

# **INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE**

## **June 30, 2011**

### **CHOU ASSOCIATES FUND**

This interim management report of fund performance contains financial highlights; it 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 as above to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

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

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

Chou Associates Management Inc. ("the Manager") manages the overall business of the Fund, including 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.

# CHOU ASSOCIATES FUND

---

## 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 Fund's most recently filed Simplified Prospectus.

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

As at June 30, 2011, Fairfax Financial Holdings held 23.7% of the 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.

### Results of Operations

For the period ended June 30, 2011, Chou Associates Fund (the "Fund") returned 1.8% for Series A units and 2.1% for Series F units, while the S&P 500 Total Return Index returned 2.8% in Canadian dollars. In \$US, the Fund returned 4.9% for Series A units and 5.2% for Series F units, while the S&P 500 Total Return Index returned 6.0%.

The strength of the Canadian dollar against the U.S. dollar had a negative impact on the results of the Fund. The difference in performance results between the net asset value per unit (NAVPU) priced in Canadian dollars, versus U.S. dollars, is attributable to the fact that on December 31, 2010, one U.S. dollar was worth approximately \$0.99 Cdn, whereas six months later, on June 30, 2011, one U.S. dollar was worth approximately \$0.96 Cdn. Even if the price of an American security remained the same in the first half of 2011, it would have nonetheless shown a depreciation of roughly 3% on June 30 when priced in Canadian dollars.

During the first six months of 2011, the stock market, as measured by the S&P 500, advanced despite numerous political and economic uncertainties. The second quarter ended with investors turning much more cautious as sovereign debt problems in Europe resurfaced, and concerns over growth in China intensified. In the U.S., the end of second quantitative easing and the political stalemate over increasing the debt ceiling created further investor anxiety.

## CHOU ASSOCIATES FUND

---

Positive contributors to the Fund's performance were equity securities of Sanofi, Watson Pharmaceuticals, Valeant Pharmaceuticals, Sprint Nextel, and debt securities of Level 3 Communications.

Securities that declined the most in the first half of 2011 were equity securities of Flagstone Re, MannKind, Overstock.com, AbitibiBowater, and Class A warrants of Bank of America.

The Fund added shares of The Gap, RadioShack and Goldman Sachs Group, warrants of JPMorgan Chase & Company, and bank debts of RH Donnelley to the portfolio.

On the sell side, the Fund sold all debt securities of Overstock.com.

On February 28, 2011, Pfizer completed its acquisition of King Pharmaceuticals at a cash price of \$14.25 per share.

On May 6, 2011, Sanofi-Aventis changed its name to Sanofi after shareholders' approval.

On June 15, 2011, St. Louis, Missouri-based Arch Coal completed the acquisition of International Coal Group, Inc. (ICG) through a merger, at a cash price of \$14.60 per share. ICG is now a wholly-owned subsidiary of Arch Coal.

During the period, we received a second distribution following Abitibi-Consolidated's emergence from bankruptcy in December 2010. For various Abitibi-Consolidated debts we had in the portfolio, we received 4,720 additional AbitibiBowater shares. We expect to receive further share distributions.

In the first half of 2011, we received \$1,691,689 income from our securities lending program.

We have no covered call options in the portfolio as of June 30, 2011.

We did not enter into any foreign currency contracts during the first half of 2011.

Net redemptions for the period were approximately \$24,981,000 for Series A units and net purchases of \$2,088,000 for Series F units. Our average month-end cash position for the period was 26.0% of net assets.

### **Recent Developments**

#### ***Changeover to International Financial Reporting Standards***

In accordance with the Canadian Accounting Standards Board proposals, effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. However, in January 2011, the Canadian Accounting Standards Board approved a deferral of the effective date for the changeover to IFRS for investment funds to January 1, 2013.

The Manager has already initiated the process of developing its IFRS changeover plan by performing an impact assessment and identifying differences between current Canadian GAAP and IFRS. The process of evaluating the potential impact of IFRS on the financial statements is ongoing as the International Accounting Standards Board and the Canadian Accounting Standards Board continue to issue new standards and recommendations.

## CHOU ASSOCIATES FUND

---

The Manager will continue to evaluate potential changes to the financial statements along with the impact on accounting policies, business functions, information technology and internal controls.

Based on the Manager's current evaluation of the differences between Canadian GAAP and IFRS, the Manager expects that the impact of IFRS on the Fund's financial statements will be additional disclosures and potentially different presentation of certain items. Further, the value used to determine the price of the Fund's units for purchase and redemption by clients (Transactional NAV) is not expected to be affected.

### **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.

# CHOU ASSOCIATES FUND

---

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the period ended June 30, 2011 and prior years as applicable.

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

	June 30 <u>2011</u>	Dec.31 <u>2010</u>	Dec.31 <u>2009</u>	Dec.31 <u>2008</u>	Dec.31 <u>2007</u>	Dec.31 <u>2006</u>
<b>Net assets, beginning of period</b>	\$ 80.73	\$ 68.34	\$ 53.78	\$ 79.87	\$ 91.48	\$ 78.22
<b>Increase (decrease) from operations</b>						
Total revenue	\$ 1.54	\$ 2.49	\$ 2.44	\$ 4.13	\$ 4.07	\$ 2.91
Total expenses	(0.78)	(1.37)	(1.10)	(1.42)	(1.56)	(1.51)
Realized gains (losses) for the period	6.50	4.92	(8.17)	(3.93)	(0.12)	3.29
Unrealized gains (losses) for the period	(5.70)	6.91	22.54	(21.97)	(12.44)	10.76
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	\$ 1.56	\$ 12.95	\$ 15.71	\$ (23.19)	\$ (10.05)	\$ 15.45
<b>Distributions</b>						
From income (excluding dividends)	\$ -	\$ 0.62	\$ 1.29	\$ 2.35	\$ 2.19	\$ 0.96
From dividends	-	0.09	0.24	0.23	0.12	0.30
From capital gains	-	-	-	-	-	-
Return of capital	-	-	-	-	-	-
<b>Total annual distributions <sup>(3)</sup></b>	\$ -	\$ 0.71	\$ 1.53	\$ 2.58	\$ 2.31	\$ 1.26
<b>Net assets at end of period shown</b>	\$ 82.21	\$ 80.73	\$ 68.34	\$ 53.78	\$ 79.87	\$ 91.65
<b>Net assets at end of period shown in \$US</b>	\$ 85.25	\$ 81.20	\$ 65.31	\$ 44.13	\$ 80.76	\$ 78.65

### Ratios and Supplemental Data Series A

	June 30 <u>2011</u>	Dec.31 <u>2010</u>	Dec.31 <u>2009</u>	Dec.31 <u>2008</u>	Dec.31 <u>2007</u>	Dec.31 <u>2006</u>
Total net asset value (000's) <sup>(4)</sup>	\$ 482,581	\$ 498,540	\$ 469,714	\$ 411,198	\$ 643,874	\$ 614,044
Number of units outstanding <sup>(4)</sup>	5,861,693	6,163,099	6,861,528	7,620,577	8,051,058	6,700,136
Management expense ratio <sup>(5)</sup>	1.84%	1.79%	1.76%	1.73%	1.70%	1.74%
Management expense ratio before waivers or absorptions	1.84%	1.79%	1.76%	1.73%	1.70%	1.74%
Trading expense ratio <sup>(6)</sup>	0.08%	0.13%	0.05%	0.04%	0.07%	0.03%
Portfolio turnover rate <sup>(7)</sup>	16.37%	11.29%	13.73%	21.58%	16.61%	14.60%
Net asset value per unit	\$ 82.33	\$ 80.89	\$ 68.46	\$ 53.96	\$ 79.97	\$ 91.65

# CHOU ASSOCIATES FUND

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

	June 30 <u>2011</u>	Dec.31 <u>2010</u>	Dec.31 <u>2009</u>	Dec.31 <u>2008</u>	Dec.31 <u>2007</u>	Dec.31 <u>2006</u>
<b>Net assets, beginning of period</b>	\$ 80.51	\$ 68.22	\$ 53.64	\$ 79.58	\$ 91.23	\$ 78.22
<b>Increase (decrease) from operations</b>						
Total revenue	\$ 1.54	\$ 2.48	\$ 2.48	\$ 4.11	\$ 4.03	\$ 6.31
Total expenses	(0.54)	(0.97)	(0.79)	(1.02)	(1.08)	(1.20)
Realized gains (losses) for the period	6.32	5.08	(8.62)	(3.63)	0.05	4.23
Unrealized gains (losses) for the period	(5.78)	6.94	21.76	(22.16)	(13.41)	7.26
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	\$ 1.54	\$ 13.53	\$ 14.83	\$ (22.70)	\$ (10.41)	\$ 16.60
<b>Distributions</b>						
From income (excluding dividends)	\$ -	\$ 1.04	\$ 1.49	\$ 2.63	\$ 2.72	\$ 1.39
From dividends	-	0.14	0.28	0.26	0.15	0.44
From capital gains	-	-	-	-	-	-
Return of capital	-	-	-	-	-	-
<b>Total annual distributions <sup>(3)</sup></b>	\$ -	\$ 1.18	\$ 1.77	\$ 2.89	\$ 2.87	\$ 1.83
<b>Net assets at end of period shown</b>	\$ 82.22	\$ 80.51	\$ 68.22	\$ 53.64	\$ 79.58	\$ 91.40
<b>Net assets at end of period shown in \$US</b>	\$ 85.26	\$ 80.98	\$ 65.20	\$ 44.01	\$ 80.46	\$ 78.45

## Ratios and Supplemental Data Series F

	June 30 <u>2011</u>	Dec.31 <u>2010</u>	Dec.31 <u>2009</u>	Dec.31 <u>2008</u>	Dec.31 <u>2007</u>	Dec.31 <u>2006</u>
Total net asset value (000's) <sup>(4)</sup>	\$ 34,745	\$ 32,030	\$ 28,636	\$ 30,840	\$ 53,194	\$ 36,142
Number of units outstanding <sup>(4)</sup>	421,992	397,040	419,050	573,132	667,640	395,408
Management expense ratio <sup>(5)</sup>	1.27%	1.25%	1.24%	1.20%	1.17%	1.20%
Management expense ratio before waivers or absorptions	1.27%	1.25%	1.24%	1.20%	1.17%	1.20%
Trading expense ratio <sup>(6)</sup>	0.08%	0.13%	0.05%	0.04%	0.07%	0.03%
Portfolio turnover rate <sup>(7)</sup>	16.37%	11.29%	13.73%	21.58%	16.61%	14.60%
Net asset value per unit	\$ 82.34	\$ 80.67	\$ 68.34	\$ 53.81	\$ 79.67	\$ 91.40

<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 differs 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> This information is provided as at period end shown and is rounded to the nearest thousand.

<sup>(5)</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 Manager may, at its discretion, waive or absorb certain operating expenses. MER includes the waiver or absorption by the Manager of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by the Manager.

<sup>(6)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net asset value during the period.

<sup>(7)</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.

# CHOU ASSOCIATES FUND

---

## 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.

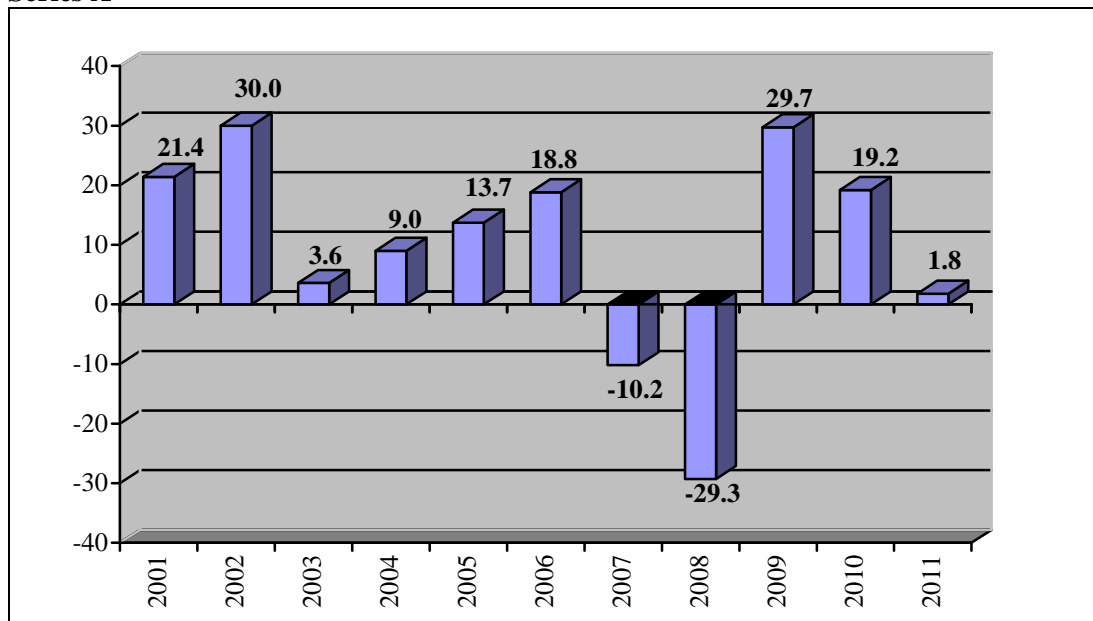
## Past Performance

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

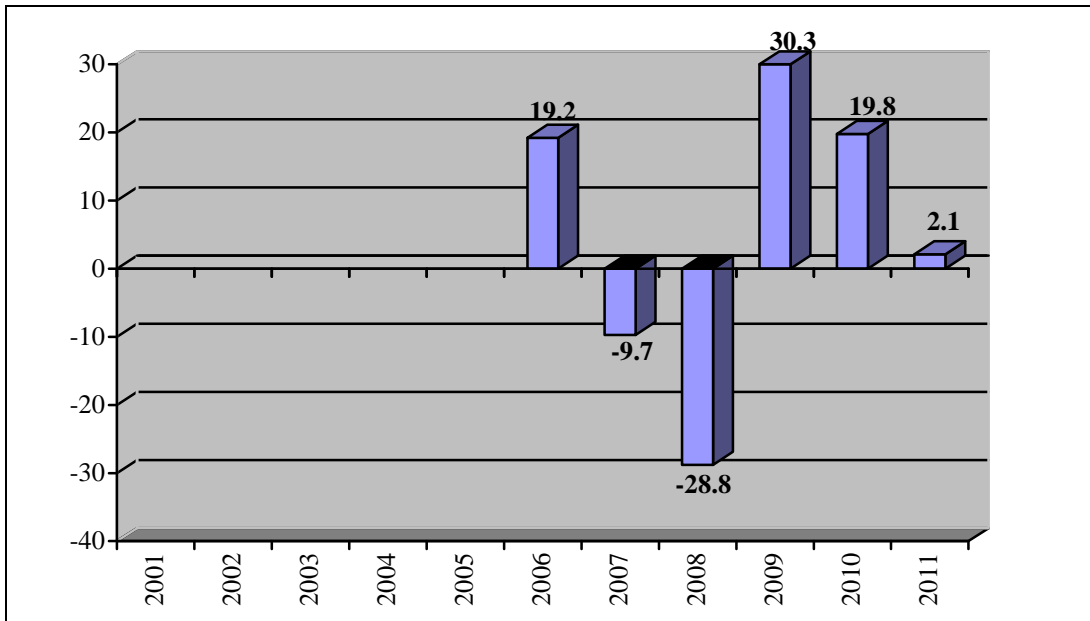
The bar charts show the annual performance for Series A and Series F units of the Fund for each of the years shown. Each chart shows, in percentage terms, how an investment on January 1 would have increased or decreased by December 31 for each of the years, and how the performance varied from year to year. The return for 2011 is for the six month period from January 1 to June 30.

### Series A



# CHOU ASSOCIATES FUND

## 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, 2011. Below each return is a benchmark comparison.

### Series A

June 30, 2011	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years	Since Inception
Associates Fund	16.0%	4.4%	2.1%	8.2%	10.9%	11.3%
S&P 500 (\$CAN)	18.6%	1.5%	0%	-1.8%	4.1%	7.9%

### Series F

June 30, 2011	Past Year	Past 3 Years	Past 5 Years	Since Inception
Associates Fund	16.6%	5.0%	2.6%	4.5%
S&P 500 (\$CAN)	18.6%	1.5%	0%	0.1%

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

# CHOU ASSOCIATES FUND

---

## Summary of Investment Portfolio as at June 30, 2011

### Portfolio by Category

Telecommunications	21.2%
Financials	19.9%
Consumer Services	15.9%
Health Care	14.9%
Basic Material	5.1%
Industrials	1.1%
Net Cash & Equivalents	<u>21.9%</u>
<b>Total Portfolio</b>	<b>100.0%</b>

### Top 25 Holdings

(excluding cash equivalents)

Level 3 Communications Inc. debts	9.9%
Watson Pharmaceuticals Inc.	8.1%
Berkshire Hathaway Inc., Class A	6.5%
Sprint Nextel Corporation	6.1%
Sears Holdings Corporation	5.2%
AbitibiBowater Inc.	5.1%
Overstock.com Inc.	4.3%
Bank of America Corporation warrants, Class A	4.0%
Primus Telecommunications Group Inc. shares & debts	3.8%
Sanofi ADR	2.9%
Goldman Sachs Group Inc.	2.8%
RadioShack Corporation	2.5%
Flagstone Reinsurance Holdings Ltd.	2.4%
Valeant Pharmaceuticals International Inc.	2.2%
JPMorgan Chase & Company warrants	2.0%
MannKind Corporation	1.7%
Wells Fargo and Company warrants	1.7%
RH Donnelley term loans	1.5%
USG Corporation	1.1%
Global Crossing UK Finance debts	1.0%
Gannett Company Inc.	0.9%
Media General Inc., Class A	0.7%
Olympus Re Holdings Ltd.	0.5%
The Gap Inc.	0.5%
XO Holdings Inc.	<u>0.4%</u>
<b>Top 25 Holdings</b>	<b>77.8%</b>

The Summary of Investment Portfolio will change due to ongoing portfolio transactions of the Fund. The next quarterly update as at September 30, 2011 will be in the Quarterly Portfolio Disclosure and will be posted on our website [www.choufunds.com](http://www.choufunds.com) on or before November 30, 2011.

For more information contact your investment advisor or:

**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**

Citigroup Fund Services Canada, Inc.  
2920 Matheson Boulevard East  
Mississauga, Ontario  
L4W 5J4

Tel: 905-214-8224

Toll-free: 1-866-379-3266

Fax: 1-866-877-9477

**Auditors**

Burns Hubley LLP  
90 Allstate Parkway  
Suite 501  
Markham, Ontario  
L3R 6H3

**Legal Counsel**

Owens, Wright LLP  
20 Holly Street  
Suite 300  
Toronto, Ontario  
M4S 3B1