

# **INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE**

## **June 30, 2009**

### **CHOU ASSOCIATES FUND**

This interim management report of fund performance contains financial highlights, but does not contain the complete financial statements of the Fund. You can obtain on request at no cost a copy of the interim or annual financial statements by calling Toll-free: 1-888-357-5070, or by writing to us at 110 Sheppard Ave. East, Suite 301, Box 18, Toronto, Ontario M2N 6Y8. The Fund's complete financial statements are posted on our website at [www.choufunds.com](http://www.choufunds.com) and SEDAR at [www.sedar.com](http://www.sedar.com).

Unitholders may also contact us by using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance, or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements.

Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons including, but not limited to, market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Fund may invest in, and the risks detailed from time to time in the Fund's Simplified Prospectus. We caution that the foregoing list of factors is not exhaustive, and that when relying on forward-looking statements to make decisions with respect to investing in the Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the family of Chou Funds does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

Chou Associates Management Inc. ("the Manager") manages the overall business of the Fund, including selection of the securities in the Fund's portfolio and promoting sales of the Fund's units. For the purposes of this document, the terms Chou Associates Management Inc. and "the Manager" are interchangeable. Full contact information is located at the end of this report.

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## Management Discussion of Fund Performance

### Investment Objective and Strategies

The Fund's objective is to provide long-term growth of capital by investing primarily in equity securities of US 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 investment strategy follows a strong discipline with regard to price paid to acquire portfolio investments. The level of investments in a company's securities is generally commensurate with the current price of the company's securities in relation to its intrinsic value as determined by various factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

### Risk

The risks of investing in the Fund are disclosed in the Simplified Prospectus. The Fund is suitable for investors seeking capital gains over the long term, with a medium to high tolerance for risk. The Fund is not appropriate for an investor with a short-term investment horizon.

As at June 30, 2009, Fairfax Financial Holdings held 19.0% of the Series A Units of the Fund. If Fairfax redeems its units, a significant portion of the Fund's investments will have to be liquidated in order to effect this transaction. The timing of such liquidation may not be appropriate and all investors may suffer a proportionate loss as a result of such liquidation.

For the reporting period, there were no material changes that affected the Fund's overall level of risk.

### Results of Operations

For the period ended June 30, 2009, Chou Associates Fund (the "Fund") returned 12.0% for Series A units and 12.3% for Series F units while the S&P 500 Total Return Index was down 1.6% in Canadian dollars. In \$US, the Fund returned 17.5% for Series A units and 17.7% for Series F units while the S&P 500 Total Return Index returned 3.1%.

During the first six months of 2009, global capital markets suffered extreme volatility. After unprecedented intervention by governments around the world, global equity and fixed income markets began to recover in early March and capital markets opened up to give companies access to much needed capital. In addition, spreads on high grade and high yield bonds contracted sharply reflecting improved investor sentiment. However, while there are signs world economies are stabilizing, investors remain cautious about the degree and timing of a full recovery.

Positive contributors to the Fund's performance were Biovail, Mannkind, Office Depot, Sears Holdings, Primus Telecommunications debts and Level 3 Communications debts.

Securities that declined the most in the first half of 2009 were Berkshire Hathaway, King Pharmaceuticals, K-Swiss, Royal Boskalis Westminster, Sanofi-Aventis, Gannett Company and Abitibi-Consolidated debts.

The Fund added the following new names to the portfolio: International Coal Group Inc., a leading producer of coal in Northern and Central Appalachia; Interpublic Group, one of the world's largest advertising and marketing services companies; and USG, a leading manufacturer of building materials, including sheetrock and durock products, for the construction and remodelling industries.

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On the sell side, the Fund sold IDT, which provides wholesale and retail long distance services. We also tendered 16,660,000 Global Crossing UK Finance 10.75%, maturing in 2014, but only 460,000 were accepted at par by the company.

We exchanged The McClatchy Company 5.75% notes, maturing in 2017, for 15.75% structurally senior notes, maturing in 2014. For each \$1,000 of principal, we received \$270 15.75% senior notes due 2014. In all, we exchanged 14 million 5.75% notes for 3,780,000 15.75% notes.

On July 31, 2006 and August 1, 2006, the Fund purchased approximately 10 million of Collins & Aikman bank debts. Due to technical issues surrounding the assignment of the bank debts to the Fund, the trade did not settle until May 2009. At the time of settlement, the Fund received its share of cash distributions made after it purchased the bank debts, as well as 10 million of Post Consummation Trust, 10 million of Post Litigation Trust and 1,094,922 shares of International Automotive Components Group North America LLC.

On the plus side, the Fund gained US \$16,894,157 on the currency contract that expired on June 10, 2009. We have another forward currency contract to buy Canadian dollars and sell US dollars in October 2009 that hedges approximately 12% of the net assets.

Net redemptions for the period were CAN \$24,470,490 and US \$1,160,505. Our average month-end cash position was 4.6% of the net assets.

### **Recent Developments**

#### ***New Accounting Policy***

In the preparation of its financial statements, the Fund has adopted Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation of the Canadian Institute of Chartered Accountants (“CICA”) Handbook – Accounting. These new sections replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing disclosure and presentation requirements. The adoption of these standards does not impact the daily valuation of the Fund’s investments or NAV, the Fund’s performance or the risk profile of the Fund.

#### ***Future Accounting Standards***

The Canadian Accounting Standards Board has confirmed its plan to adopt all International Financial Reporting Standards (“IFRS”), as published by the International Accounting Standards Board, on or by January 1, 2011. Accordingly, the Fund will adopt IFRS for its fiscal period beginning January 1, 2011.

The Manager has commenced planning for the changeover to IFRS. Elements of that plan include identifying key differences between Canadian GAAP and IFRS and evaluating the likely impacts on business activities.

Based on the Manager’s current evaluation of the differences between Canadian GAAP and IFRS, the adoption of IFRS is not expected to have a significant impact on the calculation of NAV per security. IFRS is expected to affect the overall presentation of financial statements and result in additional disclosure in the accompanying notes. However, our current assessment may change if new standards are issued or if interpretations of existing standards are revised.

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### **Independent Review Committee**

Under the provisions of National Instrument 81-107 Independent Review Committee for Investment Funds ("NI 81-107"), which came into force on November 1, 2006, it is now required that all publicly offered investment funds, such as the Fund, establish an independent review committee ("IRC") to which the Manager must refer for review all conflict of interest matters. This instrument further mandates that the IRC be composed of at least three independent members and that they report at least annually to the Manager and shareholders in respect of the IRC's duties.

The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Bruce Kerr and Joe Tortolano.

The 2008 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

### **Related Party Transactions**

The Manager manages the overall business of the Fund, including selection of the securities in the Fund's portfolio, and promoting sales of the Fund's units.

The Manager is also the trustee of the Fund. When you invest in the Fund, you are buying units of a trust. The trustee holds actual title to the property in the Fund - the cash and portfolio securities - on your behalf.

Citibank Canada is the custodian of the Fund and has physical custody of the securities in the Fund's portfolio.

Citigroup Fund Services Canada is the recordkeeper of the Fund. The recordkeeper provides or arranges for the maintenance of all unitholder records, the processing of purchases and redemption orders, the processing of distributions, and the issuance of investor account statements and annual tax reporting information for the Fund.

There were no transactions with related parties except in the capacities set out above.

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## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the period ended June 30, 2009 and prior years as applicable.

### The Fund's Net Assets per Unit <sup>(1)</sup> Series A

	June 30 <u>2009</u>	Dec.31 <u>2008</u>	Dec.31 <u>2007</u>	Dec.31 <u>2006</u>	Dec.31 <u>2005</u>	Dec.31 <u>2004</u>
<b>Net assets, beginning of period</b>	\$ 53.78	\$ 79.87	\$ 91.48	\$ 78.22	\$ 70.03	\$ 65.58
<b>Increase (decrease) from operations</b>						
Total revenue	\$ 1.34	\$ 4.13	\$ 4.07	\$ 2.91	\$ 2.62	\$ 1.33
Total expenses	(0.51)	(1.42)	(1.56)	(1.51)	(1.25)	(1.17)
Realized gains (losses) for the period	(4.50)	(3.93)	(0.12)	3.29	(0.79)	1.30
Unrealized gains (losses) for the period	10.00	(21.97)	(12.44)	10.76	7.04	4.45
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	\$ 6.33	\$ (23.19)	\$ (10.05)	\$ 15.45	\$ 7.62	\$ 5.91
<b>Distributions</b>						
From income (excluding dividends)	\$ -	\$ 2.35	\$ 2.19	\$ 0.96	\$ 0.29	\$ 0
From dividends	-	0.23	0.12	0.30	1.10	0.16
From capital gains	-	0	0	0	0	1.30
<b>Total annual distributions <sup>(3)</sup></b>	\$ -	\$ 2.58	\$ 2.31	\$ 1.26	\$ 1.39	\$ 1.46
<b>Net assets at end of period shown</b>	\$ 60.38	\$ 53.78	\$ 79.87	\$ 91.65	\$ 78.22	\$ 70.03
<b>Net assets at end of period shown in \$US</b>	\$ 51.95	\$ 44.13	\$ 80.76	\$ 78.65	\$ 67.09	

### Ratios and Supplemental Data Series A

	June 30 <u>2009</u>	Dec.31 <u>2008</u>	Dec.31 <u>2007</u>	Dec.31 <u>2006</u>	Dec.31 <u>2005</u>	Dec.31 <u>2004</u>
Total net asset value (000's) <sup>(5)</sup>	\$ 432,099	\$ 411,198	\$ 643,874	\$ 614,044	\$ 342,334	\$ 166,711
Number of units outstanding <sup>(5)</sup>	7,148,375	7,620,577	8,051,058	6,700,136	4,376,444	2,380,689
Management expense ratio <sup>(6)</sup>	1.78%	1.73%	1.70%	1.74%	1.75%	1.77%
Management expense ratio before waivers or absorptions	1.78%	1.73%	1.70%	1.74%	1.75%	1.77%
Trading expense ratio <sup>(7)</sup>	0.02%	0.04%	0.07%	0.03%	0.11%	0.11%
Portfolio turnover rate <sup>(8)</sup>	7.48%	21.58%	16.61%	14.60%	10.03%	30.00%
Net asset value per unit	\$ 60.45	\$ 53.96	\$ 79.97	\$ 91.65	\$ 78.22	\$ 70.03

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

	June 30 <u>2009</u>	Dec.31 <u>2008</u>	Dec.31 <u>2007</u>	Dec.31 <u>2006</u>	Dec.31 <sup>(4)</sup> <u>2005</u>
<b>Net assets, beginning of period</b>	\$ 53.64	\$ 79.58	\$ 91.23	\$ 78.22	\$ 75.56
<b>Increase (decrease) from operations</b>					
Total revenue	\$ 1.36	\$4.11	\$ 4.03	\$ 6.31	\$ 1.75
Total expenses	(0.37)	(1.02)	(1.08)	(1.20)	(0.26)
Realized gains (losses) for the period	(4.77)	(3.63)	0.05	4.23	0
Unrealized gains (losses) for the period	9.40	(22.16)	(13.41)	7.26	0.73
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	\$ 5.62	\$ (22.70)	\$ (10.41)	\$ 16.60	\$ 2.22
<b>Distributions</b>					
From income (excluding dividends)	\$ -	\$ 2.63	\$ 2.72	\$ 1.39	\$ 0.77
From dividends	-	0.26	0.15	0.44	0.72
From capital gains	-	0	0	0	0
<b>Total annual distributions <sup>(3)</sup></b>	\$ -	\$ 2.89	\$ 2.87	\$ 1.83	\$ 1.49
<b>Net assets at end of period shown</b>	\$ 60.35	\$ 53.64	\$ 79.58	\$ 91.40	\$ 78.22
<b>Net assets at end of period shown in \$US</b>	\$ 51.93	\$ 44.01	\$ 80.46	\$ 78.45	\$ 67.09

## Ratios and Supplemental Data Series F

	June 30 <u>2009</u>	Dec.31 <u>2008</u>	Dec.31 <u>2007</u>	Dec.31 <u>2006</u>	Dec.31 <u>2005</u>
Total net asset value (000's) <sup>(5)</sup>	\$ 28,641	\$ 30,840	\$ 53,194	\$ 36,142	\$ 3,496
Number of units outstanding <sup>(5)</sup>	474,040	573,132	667,640	395,408	44,689
Management expense ratio <sup>(6)</sup>	1.26%	1.20%	1.17%	1.20%	0.30%
Management expense ratio before waivers or absorptions	1.26%	1.20%	1.17%	1.20%	0.30%
Trading expense ratio <sup>(7)</sup>	0.02%	0.04%	0.07%	0.03%	0.11%
Portfolio turnover rate <sup>(8)</sup>	7.48%	21.58%	16.61%	14.60%	10.00%
Net asset value per unit	\$ 60.42	\$ 53.81	\$ 79.67	\$ 91.40	\$ 78.22

<sup>(1)</sup> This information is derived from the Fund's audited annual financial statements and unaudited interim financial statements. The net assets per unit presented in the financial statements differ from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

<sup>(2)</sup> Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.

<sup>(3)</sup> Distributions were reinvested in additional units of the Fund or paid in cash upon request.

<sup>(4)</sup> The numbers for 2005 are for the period from September 30 to December 31.

<sup>(5)</sup> This information is provided as at period end shown and is rounded to the nearest thousand.

<sup>(6)</sup> Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of weekly average net asset value during the period. The 2005 management expense ratio for Series F is for the period from September 30 to December 31.

<sup>(7)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net asset value during the period.

<sup>(8)</sup> The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

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## Management Fees

The Manager manages the Fund. The Manager is entitled to an investment management fee calculated as a percentage of the market value of the net assets equal to 0.125% per month for Series A units and 0.083% per month for Series F units. The Manager pays 50 basis points per year trailer fees to dealers out of management fees for Series A units. There is no trailer fee paid out for Series F units.

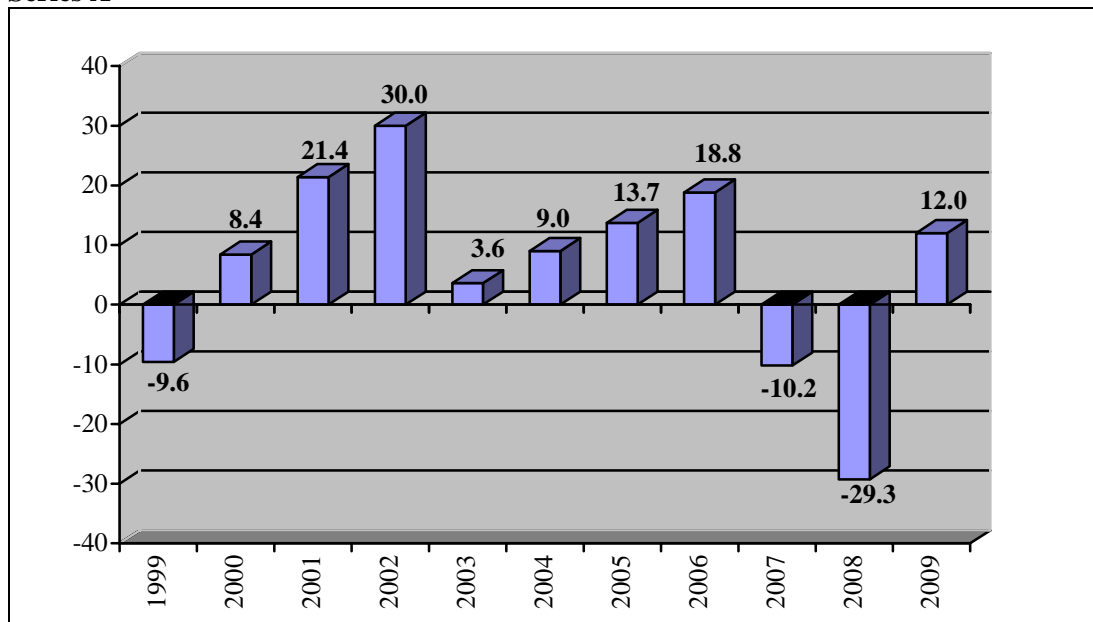
## Past Performance

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

## Year-by-Year Returns

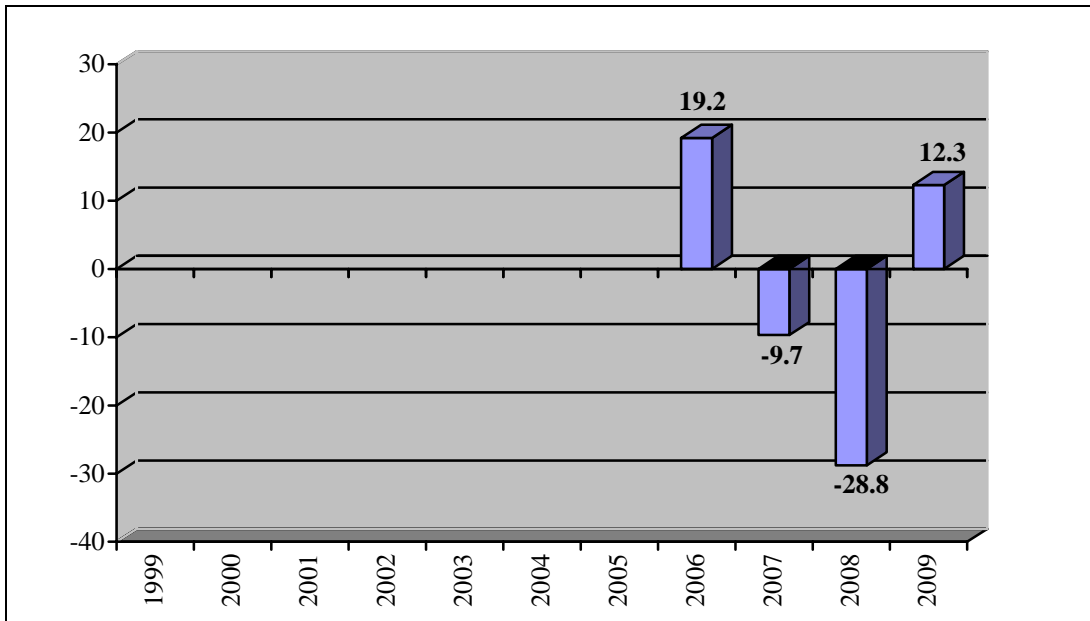
The bar charts show the annual performance for Series A and Series F units of the Fund for each of the years shown. Each chart shows, in percentage terms, how an investment on January 1 would have increased or decreased by December 31 for each of the years, and how the performance varied from year to year. The return for 2009 is for the six month period from January 1 to June 30.

### Series A



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## Series F



## Annual Compound Returns

The following tables <sup>(1)</sup> show the annual compound total return for Series A and Series F units of Chou Associates Fund. The returns are for the period ended June 30, 2009. Below each return is a benchmark comparison.

### Series A

June 30, 2009	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years	Since Inception
Associates Fund	-19.0%	-7.6%	0%	5.5%	10.8%	10.7%
S&P 500 (\$CAN)	-15.8%	-6.9%	-5.0%	-4.5%	5.7%	7.6%

### Series F

June 30, 2009	Past Year	Past 3 Years	Since Inception
Associates Fund	-18.4%	-7.1%	-2.6%
S&P 500 (\$CAN)	-15.8%	-6.9%	-5.4%

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

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## Summary of Investment Portfolio as at June 30, 2009

### Portfolio by Category

Health Care	30.3%
Telecommunications	22.9%
Consumer Services	17.9%
Financials	10.3%
Industrials	5.5%
Basic Material	5.2%
Technology	1.4%
Net Cash & Equivalents	<u>6.5%</u>
Total Portfolio	100.0%

### Top Twenty-Five Holdings

(excluding cash equivalents)

King Pharmaceuticals Inc.	13.6%
Level 3 Communications Inc. debts	11.0%
Watson Pharmaceuticals Inc.	6.0%
Overstock.com Inc. shares & debts	5.7%
Sears Holdings Corporation	5.6%
Biovail Corporation	5.4%
Flagstone Reinsurance Holdings Ltd.	4.4%
Royal Boskalis Westminster nv	4.3%
Berkshire Hathaway Inc., Class A	4.3%
Sanofi-Aventis ADR	4.0%
Primus Telecommunications Group Inc. debts	3.7%
Global Crossing (UK) Finance PLC debts	3.3%
RCN Corporation	2.6%
Abitibi-Consolidated Inc. debts	2.5%
International Coal Group Inc. shares & debts	2.4%
Qwest Communications International Inc.	2.1%
The Interpublic Group of Companies debts	1.9%
Office Depot Inc.	1.7%
Olympus Re Holdings Ltd.	1.6%
UTStarcom Inc.	1.4%
Media General Inc., Class A	1.1%
USG Corporation	1.0%
K-Swiss Inc., Class A	1.0%
Mannkind Corporation	0.9%
The McClatchy Company debts	<u>0.6%</u>
Top Twenty-Five Holdings	92.1%

The Summary of Investment Portfolio will change due to ongoing portfolio transactions of the Fund. The next quarterly update as at September 30, 2009 will be in the Quarterly Portfolio Disclosure which will be posted on our website [www.choufunds.com](http://www.choufunds.com) on or before November 30, 2009.

For more information contact your investment advisor or:

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