

# **INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE**

## **June 30, 2011**

### **CHOU BOND 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.

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## Management Discussion of Fund Performance

### Investment Objective and Strategies

The Fund's objective is to provide conservation of principal and income production with capital appreciation as a secondary consideration. The Fund invests primarily in Canadian and US 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.

### 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.

### Results of Operations

For the period ended June 30, 2011, Chou Bond Fund (the "Fund") was down 3.7% for Series A units and 3.6% for Series F units, while Citigroup WGBI All Maturities Index returned 0.9% and Barclays U.S. Corporate High Yield Index returned 2.0% in Canadian dollars. In \$US, the Fund was down 0.7% for Series A units and 0.6% for Series F units, while Citigroup WGBI All Maturities Index returned 4.0% and Barclays U.S. Corporate High Yield Index returned 5.0%.

For most of the first six months of 2011, spreads on high yield and investment grade corporate bonds narrowed as investors gained confidence in the global economic recovery, and as capital markets continued to be very accessible, giving companies the advantage of low interest rates. But this changed and in late May through June, spreads began to widen as the sovereign debt problems in Europe resurfaced and markets prepared for the end of the second phase of quantitative easing in the U.S. As a result of the ensuing uncertainty about global economic growth in the second half of 2011, investors turned more cautious.

The debt securities of Level 3 Communications contributed the most to the Fund's performance during the period.

We suffered declines in the debt securities of CompuCredit, MannKind, Dex One Corporation and equity securities of AbitibiBowater.

The Fund added debt securities of the following companies to the portfolio: Compton Petroleum Financial, Media General, Morris Publishing Group.

On the sell side, the Fund also sold all its holdings in the following debt securities: Wells Fargo, McClatchy Company, Global Crossing and Overstock.com.

Fibretek Inc. 7% notes due December 31, 2011 were called at par.

According to the restructuring proceedings under the *Companies' Creditors Arrangement Act* (Canada), holders of CanWest MediaWorks 9.25% Senior Subordinated Notes due 2015 were entitled to receive 19.676575 shares of Postmedia Networks Canada Corp. for each \$1,000 in principal amount of the notes. An initial distribution was received in the early part of the year; we may receive further distributions of shares in the future.

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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 810 additional AbitibiBowater shares. We expect to receive further share distributions.

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

Net redemptions for the period were approximately \$9,036,000 for Series A units and \$523,000 for Series F units. Our average month-end cash position for the period was 8.8% 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.

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.

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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, 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>	\$ 10.75	\$ 8.50	\$ 6.34	\$ 11.45	\$ 12.20	\$ 10.34
<b>Increase (decrease) from operations</b>						
Total revenue	\$ 0.41	\$ 0.81	\$ 0.53	\$ 0.95	\$ 0.67	\$ 0.73
Total expenses	(0.08)	(0.14)	(0.11)	(0.06)	(0.16)	(0.05)
Realized gains (losses) for the period	0.59	0.04	(1.15)	(1.74)	(0.53)	0.18
Unrealized gains (losses) for the period	(1.30)	2.11	3.40	(3.44)	(0.65)	1.14
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	\$ (0.38)	\$ 2.82	\$ 2.67	\$ (4.29)	\$ (0.67)	\$ 2.00
<b>Distributions</b>						
From income (excluding dividends)	\$ -	\$ 0.51	\$ 0.52	\$ 0.80	\$ 0.43	\$ 0.34
From dividends	-	-	-	-	-	-
From capital gains	-	-	-	-	-	0.06
Return of capital	-	-	-	-	-	-
<b>Total annual distributions <sup>(3)</sup></b>	\$ -	\$ 0.51	\$ 0.52	\$ 0.80	\$ 0.43	\$ 0.40
<b>Net assets at end of period shown</b>	\$ 10.33	\$ 10.75	\$ 8.50	\$ 6.34	\$ 11.45	\$ 12.21
<b>Net assets at end of period shown in \$US</b>	\$ 10.72	\$ 10.82	\$ 8.12	\$ 5.20	\$ 11.58	\$ 10.48

### 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>	\$ 49,148	\$ 60,095	\$ 57,878	\$ 45,347	\$ 76,295	\$ 31,776
Number of units outstanding <sup>(4)</sup>	4,733,350	5,575,084	6,801,007	7,153,342	6,660,305	2,602,344
Management expense ratio <sup>(5)</sup>	1.47%	1.43%	1.39%	0.50%	1.34%	0.40%
Management expense ratio before waivers or absorptions	1.47%	1.43%	1.39%	1.36%	1.34%	1.47%
Trading expense ratio <sup>(6)</sup>	0%	0.27%	0.01%	0%	0.02%	0.04%
Portfolio turnover rate <sup>(7)</sup>	19.74%	67.64%	61.00%	46.02%	36.52%	5.30%
Net asset value per unit	\$ 10.38	\$ 10.78	\$ 8.51	\$ 6.34	\$ 11.46	\$ 12.21

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## 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>	\$ 10.73	\$ 8.49	\$ 6.31	\$ 11.45	\$ 12.21	\$ 10.34
<b>Increase (decrease) from operations</b>						
Total revenue	\$ 0.41	\$ 0.80	\$ 0.50	\$ 0.95	\$ 0.67	\$ 0.89
Total expenses	(0.07)	(0.13)	(0.10)	(0.05)	(0.14)	(0.03)
Realized gains (losses) for the period	0.58	(0.01)	(0.85)	(1.71)	(0.52)	0.21
Unrealized gains (losses) for the period	(1.32)	2.13	3.18	(3.49)	(0.64)	1.05
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	\$ (0.40)	\$ 2.79	\$ 2.73	\$ (4.30)	\$ (0.63)	\$ 2.12
<b>Distributions</b>						
From income (excluding dividends)	\$ -	\$ 0.54	\$ 0.50	\$ 0.82	\$ 0.45	\$ 0.35
From dividends	-	-	-	-	-	-
From capital gains	-	-	-	-	-	0.06
Return of capital	-	-	-	-	-	-
<b>Total annual distributions <sup>(3)</sup></b>	\$ -	\$ 0.54	\$ 0.50	\$ 0.82	\$ 0.45	\$ 0.41
<b>Net assets at end of period shown</b>	\$ 10.32	\$ 10.73	\$ 8.49	\$ 6.31	\$ 11.45	\$ 12.22
<b>Net assets at end of period shown in \$US</b>	\$ 10.71	\$ 10.80	\$ 8.11	\$ 5.18	\$ 11.58	\$ 10.48

## 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>	\$ 15,660	\$ 16,779	\$ 13,236	\$ 7,388	\$ 10,610	\$ 4,595
Number of units outstanding <sup>(4)</sup>	1,509,848	1,559,793	1,556,801	1,170,405	925,972	376,179
Management expense ratio <sup>(5)</sup>	1.30%	1.26%	1.23%	0.45%	1.18%	0.24%
Management expense ratio before waivers or absorptions	1.30%	1.26%	1.23%	1.19%	1.18%	1.31%
Trading expense ratio <sup>(6)</sup>	0%	0.27%	0.01%	0%	0.02%	0.04%
Portfolio turnover rate <sup>(7)</sup>	19.74%	67.64%	61.00%	46.02%	36.52%	5.30%
Net asset value per unit	\$ 10.37	\$ 10.76	\$ 8.50	\$ 6.31	\$ 11.46	\$ 12.22

<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 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.

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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 0.0958% per month for Series A units and 0.083% per month for Series F units. 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.

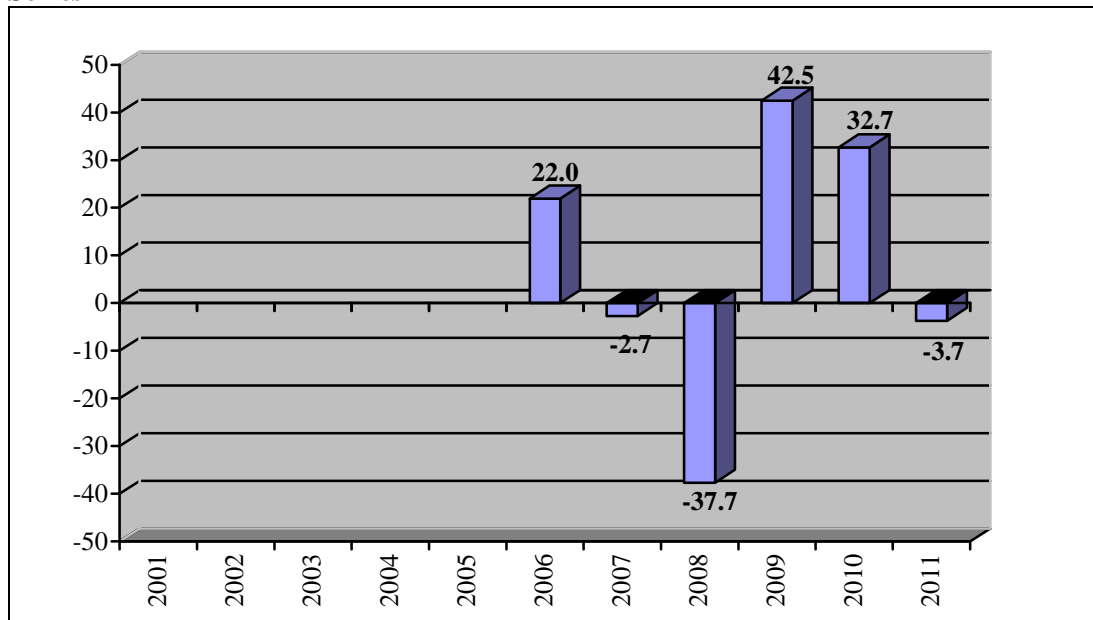
## Past Performance

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

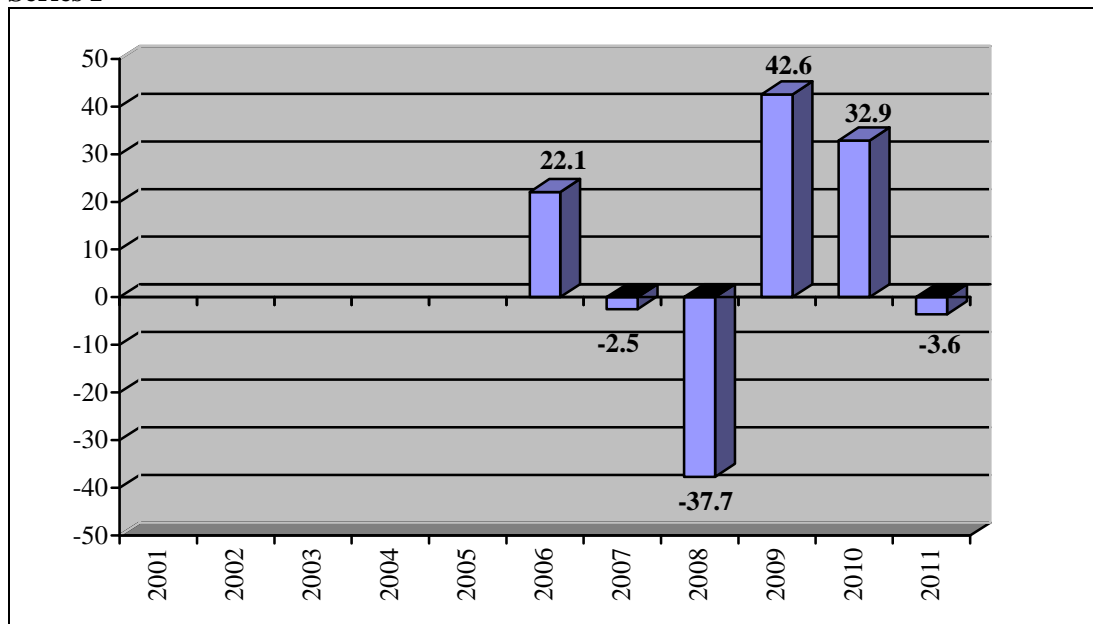
The bar charts show the annual performance for Series A and Series F units of the Fund for each of the years shown. Each chart shows, in percentage terms, how an investment on January 1 would have increased or decreased by December 31 for each of the years, and how the performance varied from year to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

### Series A



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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 Bond Fund. The returns are for the period ended June 30, 2011. Below each return are benchmarks for comparison.

### Series A

June 30, 2011	Past Year	Past 3 Years	Past 5 Years	Since Inception
Bond Fund	5.0%	3.7%	4.2%	6.0%
Citigroup WGBI All Maturities (\$CAN)	0.4%	3.8%	4.3%	2.5%
Barclays U.S. Corporate High Yield Index (\$CAN)	5.0%	10.8%	6.2%	5.0%

### Series F

June 30, 2011	Past Year	Past 3 Years	Past 5 Years	Since Inception
Bond Fund	5.2%	3.8%	4.3%	6.1%
Citigroup WGBI All Maturities (\$CAN)	0.4%	3.8%	4.3%	3.1%
Barclays U.S. Corporate High Yield Index (\$CAN)	5.0%	10.8%	6.2%	5.1%

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

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

#### Portfolio Allocation

Foreign Corporate debts	57.5%
Corporate debts	22.6%
Common shares	18.1%
Net Cash & Equivalents	<u>1.8%</u>
<b>Total Portfolio</b>	<b>100.0%</b>

#### Total Holdings

(excluding cash equivalents)

AbitibiBowater Inc.*	16.1%
Level 3 Communications Inc. debts	12.2%
MEGA Brands Inc. debts	9.6%
CompuCredit Holdings debts	8.5%
MannKind Corporation debts	8.3%
Compton Petroleum Financial debts	6.1%
RH Donnelley Inc. bank debts	5.7%
Goldman Sachs Capital Inc. debts	4.8%
Morris Publishing Group debts	4.7%
Primus Telecommunications Group Inc. debts	4.0%
Catalyst Paper Corporation debts	3.7%
ATP Oil & Gas Corporation debts	3.0%
Taiga Building Products Ltd. debts	2.6%
Media General debts	2.5%
Dex One Corporation debts	2.0%
Postmedia Network Canada*	2.0%
Texas Competitive Electric debts	1.8%
Clarke Inc. debts	0.5%
Abitibi-Consolidated Inc. debt stubs	<u>0.1%</u>
<b>Total Holdings</b>	<b>98.2%</b>

\*Shares received from debt restructuring

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:

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