizz Air Holdings PLC	9,000	303,145	719,309
<b>Total long</b>		<b>1,922,377</b>	<b>3,427,885</b>
<b>Total investments</b>		<b>1,922,377</b>	<b>3,427,885</b>
<b>Transaction costs</b>		<b>(5,015)</b>	—
<b>Portfolio total</b>		<b>\$ 1,917,362</b>	<b>\$ 3,427,885</b>

\* Common shares unless indicated otherwise

See accompanying notes to financial statements.

# CHOU EUROPE FUND

## Discussion of Financial Risk Management

Six months ended June 30, 2021 and 2020 (Unaudited)

### Investment objective and strategies:

The Fund's objective is to provide long-term growth of capital by investing primarily in equity securities of European businesses considered by the Manager to be undervalued. Investments may be made in securities other than equities and in businesses located outside of Europe. Investments may include common and preferred shares, convertible debentures, government and corporate bonds and short-term debt. The Fund may also use derivatives such as, but not limited to, futures, options, swaps and forward contracts to gain exposure to securities and asset classes consistent with the objectives of the Fund, and to hedge portfolio exposure against losses from foreign currency and domestic currency exposure and changes in securities prices.

The investment strategy follows strong disciplines with regard to price paid to acquire portfolio investments. The level of investments in the Fund's securities is generally commensurate with the current price of the Fund's securities in relation to its intrinsic value as determined by the above factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

### Financial risk management:

The Fund's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's objectives and risk tolerance.

#### (a) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 90.6% of the Fund's net assets held at June 30, 2021 were publicly traded equities (December 31, 2020 – 68.6%). If equity prices on the exchange had increased or decreased by 5% as at June 30, 2021, the net assets of the Fund would have increased or decreased by approximately \$171,394 or 4.53% (December 31, 2020 – \$187,910 or 3.43%) of the net assets, all other factors remaining constant.

In practice, the actual trading results may differ and the difference could be material.

#### (b) Foreign currency risk:

Currencies to which the Fund had exposure as at June 30, 2021 and December 31, 2020 expressed in CAD are as follows:

June 30, 2021	Investments and derivatives	Cash and cash equivalents	Other assets and liabilities	Total	Percentage of net asset value
United States dollar (USD)	\$ 2,469,973	\$ 4,133	\$ 4	\$ 2,474,110	65.4%
Sterling pound (£)	\$ 704,935	\$ 48,319	\$ -	\$ 753,254	19.9%
Euro currency (€)	\$ 252,977	\$ 303,308	\$ -	\$ 556,285	14.7%

# CHOU EUROPE FUND

## Discussion of Financial Risk Management (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### Financial risk management (continued):

#### (b) Foreign currency risk (continued):

December 31, 2020	Investments and derivatives	Cash and cash equivalents	Other assets and liabilities	Total	Percentage of net asset value
United States dollar (USD)	\$ 2,657,266	\$ 1,788,656	\$ 2,236	\$ 4,448,158	81.2%
Sterling pound (£)	\$ 856,493	\$ 49,049	\$ 0	\$ 905,542	16.5%
Euro currency (€)	\$ 244,432	\$ 5,617	\$ –	\$ 250,049	4.6%

The amounts in the above tables are based on the market value of the Fund's financial instruments. This includes cash and cash equivalents, investments, interest receivable, receivable for units subscribed, due from broker, payable for units redeemed and due to broker that are denominated in foreign currencies.

As at June 30, 2021, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$37,836 (December 31, 2020 – \$56,037).

In practice, the actual trading results may differ and the difference could be material.

## **CHOU BOND FUND**

(unaudited)

August 20, 2021

Dear Unitholders of Chou Bond Fund,

The net asset value per unit (“NAVPU”) of a Series A unit of Chou Bond Fund at June 30, 2021 was \$8.24 compared to \$6.53 at December 31, 2020, an increase of 26.1%; during the same period, Barclays U.S. Corporate High Yield Index (\$CAN) returned 0.7% in Canadian dollars. In U.S. dollars, a Series A unit of Chou Bond Fund returned 29.5% while Barclays U.S. Corporate High Yield Index increased 3.6%.

The table shows our one-year, three-year, five-year and 10-year annual compound rates of return.

<b>June 30, 2021 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>	<b>15 Years</b>
Chou Bond Fund (\$CAN)	32.6%	11.5%	9.4%	6.2%	5.5%
Barclays' U.S. High Yield (\$CAN)	4.9%	5.3%	6.5%	9.3%	8.3%
Chou Bond Fund (\$US) <sup>1</sup>	45.2%	13.7%	10.3%	3.6%	4.8%
Barclays' U.S High Yield (\$US)	15.4%	7.4%	7.5%	6.7%	7.5%

Rates of return are historical total returns that include changes in unit prices, and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and that could reduce these returns. The returns are not guaranteed. The Fund's past performance does not necessarily indicate future performance. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

### **Factors Influencing the First Six-Month Results**

The major advancers in the first half of 2021 were the fixed income holding of Athabasca Oil Corporation and the equity holdings of WOW Unlimited Media Inc., and EXCO Resources, Inc. The Canadian currency appreciated against the US dollar, which also negatively affected the Fund.

During the period, the Fund sold its debt holdings in UrkLandFarming PLC, Continental Resources Inc., PDC Energy Inc., GameStop Corporation, and Signet UK Finance PLC.

The Fund made a series of new bond investments in the coal and insurance sectors. These include the following bonds:

- Peabody Energy Corporation, 6.000%, due March 31, 2022
- PIC AU Holdings LLC, 10.000%, due December 31, 2024
- MBIA Inc., 6.625%, due October 1, 2028

---

<sup>1</sup> The alternative method of purchasing Chou Bond Fund in \$US has been offered since September 2005. The investments in the Chou Bond Fund (\$CAN) are the same as the investments in Chou Bond Fund (\$US) except for the currency applied.

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, 2021.

## **Portfolio Commentary**

### **EXCO Resources Inc. (“EXCO”)**

In early July 2019, the company emerged from bankruptcy and the 1.75 lien term loans were converted into 28.38 equity shares for every US\$1,000 in par value, after netting out certain adjustments. We received 117,864 shares of EXCO in the Fund. The equivalent price was US\$9.51 per share of EXCO.

Looking back on this investment, we underestimated how long the price of natural gas would stay low for and how low it has been relative to the price of oil. Historically, there had been a strong relationship between the prices of oil and natural gas. Thinking about the two fuels in terms of energy equivalency, 6,000 cubic feet (6 mcf) of natural gas has the same amount of energy content as 1 barrel of oil. In the past, this 6 to 1 ratio guided the relationship between oil and natural gas prices but for the last few years the ratio between prices has gone up to as high as 50 to 1.

Long story short, it was not such a great idea to invest in the 1.75 lien term loans of EXCO.

### **Oil & Gas Bond Purchases During the COVID-19 Pandemic**

At the end of 2019, the Fund had excess cash that amounted to close to 35% of the net assets of the Fund. In addition, at the beginning of the year 2020 we sold a big chunk of bonds, which raised our cash to almost 55% of the assets of the Fund. We were able to deploy most of that to fixed income instruments ranging from investment grade to below investment grade bonds. We looked at securities with sufficient margin of safety to recover the original prices paid, even in the event of a bankruptcy or restructuring. We also kept an eye on Washington and invested in companies where we believe the government is likely to provide support through relief funds. Most of the time, we limited the bond duration to less than 3 years since the bailout money would most likely be used to pay off these bonds as they matured.

In early 2020, we were able to deploy a significant amount of the cash into the bonds of oil and gas companies, whose prices had been severely beaten down due to the oil price war between Russia and Saudi Arabia, and the COVID-19 pandemic. Many of these recent investments have worked out well so far, with some of the bond prices up as much as 85% since our purchase. Below is the table of our purchases of all the oil and gas companies and their current prices as of June 30, 2021.

<b>Company</b>	<b>Maturity</b>	<b>Coupon</b>	<b>Par value</b>	<b>Average Cost Base</b>	<b>Jun 30, 21 Price</b>	<b>% Change</b>
Athabasca Oil	2022-02-24	9.875%	\$ 2,000,000	\$23.50	\$92.63	294.2%
Southwestern Energy	2026-04-01	7.500%	\$ 800,000	\$75.75	\$106.00	39.9%
PDC Energy	2026-05-15	5.750%	\$ 303,000	\$58.25	\$104.59	79.6%
Continental Resources <sup>(1)</sup>	2024-06-01	3.800%	\$ 1,000,000	\$50.50	\$103.63	105.2%
PDC Energy <sup>(1)</sup>	2025-12-01	6.250%	\$ 500,000	\$55.25	\$102.00	84.6%
Antero Resources <sup>(1)</sup>	2023-06-01	5.625%	\$ 100,000	\$42.25	\$75.00	77.5%
Occidental Petroleum <sup>(2)</sup>	2022-08-15	2.700%	\$ 500,000	\$75.50	\$96.25	27.5%

*Note: All dollar values are in local price USD.*

*(1) Prices at which the bonds were sold.*

*(2) Occidental Petroleum bonds were sold as part of tender offers in 2020.*

Since the purchase in 2020, we have sold all the bonds of Continental Resources 3.8% 2024, PDC Energy 6.25% 2025, Antero Resources 5.625% 2023 and Occidental Petroleum 2.7% 2022.

## **Caution to the Investors**

Investors should be advised that we run a highly focused portfolio, frequently just three to five securities may comprise close to 50% of the assets of the Fund. In addition, the Fund has securities that are non-U.S. and could be subjected to geopolitical risks, which may trump or at least negatively influence the financial performance of the company. Also, we may enter into some derivative contracts, such as credit default swaps when we feel that the market conditions are right to use those instruments. Because of any or all of these factors, the net asset value of the Fund can be from time to time more volatile than at other times. However, we are not bothered by this volatility because our focus has always been, and continues to be, on how inexpensive we believe the Fund's portfolio holdings are relative to what we believe to be their intrinsic value.

Also, the Fund's cash position was approximately 13.4% of net assets as at June 30, 2021 . This large cash position may depress returns for a while as we hunt for undervalued securities. Obviously, if there is a severe correction in the market in the near future, it will cushion the Fund against losses while providing us with the wherewithal to find good investment opportunities. But for now, it could be a drag on returns. If we cannot find any bargains, the large cash position may stay for a long time.

## **Other Matters**

FOREIGN CURRENCY CONTRACTS: None existed at June 30, 2021.

CREDIT DEFAULT SWAPS: None existed at June 30, 2021.

U.S. DOLLAR VALUATION: Any investor who wishes to purchase the Chou Funds in U.S. dollars may do so.

REDEMPTION FEE: We have a redemption fee of 2% if unitholders redeem their units in less than 3 months. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders.

INDEPENDENT REVIEW COMMITTEE: The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Peter Gregoire and Joe Tortolano. The 2020 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of August 20, 2021, the NAVPU of a Series A unit of the Fund was \$8.52 and the cash position was approximately 17.7% of net assets. The Fund is up 30.4% from the beginning of the year. In U.S. dollars, it is up 29.4%.

Except for the performance numbers of the Chou Bond Fund, this letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained or implied herein may not be suitable for all investors.

Yours truly,

*Francis Chou*

Francis Chou  
Fund Manager

# CHOU BOND FUND

## Statements of Financial Position

June 30, 2021 (Unaudited) and December 31, 2020

	June 30, 2021	December 31, 2020
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,271,794	\$ 1,892,281
Investments (note 8)	8,217,403	6,797,361
Receivable for redeemable units subscribed	5,882	882
Interest receivable	139,445	130,438
Total assets	<u>9,634,524</u>	<u>8,820,962</u>
<b>Liabilities</b>		
Current liabilities:		
Accrued expenses	19,320	89,382
Payable for units redeemed	26,777	61,800
Distributions payable	—	38,038
Total liabilities	<u>46,097</u>	<u>189,220</u>
Net assets attributable to unitholders of redeemable units	<u>\$ 9,588,427</u>	<u>\$ 8,631,742</u>
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 8,624,980	\$ 7,223,793
Series F	963,447	1,407,949
	<u>\$ 9,588,427</u>	<u>\$ 8,631,742</u>
Number of redeemable units outstanding (note 4):		
Series A	1,047,232	1,105,932
Series F	113,808	209,838
Net assets attributable to unitholders of redeemable units per unit (note 10):		
Canadian dollars:		
Series A	\$ 8.24	\$ 6.53
Series F	8.47	6.71
U.S. dollars:		
Series A	6.64	5.13
Series F	6.83	5.27

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors of Chou Associates Management Inc.:

Francis Chou

JGL

# CHOU BOND FUND

## Statements of Comprehensive Income (Loss)

Six months ended June 30, 2021 and 2020 (Unaudited)

	2021	2020
<b>Income:</b>		
Interest for distribution purposes and other	\$ 280,943	\$ 221,544
Securities lending income (Note 7)	173	5,368
Other income	57,202	—
Foreign currency (loss) gain on cash and other net assets	(26,618)	350,927
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized loss on disposal of investments	(4,992,596)	(305,080)
Change in unrealized appreciation on investments	<u>6,874,723</u>	<u>1,451,980</u>
	2,193,827	1,724,739
<b>Expenses:</b>		
Management fees (note 5)	53,793	63,274
Filing fees	2,018	—
Independent review committee fees	2,864	—
FundSERV fees	1,629	1,638
Legal fees	—	393
Other expenses	—	914
	60,304	66,219
Increase in net assets attributable to unitholders of redeemable units	<u>\$ 2,133,523</u>	<u>\$ 1,658,520</u>
Increase in net assets attributable to unitholders of redeemable units per Series:		
Series A	\$ 1,848,825	\$ 1,288,588
Series F	284,698	369,932
	<u>\$ 2,133,523</u>	<u>\$ 1,658,520</u>
Average number of redeemable units outstanding for the period for the Series:		
Series A	1,085,167	1,206,295
Series F	162,221	324,151
Increase in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ 1.70	\$ 1.07
Series F	1.76	1.14

See accompanying notes to financial statements.

# CHOU BOND FUND

## Statements of Changes in Net Assets Attributable to Unitholders of Redeemable Units

Six months ended June 30, 2021 and 2020 (Unaudited)

	2021	2020
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	\$ 7,223,793	\$ 7,713,187
Increase in net assets attributable to unitholders of redeemable units	1,848,825	1,288,588
Proceeds from issue of redeemable units	135,397	40,648
Payments on redemption of redeemable units	(583,035)	(1,130,774)
Reinvested distributions	—	208
Net assets attributable to unitholders of redeemable units, end of period	\$ 8,624,980	\$ 7,911,857
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	\$ 1,407,949	\$ 2,094,021
Increase in net assets attributable to unitholders of redeemable units	284,698	369,932
Proceeds from issue of redeemable units	—	31,040
Payments on redemption of redeemable units	(729,200)	(372,938)
Net assets attributable to unitholders of redeemable units, end of period	\$ 963,447	\$ 2,122,055
Total net assets attributable to unitholders of redeemable units, end of period	<u>\$ 9,588,427</u>	<u>\$ 10,033,912</u>

See accompanying notes to financial statements.

# CHOU BOND FUND

## Statements of Cash Flows

Six months ended June 30, 2021 and 2020 (Unaudited)

	2021	2020
<b>Cash flows from operating activities:</b>		
Increase in net assets attributable to unitholders of redeemable units	\$ 2,133,523	\$ 1,658,520
Adjustments for:		
Foreign currency loss (gain) on cash and other net assets	26,618	(350,927)
Net realized loss on disposal of investments	4,992,596	305,080
Change in unrealized appreciation on investments	(6,874,723)	(1,451,980)
Change in non-cash operating working capital:		
(Increase) decrease in interest receivable	(9,007)	120,156
Increase in other liabilities	—	21,395
(Decrease) increase in accrued expenses	(70,062)	17,025
Purchase of investments	(2,473,294)	(4,000,572)
Proceeds from sales of investments	2,935,379	2,359,731
Net cash flows generated from (used in) operating activities	<u>661,030</u>	<u>(1,321,572)</u>
<b>Cash flows from financing activities:</b>		
Distributions paid to unitholders	(38,038)	(28,981)
Proceeds from redeemable units issued	130,397	58,204
Amount paid on redemption of redeemable units	(1,347,258)	(2,007,427)
Net cash used in financing activities	(1,254,899)	(1,978,204)
Foreign currency (loss) gain on cash and other net assets	(26,618)	350,927
Decrease in cash and cash equivalents	(620,487)	(2,948,849)
Cash and cash equivalents, beginning of period	1,892,281	3,732,711
Cash and cash equivalents, end of period	<u>\$ 1,271,794</u>	<u>\$ 783,862</u>
<b>Supplemental information:</b>		
Interest received, net of withholding tax	\$ 271,936	\$ 341,700
Security lending income received	173	5,368

See accompanying notes to financial statements.

# CHOU BOND FUND

## Schedule of Investments

June 30, 2021 (Unaudited)

	Number of shares	Cost	Fair value
<b>Equities*</b>			
EXCO Resources Inc.**	20,046	\$ 693,989	\$ 208,111
Wow Unlimited Media Inc.**	1,165,742	2,675,093	1,119,112
		3,369,082	1,327,223
<b>Bonds</b>			
Athabasca Oil Corporation, 9.875%, February 24, 2022, Callable	2,000,000	680,865	2,296,359
Fortress Global Enterprises Inc., 9.75%, December 31, 2021, Convertible Bonds, Callable	3,659,000	2,058,513	366
MBIA Inc, 6.625%, October 1, 2028	700,000	851,655	880,506
PDC Energy Inc., 5.75%, May 15, 2026, Callable	303,000	251,271	392,850
Peabody Energy Corporation, 6.00%, March 31, 2022, Callable	700,000	760,304	854,106
PIC AU Holdings LLC/Corporation, 10.00%, December 31, 2024, Callable	761,000	861,335	941,411
Southwestern Energy Company, 7.50%, April 1, 2026, Callable	800,000	810,980	1,051,161
Taiga Building Products Limited, 7.00%, November 17, 2022, Callable	467,000	482,761	473,421
		6,757,684	6,890,180
Total long	10,126,766	8,217,403	
Total investments	10,126,766	8,217,403	
Transaction costs	(8,086)	—	
Portfolio total	\$ 10,118,680	\$ 8,217,403	

\* Common shares unless indicated otherwise

\*\*Shares received from debt restructuring

See accompanying notes to financial statements.

# **CHOU BOND FUND**

## **Discussion of Financial Risk Management**

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### **Investment objective and strategies:**

The Fund's objective is to invest in securities that it believes are undervalued in order to achieve capital appreciation over the long-term. Conservation of principal and interest production will be fundamental considerations in this objective. The Fund invests primarily in Canadian and U.S. bonds. These bonds include, but are not limited to, Government of Canada, provincial, municipal and corporate issues, including convertibles and high yield bonds. Investments may be made in bonds outside of Canada and the U.S. The Fund may also use derivatives such as, but not limited to, futures, options, swaps and forward contracts to gain exposure to securities and asset classes consistent with the objectives of the Fund, and to hedge portfolio exposure against losses from foreign currency and domestic currency exposure and changes in securities prices.

The Fund will generally be fully invested. A combination of investment strategies will be utilized in managing the portfolio including relative value trades, yield enhancement strategies and interest rate anticipation trades. Investments made by the Fund are not guaranteed. Fixed income securities issued by governments may decrease in value as a result of changes in interest rates. Fixed income securities issued by corporations may decrease in value due to general market conditions or credit risks associated with the issuer.

### **Financial risk management:**

The Fund's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's objectives and risk tolerance.

#### **(a) Credit risk:**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge a commitment that it has entered into with the Fund. As at June 30, 2021, the Fund invested 66.92% of its net assets in non-investment grade debt instruments (December 31, 2020 – 60.45%). Non-investment grade is the term applied to bonds rated below Baa3 on the Moody's credit rating scale and below BBB- on the equivalent ratings systems from Standard & Poor's and Fitch. The credit ratings could denote that the Company's financial position is weak and its bonds should be considered a speculative investment. As at June 30, 2021, the Fund invested approximately 4.94% (December 31, 2020 – 9.79%) of its net assets in non-rated bonds.

#### **(b) Interest rate risk:**

Interest rate risk arises from the effect of changes in interest rates on future cash flows or the current value of financial instruments. The table below summarizes the Fund's exposure to interest rate risk by remaining term to maturity:

Debt instruments by maturity date:

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
Less than 1 year	\$ 3,150,831	\$ 610,539
1 - 3 years	473,421	1,423,224
3 - 5 years	2,385,422	2,560,448
Greater than 5 years	880,506	1,468,692

# CHOU BOND FUND

## Discussion of Financial Risk Management (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### Financial risk management (continued):

#### (b) Interest rate risk (continued):

As at June 30, 2021, had interest rates decreased or increased by 0.25%, with all other variables remaining constant, the increase or decrease in net assets for the period would have amounted to approximately \$37,812 (December 31, 2020 – \$37,960).

In practice, the actual trading results may differ and the difference could be material.

#### (c) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 11.7% (December 31, 2020 – 6.1%) of the Fund's net assets held at June 30, 2021 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at June 30, 2021, the net assets of the Fund would have increased or decreased by approximately \$55,956 or 0.58% (December 31, 2020 – \$26,229 or 0.30%) of the net assets, all other factors remaining constant.

In practice, the actual trading results may differ and the difference could be material.

#### (d) Foreign currency risk:

Currencies to which the Fund had exposure as at June 30, 2021 and December 31, 2020 expressed in CAD are as follows:

June 30, 2021	Investments and derivatives	Cash and cash equivalents	Other assets and liabilities	Total	Percentage of net asset value
United States dollar (USD)	\$ 6,624,503	\$ 1,263,153	\$ 135,500	\$ 8,023,156	83.7%

December 31, 2020	Investments and derivatives	Cash and cash equivalents	Other assets and liabilities	Total	Percentage of net asset value
United States dollar (USD)	\$ 5,800,447	\$ 2,001,074	\$ 126,496	\$ 7,928,017	91.8%

The amounts in the above tables are based on the market value of the Fund's financial instruments. This includes cash and cash equivalents, investments, interest receivable, receivable for units subscribed, payable for units redeemed and distributions payable that are denominated in foreign currencies.

As at June 30, 2021, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$80,232 (December 31, 2020 – \$79,280).

In practice, the actual trading results may differ and the difference could be material.

**CHOU RRSP FUND**  
(unaudited)

August 20, 2021

Dear Unitholders of Chou RRSP Fund,

The net asset value per unit (“NAVPU”) of a Series A unit of Chou RRSP Fund at June 30, 2021 was \$37.24 compared to \$25.87 at December 31, 2020, an increase of 43.9%; during the same period, the S&P/TSX Total Return Index increased 17.3% in Canadian dollars. In U.S. dollars, a Series A unit of Chou RRSP Fund was up 47.8% while the S&P/TSX Total Return Index increased 20.7%.

The table shows our one-year, three-year, five-year, 10-year, 15-year and 20-year annual compound rates of return.

<b>June 30, 2021 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>	<b>15 Years</b>	<b>20 Years</b>
Chou RRSP Fund (\$CAN)	120.9%	5.2%	12.2%	7.2%	4.9%	7.3%
S&P/TSX (\$CAN)	33.9%	10.8%	10.8%	7.4%	6.8%	7.7%
Chou RRSP Fund (\$US) <sup>1</sup>	142.0%	7.3%	13.1%	4.6%	4.1%	8.4%
S&P/TSX (\$US)	46.9%	12.9%	11.8%	4.8%	6.1%	8.8%

Rates of return are historical total returns that include changes in unit prices, and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and that could reduce these returns. The returns are not guaranteed. The Fund's past performance does not necessarily indicate future performance. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

### **Factors Influencing the First Six-Month Results**

The only security that declined in price in the period was the equity holding of Canfor Pulp Products Inc. The largest increases in prices were the equity holdings of WOW Unlimited Media Inc., Reitmans (Canada) Limited, Resolute Forest Products Inc., BlackBerry Limited, Overstock.com Inc., TVA Group Inc., and Bausch Health Company Inc.

During the period, the Fund reduced its holdings in TVA Group Inc., Interfor Corporation, Overstock.com Inc., Resolute Forest Products Inc., BlackBerry Limited, and Bausch Health Company Inc. The Fund also sold its holdings in Bank of America.

The Fund had eight covered call options on Bausch Health Company Inc., BlackBerry Limited and Resolute Forest Products Inc in the first half of 2021.

---

<sup>1</sup> The alternative method of purchasing Chou RRSP Fund in \$US has been offered since September 2005. Performance for years prior to September 2005 is based on the \$US equivalent conversion of the results of the Chou RRSP Fund (\$CAN). The investments in the Chou RRSP Fund (\$CAN) are the same as the investments in Chou RRSP Fund (\$US) except for the currency applied.

## **Portfolio Commentary**

### **Resolute Forest Products Inc. (“RFP”)**

As of June 30, 2021, the market price of RFP was US\$12.20 per share, up 86.5% from the price of US\$6.54 at year end 2020. In spite of that, RFP has been a huge disappointment since our initial purchase some eight years ago. It shows how tough it is to turn around a troubled company despite the best efforts of management. Having said that, it is quite comical to experience how a commodity stock can be hammered beyond all logical comprehension. RFP paid a special dividend of US\$1.50 a share in 2018, and it was trading as low as US\$1.17 per share in April 2020. Back in March 2020, the company announced that it would buy back 15% of its common shares for US\$100 million. At the lowest price of US\$1.17, the whole market capitalization would be approximately US\$99 million. In other words, instead of buying back 15% of the company with US\$100 million, it could repurchase 100% of the company. RFP shares have since recovered 942.7% to US\$12.20 as at June 30, 2021.

Rarely do we see such a depressed valuation but when it occurs, the most important thing is not to capitulate when the relevant facts and the investment rationale are strongly in our favor. Our goal is to buy companies at 60 cents on a dollar but if it falls to 10 cents on a dollar, we get more excited. If we had the room to buy more RFP, we would have ceratainly done so. These declines can really test our fortitude and our conviction on being a value manager but we felt that, in time, RFP would be trading closer to its intrinsic value. That was what happened during the first six months of 2021.

One bright spot for the company has been its lumber operations. The high prices for lumber should make up for the declines in its newsprint and specialty papers business segments. The COVID-19 pandemic has shifted management’s focus more towards its lumber/pulp/tissue operations and we believe that should generate greater cash flow in the future.

In general, our experience with a commodity business that has virtually no pricing power is to be cautious when management talks about investing in new equipment or upgrades that would significantly lower the cost structure compared to its competitors. That may be true for six months to a couple of years, but in time, competitors will have a new cost structure that is as competitive if not superior to the company. It is the same treadmill where hardly anyone in the industry can make a decent return on the assets invested in the company. The same story can be seen repeatedly in various commoditized industries. There is no sustainable long-term advantage in a mediocre business with no pricing power. It is important not to get seduced by discount to book value. If the company cannot generate a decent return on book value over a long period of time, that book value is not worth much.

### **Bausch Health Companies Inc. (“Bausch Health”)**

In early August 2020, Bausch Health announced that it is planning to spin off its eye care business, Bausch + Lomb, into an independent publicly traded company. This will allow the company to concentrate on its gastroenterology, aesthetics/dermatology, neurology and international pharma business.

Chairman and CEO Joseph Papa said, "We've looked at the value of our pure health companies like Alcon and Cooper and believe that Bausch + Lomb would compare very favorably when investors have an opportunity to make a judgment about the relative value of the stand-alone business".

Comparable companies like Cooper Companies and Alcon Inc. are currently trading between 18 and 20 times 2022 EBITDA estimates and 25-30 times trailing EBITDA estimates. If Bausch + Lomb trades at similar multiples as a stand-alone company, the total value of Bausch Health using a sum-of-the-parts method would be worth north of US\$45 per share (net of debt). We felt that Bausch has been undervalued for a long time, but investors were not giving credit for management doing a good job in running the operations, selling non-core assets, as well as deleveraging its balance sheet. They felt the process was too slow. We hope the spin-off of the Bausch + Lomb unit will be the much-needed catalyst for investors to price the company closer to its intrinsic value.

### **EXCO Resources Inc. ("EXCO")**

In early July 2019, the company emerged from bankruptcy and the 1.75 lien term loans were converted into 28.38 equity shares for every US\$1,000 in par value, after netting out certain adjustments. We received 357,285 shares of EXCO in the Fund. The equivalent price was US\$9.51 per share of EXCO.

Looking back on this investment, we underestimated how long the price of natural gas would stay low for and how low it has been relative to the price of oil. Historically, there had been a strong relationship between the prices of oil and natural gas. Thinking about the two fuels in terms of energy equivalency, 6,000 cubic feet (6 mcf) of natural gas has the same amount of energy content as 1 barrel of oil. In the past, this 6 to 1 ratio guided the relationship between oil and natural gas prices but for the last few years the ratio between prices has gone up to as high as 50 to 1.

Long story short, it was not such a great idea to invest in the 1.75 lien term loans of EXCO.

### **Caution to the Investors**

Investors should be advised that we run a highly focused portfolio, frequently just three to five securities may comprise close to 50% of the assets of the Fund. In addition, the Fund has securities outside of Canada and could be subjected to geopolitical risks, which may trump or at least negatively influence the financial performance of the company. Also, we may enter into some derivative contracts, such as credit default swaps when we feel that the market conditions are right to use those instruments. Because of any or all of these factors, the net asset value of the Fund can be from time to time more volatile than at other times. However, we are not bothered by this volatility because our focus has always been, and continues to be, on how inexpensive we believe the Fund's portfolio holdings are relative to what we believe to be their intrinsic value.

## **Other Matters**

FOREIGN CURRENCY CONTRACTS: None existed at June 30, 2021.

CREDIT DEFAULT SWAPS: None existed at June 30, 2021.

U.S. DOLLAR VALUATION: Any investor who wishes to purchase the Chou Funds in U.S. dollars may do so.

REDEMPTION FEE: We have a redemption fee of 2% if unitholders redeem their units in less than 3 months. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders.

INDEPENDENT REVIEW COMMITTEE: The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Peter Gregoire and Joe Tortolano. The 2020 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of August 20, 2021, the NAVPU of a Series A unit of the Fund was \$34.93 and the cash position was approximately 1.9% of net assets. The Fund is up 35.0% from the beginning of the year. In U.S. dollars, it is up 34.0%.

Except for the performance numbers of the Chou RRSP Fund, this letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained or implied herein may not be suitable for all investors.

Yours truly,

*Francis Chou*

Francis Chou  
Fund Manager

# CHOU RRSP FUND

## Statements of Financial Position

June 30, 2021 (Unaudited) and December 31, 2020

	June 30, 2021	December 31, 2020
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ —	\$ 490,742
Investments (note 8)	48,891,413	37,798,206
Interest receivable	26,255	26,726
Dividends receivable	1,184,512	—
Total assets	50,102,180	38,315,674
<b>Liabilities</b>		
Current liabilities:		
Derivatives	4,288,468	524,753
Bank overdraft	567,458	—
Accrued expenses	69,577	173,128
Payable for units redeemed	106,873	97,669
Total liabilities	5,032,376	795,550
Net assets attributable to unitholders of redeemable units	\$ 45,069,804	\$ 37,520,124
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 41,887,125	\$ 34,909,078
Series F	3,182,679	2,611,046
	\$ 45,069,804	\$ 37,520,124
Number of redeemable units outstanding (note 4):		
Series A	1,124,693	1,349,151
Series F	84,864	100,434
Net assets attributable to unitholders of redeemable units per unit:		
Canadian dollars:		
Series A	\$ 37.24	\$ 25.87
Series F	37.50	26.00
U.S. dollars:		
Series A	30.04	20.32
Series F	30.25	20.43

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors of Chou Associates Management Inc.:

Francis Chou

# CHOU RRSP FUND

## Statements of Comprehensive Income (Loss)

Six months ended June 30, 2021 and 2020 (Unaudited)

	2021	2020
<b>Income:</b>		
Interest for distribution purposes and other	\$ 105,088	\$ 104,067
Dividends	1,590,062	104,878
Securities lending income (note 7)	736	4,034
Other income	75,143	—
Foreign currency loss on cash and other net assets	(15,472)	(12,689)
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized loss on disposal of investments	(671,872)	(2,159,318)
Net realized loss on derivatives	(2,005,324)	—
Change in unrealized appreciation (depreciation) on investments	17,309,575	(8,299,977)
Change in unrealized depreciation on derivatives	(97,136)	—
	16,290,800	(10,259,005)
<b>Expenses:</b>		
Management fees (note 5)	319,379	266,199
Audit	4,301	—
Filing fees	8,014	2,517
Independent review committee fees	12,971	—
FundSERV fees	1,650	1,540
Legal fees	1,207	1,214
Transaction costs (note 6)	107,790	7,526
Foreign withholding taxes	207,922	851
Other expenses	—	4,561
	663,234	284,408
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ 15,627,566	\$ (10,543,413)
Increase (decrease) in net assets attributable to unitholders of redeemable units per Series:		
Series A	\$ 14,586,936	\$ (9,608,151)
Series F	1,040,630	(935,262)
	\$ 15,627,566	\$ (10,543,413)
Average number of redeemable units outstanding for the period for the Series:		
Series A	1,232,457	1,568,794
Series F	88,294	157,003
Increase (decrease) in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ 11.84	\$ (6.12)
Series F	11.79	(5.96)

See accompanying notes to financial statements.

# CHOU RRSP FUND

## Statements of Changes in Net Assets Attributable to Unitholders of Redeemable Units

Six months ended June 30, 2021 and 2020 (Unaudited)

	2021	2020
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	\$ 34,909,078	\$ 38,864,778
Increase (decrease) in net assets attributable to unitholders of redeemable units	14,586,936	(9,608,151)
Proceeds from issue of redeemable units	499,580	106,003
<u>Payments on redemption of redeemable units</u>	<u>(8,108,469)</u>	<u>(4,351,932)</u>
Net assets attributable to unitholders of redeemable units, end of period	\$ 41,887,125	\$ 25,010,698
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	\$ 2,611,046	\$ 3,921,576
Increase (decrease) in net assets attributable to unitholders of redeemable units	1,040,630	(935,262)
Proceeds from issue of redeemable units	801,410	233,148
<u>Payments on redemption of redeemable units</u>	<u>(1,270,407)</u>	<u>(660,562)</u>
Net assets attributable to unitholders of redeemable units, end of period	\$ 3,182,679	\$ 2,558,900
<b>Total net assets attributable to unitholders of redeemable units, end of period</b>	<b>\$ 45,069,804</b>	<b>\$ 27,569,598</b>

See accompanying notes to financial statements.

# CHOU RRSP FUND

## Statements of Cash Flows

Six months ended June 30, 2021 and 2020 (Unaudited)

	2021	2020
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ 15,627,566	\$ (10,543,413)
Adjustments for:		
Foreign currency loss on cash and other net assets	15,472	12,689
Net realized loss on disposal of investments and derivatives	2,677,196	2,159,318
Change in unrealized (appreciation) depreciation on investments and derivatives	(17,212,439)	8,299,977
Change in non-cash operating working capital:		
Decrease in interest receivable	471	61
Increase in dividends receivable	(1,184,512)	–
(Decrease) increase in accrued expenses	(103,551)	47,111
Purchase of investments	(4,883,202)	(17,136)
Proceeds from sales of investments	12,088,953	5,058,416
Net cash generated from operating activities	<u>7,025,954</u>	<u>5,017,023</u>
<b>Cash flows from financing activities:</b>		
Distributions paid to unitholders	–	(74,671)
Proceeds from redeemable units issued	1,300,990	339,151
Amount paid on redemption of redeemable units	(9,369,672)	(5,693,874)
Net cash used in financing activities	<u>(8,068,682)</u>	<u>(5,429,394)</u>
Foreign currency loss on cash and other net assets	(15,472)	(12,689)
Decrease in cash and cash equivalents	(1,058,200)	(425,060)
Cash and cash equivalents, beginning of period	490,742	210,276
Bank overdraft, end of period	<u>\$ (567,458)</u>	<u>\$ (214,784)</u>
Supplemental information:		
Interest received, net of withholding tax	\$ 105,559	\$ 104,128
Dividends received, net of withholding tax	197,628	104,027
Security lending income received	736	4,034

See accompanying notes to financial statements.

# CHOU RRSP FUND

## Schedule of Investments

June 30, 2021 (Unaudited)

	Number of securities	Cost	Fair value
<b>Equities*</b>			
Bausch Health Companies Inc.	200,000	\$ 6,352,306	\$ 7,269,014
BlackBerry Limited	400,000	3,117,085	6,060,000
Canfor Pulp Products Inc.	293,900	836,324	2,292,420
EXCO Resources Inc.	114,371	2,373,080	1,187,360
Interfor Corporation	83,500	496,583	2,591,840
Linamar Corporation	24,000	1,332,040	1,866,000
Magna International Inc., Class 'A'	20,000	1,249,419	2,296,731
Overstock.com Inc., Class 'B'	6,440	133,202	486,964
Reitmans (Canada) Limited	348,600	1,914,063	172,557
Resolute Forest Products Inc.	1,124,188	12,713,917	17,001,230
TVA Group Inc.	53,028	766,720	166,508
TWC Enterprises Limited	201,944	1,158,741	4,256,980
Wow Unlimited Media Inc.	93,680	1,930,473	89,933
		34,373,953	45,737,537

## Bonds

Fortress Global Enterprises Inc., 9.750%, December 31, 2021, Convertible Bonds, Callable	1,000,000	780,000	100
Taiga Building Products Ltd., 7.000%, November 17, 2022, Callable	3,111,000	3,215,997	3,153,776
		3,995,997	3,153,876
Total long	38,369,950	48,891,413	
Total investments	38,369,950	48,891,413	
Transaction costs	(197,817)	—	
Total Investments in Non-Derivative Financial Assets	38,172,133	48,891,413	
Derivative Liabilities		(4,288,468)	
Portfolio total	\$ 38,172,133	\$ 44,602,945	

## Schedule of Derivative Instruments

Security Name	Strike Price	Expiry Date	Currency	No. of Contracts	Proceeds	Fair Value
<b>Options</b>						
<i>Written Call Options</i>						
BlackBerry Limited	20.00	01-21-23	USD	(417)	(530,972)	(166,963)
BlackBerry Limited	22.00	01-21-23	USD	(1,293)	(916,646)	(476,032)
BlackBerry Limited	25.00	01-21-23	USD	(116)	(129,841)	(37,530)
BlackBerry Limited	15.00	01-22-22	USD	(2,000)	(337,741)	(577,654)
BlackBerry Limited	10.00	09-18-21	USD	(174)	(33,043)	(65,786)
Bausch Health Companies Inc.	50.00	01-21-23	USD	(2,000)	(901,857)	(252,878)
Resolute Forest Products Inc.	11.50	03-19-22	USD	(6,250)	(1,546,823)	(2,401,725)
Resolute Forest Products Inc.	11.50	07-17-21	USD	(2,500)	(148,125)	(309,900)
<b>Total Written Call Options</b>					<b>\$ (4,545,048)</b>	<b>\$ (4,288,468)</b>

\* Common shares unless indicated otherwise

See accompanying notes to financial statements.

# CHOU RRSP FUND

## Discussion of Financial Risk Management

Six months ended June 30, 2021 and 2020 (Unaudited)

### Investment objective and strategies:

The Fund's objective is to provide long-term growth of capital by investing primarily in equity and debt instruments of Canadian businesses considered by the Manager to be undervalued. The Fund may also invest in equity and debt instruments of U.S. and foreign businesses. Investments may include common and preferred shares, convertible debentures, government and corporate bonds and short-term debt. The Fund may also use derivatives such as, but not limited to, futures, options, swaps and forward contracts to gain exposure to securities and asset classes consistent with the objectives of the Fund, and to hedge portfolio exposure against losses from foreign currency and domestic currency exposure and changes in securities prices.

The investment strategy follows strong disciplines with regard to price paid to acquire portfolio investments. The level of investments in the Fund's securities is generally commensurate with the current price of the Fund's securities in relation to its intrinsic value as determined by the above factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

### Financial risk management:

The Fund's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's objectives and risk tolerance.

#### (a) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge a commitment that it has entered into with the Fund. As at June 30, 2021, the Fund did not invest any of its net assets in non-investment grade debt instruments (December 31, 2020 – \$Nil). Non-investment grade is the term applied to bonds rated below Baa3 on the Moody's credit rating scale and below BBB- on the equivalent ratings systems from Standard & Poor's and Fitch. These credit ratings could denote that the company's financial position is weak and its bonds should be considered a speculative investment. As at June 30, 2021, the Fund invested approximately 7.00% (December 31, 2020 – 8.38%) of its net assets in non-rated debt instruments.

#### (b) Interest rate risk:

Interest rate risk arises from the effect of changes in interest rates on future cash flows or the current value of financial instruments. The table below summarizes the Fund's exposure to interest rate risk by remaining term to maturity:

Debt instruments by maturity date:

	June 30, 2021	December 31, 2020
Less than 1 year	\$ 100	\$ –
1 - 3 years	3,153,776	3,144,170
3 - 5 years	–	–
Greater than 5 years	–	–

As at June 30, 2021, had interest rates decreased or increased by 0.25%, with all other variables remaining constant, the increase or decrease in net assets for the period would have amounted to approximately \$10,482 (December 31, 2020 – \$13,976).

In practice, the actual trading results may differ and the difference could be material.

# CHOU RRSP FUND

## Discussion of Financial Risk Management (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### Financial risk management (continued):

#### (c) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 98.9% (December 31, 2020 – 89.2%) of the Fund's net assets held at June 30, 2021 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at June 30, 2021, the net assets of the Fund would have increased or decreased by approximately \$2,227,509 or 4.94% (December 31, 2020 – \$1,672,831 or 4.46%) of the net assets, all other factors remaining constant.

In practice, the actual trading results may differ and the difference could be material.

#### (d) Foreign currency risk:

Currencies to which the Fund had exposure as at June 30, 2021 and December 31, 2020 expressed in CAD are as follows:

June 30, 2021	Investments and derivatives	Cash and cash equivalents	Other assets and liabilities	Total	Percentage of net asset value
United States dollar (USD)	\$ 23,952,831	\$ 2,447	\$ 1,184,515	\$ 25,139,793	55.8%

December 31, 2020	Investments and derivatives	Cash and cash equivalents	Other assets and liabilities	Total	Percentage of net asset value
United States dollar (USD)	\$ 19,506,194	\$ 365,117	\$ 456	\$ 19,871,767	53.0%

The amounts in the above tables are based on the market value of the Fund's financial instruments. This includes cash and cash equivalents, investments, interest receivable, dividends receivable, derivatives, payable for units redeemed and bank overdraft that are denominated in foreign currencies.

As at June 30, 2021, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$251,398 (December 31, 2020 – \$198,718).

In practice, the actual trading results may differ and the difference could be material.

# **CHOU FUNDS**

## **Notes to Financial Statements**

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### **1. Formation of the Chou Funds:**

The individual funds comprising the family of Chou Funds (the "Chou Funds" or the "Funds") are open-ended investment mutual fund trusts formed pursuant to Declarations of Trust under the laws of the Province of Ontario. Chou Associates Management Inc. is the Manager and Trustee of the Chou Funds. The address of the Funds' registered office is: 110 Sheppard Avenue East, Suite 301, Box 18, Toronto, Ontario, M2N 6Y8.

The Funds were formed on the following dates:

---

Chou Associates Fund	September 1, 1986
Chou Asia Fund	August 26, 2003
Chou Europe Fund	August 26, 2003
Chou Bond Fund	August 10, 2005
Chou RRSP Fund	September 1, 1986

---

### **2. Significant accounting policies:**

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting as published by the International Accounting Standards Board ("IASB") and as required by Canadian securities legislation and the Canadian Accounting Standards Board.

The unaudited interim financial statements were authorized for issue by the Manager on August 24, 2021.

The following is a summary of significant accounting policies used by the Funds:

#### **(a) Financial instruments:**

The Funds applied IFRS 9, Financial Instruments ("IFRS 9"). The standard requires financial assets to be classified as amortized cost, fair value through profit or loss ("FVTPL"), or fair value through other comprehensive income ("FVOCI") based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of these assets. Assessment and decision on the business model approach used is an accounting judgement.

The Funds' investments and derivative assets and liabilities are classified and measured at FVTPL.

The classification and measurements of financial assets and liabilities are at amortized cost with the exception of financial assets and liabilities recorded at FVTPL. For financial liabilities, fair value changes attributable to changes in the entity's own credit risk are to be presented in other comprehensive income unless they affect amounts recorded in income. Under amortized cost, financial assets and liabilities reflect the amounts to be received or paid, discounted when appropriate at the financial instrument's effective interest rate. The fair value of the Funds' financial assets and liabilities that are not carried at FVTPL approximate their carrying amounts due to their short-term nature.

# **CHOU FUNDS**

## **Notes to Financial Statements (continued)**

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### **2. Significant accounting policies (continued):**

#### **(b) Recognition, initial measurement and classification:**

Financial assets and financial liabilities at FVTPL are initially recognized on the trade date, at fair value, with transaction costs recognized in profit or loss. Other financial assets and financial liabilities are recognized on the date on which they are originated at fair value.

The Funds classify financial assets and financial liabilities into the following categories:

Financial assets at FVTPL:

- Derivatives: warrants and options; and
- Investments: debt securities and equity investments.

Financial liabilities at FVTPL:

- Derivatives: securities sold short, warrants, and options.

All other financial assets and financial liabilities are classified and measured at amortized cost. The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. The Funds' obligations for net assets attributable to unitholders is measured at FVTPL, with fair value being the redemption amount as of the reporting dates.

#### **(c) Fair value measurement:**

When available, the Funds measure the fair value of a financial instrument using the quoted price in an active market for that instrument. The Funds measure instruments quoted in an active market at the last traded market price.

Bonds and debentures are valued at the mid-point of their last evaluated bid price and their last evaluated ask price received from recognized investment dealers and their last evaluated price for short positions.

If there is no quoted price in an active market, then the Funds use valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Funds recognize transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

There are no differences between the Funds' method for measuring fair value for financial reporting purposes and that for the purposes of calculating net asset value for unitholder transactions.

# **CHOU FUNDS**

## **Notes to Financial Statements (continued)**

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### **2. Significant accounting policies (continued):**

#### **(c) Fair value measurement (continued):**

Derecognition:

The Funds derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire, or they transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Funds neither transfer nor retain substantially all of the risks and rewards of ownership and do not retain control of the financial asset.

The Funds derecognize a financial liability when their contractual obligations are discharged, cancelled, or expired.

#### **(d) Critical accounting estimates and judgments:**

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Funds have made in preparing the financial statements:

##### **(i) Fair value measurement of derivatives and securities not quoted in an active market:**

The Funds hold financial instruments that are not quoted in active markets, including derivative securities. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. Where no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by experienced personnel of the Manager, independent of the party that created them. The models used for private equity securities are based mainly on earnings multiples adjusted for a lack of marketability, as appropriate.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Funds consider observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. Refer to note 8 for further information about the fair value measurement of the Fund's financial instruments.

# **CHOU FUNDS**

## **Notes to Financial Statements (continued)**

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### **2. Significant accounting policies (continued):**

#### **(d) Critical accounting estimates and judgments (continued):**

##### **(ii) Classification and measurement of investments and application of the fair value option:**

In classifying and measuring financial instruments held by the Funds, the Manager is required to make significant judgments in determining the most appropriate classification in accordance with IFRS 9. The Manager has assessed the Funds' business models, the manner in which all financial assets and financial liabilities are managed and performance evaluated as a group on a fair value basis, and concluded that FVTPL in accordance with IFRS 9 provides the most appropriate classification of the Funds' financial instruments.

These financial statements are presented in Canadian dollars, which is the Funds' functional currency.

#### **(e) Cost of investments:**

The cost of investments represents the amount paid for each security and is determined on an average cost basis excluding transaction costs. Investment transactions are accounted for as of the trade date.

#### **(f) Offsetting financial instruments:**

Financial assets and liabilities are offset and the net amount reported in the statements of financial position where the Funds have a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis for gains and losses from financial instruments at fair value through profit or loss and foreign exchange gains and losses.

#### **(g) Transaction costs:**

Transaction costs are incremental costs directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. In accordance with IFRS, transaction costs are expensed and are included in transaction costs in the statements of comprehensive income (loss).

#### **(h) Cash and cash equivalents:**

Cash and cash equivalents consist of cash on deposit and short-term debt instruments with terms to maturity less than 90 days. Cash and cash equivalents are reported at fair value which closely approximates their amortized cost due to the nature of being highly liquid and having short terms to maturity. Where cash and cash equivalents are in net bank overdraft positions, these are presented as current liabilities in the Statements of Financial Position.

# **CHOU FUNDS**

## **Notes to Financial Statements (continued)**

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### **2. Significant accounting policies (continued):**

#### **(i) Investment transactions and income recognition:**

All investment transactions are accounted for on the trade date.

Income from investments held is recognized on an accrual basis. Interest income is accrued as earned and dividend income and distributions from investment trusts are recognized on the ex-dividend dates.

Distributions received from investment trusts are recorded as income, capital gains or a return of capital, based on the best information available to the Manager. Due to the nature of these investments, actual allocations could vary from this information. Distributions from investment trusts that are treated as a return of capital for income tax purposes reduce the average cost of the underlying investment trust on the schedule of investments.

#### **(j) Foreign exchange:**

Securities and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing on each valuation day. Purchases and sales of investments and derivatives, income and expenses are translated into Canadian dollars at the exchange rates prevailing on the respective dates of such transactions. Realized and unrealized foreign exchange gains (losses) on investments and derivatives are included in realized gain (loss) on sale of investments and derivatives and change in unrealized appreciation (depreciation) on investments and derivatives, respectively, in the statements of comprehensive income (loss).

#### **(k) Derivative transactions:**

Options:

The Manager may use options to offset potential losses from changes in the prices of the Funds' investments instead of buying and selling securities directly. There can be no assurance that the hedging strategies will be effective. Losses may also arise if the counterparty does not perform under the contract.

Warrants:

The cost of warrants is included in derivatives on the statements of financial position. The unrealized gain or loss is reflected in the statements of comprehensive income (loss) in unrealized gain (loss) on derivatives.

#### **(l) Multi-series funds:**

Where a Fund offers more than one series of redeemable units, the realized gains/losses from the sale of investments, changes in unrealized gains (losses) on investments, income and expenses that are common to the Fund as a whole, are allocated daily to each series based on the proportionate share of the net asset value of the series. The proportionate share of each series is determined by adding the current day's net unitholder subscriptions of the series to the prior day's net asset value of the series. Any income or expense amounts that are unique to a particular series (for example, management fees) are accounted for separately in that particular series so as to not affect the net asset value of the other series.

# **CHOU FUNDS**

## **Notes to Financial Statements (continued)**

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### **2. Significant accounting policies (continued):**

#### **(m) Valuation of Fund redeemable units:**

The net assets attributable to holders of redeemable units of each Fund are computed by dividing the net assets attributable to holders of a series of redeemable units by the total number of redeemable units of the series outstanding at the time. The net assets attributable to holders of redeemable units are determined at the close of business each Friday.

#### **(n) Securities lending income:**

The Funds lend portfolio securities from time to time in order to earn additional income. Income from securities lending is included in the statements of comprehensive income (loss) of the Funds and is recognized on an accrual basis. Any securities on loan continue to be displayed in the schedule of investments and the market value of the securities loaned and collateral held is determined daily (note 7).

#### **(o) Classification of redeemable units issued by the Fund:**

The Funds' outstanding redeemable units' entitlements include a contractual obligation to distribute any net income and net realized gains annually in cash (at the request of the unitholder) and therefore the ongoing redemption feature is not the units' only contractual obligation. Consequently, the Funds' outstanding redeemable units are classified as financial liabilities in accordance with the requirements of IAS 32, *Financial Instruments: Presentation*. The Funds' obligation for net assets attributable to unitholders is measured at FVTPL, with fair value being the redemption amounts as of the reporting date.

#### **(p) Impairments:**

IFRS 9 requires that an entity recognize a loss allowance for expected credit losses on financial assets which are measured at amortized cost or FVOCI. Financial assets held by the Fund which are measured at FVTPL will not be subject to the impairment requirements.

With respect to financial assets classified and measured at cost, the Funds consider both historical analysis and forward-looking information in determining any expected credit loss. As at the financial statement date, financial assets classified and measured at cost are due to be settled within the short term. The Funds consider the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligation in the near term. Given the limited exposure of the Funds to credit risk, no loss allowance has been recognized as any such impairment will not have a significant impact on the financial statements.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### 3. Financial and risk management:

Investment activities of the Funds expose them to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, other price risk and currency risk). The level of risk depends on each of the Funds' investment objectives and the type of securities each Fund invests in. Funds that invest in underlying funds are also exposed to indirect financial risks in the event that the underlying funds are exposed to these risks.

The Manager of the Funds seeks to minimize these risks by managing the security portfolios of the Funds on a daily basis according to market events and the investment objectives of the Funds. CPA Canada Handbook disclosures that are specific to each of the Funds are presented in the discussion of financial risk management under the schedule of investments. The sensitivity analysis shown in the discussion of financial risk management may differ from actual results and the difference could be significant.

On March 11, 2020, the World Health Organization declared the global outbreak of COVID-19 a pandemic. Market disruptions associated with the COVID-19 pandemic have had a global impact, and uncertainty exists as to the long-term implications. Such disruptions can adversely impact the financial instrument risks and the fair values of each of the Funds' portfolios.

The Manager maintains a risk management practice that includes monitoring compliance with investment restrictions to ensure that the Funds are being managed in accordance with the Funds' stated investment objectives, strategies and securities regulations. The risk positions noted below are monitored by the Manager on a regular basis.

#### (a) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge a commitment that it has entered into with the Funds. The fair value of a financial instrument takes into account the credit rating of its issuer, and accordingly, represents the maximum credit risk exposure of a Fund. The Funds' main credit risk concentration is in debt securities and trading derivative instruments which are disclosed in the respective Funds' schedule of investments. All transactions in securities are settled or paid for upon delivery through brokers. As such, credit risk is considered minimal in the Funds on investment transactions, as delivery of securities sold is made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

The Funds have provided the prime broker with a general lien over the financial assets held in custody as security for the prime broker's exposure relating to provision of custody services to the Funds. The terms under which the general lien is provided are usual and customary for prime broker agreements.

#### (b) Liquidity risk:

Liquidity risk is the risk that the Funds may not be able to settle or meet their obligations on time or at a reasonable price. The Funds are exposed to redemptions as units are redeemable on demand and unitholders may redeem their units on each valuation date. Therefore, in accordance with the Funds' Simplified Prospectus, the Funds invest their assets in investments that are traded in an active market and can be readily disposed. In addition, each Fund aims to retain sufficient cash and cash equivalent positions to maintain liquidity. The Funds may, from time to time, invest in securities that are not traded in an active market and may be illiquid.

# **CHOU FUNDS**

## **Notes to Financial Statements (continued)**

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### **3. Financial instruments and risk management (continued):**

#### **(c) Market risk:**

##### **(i) Interest rate risk:**

Interest rate risk is the risk that the fair value of the Funds' interest-bearing investments will fluctuate due to changes in the prevailing levels of market interest rates. The Funds' exposure to interest rate risk is concentrated in investments in debt securities (such as bonds and debentures or short-term instruments) and derivative instruments, if any. Other assets and liabilities are short-term in nature and are non-interest bearing. There is minimal sensitivity to interest rate fluctuations on cash and cash equivalents invested at short-term market interest rates.

##### **(ii) Other price risk:**

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. The Funds are exposed to market risk since all financial instruments held by the Funds present a risk of loss of capital. The maximum risk resulting from financial instruments is equivalent to their fair value, except for options written and future contracts where possible losses can be unlimited.

##### **(iii) Currency risk:**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash and cash equivalents and foreign currency derivative instruments) that are denominated in a currency other than Canadian dollars, which represents the functional currency of the Funds. Therefore, the Funds' financial instruments that are denominated in other currencies will fluctuate due to changes in the foreign exchange rates of those currencies in relation to the Funds' functional currency.

### **4. Holders of redeemable units:**

The Manager considers the Funds' capital to consist of holders of redeemable units representing the net assets attributable to holders of redeemable units. The Funds' capital is managed in accordance with each of the Funds' investment objectives, policies, and restrictions, as outlined in the Funds' Prospectus. Changes in the Funds' capital during the period are reflected in the statements of changes in net assets attributable to unitholders of redeemable units. The Funds have no specific restrictions or specific capital requirements on the subscriptions and redemptions of redeemable units, other than minimum subscription requirements. The Funds endeavor to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions. Holders of redeemable units are entitled to distributions when declared. Distributions on redeemable units of a Fund are reinvested in additional redeemable units of the Fund or at the option of the holders of redeemable units, paid in cash. Redeemable units of the Funds are redeemable at the option of the holders of redeemable units in accordance with the Prospectus.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

### 4. Holders of redeemable units (continued):

	Series A	Series F	
	June 30, 2021	June 30, 2020	June 30, 2021
<b>Chou Associates Fund</b>			
Redeemable units outstanding, beginning of period	1,473,749	1,747,907	165,723
Add redeemable units issued during the period	13,059	6,713	3,181
Deduct redeemable units redeemed during the period	(109,886)	(167,941)	(55,378)
Redeemable units outstanding before income distribution	1,376,922	1,586,679	113,526
Add redeemable units issued on reinvested income	—	—	—
Deduct redeemable units redeemed during the period	—	—	—
Redeemable units outstanding, end of period	1,376,922	1,586,679	113,526
Redeemable units outstanding, end of period	240,531	240,531	240,531
<b>Chou Asia Fund</b>			
Redeemable units outstanding, beginning of period	690,428	853,782	60,312
Add redeemable units issued during the period	57,193	4,463	1,103
Deduct redeemable units redeemed during the period	(85,025)	(137,617)	(10,643)
Redeemable units outstanding before income distribution	662,596	720,628	50,772
Add redeemable units issued on reinvested income	—	—	—
Deduct redeemable units redeemed during the period	—	—	—
Redeemable units outstanding, end of period	662,596	720,628	50,772
Redeemable units outstanding, end of period	69,194	69,194	69,194
<b>Chou Europe Fund</b>			
Redeemable units outstanding, beginning of period	272,660	396,577	210,388
Add redeemable units issued during the period	28,116	2,266	44
Deduct redeemable units redeemed during the period	(58,201)	(67,438)	(115,590)
Redeemable units outstanding before income distribution	242,575	331,405	94,842
Add redeemable units issued on reinvested income	—	—	—
Deduct redeemable units redeemed during the period	—	—	—
Redeemable units outstanding, end of period	242,575	331,405	94,842
Redeemable units outstanding, end of period	354,311	354,311	354,311

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

### 4. Holders of redeemable units (continued):

	Series A		Series F	
	June 30, 2021	2020	June 30, 2021	2020
<b>Chou Bond Fund</b>				
Redeemable units outstanding, beginning of period	1,105,932	1,305,522	209,838	345,626
Add redeemable units issued during the period	18,955	5,046	—	4,282
Deduct redeemable units redeemed during the period	(77,655)	(182,920)	(96,030)	(56,587)
Redeemable units outstanding before income distribution	1,047,232	1,127,648	113,808	293,321
Add redeemable units issued on reinvested income	—	—	—	—
Deduct redeemable units redeemed during the period	—	—	—	—
Redeemable units outstanding, end of period	1,047,232	1,127,648	113,808	293,321
<b>Chou RRSP Fund</b>				
Redeemable units outstanding, beginning of period	1,349,151	1,705,179	100,434	172,209
Add redeemable units issued during the period	14,248	5,539	22,590	12,317
Deduct redeemable units redeemed during the period	(238,706)	(227,050)	(38,160)	(33,019)
Redeemable units outstanding before income distribution	1,124,693	1,483,668	84,864	151,507
Add redeemable units issued on reinvested income	—	—	—	—
Deduct redeemable units redeemed during the period	—	—	—	—
Redeemable units outstanding, end of period	1,124,693	1,483,668	84,864	151,507

### 5. Related party transactions:

#### (a) Management fees:

The Manager manages the Funds under a management agreement dated August 10, 2005. The Manager is entitled to an annual investment management fee equal to 1.5% of the net asset value of Series A redeemable units and 1.0% of the net asset value of Series F redeemable units for all Funds other than the Chou Bond Fund on which the Manager is entitled to an annual investment management fee equal to 1.15% of the net asset value of Series A redeemable units and 1.0% of the net asset value of Series F redeemable units. All other expenses attributable to the Funds are also payable out of the assets of the Funds.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

### 5. Related party transactions (continued):

#### (a) Management fees (continued):

During the period, management fees for each Fund are as follows:

	June 30, 2021	2020
Chou Associates Fund	\$ 1,313,503	\$ 1,345,763
Chou Asia Fund	171,804	120,380
Chou Europe Fund	29,146	41,785
Chou Bond Fund	53,793	63,274
Chou RRSP Fund	319,379	266,199

As at period end, included in accrued expenses of each Fund are the following amounts due to the Manager, for management fees payable:

	June 30, 2021	December 31, 2020
Chou Associates Fund	\$ 231,955	\$ 182,771
Chou Asia Fund	27,066	25,911
Chou Europe Fund	4,434	6,211
Chou Bond Fund	8,735	8,577
Chou RRSP Fund	55,204	45,527

#### (b) Investments by the Manager and related parties:

The Manager, its officers and directors invest in redeemable units of the Funds from time to time in the normal course of business. All transactions with the Manager are measured at the exchange amounts.

As at June 30, 2021, the following amounts of Series A redeemable units were held by the Manager, its officers, and directors. No amounts of Series F redeemable units were held by the Manager, its officers, and directors.

	June 30, 2021	December 31, 2020
Chou Associates Fund	74,100	73,669
Chou Asia Fund	–	–
Chou Europe Fund	11,284	4,924
Chou Bond Fund	–	–
Chou RRSP Fund	36,221	36,660

##### (i) Chou Associates Fund:

As at June 30, 2021, 5.5% of Series A redeemable units (December 31, 2020 – 5.0%) were held by the Manager, its officers, and directors.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### 5. Related party transactions (continued):

#### (b) Investments by the Manager and related parties (continued):

##### (ii) Chou Europe Fund:

As at June 30, 2021, 4.6% of Series A redeemable units (December 31, 2020 – 1.8%) were held by the Manager, its officers, and directors.

##### (iii) Chou RRSP Fund:

As at June 30, 2021, 3.2% of Series A redeemable units (December 31, 2020 – 2.7%) were held by the Manager, its officers, and directors.

### 6. Brokers' commissions:

Total commissions paid to brokers in connection with portfolio transactions for the six months ended June 30, 2021 and 2020 are as follows:

	June 30,	
	2021	2020
Chou Associates Fund	\$ 203,219	\$ 65,588
Chou Asia Fund	4,675	7,096
Chou Europe Fund	921	6,930
Chou Bond Fund	–	–
Chou RRSP Fund	107,790	7,526

### 7. Securities lending:

The Funds have entered into a securities lending program with CIBC Mellon. The Funds receive collateral of at least 102% of the value of the securities on loan. Collateral may be comprised of cash and obligations of or guaranteed by, the Government of Canada or a province thereof, or by the United States Government or its agencies, but may include obligations of other governments with appropriate credit ratings. The aggregate dollar values of the securities that are on loan and the collateral received by the Funds as at June 30, 2021 and December 31, 2020 are as follows:

June 30, 2021	Market value of securities on loan	Market value of collateral received
Chou Associates Fund	\$ 2,420,741	\$ 2,552,055
Chou Asia Fund	5,252,910	5,563,021
Chou Europe Fund	708,488	744,639
Chou Bond Fund	–	–
Chou RRSP Fund	–	–

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

### 7. Securities lending (continued):

<b>December 31, 2020</b>	<b>Market value of securities on loan</b>	<b>Market value of collateral received</b>
Chou Associates Fund	\$ —	\$ —
Chou Asia Fund	—	—
Chou Europe Fund	—	—
Chou Bond Fund	1,302	1,369
Chou RRSP Fund	206	216

The tables below present a reconciliation of the securities lending income as presented in the statements of comprehensive income (loss) for the six months ended June 30, 2021 and June 30, 2020. It shows the gross amount of securities lending revenues generated from the securities lending transactions of the Fund, less any taxes withheld and amounts due to parties entitled to receive payments out of the gross amount as part of any securities lending agreements.

#### Chou Associates Fund:

	<b>June 30,</b>	
	<b>2021</b>	<b>2020</b>
Gross securities lending revenue	\$ 3,449	\$ 7,150
Withholding taxes	(54)	(1,061)
Agent fees	(263)	(1,218)
<b>Securities lending revenue</b>	<b>\$ 3,132</b>	<b>68 %</b>
	\$ 4,871	100 %

#### Chou Asia Fund:

	<b>June 30,</b>	
	<b>2021</b>	<b>2020</b>
Gross securities lending revenue	\$ 12,041	\$ 102,834
Withholding taxes	—	—
Agent fees	(2,408)	(20,567)
<b>Securities lending revenue</b>	<b>\$ 9,633</b>	<b>80 %</b>
	\$ 82,267	100 %

#### Chou Europe Fund:

	<b>June 30,</b>	
	<b>2021</b>	<b>2020</b>
Gross securities lending revenue	\$ 979	\$ 213
Withholding taxes	(159)	(23)
Agent fees	(164)	(38)
<b>Securities lending revenue</b>	<b>\$ 656</b>	<b>71 %</b>
	\$ 152	100 %

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### 7. Securities lending (continued):

#### Chou Bond Fund:

	June 30,		
	2021		2020
Gross securities lending revenue	\$ 306	100 %	\$ 9,562 100 %
Withholding taxes	(90)	(29)%	(2,852) (30)%
Agent fees	(43)	(14)%	(1,342) (14)%
Securities lending revenue	\$ 173	57 %	\$ 5,368 56 %

#### Chou RRSP Fund:

	June 30,		
	2021		2020
Gross securities lending revenue	\$ 902	100 %	\$ 5,142 100 %
Withholding taxes	(21)	(2)%	(101) (2)%
Agent fees	(145)	(16)%	(1,007) (20)%
Securities lending revenue	\$ 736	82 %	\$ 4,034 78 %

### 8. Fair value measurement:

Below is a classification of fair measurements of the Funds' investments based on a three level fair value hierarchy and a reconciliation of transactions and transfers within that hierarchy. The hierarchy of fair valuation inputs is summarized as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - inputs for the assets or liabilities that are not based on observable market data. Additional quantitative disclosures are required for Level 3 securities.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

### 8. Fair value measurement (continued):

#### (a) Chou Associates Fund:

June 30, 2021	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 174,699,714	\$ 3,231,055	\$ 13,301,427	\$ 191,232,196
Bonds	—	—	—	—
Options	—	—	—	—
<b>Total</b>	<b>\$ 174,699,714</b>	<b>\$ 3,231,055</b>	<b>\$ 13,301,427</b>	<b>\$ 191,232,196</b>

Financial Liabilities	Level 1	Level 2	Level 3	Total
Equities	\$ —	\$ —	\$ —	\$ —
Bonds	—	—	—	—
Options	—	6,424,537	—	6,424,537
<b>Total</b>	<b>\$ —</b>	<b>\$ 6,424,537</b>	<b>\$ —</b>	<b>\$ 6,424,537</b>

December 31, 2020	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 139,194,012	\$ 2,106,292	\$ 13,414,115	\$ 154,714,419
Bonds	—	—	—	—
Options	—	—	—	—
<b>Total</b>	<b>\$ 139,194,012</b>	<b>\$ 2,106,292</b>	<b>\$ 13,414,115</b>	<b>\$ 154,714,419</b>
<b>Financial Liabilities</b>				
Equities	\$ —	\$ —	\$ —	\$ —
Bonds	—	—	—	—
Options	—	149,566	—	149,566
<b>Total</b>	<b>\$ —</b>	<b>\$ 149,566</b>	<b>\$ —</b>	<b>\$ 149,566</b>

The following table reconciles the Fund's Level 3 fair value measurement of financial instruments for the six months ended June 30, 2021.

	Equities	Bonds	Total
Balance, December 31, 2020	\$ 13,414,115	\$ —	\$ 13,414,115
Purchase of investments	—	—	—
Net transfers in (out) during the period	—	—	—
Proceeds from sales during the period	—	—	—
Net realized gain (loss) on sale of investments	—	—	—
Change in unrealized depreciation in value of investments	(112,688)	—	(112,688)
Balance, June 30, 2021	\$ 13,301,427	\$ —	\$ 13,301,427

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

### 8. Fair value measurement (continued):

#### (a) Chou Associates Fund (continued):

The following table reconciles the Fund's Level 3 fair value measurement of financial instruments for the year ended December 31, 2020.

	<b>Equities</b>	<b>Bonds</b>	<b>Total</b>
Balance, December 31, 2019	\$ 15,829,672	\$ —	\$ 15,829,672
Purchase of investments	—	—	—
Net transfers in (out) during the year	—	—	—
Proceeds from sales during the year	—	—	—
Net realized gain (loss) on sale of investments	—	—	—
Change in unrealized depreciation in value of investments	(2,415,557)	—	(2,415,557)
Balance, December 31, 2020	\$ 13,414,115	\$ —	\$ 13,414,115

During the six months period ended June 30, 2021, there were no significant transfers between Level 1 and Level 2.

For the year ended December 31, 2020, equities valued at \$2,106,292 were transferred from Level 1 to Level 2 due to a decrease in liquidity and trading volumes.

Financial instruments classified as Level 2 investments are valued based on the prices provided by an independent reputable pricing services company who prices the securities based on recent transactions and quotes received from market participants and through incorporating observable market data.

#### Level 3 additional disclosures:

The tables below set out information about significant unobservable inputs used at reporting period-end in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

##### June 30, 2021

Securities/Instruments	Line item on the hierarchy table	Fair value (\$)	Valuation technique	Unobserv- able input	Range of input value	Possible shift +/- (absolute value/%)	Change in valuation (\$) +/-
Equity – Private Company	Equity Security	13,301,427	Market Approach & Income Approach	Third party	N/A	10%	1,330,143/ (1,330,143)

##### December 31, 2020

Securities/Instruments	Line item on the hierarchy table	Fair value (\$)	Valuation technique	Unobserv- able input	Range of input value	Possible shift +/- (absolute value/%)	Change in valuation (\$) +/-
Equity – Private Company	Equity Security	13,414,115	Market Approach & Income Approach	Third party	N/A	10%	1,341,412/ (1,341,412)

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### 8. Fair value measurement (continued):

#### (a) Chou Associates Fund (continued):

##### Third party source

The price for this security was received from a third-party source whose valuation methodology was model driven and included proxy security to capture interest rate and credit risk. Although the Fund believes that its estimates of fair value are appropriate, different methodologies or assumptions could lead to different measurements of fair value.

#### (b) Chou Asia Fund:

June 30, 2021	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 19,537,149	\$ 1,300,924	\$ —	\$ 20,838,073
Bonds	—	—	—	—
Options	—	—	—	—
<b>Total</b>	<b>\$ 19,537,149</b>	<b>\$ 1,300,924</b>	<b>\$ —</b>	<b>\$ 20,838,073</b>

December 31, 2020	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 17,672,170	\$ 2,656,748	\$ —	\$ 20,328,918
Bonds	—	—	—	—
Options	—	—	—	—
<b>Total</b>	<b>\$ 17,672,170</b>	<b>\$ 2,656,748</b>	<b>\$ —</b>	<b>\$ 20,328,918</b>

During the six months period ended June 30, 2021, equities valued at \$1,226,221 were transferred from Level 2 to Level 1 due to an increase in liquidity and trading volumes.

For the year ended December 31, 2020, equities valued at \$1,281,690 were transferred from Level 1 to Level 2 due to a decrease in liquidity and trading volumes.

Financial instruments classified as Level 2 investments are valued based on prices by a reputable independent pricing services company who prices the securities based on recent transactions and quotes received from market participants and through incorporating observable market data.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

### 8. Fair value measurement (continued):

#### (c) Chou Europe Fund:

<b>June 30, 2021</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial Assets</b>				
Equities	\$ 2,459,267	\$ 968,618	\$ —	\$ 3,427,885
Bonds	—	—	—	—
Options	—	—	—	—
<b>Total</b>	<b>\$ 2,459,267</b>	<b>\$ 968,618</b>	<b>\$ —</b>	<b>\$ 3,427,885</b>

<b>December 31, 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial Assets</b>				
Equities	\$ 2,432,198	\$ 1,325,993	\$ —	\$ 3,758,191
Bonds	—	—	—	—
Options	—	—	—	—
<b>Total</b>	<b>\$ 2,432,198</b>	<b>\$ 1,325,993</b>	<b>\$ —</b>	<b>\$ 3,758,191</b>

During the six months period ended June 30, 2021, equities valued at \$249,309 were transferred from Level 1 to Level 2 due to a decrease in liquidity and trading volumes.

During the year ended December 31, 2020, equities valued at \$714,746 were transferred from Level 1 to Level 2 due to a decrease in liquidity and trading volumes.

Financial instruments classified as Level 2 investments are valued based on the prices provided by an independent reputable pricing services company who prices the securities based on recent transactions and quotes received from market participants and through incorporating observable market data.

#### (d) Chou Bond Fund:

<b>June 30, 2021</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial Assets</b>				
Equities	\$ —	\$ 1,119,112	\$ 208,111	\$ 1,327,223
Bonds	—	6,889,814	366	6,890,180
Options	—	—	—	—
<b>Total</b>	<b>\$ —</b>	<b>\$ 8,008,926</b>	<b>\$ 208,477</b>	<b>\$ 8,217,403</b>

<b>December 31, 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial Assets</b>				
Equities	\$ 524,584	\$ —	\$ 209,874	\$ 734,458
Bonds	—	6,062,537	366	6,062,903
Options	—	—	—	—
<b>Total</b>	<b>\$ 524,584</b>	<b>\$ 6,062,537</b>	<b>\$ 210,240</b>	<b>\$ 6,797,361</b>

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### 8. Fair value measurement (continued):

#### (d) Chou Bond Fund (continued):

The following table reconciles the Fund's Level 3 fair value measurement of financial instruments for the six months ended June 30, 2021.

	<b>Equities</b>	<b>Bonds</b>	<b>Total</b>
Balance, December 31, 2020	\$ 209,874	\$ 366	\$ 210,240
Net transfers in during the period	—	—	—
Proceeds from sales during the period	—	—	—
Net realized gain (loss) on sale of investments	—	—	—
Change in unrealized depreciation in value of investments	(1,763)	—	(1,763)
Balance, June 30, 2021	\$ 208,111	\$ 366	\$ 208,477

The following table reconciles the Fund's Level 3 fair value measurement of financial instruments for the year ended December 31, 2020.

	<b>Equities</b>	<b>Bonds</b>	<b>Total</b>
Balance, December 31, 2019	\$ 990,642	\$ 366	\$ 991,008
Net transfers in during the year	—	—	—
Proceeds from sales during the year	(780,567)	—	(780,567)
Net realized loss on sale of investments	(1,301,330)	—	(1,301,330)
Change in unrealized appreciation in value of investments	1,301,129	—	1,301,129
Balance, December 31, 2020	\$ 209,874	\$ 366	\$ 210,240

During the six months period ended June 30, 2021, equities valued at \$1,119,112 were transferred from Level 1 to Level 2 due to a decrease in liquidity and trading volumes.

For the year ended December 31, 2020, there were no significant transfers between Level 1 and Level 2.

Financial instruments classified as Level 2 investments are valued based on the prices provided by an independent reputable pricing services company who prices the securities based on recent transactions and quotes received from market participants and through incorporating observable market data.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

### 8. Fair value measurement (continued):

#### (d) Chou Bond Fund (continued):

##### Level 3 additional disclosures:

The tables below set out information about significant unobservable inputs used at reporting period-end in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

**June 30, 2021**

Securities/Instruments	Line item on the hierarchy table	Fair value (\$)	Valuation technique	Unobserv- able input	Range of input value	Possible shift +/- (absolute value/%)	Change in valuation (\$) +/-
Equity – Private Company	Equity Security	208,111	Market Approach & Income Approach	Third party	N/A	10%	20,811/ (20,811)
Convertible loan	Convertible Loan	366	Market Approach	Market value of company	N/A	10%	37/ (37)

**December 31, 2020**

Securities/Instruments	Line item on the hierarchy table	Fair value (\$)	Valuation technique	Unobserv- able input	Range of input value	Possible shift +/- (absolute value/%)	Change in valuation (\$) +/-
Equity – Private Company	Equity Security	209,874	Market Approach & Income Approach	Third party	N/A	10%	20,987/ (20,987))
Convertible loan	Convertible Loan	366	Market Approach	Market value of company	N/A	10%	36/ (36)

##### Third party source

The price for this security was received from a third-party source whose valuation methodology was model driven and included proxy security to capture interest rate and credit risk. Although the Fund believes that its estimates of fair value are appropriate, different methodologies or assumptions could lead to different measurements of fair value.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

### 8. Fair value measurement (continued):

#### (e) Chou RRSP Fund:

<b>June 30, 2021</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial Assets</b>				
Equities	\$ 43,973,280	\$ 576,897	\$ 1,187,360	\$ 45,737,537
Bonds	—	3,153,776	100	3,153,876
Options	—	—	—	—
<b>Total</b>	<b>\$ 43,973,280</b>	<b>\$ 3,730,673</b>	<b>\$ 1,187,460</b>	<b>\$ 48,891,413</b>

<b>Financial Liabilities</b>					
Equities	\$ —	\$ —	\$ —	\$ —	\$ —
Bonds	—	—	—	—	—
Options	—	4,288,468	—	—	4,288,468
<b>Total</b>	<b>\$ —</b>	<b>\$ 4,288,468</b>	<b>\$ —</b>	<b>\$ —</b>	<b>4,288,468</b>

<b>December 31, 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial Assets</b>				
Equities	\$ 29,769,274	\$ 3,687,343	\$ 1,197,419	\$ 34,654,036
Bonds	—	3,144,070	100	3,144,170
Options	—	—	—	—
<b>Total</b>	<b>\$ 29,769,274</b>	<b>\$ 6,831,413</b>	<b>\$ 1,197,519</b>	<b>\$ 37,798,206</b>
<b>Financial Liabilities</b>				
Equities	\$ —	\$ —	\$ —	\$ —
Bonds	—	—	—	—
Options	—	524,753	—	524,753
<b>Total</b>	<b>\$ —</b>	<b>\$ 524,753</b>	<b>\$ —</b>	<b>\$ 524,753</b>

The following table reconciles the Fund's Level 3 fair value measurement of financial instruments for the six months ended June 30, 2021.

	<b>Equities</b>	<b>Bonds</b>	<b>Total</b>
Balance, December 31, 2020	\$ 1,197,419	\$ 100	\$ 1,197,519
Net transfers in during the period	—	—	—
Proceeds from sales during the period	—	—	—
Net realized gain (loss) on sale of investments	—	—	—
Change in unrealized depreciation in value of investments	(10,059)	—	(10,059)
<b>Balance, June 30, 2021</b>	<b>\$ 1,187,360</b>	<b>\$ 100</b>	<b>\$ 1,187,460</b>

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

### 8. Fair value measurement (continued):

#### (e) Chou RRSP Fund (continued):

The following table reconcile the Fund's Level 3 fair value measurement of financial instruments for the year ended December 31, 2020.

	<b>Equities</b>	<b>Bonds</b>	<b>Total</b>
Balance, December 31, 2019	\$ 4,414,229	\$ 100	\$ 4,414,329
Net transfers in during the year	—	—	—
Proceeds from sales during the year	(3,153,029)	—	(3,153,029)
Net realized loss on sale of investments	(1,887,185)	—	(1,887,185)
Change in unrealized appreciation in value of investments	1,823,404	—	1,823,404
Balance, December 31, 2020	\$ 1,197,419	\$ 100	\$ 1,197,519

During the six months period ended June 30, 2021, equities valued at \$89,933 were transferred from Level 1 to Level 2 due to a decrease in liquidity and trading volumes and equities valued at \$4,256,980 were transferred from Level 2 to Level 1 due to an increase in liquidity and trading volumes.

During the year ended December 31, 2020, equities valued at \$3,687,343 were transferred from Level 1 to Level 2 due to a decrease in liquidity and trading volumes.

Financial instruments classified as Level 2 investments are valued based on the prices provided by an independent reputable pricing services company who prices the securities based on recent transactions and quotes received from market participants and through incorporating observable market data.

#### Level 3 additional disclosures:

The tables below set out information about significant unobservable inputs used at reporting period-end in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

**June 30, 2021**

<b>Securities/Instruments</b>	<b>Line item on the hierarchy table</b>	<b>Fair value (\$)</b>	<b>Valuation technique</b>	<b>Unobserv- able input</b>	<b>Range of input value</b>	<b>Possible shift +/- (absolute value/%)</b>	<b>Change in valuation (\$) +/-</b>
Equity – Private Company	Equity Security	1,187,360	Market Approach & Income Approach	Third party	N/A	10%	118,736/ (118,736)
Convertible Loan	Convertible Loan	100	Market Approach	Market value of company	N/A	10%	10/ (10)

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### 8. Fair value measurement (continued):

#### (e) Chou RRSP Fund (continued):

December 31, 2020							
Securities/Instruments	Line item on the hierarchy table	Fair value (\$)	Valuation technique	Unobserv- able input	Range of input value	Possible shift +/- (absolute value/%)	Change in valuation (\$) +/-
Equity – Private Company	Equity Security	1,197,419	Market Approach & Income Approach	Third party	N/A	10%	119,742/ (119,742)
Convertible Loan	Convertible Loan	100	Market Approach	Market value of company	N/A	10%	10/ (10)

#### Third party source

The price for this security was received from a third-party source whose valuation methodology was model driven and included proxy security to capture interest rate and credit risk. Although the Fund believes that its estimates of fair value are appropriate, different methodologies or assumptions could lead to different measurements of fair value.

### 9. Income taxes:

The Chou Funds qualify as mutual fund trusts under the provisions of the Income Tax Act (Canada). General income tax rules apply to the Chou Funds; however, no income tax is payable by the Chou Funds on investment income and/or net realized capital gains which are distributed to unitholders. In addition, income taxes payable on undistributed net realized capital gains are refundable on a formula basis when redeemable units of the Funds are redeemed. Sufficient net income and realized capital gains of the Chou Funds, have been, or will be distributed to the unitholders such that no tax is payable by the Chou Funds and, accordingly, no provision for taxes has been made in the financial statements.

Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains in future years.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2021 and 2020 (Unaudited)

### 9. Income taxes:

The Funds have the following net realized capital losses available for utilization against net realized capital gains in future years:

	June 30, 2021	2020
Chou Associates Fund:		
Capital loss carryforward	\$ 6,267,002	\$ 12,981,174
Chou Asia Fund:		
Capital loss carryforward	167,964	167,964
Chou Europe Fund:		
Capital loss carryforward	4,347,415	3,451,693
Non-capital loss carryforward	19,105	50,174
Chou Bond Fund:		
Capital loss carryforward	9,501,944	9,681,833
Chou RRSP Fund:		
Capital loss carryforward	15,671,493	2,773,197
Non-capital loss carryforward	216,570	—

### 10. Fund valuation adjustments:

June 30, 2020

Subsequent to June 30, 2020, the Chou Bond Fund identified an interest income accrued amount 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 ("NAV") as at June 30, 2020. As a result, the Chou Bond Fund did not accurately reflect the actual NAV at the time of computation for transactional purposes for all capital stock transactions in the Fund with a trade date of February 18, 2020 to July 3rd, 2020. No other transactions were impacted by this error.

In July 2020, the error was retroactively corrected, and the NAV was restated for the affected period, February 18, 2020 to July 3rd, 2020. The financial statements of the Chou Bond Fund correctly reflect the Net Assets Attributable to Unitholders of Redeemable Units as at June 30, 2020. Adjustments were made in accordance with Chou Bond Fund's NAV error procedures.

# **CHOU FUNDS**

## **Notes to Financial Statements (continued)**

Six months ended June 30, 2021 and 2020 (Unaudited)

---

### **10. Fund valuation adjustments (continued):**

The following table illustrates the adjustments made to the NAV to reflect the correction in the interest income from the Level 3 investment on June 30, 2020:

<b>Class:</b>	<b>Unadjusted Net Asset Value per Unit as at June 30, 2020</b>	<b>Adjustment to reflect the effects of over valuation:</b>	<b>Adjusted Net Asset Value per Unit as at June 30, 2020</b>
---------------	--	---	--

#### **Canadian Dollars:**

Bond Fund (series A)	\$7.13	(\$0.11)	\$7.02
Bond Fund (series F)	\$7.35	(\$0.12)	\$7.23

#### **U.S. Dollars:**

Bond Fund (series A)	\$5.25	(\$0.08)	\$5.17
Bond Fund (series F)	\$5.42	(\$0.08)	\$5.33

## **NOTES**

(Blank Page)

**Illustration of an assumed investment of \$10,000 in Canadian dollars (unaudited)**

**CHOU ASIA FUND**

<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 2003	\$10,000
Dec.31, 2004	11,850
Dec.31, 2005	12,678
Dec.31, 2006	14,598
Dec.31, 2007	16,972
Dec.31, 2008	13,979
Dec.31, 2009	17,015
Dec.31, 2010	18,786
Dec.31, 2011	17,931
Dec.31, 2012	17,609
Dec.31, 2013	21,799
Dec.31, 2014	23,472
Dec.31, 2015	24,760
Dec.31, 2016	25,284
Dec.31, 2017	30,625
Dec.31, 2018	26,728
Dec.31, 2019	27,001
Dec.31, 2020	44,850
<b>June 30, 2021</b>	<b><u>\$50,514</u></b>

**CHOU EUROPE FUND**

<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 2003	\$10,000
Dec.31, 2004	11,361
Dec.31, 2005	12,650
Dec.31, 2006	14,002
Dec.31, 2007	11,881
Dec.31, 2008	6,655
Dec.31, 2009	8,962
Dec.31, 2010	8,885
Dec.31, 2011	8,451
Dec.31, 2012	10,753
Dec.31, 2013	15,199
Dec.31, 2014	15,342
Dec.31, 2015	15,629
Dec.31, 2016	12,705
Dec.31, 2017	13,161
Dec.31, 2018	11,856
Dec.31, 2019	11,495
Dec.31, 2020	14,626
<b>June 30, 2021</b>	<b><u>\$14,532</u></b>

**CHOU BOND FUND**

<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 2005	\$10,000
Dec.31, 2006	12,200
Dec.31, 2007	11,870
Dec.31, 2008	7,396
Dec.31, 2009	10,534
Dec.31, 2010	13,980
Dec.31, 2011	11,408
Dec.31, 2012	12,884
Dec.31, 2013	15,944
Dec.31, 2014	17,502
Dec.31, 2015	16,875
Dec.31, 2016	18,411
Dec.31, 2017	18,114
Dec.31, 2018	20,805
Dec.31, 2019	15,582
Dec.31, 2020	19,458
<b>June 30, 2021</b>	<b><u>\$24,535</u></b>

**Illustration of an assumed investment of \$10,000 in Canadian dollars (unaudited)**

**CHOU RRSP FUND**

<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 1986	\$10,000
Dec.31, 1987	10,818
Dec.31, 1988	12,281
Dec.31, 1989	14,350
Dec.31, 1990	12,722
Dec.31, 1991	13,284
Dec.31, 1992	14,500
Dec.31, 1993	16,727
Dec.31, 1994	14,961
Dec.31, 1995	17,808
Dec.31, 1996	21,735
Dec.31, 1997	32,741
Dec.31, 1998	38,806
Dec.31, 1999	36,217
Dec.31, 2000	42,188
Dec.31, 2001	49,370
Dec.31, 2002	65,095
Dec.31, 2003	72,658
Dec.31, 2004	82,362
Dec.31, 2005	95,294
Dec.31, 2006	104,479
Dec.31, 2007	94,817
Dec.31, 2008	54,629
Dec.31, 2009	69,818
Dec.31, 2010	102,367
Dec.31, 2011	81,150
Dec.31, 2012	108,860
Dec.31, 2013	132,029
Dec.31, 2014	150,763
Dec.31, 2015	131,417
Dec.31, 2016	126,719
Dec.31, 2017	154,716
Dec.31, 2018	143,655
Dec.31, 2019	118,267
Dec.31, 2020	134,262
<b>Jun.30, 2021</b>	<b>\$193,252</b>

NOTE: Rates of return are historical total returns, include changes in unit prices, and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and that could reduce these returns. The returns are not guaranteed. The Fund's past performance does not necessarily indicate future performance.

The table is presented only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

**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