

MANAGEMENT REPORT OF FUND PERFORMANCE

December 31, 2012

CHOU BOND FUND

This annual management report of fund performance contains financial highlights but does not contain the complete financial statements of the Fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling Toll-free: 1-888-357-5070, by writing to us at 110 Sheppard Ave. East, Suite 301, Box 18, Toronto, Ontario M2N 6Y8 or by visiting our website at www.choufunds.com and SEDAR at www.sedar.com.

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

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

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

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

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Management Discussion of Fund Performance

Investment Objective and Strategies

Chou Bond Fund's (the "Fund") objective is to provide conservation of principal and income production with capital appreciation as a secondary consideration. 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. The Fund's investments may be made in bonds outside of Canada and the U.S.

Risk

The risks of investing in the Fund are disclosed in the Fund's most recently filed Simplified Prospectus which can be found on the Fund's website at www.choufunds.com and SEDAR at www.sedar.com.

During the year ended December 31, 2012, there were no material changes that affected the Fund's overall level of risk.

Results of Operations

For the year ended December 31, 2012, the Fund returned 13.0% for Series A units and 13.1% for Series F units after fees and expenses, while Citigroup WGBI All Maturities Index was down 0.6% and Barclays U.S. Corporate High Yield Index returned 13.2% in Canadian dollars. In US dollars, the Fund returned 15.5% for Series A units and 15.7% for Series F units, while Citigroup WGBI All Maturities Index returned 1.6% and Barclays U.S. Corporate High Yield Index returned 15.8%.

Over the past several years, global financial markets have been very volatile and 2012 proved to be no exception. On the positive side, corporate profits in the United States remained strong and corporate balance sheets continued to improve. Spreads on high-grade and high-yield bonds continued to contract, reflecting increased confidence in an economic recovery. However, there were many periods of turmoil in 2012. Central banks came to the rescue, reassuring nervous investors through various forms of quantitative easing and promising low rates for extended periods of time. For example, the U.S. Federal Reserve said it would not raise rates until 2015.

The debt securities of Dex Media West LLC, Goldman Sachs Capital II, R.H. Donnelley Inc. and MannKind Corporation contributed the most to the Fund's performance during the year.

Declines came from the debt securities of ATP Oil & Gas Corporation and MBIA Insurance Company as well as equity securities of Resolute Forest Products Inc. and Postmedia Network Canada Corporation. The Fund received all these equity securities as the result of debt restructuring.

The Fund sold all of its Level 3 Communications' 11.875% bonds due 2019, Primus Telecommunications Holdings' 10.0% bonds due 2017 and its Hellenic Republic debt securities.

The Hellenic Republic swapped its amended Greek-law governed bonds on March 12, 2012 by delivering (i) new bonds of the Republic having a principal equal to 31.5% of the principal of the amended bonds, (ii) two series of PSI Payment Notes maturing on March 12, 2013 and March 12 2014, respectively, which together have a principal equal to 15% of the principal of the amended bonds and (iii) detachable GDP-linked securities of the Republic having a notional amount equal to the principal of each holder's new bonds. The Fund sold both series of PSI Payment Notes maturing on March 12, 2013 and March 12, 2014.

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Abitibi-Consolidated emerged from bankruptcy in December 2010. The Fund held various Abitibi-Consolidated debts in the portfolio that were converted into common shares of AbitibiBowater. As a follow up distribution, the Fund received 784 additional AbitibiBowater shares in January 2012. In May 2012, shareholders approved changing AbitibiBowater's name to Resolute Forest Products Inc.

In August, all remaining Morris Publishing Group's 10.0% debts due 2014 were called at \$101.

In September, Catalyst Paper Corporation's 11.0% bonds due 2016 were converted into a combination of new bonds and common shares. In total, 2,900,000 old bonds were converted into 1,882,083 new 11% bonds due 2017 and 108,606 common shares.

The Compton Petroleum Corporation debt security was the Fund's biggest loss due to the unprecedented fall in the price of natural gas to \$2 per million Btu in 2012. Historically, there has been a strong relationship between the price of oil and gas, usually in the realm of 8 to 1. In 2012, the ratio went over 50 to 1. As a result, Compton Petroleum had to restructure its debt, with the unfortunate result that the common shares the Fund received were valued far below the price that the Fund paid for its debt security.

The Fund did not enter into any foreign currency contracts during the year ended December 31, 2012.

The Fund's net redemptions for the year ended December 31, 2012 were approximately \$8,302,000 for Series A units and \$3,271,000 for Series F units. The Fund's average month-end cash position for the year was 6.5% of the Fund's net assets.

Recent Developments

Changeover to International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board ("AcSB") confirmed that publicly accountable enterprises would be required to adopt International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board ("IASB"), on January 1, 2011. However, the AcSB deferred the mandatory IFRS changeover date for Canadian investment funds to January 1, 2014.

Consequently, the Fund will publish its first annual audited financial statements in accordance with IFRS for the year ending December 31, 2014, with comparatives for the year ending December 31, 2013, and prepare an opening IFRS statement of net assets at January 1, 2013.

The Manager has not identified any changes that will impact NAV per unit as a result of the changeover to IFRS. However, this determination is subject to change as the Manager finalizes its assessment of the impact of IFRS, and the impact of new standards issued by the IASB prior to the Fund's adoption of IFRS.

The criteria contained within IAS 32 Financial Instruments: Presentation may require unitholders' equity to be classified as a liability within the Fund's Statement of Net Assets, unless certain conditions are met. The Manager is currently assessing the Fund's unitholder structure to confirm the appropriate classification in accordance with IFRS.

IFRS is also expected to affect the overall presentation of financial statements, such as the inclusion of a Statement of Cash Flows in the financial statements. Overall, enhanced disclosure requirements are expected.

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Related Party Transactions

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

The Manager is also the trustee of the Fund. Investors receive units of a trust when they invest in the Fund. The Manager, as trustee, holds actual title to the property in the Fund -- the cash and portfolio securities -- on behalf of the Fund's investors.

During the year ended December 31, 2012, there were no transactions with related parties except in the capacities and instances 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 past five years.

The Fund's Net Asset Value (NAV) per unit Series A

The Fund's Net Assets per unit⁽¹⁾

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net assets, beginning of year	\$ 7.98	\$ 10.75	\$ 8.50	\$ 6.34	\$ 11.45
<i>Increase (decrease) from operations:</i>					
Total revenue	\$ 0.74	\$ 0.86	\$ 0.81	\$ 0.53	\$ 0.95
Total expenses	(0.12)	(0.15)	(0.14)	(0.11)	(0.06)
Realized gains (losses) for the period	(0.37)	0.76	0.04	(1.15)	(1.74)
Unrealized gains (losses) for the period	0.76	(3.36)	2.11	3.40	(3.44)
Total increase (decrease) from operations⁽²⁾	\$ 1.01	\$ (1.89)	\$ 2.82	\$ 2.67	\$ (4.29)
<i>Distributions:</i>					
From income (excluding dividends)	\$ 0.72	\$ 0.80	\$ 0.51	\$ 0.52	\$ 0.80
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total annual distributions⁽³⁾	\$ 0.72	\$ 0.80	\$ 0.51	\$ 0.52	\$ 0.80
<i>Net assets at December 31 of year shown</i>	\$ 8.30	\$ 7.98	\$ 10.75	\$ 8.50	\$ 6.34
<i>Net assets at December 31 of year shown in \$US</i>	\$ 8.34	\$ 7.85	\$ 10.82	\$ 8.12	\$ 5.20

Ratios and Supplemental Data Series A

Ratios and Supplemental Data

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total net asset value (000's) ⁽⁴⁾	\$ 36,850	\$ 40,716	\$ 60,095	\$ 57,878	\$ 45,347
Number of units outstanding	4,434,113	5,091,719	5,575,084	6,801,007	7,153,342
Management expense ratio ⁽⁵⁾	1.45%	1.47%	1.43%	1.39%	0.50%
Management expense ratio before waivers or absorptions	1.45%	1.47%	1.43%	1.39%	1.36%
Trading expense ratio ⁽⁶⁾	0.01%	0.01%	0.27%	0.01%	0%
Portfolio turnover rate ⁽⁷⁾	11.59%	33.88%	67.64%	61.00%	46.02%
Net asset value per unit	\$ 8.31	\$ 8.00	\$ 10.78	\$ 8.51	\$ 6.34

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The Fund's Net Asset Value (NAV) per unit Series F

The Fund's Net Assets per unit ⁽¹⁾

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net assets, beginning of year	\$ 7.99	\$ 10.73	\$ 8.49	\$ 6.31	\$ 11.45
<i>Increase (decrease) from operations:</i>					
Total revenue	\$ 0.74	\$ 0.86	\$ 0.80	\$ 0.50	\$ 0.95
Total expenses	(0.11)	(0.13)	(0.13)	(0.10)	(0.05)
Realized gains (losses) for the period	(0.40)	0.77	(0.01)	(0.85)	(1.71)
Unrealized gains (losses) for the period	0.75	(3.39)	2.13	3.18	(3.49)
Total increase (decrease) from operations ⁽²⁾	\$ 0.98	\$ (1.89)	\$ 2.79	\$ 2.73	\$ (4.30)
<i>Distributions:</i>					
From income (excluding dividends)	\$ 0.72	\$ 0.79	\$ 0.54	\$ 0.50	\$ 0.82
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total annual distributions ⁽³⁾	\$ 0.72	\$ 0.79	\$ 0.54	\$ 0.50	\$ 0.82
Net assets at December 31 of year shown	\$ 8.33	\$ 7.99	\$ 10.73	\$ 8.49	\$ 6.31
Net assets at December 31 of year shown in \$US	\$ 8.37	\$ 7.86	\$ 10.80	\$ 8.11	\$ 5.18

Ratios and Supplemental Data Series F

Ratios and Supplemental Data

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total net asset value (000's) ⁽⁴⁾	\$ 7,180	\$ 9,457	\$ 16,779	\$ 13,236	\$ 7,388
Number of units outstanding	861,551	1,181,760	1,559,793	1,556,801	1,170,405
Management expense ratio ⁽⁵⁾	1.29%	1.30%	1.26%	1.23%	0.45%
Management expense ratio before waivers or absorptions	1.29%	1.30%	1.26%	1.23%	1.19%
Trading expense ratio ⁽⁶⁾	0.01%	0.01%	0.27%	0.01%	0%
Portfolio turnover rate ⁽⁷⁾	11.59%	33.88%	67.64%	61.00%	46.02%
Net asset value per unit	\$ 8.33	\$ 8.00	\$ 10.76	\$ 8.50	\$ 6.31

⁽¹⁾ This information is derived from the Fund's audited annual financial statements. The net assets per security 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.

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

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

⁽⁴⁾ This information is provided as at year end shown and is rounded to the nearest thousand.

⁽⁵⁾ Management expense ratio ("MER") is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of weekly average net asset value during the period. The Manager may, at its discretion, waive or absorb certain operating expenses. MER includes the waiver or absorption by the Manager of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by the Manager.

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

⁽⁷⁾ The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

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Management Fees

The Manager manages the Fund. The Manager is entitled to an investment management fee calculated daily as a percentage of the market value of the net assets equal to 1.15% per annum for Series A units and 1.0% per annum for Series F units, payable monthly. The Manager pays 15 basis points per year trailer fees to dealers out of management fees for Series A units. There is no trailer fee paid out for Series F units.

Past Performance

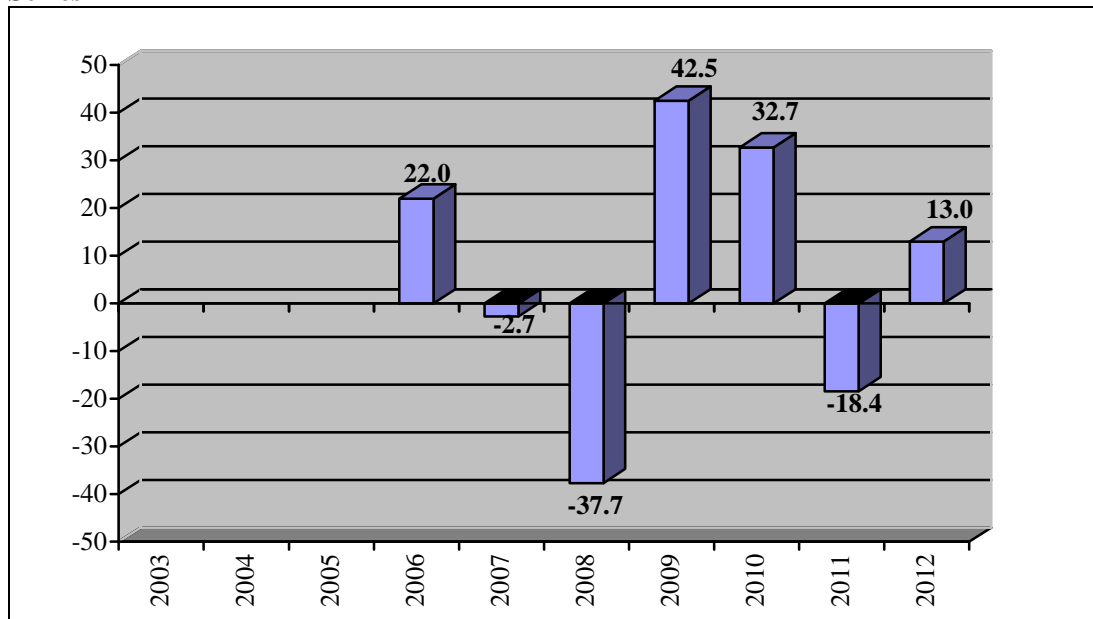
General

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

Year-by-Year Returns

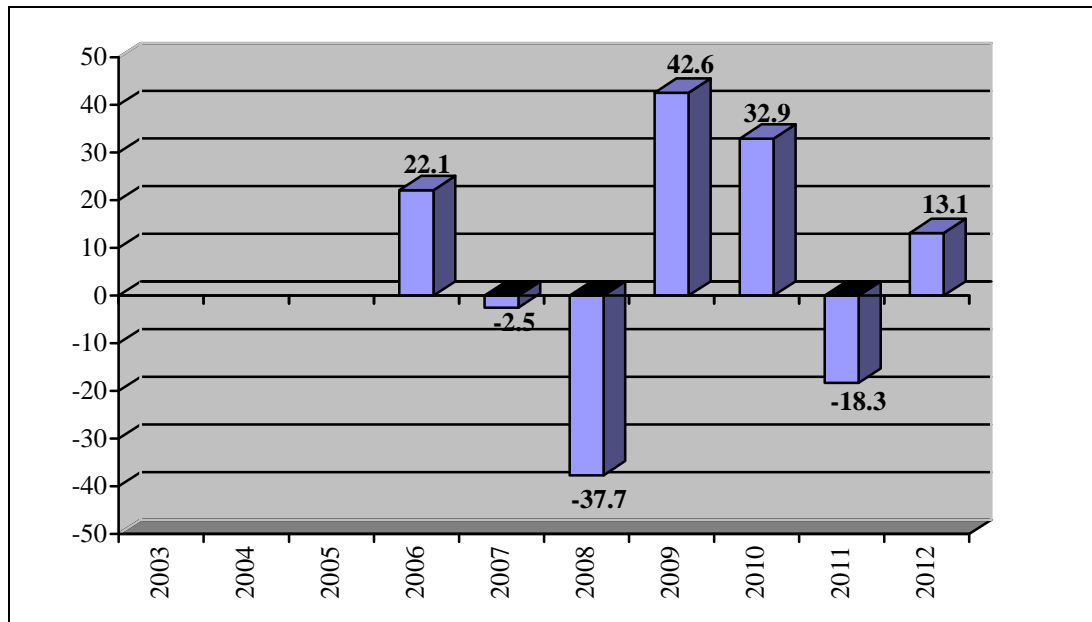
The following bar charts show the annual performance for each of the Series A and Series F units of the Fund for each of the years shown. Each chart shows, in percentage terms, how an investment on January 1 would have increased or decreased by December 31 for each of the years, and how the performance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

Series A



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Series F



Annual Compound Returns

The following tables ⁽¹⁾ show the annual compound total return for each of the Series A and Series F units of the Fund. The tables outline the Fund's past performance since inception and for the five, three and one year periods ended on December 31, 2012. For the same periods for which the annual compound returns of the Fund are provided, included in each of the tables below are the historical annual compound total returns or changes of the Citigroup WGBI All Maturities (\$CAN) and the Barclays U.S. Corporate High Yield Index (each an "Index"). The Citigroup WGBI All Maturities (\$CAN) Index is a widely used index that follows the Canadian debt market. The Barclays U.S. Corporate High Yield Index is a broad-based benchmark that measures the non-investment grade, fixed-rate, taxable, corporate bond market. It includes \$US-denominated securities publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers that meet specified maturity, liquidity, and quality requirements. Each benchmark Index is calculated without the deduction of management fees and fund expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses.

Series A

December 31, 2012	Past Year	Past 3 Years	Past 5 Years	Since Inception
Chou Bond Fund	13.0%	6.9%	1.7%	4.1%
Citigroup WGBI All Maturities (\$CAN)	-0.6%	2.6%	5.5%	3.0%
Barclays U.S. Corporate High Yield Index (\$CAN)	13.2%	10.0%	10.5%	6.3%

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Series F

December 31, 2012	Past Year	Past 3 Years	Past 5 Years	Since Inception
Chou Bond Fund	13.1%	7.1%	1.8%	4.2%
Citigroup WGBI All Maturities (\$CAN)	-0.6%	2.6%	5.5%	3.5%
Barclays U.S. Corporate High Yield Index (\$CAN)	13.2%	10.0%	10.5%	6.6%

⁽¹⁾ Tables assume the reinvestment of all income.

Both series of the Fund over performed the Index during the year ended December 31, 2012.

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Summary of Investment Portfolio

The following tables provide a summary of the Fund's portfolio as at December 31, 2012

<u>Portfolio Allocation</u>	<u>% of Fund's Net Assets</u>
Foreign corporate debts	55.8%
Common shares ⁽¹⁾	15.7%
Corporate debts	15.5%
Net Cash & Equivalents	<u>13.0%</u>
Total Portfolio	100.0%

<u>Total Issuers</u> (excluding cash equivalents)	<u>% of Fund's Net Assets</u>
Resolute Forest Products Inc. ^{(1) (2)}	15.0%
MannKind Corporation debts	14.2%
Atlanticus Holdings Corporation debts ⁽³⁾	11.9%
R.H. Donnelley Inc. term loans	7.6%
Catalyst Paper Corporation shares & debts	6.5%
Dex Media West LLC term loans	6.5%
MEGA Brands Inc. debts	5.1%
Level 3 Communications Inc. debts	4.7%
Taiga Building Products Ltd. debts	4.1%
Goldman Sachs Capital II. debts	3.5%
Media General Inc. debts	2.7%
Dex One Corporation debts	2.5%
Texas Competitive Electric debts	1.4%
ATP Oil & Gas Corporation debts	0.5%
Postmedia Network Canada Corporation ⁽¹⁾	0.4%
MBIA Insurance Company debts	<u>0.4%</u>
Total Holdings	87.0%

⁽¹⁾ Shares received from debt restructuring

⁽²⁾ AbitibiBowater Inc. changed its name to Resolute Forest Products Inc.

⁽³⁾ CompuCredit Holdings changed its name to Atlanticus Holdings Corporation

The summary of the Fund's investment portfolio may change due to ongoing portfolio transactions of the Fund. The next quarterly update as at March 31, 2013 will be in the Quarterly Portfolio Disclosure and will be posted on our website www.choufunds.com on or before May 31, 2013.

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