

MANAGEMENT REPORT OF FUND PERFORMANCE

December 31, 2009

CHOU EUROPE FUND

This annual 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 and SEDAR at 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 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.

CHOU EUROPE 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 securities of European businesses considered by the Manager to be undervalued. Investments may be made in securities markets located outside of Europe and 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 year, there were no material changes that affected the Fund's overall level of risk.

Results of Operations

For the year ended December 31, 2009, Chou Europe Fund (the "Fund") returned 34.7% for Series A units and 35.3% for Series F units while the MSCI AC Europe Total Return Index returned 18.6% in Canadian dollars. In \$US, the Fund returned 56.9% for Series A units and 57.6% for Series F units while the MSCI AC Europe Total Return Index returned 38.0%.

The gains on forward currency contracts helped minimize the negative impact the stronger Canadian dollar had on the results of the Fund. The Fund gained US \$708,871 on the currency contract that expired on October 16, 2009. On December 31, 2008, one U.S. dollar was worth approximately \$1.22 Canadian, whereas one year later, on December 31, 2009, one U.S. dollar was worth approximately \$1.05 Canadian. The Fund did not enter into any forward currency contracts for sterling or Euros during the year. As such, even if the price of a security denominated in sterling or Euros remained the same on December 31, 2009 compared to a year ago, it would have shown a depreciation of roughly 12.1% and 5.0% respectively when priced in Canadian dollars.

After unprecedented interventions by governments around the world, the Fund benefited from the recovery of the global equity and fixed income markets that began in early March. Capital markets also opened up to give companies access to much needed capital. However, large spending by governments around the world has led investors to question the ability of several countries to repay their outstanding debts; this concern over "sovereign debt" will continue to be a focal point of markets in 2010.

Positive contributors to the Fund's performance were Alexon Group PLC, Next PLC, Topps Tiles PLC, CryptoLogic Inc. and Royal Boskalis Westminster.

Securities in the portfolio that declined most in 2009 were GlaxoSmithKline, Glacier Media Inc. and Ryanair Holdings.

We tendered 650,000 Global Crossing UK Finance 10.75% debt maturing in 2014 but only 17,000 were accepted at par by the company.

CHOU EUROPE FUND

We exchanged The McClatchy Company 5.75% debt maturing in 2017 for 15.75% structurally senior debt maturing in 2014. For each \$1,000 of principal, we received \$270 15.75% senior debt due 2014. In all, we exchanged 3 million 5.75% debt for 810,000 15.75% debt.

The Fund added the following new names to the portfolio: Nokia ADR, the world's leading mobile phone supplier and a leading supplier of mobile and fixed telecom networks and related customer services; Aer Lingus Group PLC and Ryanair Holdings ADR, Ireland's low cost airlines, providing low-fare air travel services.

The Fund sold the following positions from the portfolio: Clinton Cards PLC, Natuzzi S.p.A. and debt securities of Level 3 Communications and Abitibi-Consolidated Inc.

Net redemptions for the year were approximately \$927,000. Our average month-end cash position was 12.7% of net assets.

Recent Developments

Amendments to Section 3862, Financial Instruments - Disclosures

In June 2009, the Canadian Accounting Standards Board incorporated the recent amendments to International Financial Reporting Standards 7, Financial Instruments: Disclosures, into CICA Handbook Section 3862, Financial Instruments – Disclosures. The amendments expand the disclosures required in respect of fair value measurements recognized in the financial statements. For the purpose of these expanded disclosures, a three-level hierarchy has been introduced 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 asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data. Additional quantitative disclosures are required for Level 3 securities.

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 Fund will issue its financial results for the semi-annual period ending June 30, 2011 on an IFRS basis, which will include comparative data on an IFRS basis, and an opening statement of net assets as at 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.

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 required that all publicly offered

CHOU EUROPE FUND

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 2009 IRC Annual Report is available on our website 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.

CHOU EUROPE 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 year ended December 31, 2009 and prior years as applicable.

The Fund's Net Assets per Unit ⁽¹⁾ Series A

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net assets, beginning of year	\$ 6.06	\$ 11.46	\$ 13.99	\$ 12.95	\$ 11.83
Increase (decrease) from operations					
Total revenue	\$ 0.39	\$ 0.50	\$ 0.56	\$ 0.45	\$ 0.41
Total expenses	(0.15)	0.25	(0.23)	(0.24)	(0.19)
Realized gains (losses) for the year	(3.57)	(0.84)	(0.17)	0.37	0.33
Unrealized gains (losses) for the year	5.46	(4.92)	(2.41)	0.76	0.31
Total increase (decrease) from operations ⁽²⁾	\$ 2.13	\$ (5.01)	\$ (2.25)	\$ 1.34	\$ 0.86
Distributions					
From income (excluding dividends)	\$ 0.76	\$ 0.35	\$ 0.34	\$ 0.17	\$ 0.09
From dividends	0	0	0	0.03	0.14
From capital gains	0	0	0	0.14	0
Return of capital	0	0	0	0	0
Total annual distributions ⁽³⁾	\$ 0.76	\$ 0.35	\$ 0.34	\$ 0.34	\$ 0.23
Net assets at December 31 of year shown	\$ 7.44	\$ 6.06	\$ 11.46	\$ 14.00	\$ 12.95
Net assets at December 31 of year shown in \$US	\$ 7.11	\$ 4.97	\$ 11.59	\$ 12.02	\$ 11.11

Ratios and Supplemental Data Series A

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Total net asset value (000's) ⁽⁵⁾	\$ 8,525	\$ 7,071	\$ 13,539	\$ 15,919	\$ 12,702
Number of units outstanding ⁽⁵⁾	1,141,295	1,157,290	1,173,236	1,137,019	980,743
Management expense ratio ⁽⁶⁾	1.80%	-2.88%	1.63%	1.78%	1.84%
Management expense ratio before waivers or absorptions	1.80%	1.73%	1.87%	1.78%	1.84%
Trading expense ratio ⁽⁷⁾	0.08%	0.06%	0.11%	0.08%	0.14%
Portfolio turnover rate ⁽⁸⁾	40.06%	29.71%	26.98%	36.80%	33.00%
Net asset value per unit	\$ 7.47	\$ 6.11	\$ 11.54	\$ 14.00	\$ 12.95

CHOU EUROPE FUND

The Fund's Net Assets per Unit ⁽¹⁾ Series F

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	⁽⁴⁾ <u>2005</u>
Net assets, beginning of year	\$ 6.10	\$ 11.51	\$ 13.91	\$ 12.95	\$ 12.59
Increase (decrease) from operations					
Total revenue	\$ 0.40	\$ 0.51	\$ 0.57	\$ 0.83	\$ 0.31
Total expenses	(0.11)	0.34	(0.17)	(0.20)	(0.07)
Realized gains (losses) for the year	(3.68)	(0.72)	(0.31)	0.81	0
Unrealized gains (losses) for the year	5.65	(5.20)	(2.27)	0.73	0.30
Total increase (decrease) from operations ⁽²⁾	\$ 2.26	\$ (5.07)	\$ (2.18)	\$ 2.17	\$ 0.54
Distributions					
From income (excluding dividends)	\$ 0.79	\$ 0.37	\$ 0.28	\$ 0.29	\$ 0.14
From dividends	0	0	0	0.04	0.10
From capital gains	0	0	0	0.14	0
Return of capital	0	0	0	0	0
Total annual distributions ⁽³⁾	\$ 0.79	\$ 0.37	\$ 0.28	\$ 0.47	\$ 0.24
Net assets at December 31 of year shown	\$ 7.51	\$ 6.10	\$ 11.51	\$ 13.92	\$ 12.95
Net assets at December 31 of year shown in \$US	\$ 7.18	\$ 5.01	\$ 11.64	\$ 11.95	\$ 11.11

Ratios and Supplemental Data Series F

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Total net asset value (000's) ⁽⁵⁾	\$ 289	\$ 265	\$ 740	\$ 1,493	\$ 63
Number of units outstanding ⁽⁵⁾	38,357	43,097	63,862	107,261	4,834
Management expense ratio ⁽⁶⁾	1.28%	-3.84%	1.20%	1.25%	0.32%
Management expense ratio before waivers or absorptions	1.28%	1.20%	1.34%	1.25%	0.32%
Trading expense ratio ⁽⁷⁾	0.08%	0.06%	0.11%	0.08%	0.14%
Portfolio turnover rate ⁽⁸⁾	40.06%	29.71%	26.98%	36.80%	33.00%
Net asset value per unit	\$ 7.54	\$ 6.16	\$ 11.59	\$ 13.92	\$ 12.95

⁽¹⁾ This information is derived from the Fund's audited annual 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.

⁽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⁾ The numbers for 2005 for Series F are for the period from September 30 to December 31.

⁽⁵⁾ This information is provided as at December 31 of the year end shown and is rounded to the nearest thousand.

⁽⁶⁾ 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.

⁽⁷⁾ 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.

⁽⁸⁾ 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 EUROPE 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.

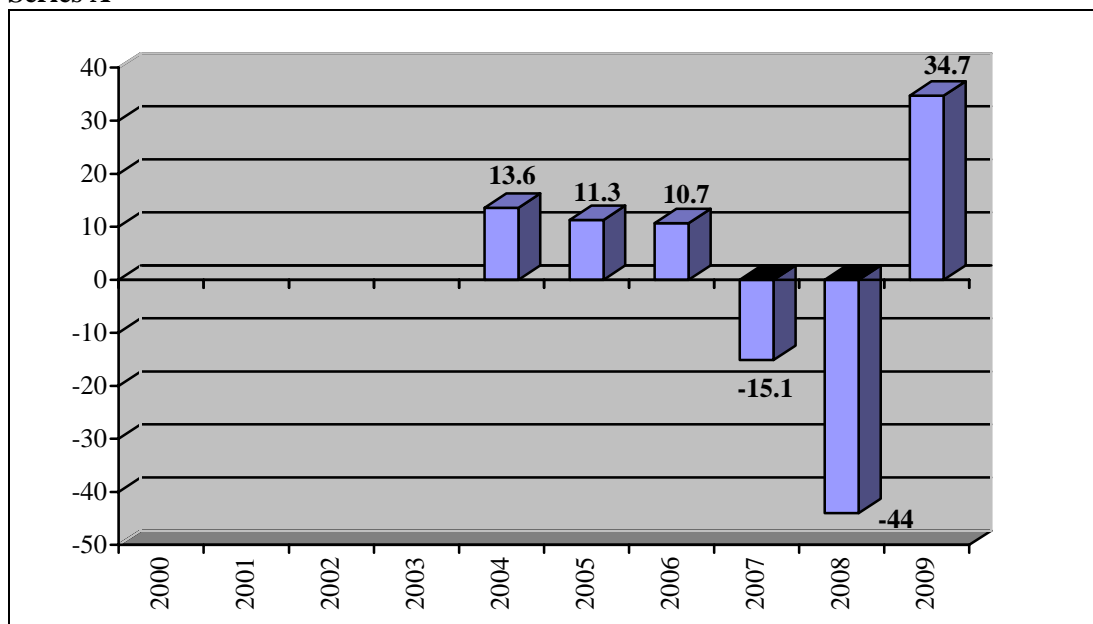
Past Performance

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

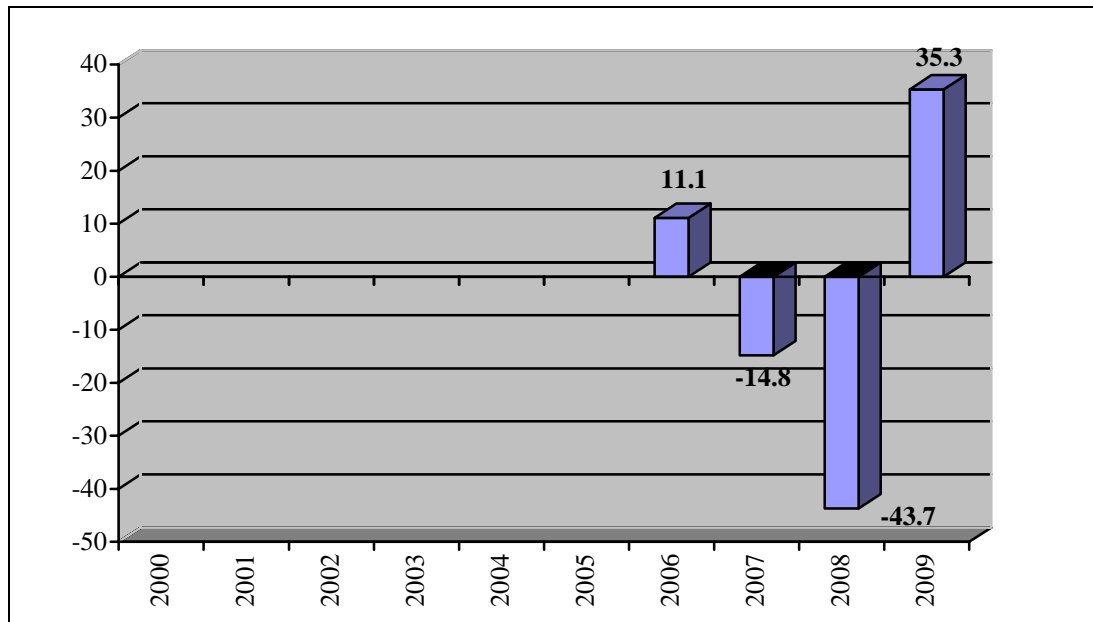
The bar charts show the annual performance for Series A and Series F units of the Fund for each of the years shown. Each chart shows, in percentage terms, how an investment on January 1 would have increased or decreased by December 31 for each of the years, and how the performance varied from year to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

Series A



CHOU EUROPE FUND

Series F



Annual Compound Returns

The following tables ⁽¹⁾ show the annual compound total return for Series A and Series F units of Chou Europe Fund. Below each return is a benchmark comparison.

Series A

December 31, 2009	Past Year	Past 3 Years	Past 5 Years	Since Inception
Europe Fund	34.7%	-13.8%	-4.6%	-1.0%
MSCI AC Europe (\$CAN)	18.6%	-8.9%	1.8%	5.3%

Series F

December 31, 2009	Past Year	Past 3 Years	Since Inception
Europe Fund	35.3%	-13.4%	-6.8%
MSCI AC Europe (\$CAN)	18.6%	-8.9%	1.0%

⁽¹⁾ Tables assume the reinvestment of all dividends.

CHOU EUROPE FUND

Summary of Investment Portfolio as at December 31, 2009

Geographic Distributions of Portfolio

United Kingdom	45.3%
Continental Europe	24.6%
United States	9.6%
Canada	3.5%
Net Cash & Equivalents	<u>17.0%</u>
Total Portfolio	100.0%

Total Holdings

(excluding cash equivalents)

The McClatchy Company debts	9.6%
Sanofi-Aventis ADR	9.3%
Next PLC	8.0%
Global Crossing (UK) Ltd., finance debts	7.6%
AstraZeneca PLC	7.2%
GlaxoSmithKline PLC	7.1%
Royal Boskalis Westminster nv	6.6%
Ryanair Holdings PLC ADR	6.4%
Topps Tiles PLC	5.9%
Alexon Group PLC	3.6%
Glacier Media Inc.	3.5%
Aer Lingus Group PLC	3.3%
CryptoLogic Limited	2.6%
Nokia Corporation ADR	<u>2.3%</u>
Total Holdings	83.0%

The Summary of Investment Portfolio will change due to ongoing portfolio transactions of the Fund. The next quarterly update as at March 31, 2010 will be in the Quarterly Portfolio Disclosure which will be posted on our website, www.choufunds.com, on or before May 31, 2010.

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