

**SIMPLIFIED PROSPECTUS**

**Chou Associates Fund  
Chou RRSP Fund  
Chou Europe Fund  
Chou Asia Fund  
Chou Bond Fund**

**SERIES A UNITS AND SERIES F UNITS**

**September 20, 2011**

*No securities regulatory authority has expressed an opinion about these units and it is an offence to claim otherwise.*

*The Funds and units of the Funds described in this Simplified Prospectus are not registered with the United States Securities and Exchange Commission and they are sold in the United States only in reliance on exemptions from registration.*

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## **Part A – General Information**

### **INTRODUCTION**

This document contains selected important information to help you make an informed investment decision and to help you understand your rights as an investor.

This document is divided into two parts:

- the first part (from pages 1 to 21) contains general information applicable to all of the Chou Funds
- the second part (from pages 22 to 39) contains specific information about each of the Funds described in this document

Additional information about each Fund is available in the Funds' annual information form, the Funds' most recently filed fund facts, the Fund's most recently filed annual financial statements, any interim financial statements of the Funds filed after those annual financial statements, the most recently filed annual management report of fund performance and any interim management report of fund performance filed after that annual management report of fund performance. These documents are incorporated by reference into this document, which means they legally form part of this document, just as if they had been printed as part of this document. You can obtain copies of these documents, including a statement of portfolio transactions, at no cost by calling (416) 214-0675 in Greater Toronto or 1-888-357-5070 outside Greater Toronto, or by facsimile at (416) 214-1733 contacting us at [admin@choufunds.com](mailto:admin@choufunds.com) or from your broker or dealer. Units of the Chou Funds are offered to investors in all provinces and territories of Canada.

In this Simplified Prospectus "we", "us", "our" and "Manager" mean Chou Associates Management Inc., and the "Funds" or "Chou Funds" means the mutual funds offered under the Simplified Prospectus. "You" means purchasers of the Funds.

These documents and other information about the Funds are also available at [www.sedar.com](http://www.sedar.com).

### **WHAT IS A MUTUAL FUND AND WHAT ARE THE RISKS OF INVESTING IN A MUTUAL FUND?**

#### **What is a Mutual Fund?**

A mutual fund is an investment vehicle created to permit people with similar investment objectives to pool their money. People who contribute money become investors or unitholders of the mutual fund. The units represent the proportionate interest the unitholders have in a fund's income and expenses and in gains or losses a fund makes on its investments. Mutual fund unitholders share the mutual fund's income, expenses and the gains and losses of the mutual fund in proportion to the units they own.

#### **Series of Securities**

All of the Chou Funds issue securities in more than one series. A series of securities may be viewed as a subdivision of the Fund for certain purposes (e.g. calculation of fees), but for other

purposes (e.g. investment activity), the Fund remains undivided. See **Purchases, Switches and Redemptions** on page 9 for more information.

### **What are the General Risks of Investing in Mutual Funds?**

Mutual funds own different types of investments - stocks, bonds, cash, derivatives - depending upon their investment objectives. The value of these investments will change from day to day, reflecting changes in interest rates, economic conditions, and market and company news. As a result, the value of each fund's units may go up and down, and the value of your investment in a mutual fund may be more or less when you redeem it than when you purchased it. Unprecedented turbulence in financial markets over the last years reduced liquidity in equity, credit and fixed-income markets and may negatively affect many investments worldwide, which could have an adverse effect on the Funds.

The full amount of your investment in any Chou Fund is not guaranteed. Unlike bank accounts or GIC's, mutual fund units are not covered by the Canada Deposit Insurance Corporation or any other government deposit insurer.

Under exceptional circumstances, a mutual fund may suspend redemptions. See **Redemptions** starting on page 11 for more information.

### **Different Mutual Funds have Different Risks**

All mutual funds involve some level of risk. Risk is the possibility you will either lose money or make no money on your investment. Generally, the higher an investment's anticipated return, the greater its risk. You should carefully review your tolerance for risk when reviewing an investment's anticipated return.

### **What are the Specific Risks associated with Mutual Funds?**

Below are some of the specific risks that can affect the value of your investment in a Fund.

#### **Below-Investment Grade Securities Risk**

Investments in securities rated below investment grade, or "junk bonds," generally involve significantly greater risks of loss of your money than an investment in investment grade bonds. Issuers of high-yield securities are not as strong financially as those with higher credit ratings, so the securities are usually considered speculative investments. These issuers are more vulnerable to financial difficulties and weak economic periods than more creditworthy issuers, which may impair their ability to make interest and principal payments. Rising interest rates may compound these difficulties and reduce an issuer's ability to repay principal and interest obligations. Issuers of lower-rated securities also have a greater risk of default or bankruptcy. Additionally, due to the greater number of considerations involved in the selection of a Fund's securities, the achievement of the Fund's objective depends more on the skills of the portfolio manager than investing only in higher rated securities. Therefore, your investment may experience greater volatility in price and yield. High-yield securities may be less liquid than higher quality investments. A security whose credit rating has been lowered may be particularly difficult to sell.

**Credit Risk**

The financial condition of an issuer of a debt security may cause it to default or become unable to pay interest or principal due on the security. If an issuer defaults, the affected security could lose all of its value, be renegotiated at a lower interest rate or principal amount, or become illiquid. Higher yielding debt securities of lower credit quality have greater credit risk than lower yielding securities with higher credit quality. The Funds may invest in debt securities that are issued by U.S. Government sponsored entities. Investments in these securities involve credit risk as they are not backed by the full faith and credit of the U.S. Government. The Funds may invest in Collateralized/Guaranteed Mortgage Obligations (“CMOs”). CMOs are divided into classes (often referred to as “tranches”) and certain tranches of CMOs have priority over other classes. No payment of principal will be made on any tranche until all other tranches with earlier stated maturity or distribution dates have been paid in full.

**Concentration Risk**

Funds which concentrate in a particular issuer or security are more affected by the performance of that particular issuer or security and tend to be more volatile than more diversified funds.

**Covered Call Option Risk**

Because the Funds may write covered call options, the Funds may be exposed to risk stemming from changes in the value of the stock that the option is written against. While call option premiums may generate incremental portfolio income, they also can limit gains from market movements. When the Fund writes covered calls on existing positions, it is limiting the potential upside in those particular stocks.

**Currency Risk**

Currency risk occurs when the Funds invest in securities denominated or traded in currencies other than the Canadian dollar (or the U.S. dollar for those investors who have purchased U.S. dollar denominated units). Changes in foreign currency exchange rates will affect the value of these securities.

**Derivatives Risk**

Derivatives risk occurs when a Fund enters into a derivatives transaction. A derivative is a contract between two parties, the value of which is based on the performance of other investments, such as equities, bonds, currencies or a market index. Derivatives may be traded in the over-the-counter market or on a stock exchange. A derivative is commonly a future or a forward contract or an option, but there are other types of derivative instruments as well. Futures or forward contracts are agreements to buy or sell a security, commodity or currency for a certain price on a certain future date. Options give the buyer the right to buy or sell a security, commodity or currency for a certain price on a certain future date. Derivatives may be used to limit, or hedge against, losses that may occur because of a Fund's investment in a security or exposure to a currency or market. This is called hedging. Derivatives may also be used to obtain exposure to financial markets, reduce transaction costs, create liquidity or increase the speed of portfolio transactions. These investments are made for non-hedging purposes. The following risks are associated with using derivatives:

- A premium paid for the derivatives erodes over time and may expire worthless;
- the use of derivatives for hedging may not be effective;

- a derivative contract may not be obtained when desired by a Fund because: (i) there may be a lack of parties wanting to buy or sell a derivative contract; or (ii) the exchanges on which some derivatives are traded may set daily trading limits on future contracts, preventing the Fund from closing a contract;
- the other party to the derivative contract may not be able to meet its obligations and may default;
- if an exchange halts trading in a certain stock option, a Fund may not be able to close its position in an option;
- the cost of the derivative contract may increase;
- the price of a derivative may not accurately reflect the value of the underlying security or index;
- the *Income Tax Act* (Canada), or its interpretation, may change in respect of the tax treatment of derivatives; and
- a large percentage of the assets of the Fund may be placed on deposit with one or more counterparties which exposes the Fund to the credit risk of those counterparties.

### **Distressed Securities Risk**

Distressed securities frequently do not produce income while they are outstanding. A Fund may be required to incur certain extraordinary expenses in order to protect and recover its investment. Therefore, to the extent that a Fund seeks capital appreciation through investment in distressed securities, the Fund's ability to achieve current income may be diminished. A Fund also will be subject to significant uncertainty as to when, in what manner and for what value the obligations evidenced by the distressed securities will eventually be satisfied (e.g., through a liquidation of the obligor's assets, an exchange offer or plan or reorganization involving the distressed securities or a payment of some amount in satisfaction of the obligation). In addition, even if an exchange offer is made or a plan of reorganization is adopted with respect to the distressed securities held by a Fund, there can be no assurance that the securities or other assets received by the Fund in connection with such exchange offer or plan of reorganization will not have a lower value or income potential that may have been anticipated when the investment was made. Moreover, any securities received by a Fund upon completion of an exchange offer or plan of reorganization may be restricted as to resale. As a result of the Fund's participation in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of distressed securities, a Fund may be restricted from disposing of such securities.

### **Emerging Markets Risk**

Emerging markets risk occurs because emerging markets are generally smaller, less developed, less liquid and more volatile than securities markets in Canada and the U.S. The risk of political or social upheaval is greater in emerging securities markets. Inflation and rapid fluctuations in inflation rates have had and may continue to have negative effects on the economies and securities markets of certain emerging market countries. Moreover, many of the emerging securities markets are relatively small, have low trading volumes, suffer periods of relative illiquidity and are characterized by significant price volatility and high transaction costs.

### **Equity Risk**

Funds which concentrate on equity investments are affected by specific company developments, by stock market conditions and by general economic and financial conditions in those countries

where the investments are listed for trading. Equity funds generally tend to be more volatile than fixed income funds, and the value of their units may vary more widely than fixed income funds.

### **Foreign Market Risk**

Foreign portfolio investments are affected by world economic factors and, in many cases, by the value of the Canadian dollar as measured against foreign currencies. There is often less available information about foreign companies than their North American counterparts due to less stringent reporting standards, government regulation and other disclosure requirements. This may make the price changes of investments in those companies increase or decrease more rapidly. Foreign stock markets may also be less liquid and more volatile, and may be subject to different financial, political or social factors which could negatively impact the value of a fund's investments. As a result, funds which specialize in foreign portfolio investments tend to be the most volatile funds in the short term, but may offer the potential of higher returns over the long term.

### **General Market Risk**

General market risk occurs when markets go down in value on the basis of economic developments, political changes, changes in economic policy or catastrophes.

### **Interest Rate Risk**

Interest rate risk is the risk that the value of the Fund's investments in fixed income securities will fall when interest rates rise. The effect of increasing interest rates is more pronounced for any intermediate-term or longer-term fixed income obligations owned by the Fund. In addition, spreads on certain fixed income investments can widen suddenly and sharply, negatively impacting the value of the underlying security. This can occur in both investment and non-investment grade securities.

### **Issuer Risk**

Issuer risk is the risk that the value of a security may decline for reasons that directly relate to the issuer of the security.

### **Legal and Regulatory Risk**

Legal and regulatory risk occurs as a result of the costs of complying with laws and regulations of governmental authorities or legal actions.

### **Liquidity Risk**

Liquidity risk occurs when a fund is not able to sell securities in a timely manner. This could be the result of an insufficient number of buyers in the market for a particular security. Investments with lower liquidity generally will be more volatile.

### **Political Risk**

Political risk is the risk that a certain industry or company within that industry may be negatively impacted by the current legislative environment. Examples of political risk include increased regulation and windfall taxes.

**Prepayment Risk**

Prepayment risk is the risk that, when interest rates decline, security issuers may experience an acceleration in prepayments of mortgage loans or other receivables which can shorten the maturity of the security and reduce the Fund's return. Issuers may also prepay their obligations on fixed rate debt securities when interest rates fall, forcing the Fund to invest in securities with lower interest rates.

**Refinancing Risk**

Refinancing risk is the risk that a company will not be able to refinance its existing debt prior to the maturity date of that debt. Principal reasons this would occur include significant deterioration in the fundamentals of the issuer as well as economic and financial shocks that impact the ability of the capital markets to function properly.

**Securities Lending, Repurchase and Reverse Repurchase Risk**

Repurchase and reverse repurchase transactions and securities lending risk may occur if the Funds enter into repurchase and reverse repurchase transactions and/or securities lending agreements. Investors will be given 60 days prior written notice before a Fund starts to enter into these types of transactions.

A repurchase transaction is where a Fund sells portfolio securities that it owns to a third party for cash and simultaneously agrees to buy back the securities at a later date at a specified price using the cash received by the Fund from the third party. While the Fund retains its exposure to changes in the value of the portfolio securities, it also earns fees for participating in the repurchase transaction.

A reverse repurchase transaction is where a Fund purchases securities from a third party and simultaneously agrees to sell the securities back to the third party at a later date at a specified price. The difference between the Fund's purchase price for the securities and the resale price provides the Fund with additional income.

A securities lending agreement is similar to a repurchase agreement except that instead of selling the securities and agreeing to buy them back later, the Fund loans the securities for a fee and can demand the return of the securities at any time. While the securities are on loan, the borrower provides the Fund with collateral consisting of cash and/or securities.

The risks associated with these types of transactions arise if the other party to the agreement defaults or goes bankrupt and the Fund experiences losses or delays in recovering its investment. In a repurchase or securities lending transaction, the Fund could incur a loss if the value of the securities sold or loaned has increased in value relative to the value of the cash or collateral held by the Fund. In the case of a reverse repurchase transaction, the Fund could incur a loss if the value of the securities purchased by the Fund decreases in value relative to the value of the collateral held by the Fund.

To minimize these risks, a Fund will not enter into these types of transactions unless it is, at a minimum, fully collateralized by liquid securities with a value of at least 102% of the market value of the securities sold, purchased or loaned, as the case may be. A Fund will not enter into a repurchase or securities lending agreement if, immediately thereafter, the aggregate market value

of all securities loaned by the Fund and not yet returned to it or sold by the Fund and not yet repurchased would exceed 50% of the total assets of the Fund, exclusive of cash held by the Fund. To minimize the risk of loss to the Fund, these transactions will only be entered into with parties that have adequate resources and financial strength to meet their obligations under the agreement.

**Series Risk**

Series risk occurs in all of the Funds that issue units in series. Each series has its own fees and expenses, which the Fund tracks separately. If, for any reason, a Fund cannot pay the expenses of one series using its proportionate share of the Fund's assets, the Fund will be required to pay those expenses out of the other series' proportionate share of the assets. This could lower the investment return of the other series.

**Value Stock Risk**

Value stock risk occurs when value securities do not increase in price as anticipated by us and may decline further in value if other investors fail to recognize the company's value or favour investing in faster-growing companies, or if the events or factors that we believe will increase a security's market value do not occur.

**ORGANIZATION AND MANAGEMENT OF THE FUNDS**

The table below tells you about the companies who are involved in managing or providing services to the Funds. The Manager is a registered portfolio manager and investment counsel.

<p><b>Manager</b>          Chou Associates Management Inc.          110 Sheppard Avenue East          Suite 301, P.O. Box 18          Toronto, Ontario          M2N 6Y8          Tel: (416) 214-0675          Fax: (416) 214-1733          Tel: 1-888-357-5070</p>	<p>The Manager provides management of the overall business of the Funds, including selection of the securities in each Fund's portfolio, and promoting sales of the Fund's units.</p>
<p><b>Trustee</b>          Chou Associates Management Inc.          110 Sheppard Avenue East          Suite 301, P.O. Box 18          Toronto, Ontario          M2N 6Y8</p>	<p>The Manager is also the trustee of the Funds. When you invest in one of the Funds, 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.</p>
<p><b>Portfolio Adviser</b>          Chou Associates Management Inc.          Toronto, Ontario</p>	<p>The Manager is also the portfolio adviser. The portfolio adviser carries out all research, purchases and sales of the Funds' portfolio securities.</p>

<p><b>Principal Distributor</b></p>	<p>The Funds have no principal distributor. Investors must purchase units through independent brokers and mutual fund dealers. The Manager does not accept purchase orders directly from investors unless the purchase order would be an exempt trade under applicable securities legislation.</p>
<p><b>Independent Review Committee</b></p>	<p>In accordance with National Instrument 81-107 - <i>Independent Review Committee for Mutual Funds</i> (also known as "Regulation 81-107 respecting Independent Review Committee for Investment Funds"), the Manager has established an Independent Review Committee ("IRC") to provide impartial judgement on conflicts of interest matters relating to the operations of the Funds. The IRC also approves any mergers involving the Funds or any change in the auditors of the Funds. Unitholder consent will not be obtained in these circumstances but you will be sent a written notice at least 60 days before the effective date of such merger or change in auditors of the Funds. Additional information about the IRC, including the names of its members, is available in the Funds' Annual Information Form. The IRC will prepare, at least annually, a report of its activities for unitholders which will be available on our website <a href="http://www.choufunds.com">www.choufunds.com</a> or, at your request and at no cost, by calling toll-free 1 (888) 357-5070 or by e-mail at <a href="mailto:admin@choufunds.com">admin@choufunds.com</a></p>
<p><b>Custodian</b> Citibank Canada Toronto, Ontario</p>	<p>The custodian has physical custody of the securities in the Fund's portfolio.</p>

<p><b>Recordkeeper</b> Citigroup Fund Services Canada, Inc. Toronto, Ontario</p>	<p>The recordkeeper provides or arranges for keeping all unitholder records, processing purchases and redemption orders, processing distributions, issuing investor account statements and annual tax reporting information for the Funds and provides valuation and fund accounting services.</p>
<p><b>Auditors</b> Burns Hubley LLP, Chartered Accountants Markham, Ontario</p>	<p>The auditors are an independent firm of chartered accountants that audit each Fund annually and ensure that the financial statements of the Funds present fairly their financial position in accordance with Canadian generally accepted accounting principles (and soon in accordance with the International Financial Reporting Standards).</p>

## **PURCHASES, SWITCHES AND REDEMPTIONS**

### **How the Units are Valued**

When you buy units of the Funds, you pay the price or net asset value ("NAV") per unit plus any applicable sales charges. When you redeem (sell) units, you receive the NAV per unit less any applicable redemption charges.

The NAV per unit of the RRSP Fund, the Europe Fund and the Asia Fund is determined each Friday after the Toronto Stock Exchange ("TSX") closes. The NAV per unit of the Associates Fund is determined each Friday after the New York Stock Exchange ("NYSE") closes. The NAV per unit of the Bond Fund is determined each Friday. In some circumstances, we may calculate net asset value at another time or more frequently. We calculate a separate NAV for each series of securities of a Fund.

The NAV of each series of a Fund is calculated by dividing the value of the net assets of the series (the value of the assets less liabilities) by the total number of units of the series.

The NAV is the price for all sales of units of a series (including on the reinvestment of distributions) and for redemptions. The issue and redemption price of units of a Fund is based on the Fund's net asset value next determined after the receipt of a purchase order and a redemption order.

### **Foreign Currencies**

Each Fund is valued in Canadian dollars for the purposes of purchases, switches and redemptions. Units of all of the Funds offered under this Simplified Prospectus are available for purchase in both U.S. and Canadian dollars. All purchases, switches, redemptions and distribution with respect to U.S. dollar-based units are made in U.S. dollars based on a conversion from the Canadian dollar at the then current exchange rate. If you chose to purchase

or redeem securities in a currency other than the one in which the Fund is denominated, you may experience a foreign exchange gain or loss due to a fluctuation in the relative value of the currencies between the date the purchase or redemption order is made and the date that the order is settled or paid.

### **Series of Securities**

Each Fund is permitted to have an unlimited number of series of securities and may issue an unlimited number of securities of each series. Please refer to **Fund Details** in the description of each Fund to determine what series of securities each Fund offers.

Series A securities of all of the Funds are available to all investors. Series F securities are available to investors who participate in fee-based programs through their dealer and whose dealer has signed a Series F agreement with us. Instead of paying sales charges, these investors pay an annual fee to their dealer for investment advice and other services. We do not pay any commission to a dealer who sells Series F securities which means that we can charge a lower management fee. Series F securities are also available to other groups of investors for whom we do not incur distribution costs.

The consideration that you and other investors pay to purchase securities of any series is tracked on a series by series basis in your Fund's administration records. However, the assets of all series of a Fund are combined in a single pool to create one portfolio for investment purposes.

### **How to Buy, Redeem and Switch**

You can buy, redeem or switch units of the Funds directly with the Funds or through your registered broker or dealer.

Once you place your order to buy, redeem or switch units, your broker or dealer will forward your order to us the same day.

If we receive your order before 4:00 p.m. Eastern time on any valuation date, you will pay or receive that day's NAV per unit. If we receive your order after 4:00 p.m. Eastern time on any valuation date, you will pay or receive the NAV per unit on the next valuation date. In the event that the Manager determines that NAV will be calculated at a time other than as at the close of business of the TSX or NYSE on a Friday, the price paid or received will be determined relative to that time. All orders are processed within three business days. You will find more information about buying, redeeming and switching units of the Funds in the annual information form.

These are the rules for buying mutual fund units. These rules were established by regulatory authorities:

- We must receive payment for the units within three business days of receiving your order.
- If we do not receive payment within three business days, we are required to sell your units. If the proceeds are greater than the payment you owe, the Fund will keep the difference. If the proceeds are less than the payment you owe, we must pay the Fund the difference, and we will collect this amount from your dealer, who may have the right to collect it from you.
- We have the right to reject any order to buy units within one business day of receiving it. If we reject your order, we will return your money immediately.

## **Purchases**

If you purchase units from your broker or dealer, you negotiate the sales commission you pay with your broker or dealer. Your broker or dealer will generally deduct the sales commission and forward the net amount of the order to be invested in the Fund or Funds selected.

We do not issue a certificate when you buy units of a Fund, but you will be sent a confirmation which is proof of your purchase.

Units of all of the Funds offered under this Simplified Prospectus are available for purchase in both U.S. and Canadian dollars. All purchases, switches, redemptions and distributions with respect to U.S. dollar-based units are made in U.S. dollars.

## **Minimum Amount you can Invest**

Your first purchase of units of each of the Funds, unless otherwise agreed by the Manager, must be at least \$5,000. Each purchase thereafter must be at least \$500.

## **Automatic Reinvestment of Dividends or Distributions**

We automatically reinvest all dividends or distributions of a Fund in additional units of the Fund unless you tell us in writing you want to receive cash. Distributions are made effective December 31 in each year.

## **Switches**

You can switch units from one Fund to another. A switch is usually a transfer of your investment money from one Fund to another within the Chou group of mutual funds. You must maintain a minimum account balance of \$5,000, and you must switch at least \$500 worth of units. When you want to switch units, we will switch the units of one Fund to units of a new Fund having an equivalent value. Switching units of one fund to units of a new Fund is a disposition for tax purposes. If you hold your units outside a registered plan, you may realize a capital gain or capital loss. Please see **Income Tax Considerations for Investors** on page 16.

When we receive your order to switch, we will sell units of the current Fund and use the proceeds to buy units of the new Fund.

If you switch your units of a Fund to units of another Fund, your broker or dealer may charge you a negotiable fee for a switch. Otherwise, the fees which are ordinarily charged in connection with a redemption are not applicable.

You may generally switch one series of a Fund for another series of the same Fund. Switching units from one series to another series of the same Fund is not a disposition for tax purposes. We do not charge any fees to switch between series of the same Fund.

## **Redemptions**

You may redeem (sell) your units on any day the TSX or NYSE is open for business. You or your broker or dealer will forward your redemption order to us. Unless a redemption order is received by us before 4:00 p.m. Eastern time on a valuation date, it will be processed for redemption as of the following valuation date.

You must provide us with all the documents we need to process your redemption request within three business days of placing your order. Generally, this will include:

- the Fund name and account number;
- the amount of the transaction (in dollars or number of units);
- signatures of all owners exactly as registered on the account;
- any signature guarantee by a bank, trust company or member of a recognized stock exchange or otherwise guaranteed to our satisfaction;
- any supporting legal documentation that may be required; and
- any outstanding certificates (if any) representing units to be redeemed.

If we do not receive all the documents within three business days, we are required to notify you that your redemption order is incomplete. If, within 10 business days, we still have not received all the documentation, we are required to repurchase your units. If the repurchase amount is less than the redemption proceeds, the Fund will keep the difference. If the repurchase amount is greater than the redemption proceeds, we must pay the Fund the difference, and we will collect this amount from your broker or dealer. Your broker or dealer may have the right to collect it from you.

If you are redeeming units, we will pay the redemption proceeds to you within three business days of receiving the information described above. If a unitholder requests redemption of units representing more than 10% of the outstanding units, payment of the redemption price may be made by transfer of a proportionate number of securities in lieu of cash.

If you redeem units within the applicable minimum hold period shown in the table under **Fees and Expenses**, a redemption fee may be deducted from your redemption proceeds. To reduce the fees you pay when redeeming units of a Fund, the Fund will first sell units that are not subject to the redemption fee (including any dividends or distributions on those units which have been reinvested).

Under extraordinary circumstances, the rights of investors to redeem units may be suspended by the Fund. The circumstances in which this might occur are when normal trading is suspended on any stock exchange, on which securities representing more than 50% of the total value of the assets of the Fund, and those securities or derivatives are not traded on any other exchange that represents a reasonable practical alternative, or otherwise with the consent of Canadian securities administrators.

### **Involuntary Redemptions**

Due to the relatively high cost of maintaining small accounts, we reserve the right to redeem all your holdings in a Fund if, at any time, the aggregate market value of your holdings in a Fund falls below \$3,000. We will, however, give you 30 days notice before closing out your account, so that you can buy more units to raise your balance above the minimum.

### **Short-Term Trading**

Short-Term trading activities in the Funds may adversely affect unitholders. Frequent trading can hurt a Fund's performance by forcing the Portfolio Adviser to keep more cash in a Fund that would otherwise be needed, or to sell investments at an inappropriate time. It may also increase a Fund's transaction costs. A Fund will charge you up to 2% of the value of the units you redeem within two years of purchase. This fee is paid to the Fund and is retained for the benefit of unitholders of the Fund.

## **OPTIONAL SERVICE**

We offer the following service:

### **U.S. Dollar Purchase Option**

You may choose to purchase Class A units or Class F units in U.S. dollars. The ability to purchase Funds in U.S. dollars is offered as a convenience for investors and does not act as a currency hedge between Canadian and U.S. dollars. For purchases in U.S. dollars, the NAV per unit is computed by converting the Canadian dollar value into U.S. dollars based on exchange rates at the time the NAV is calculated. For Fund units purchased in U.S. dollars, switches will be processed in U.S. dollars and redemption proceeds and distributions will be paid in U.S. dollars. You must calculate your income and net realized gains for tax purposes in Canadian dollars.

## **FEES AND EXPENSES**

This table outlines the fees and expenses you may have to pay directly, or indirectly, when you invest in a Fund. You may have to pay some of these fees and expenses directly. The Funds pay some fees and expenses which reduce the value of your investment in the Fund.

### **Fees and Expenses Payable by the Funds**

<b>Management Fees</b>	Each Fund pays the Manager an annual management fee which is unique to each Fund as set out in Part B. The fee is calculated and accrued weekly and paid monthly based on the average net asset value of the Fund. In the event that we begin to calculate the net asset value daily, the fee will be calculated daily and paid monthly. The fee differs among series of securities. The Fund is required to pay HST on the fees paid to the Manager.
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<p><b>Operating Expenses</b></p>	<p>Each Fund pays its proportionate share of operating expenses other than compensation of any portfolio advisers and expenses paid in connection with the distribution of units of the Funds. The main services provided at the Funds' expense include legal, audit, recordkeeping, unit transfer, custodian services and, the costs of financial reporting, prospectus printing, unitholder servicing costs and regulatory filing fees and associated legal costs. The fees and expenses of the IRC members and all expenses of operations of the IRC form part of operating expenses. As of the date of this Simplified Prospectus, each member of the IRC receives an annual retainer of \$5,000 (\$8,000 for the chair) and \$1,000 for each meeting that the member attends. This fee is allocated among the Funds in a manner that is considered by the Manager to be fair and reasonable to all of the Funds. The compensation of the IRC may change from time to time. Refer to the Annual Information Form for more information on the IRC. No expenses are charged directly to unitholders. From time to time, we may reduce the management fees or pay some operating expenses directly, at our discretion. The expenses of a Fund will be allocated between the series, as applicable. Each series will bear separately any expenses that can be attributed directly to that series. The decision to waive or absorb expenses is reviewed annually and determined at the discretion of the Manager, without notice to unitholders.</p> <p>If the Funds use derivative contracts they may pay certain additional transactional costs. Such costs will be negotiated but will generally be in the range of 0.40% to 1.00% of the notional value of the derivative contract.</p>
<p><b>Effect of HST on Management Expense Ratio</b></p>	<p>The provinces of British Columbia and Ontario have harmonized provincial sales tax with the GST on July 1, 2010. HST has been applicable in Nova Scotia, New Brunswick, Newfoundland and Labrador since 1997. As of July 1, 2010, a Fund is required to pay HST of up to 15%, depending on the residence of a Fund's unitholders, on management fees and administration fees charged to the Fund, rather than the 5% federal GST payable by a Fund prior to that date. This will result in an increase in the operating expenses of Fund when compared to a period prior to July 1, 2010.</p>

### **Fees and Expenses Payable directly by an Investor**

<b>Sales Charges</b>	If you purchase units through your broker or dealer, you negotiate the sales commission you pay with such broker or dealer. The range for sales commissions is generally from 0% to 2% of the purchase order. Your broker or dealer will generally deduct the sales commission and forward the net amount of the order to be invested in the Fund or Funds selected.
<b>Switch Fees</b>	A dealer may charge from 0% to 2% for switches between Funds.
<b>Short-term Trading Fee</b>	We will charge a short-term trading fee of up to 2% of the NAV, at the time of redemption, of the units redeemed by you if you hold the units for less than two years. The short-term trading fee is payable to the Fund and is retained by the Fund for the benefit of unitholders of the Fund.

### **Impact of Sales Charges**

The following table shows the impact of sales charges you would pay under the different purchase options available to you if you made an investment of \$1,000 in a Fund, and if you held that investment for one, three, five or ten years and redeemed your investment immediately before the end of that period. This table assumes that you pay the maximum sales commission. See the redemption schedule under Fees and Expenses above.

	At time of Purchase	1 Year	3 Years	5 Years	10 Years
Sales Charge	\$20	-	-	-	-

### **DEALER COMPENSATION**

#### **Sales Commissions**

Your broker or dealer may receive a sales commission at the time you purchase Series A units. The range for sales commissions is generally from 0% to 2% of the purchase price payable at the time of purchase. There are no sales commissions payable on purchases of Series F units. Purchasers of Series F units will generally be required to pay their dealers a fee under a "fee-for service" or wrap program.

Your broker or dealer may charge you a switch fee of 0% to 2% of the purchase price of the Series A units you acquire when you switch from one Fund to another or transfer between types of accounts in which you hold your Series A units. There are no switch fees payable on purchases of Series F units. Purchasers of Series F units will generally be required to pay their dealers a fee under a "fee-for service" or wrap program.

#### **Trailer Fees**

The Manager pays trailer fees to dealers at the end of each quarter, in relation to units. The trailer fee is a percentage of the total NAV per unit of all units of the Funds held by the dealer's clients

for an entire quarter. The maximum annual trailer fee paid for the Funds, other than the Chou Bond Fund, is 0.5%. The Trailer fee for the Chou Bond Fund is 0.15%. We may change or cancel the terms of the trailer fee at any time. We do not pay trailer fees in relation to units bought directly from us.

### **Switch Fees**

A dealer may charge from 0% to 2% for switches between Funds.

### **Dealer Compensation from Management Fees**

For the financial year ended December 31, 2010, the Manager paid cash compensation (sales commissions and trailing commissions) to dealers who distributed units of the Funds representing approximately 20.5% of the total management fees received by us from all of the Funds.

## **INCOME TAX CONSIDERATIONS FOR INVESTORS**

The following is a general summary of the principal Canadian federal income tax consequences to you of distributions from the Fund and the disposition of units of the Fund. This summary applies to Canadian residents who are individuals (not trusts) who deal with the Fund at arm's length and are not affiliated with the Fund and who hold units of the Fund as capital property for tax purposes. This summary assumes that at all material times the Fund qualifies, and will continue to qualify, as a "mutual fund trust" under the *Income Tax Act* (Canada) (the "Tax Act") and that the RRSP Fund is, and will continue to be, registered with the Canada Revenue Agency as a "registered investment". A more detailed summary is set forth in the Annual Information Form for the Fund.

This summary is general in nature, is not exhaustive of all possible tax considerations and does not constitute tax advice to anyone. Please consult your own tax advisor with respect to the tax implications of purchasing, holding and selling units of the Fund.

Generally, each Fund distributes enough income and capital gains each year to ensure that the Fund pays no income tax.

### **For Units held in a Registered Plan**

You pay no tax on earnings we distribute to you from Funds held in a registered tax plan such as a Registered Retirement Savings Plan (RRSP), Registered Retirement Income Fund (RRIF), Registered Disability Savings Plan (RDSP), Deferred Profit Sharing Plan (DPSP), Registered Education Savings Plan (RESP) or held in a Tax Free Savings Account (TFSA), nor on any capital gains the plan makes from redeeming units or switching between Funds, as long as the proceeds remain in the plan. Distributions from a Fund may affect the tax costs of units of a Fund held by a registered plan under the Tax Act.

You will be taxed at your personal tax rate if you withdraw money from the registered plan. (You should consult your tax advisor with respect to the special rules that apply to RESP's). This does not apply if your units are held in a TFSA.

### **For Units not held in a Registered Plan**

You must report for income tax purposes all distributions paid to you during the year, whether you receive these distributions as cash or whether we reinvest them in additional units for you.

You must also include in your income for the year a portion of any capital gains as required by applicable income tax legislation (currently one-half) you made from redeeming units or transferring between Funds. You may be entitled to offset any capital losses you have incurred against these or other capital gains. A change between series of units of the same Fund will not result in a capital gain or loss.

If you buy Fund units just before the distribution date (typically in December of each year), you will be taxed on the distribution you receive in cash or units. The adjusted cost base of your units will be generally increased by the amount of the distribution, if the distribution is satisfied by the issuance of additional units, to reduce any capital gains when you redeem. The adjusted cost base of your units is equal to:

- the total of all amounts paid to purchase your units, net of any sales commission paid by you at the time of purchase  
**plus**
- the amount of any reinvested distributions  
**less**
- the return of capital component of distributions  
**less**
- the adjusted cost base of any units you have previously redeemed.

For tax purposes, your capital gain or loss when you redeem your units is generally the difference between the amount you receive for units, less the adjusted cost base of your units and any reasonable costs you incurred to redeem your units.

Capital gains and dividends may result in a liability for alternative minimum tax depending on your circumstances.

We will issue a tax statement to you each year identifying the taxable portion of your distributions. You should keep detailed records of the purchase cost, sales charges and distributions related to your Fund units in order to calculate the adjusted cost base of those units. You may wish to consult a tax advisor to help you with these calculations.

## **WHAT ARE YOUR LEGAL RIGHTS?**

Securities legislation in some provinces gives you the right to withdraw from an agreement to buy mutual funds within two business days of receiving the Simplified Prospectus, or to cancel your purchase within 48 hours of receiving confirmation of your order.

Securities legislation in some provinces also allows you to cancel an agreement to buy mutual fund units and get your money back, or to make a claim for damages, if the Simplified Prospectus, Annual Information Form or financial statements misrepresent any facts about the Funds. These rights must usually be exercised within certain time limits.

For more information, refer to the securities legislation of your province or consult with your lawyer.

## **Part B – Fund Specific Information**

### **INTRODUCTION**

The Chou group of mutual funds is currently made up of five Funds.

The following information applies to each Fund and may be helpful when you are reviewing Part B of this document.

#### **What Does the Fund Invest In?**

##### **Investment Objectives**

The fundamental investment objectives of each Fund are disclosed under **Investment Objectives**. If there is a change in these objectives, you should consider whether the Fund remains an appropriate investment in light of your current financial position and needs. There can be no assurance that the Funds' investment objectives will be met.

##### **Investment Strategies**

This section outlines the process by which the Fund will achieve the investment objectives. We may change a Fund's investment strategies from time to time at our discretion.

#### **What are the Risks of Investing in the Fund?**

Risks specific to individual Funds are identified in this section. General information about risks is outlined starting on page 1 in **What is a Mutual Fund and What are the Risks of Investing in a Mutual Fund?**

#### **Who Should Invest in this Fund?**

This section identifies the type of risk level for a Fund and should be used by you to determine which Fund is best for you given your risk tolerance.

We determine the risk level for a fund using both quantitative and qualitative considerations. We review the fund type and standard deviation of a fund. Fund types are broken down by broad asset types, regional classifications, developed or emerging markets, sector and market capitalization thresholds. Standard deviation is a common statistic used to measure the volatility and risk of an investment. Funds with higher standard deviations are generally classified as being more risky.

Each fund assigned an investment risk rating in one of the following categories:

##### **Low**

For funds with a level of risk that is typically associated with investments in money market funds and Canadian fixed income funds.

**Low to Medium**

For funds with a level of risk that is typically associated with investments in balanced funds and global and/or corporate fixed income funds.

**Medium**

For funds with a level of risk that is typically associated with investments in equity portfolios that are diversified among a number of large-capitalization Canadian and/or international equity securities.

**Medium to High**

For funds with a level of risk that is typically associated with investments in equity funds that may concentrate their investments in specific regions or in specific sectors of the economy.

**High**

For funds with a level of risk that is typically associated with investment in equity portfolios that may concentrate their investments in specific regions or in specific sectors of the economy where there is a substantial risk of loss (e.g. emerging markets, precious metals).

We review the risk levels on an annual basis. The manner in which we identify risks is available on request, at no cost, by contacting us using the information found at the back of this prospectus. Historical performance may not be indicative of future returns and a fund's historical volatility may not be an indication of its future volatility.

**Distribution Policy**

Each year, the Funds distribute sufficient net income and net realized capital gains to all unitholders who own units on the record date for the distribution in order that the Funds will not be liable for tax under Part I of the Tax Act. Distributions are automatically reinvested in additional units of the same series of the Fund unless you notify your dealer, in advance, that you want to receive your distribution in cash. The Funds will elect to have a taxation year-end of December 15 and will make an annual distribution of net income and net realized capital gains between December 15 and December 31 of each year. The Funds may also make distributions at other times during the year.

**Fund Expenses Indirectly Borne by Investors**

The information in this table is intended to assist you in comparing the cost of investing in a Fund with the cost of investing in other mutual funds. The costs reflected in this table are indirect, because they are paid out of the Fund's assets instead of being paid directly by you. As a result, they have the effect of lowering the return you receive on an investment in the Fund. Details of both these costs borne by the Funds, and the fees and expenses payable by you directly, are provided starting on page 13.

The table shows the cumulative expenses indirectly paid by you over the time periods shown if you:

- invested \$1,000 in the Fund
- the Fund earned a total return of 5% each year (this return is used only for purposes of this table and does not reflect the Fund's actual return in any year)
- the Fund paid the same management expenses each year as it did in 2010, so that its management expense ratio for each of the years shown in the table was its ratio for 2010.

Additional information about the Funds is available in the Annual Information Form, management reports of fund performance and financial statements. These documents are incorporated by reference into this Simplified Prospectus, which means that they legally form part of this document just as if they were printed as part of this document.

You can obtain a copy of these documents free of cost by calling (416) 214-0675 in Greater Toronto or 1-888-357-5070 outside Toronto, or from your broker or dealer, or by email at [admin@choufunds.com](mailto:admin@choufunds.com).

These documents and other information about the Funds, such as information circulars and material contracts, are also available on the Chou Associates Management Inc internet site at [www.choufunds.com](http://www.choufunds.com) or at the internet site at [www.sedar.com](http://www.sedar.com)

**MANAGER OF THE FUNDS:**

Chou Associates Management Inc.  
110 Sheppard Avenue East  
Suite 301, P.O. Box 18  
Toronto, Ontario  
M2N 6Y8  
Tel: (416) 214-0675  
Fax: (416) 214-1733  
[admin@choufunds.com](mailto:admin@choufunds.com)

## CHOU ASSOCIATES FUND

### FUND DETAILS

<b>Type of Fund</b>	Equity
<b>Date the Fund was Started</b>	Series A: September 1, 1986 Series F: August 10, 2005
<b>Securities Offered</b>	Series A and Series F units of a mutual fund trust
<b>Registered tax plan status</b>	Eligible for RRSP's, RRIF's, RDSP's, DPSP's, RESP's and TFSA's
<b>Fees and expenses</b>	Series A: Management Fee of 1.5% per annum plus the Fund's operating expenses, payable monthly. Series F: Management Fee of 1% per annum plus the Fund's operating expenses, payable monthly.

### WHAT DOES CHOU ASSOCIATES FUND INVEST IN?

#### **Investment Objectives**

- 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 invest in the equity securities of Canadian businesses.
- Investments may include common and preferred shares, convertible debentures, government and corporate bonds and short-term indebtedness.
- Unitholder approval is required in order to change the fundamental investment objectives of the Fund.

#### **Investment Strategies**

##### ***The Chou Funds Investment Process***

The investment process followed in selecting equity investments for the Funds is a value-oriented approach to investing. This involves a detailed analysis of the strengths of individual companies, with much less emphasis on short-term market factors. Far greater importance is placed upon an assessment of a company's balance sheet, cash flow characteristics, profitability, industry position, special strengths, future growth potential and management ability. No more than 35% of the net assets of the Fund, at the time of purchase, will be invested in equity securities of Canadian businesses.

The investment strategy follows strong disciplines with regard to price paid to acquire portfolio investments. The level of investments in the company's securities is generally commensurate with the current price of the company's securities in relation to its intrinsic value as determined by the above factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

Once an investment is made, the Fund is expected to be a patient, long-term investor, which results in low portfolio turnover, reduced transaction costs and deferred realization of accrued capital gains. Portfolio holdings are typically concentrated within a limited number of companies,

## CHOU ASSOCIATES FUND

usually 25 to 35 per Fund portfolio. This helps to maintain awareness of corporate developments and communication for each company.

The Manager may decide to maintain a larger portion of the Fund's assets in short-term fixed income securities during periods of high market valuations and volatility.

### *Investments in Derivative Instruments*

The Fund currently uses short term covered call options. The use of covered call options is intended to increase the return on investment by the amount of premium received. The Fund uses covered call options to improve returns by accepting a more certain, lower return rather than seeking a less certain, higher potential return. The Fund has provided the appropriate notice to investors that it may invest in Credit Default Swaps ("CDS"). The use of CDS's is to hedge against general market risks, including market turmoil. No more than 5% of the net assets of the Fund, at the time of purchase, will be invested in CDS's. The Fund has provided the appropriate notice to investors that it may invest in Constant Maturity Swaps ("CMS"). The use of CMS's is to hedge against interest rate increases by central banks as a result of inflationary pressures. No more than 5% of the net assets of the Fund, at the time of purchase, will be invested in CMS's. The Fund may use derivatives such as, but not limited to, futures, options, swaps and forward contracts to gain exposure to securities and asset classes consistent with the objectives of the Fund, and to hedge portfolio exposure against losses from foreign currency exposure and changes in securities prices. Commencing January 1, 2012, the Fund may use derivatives to hedge portfolio exposure against losses from Canadian dollar exposure. The Fund may enter into other derivative transactions after giving investors 60 days prior written notice. For a description of these transactions and the strategies to be used by the Fund to minimize the risks associated with these transactions, please see the discussion under **Derivatives Risk** at page 3.

### *Interim Investments*

While waiting to invest or disburse cash reserves in the Funds, we may buy short-term debt securities and money market instruments, or we may deposit cash in interest-bearing accounts with a bank or trust company.

### *Securities Lending, Repurchase and Reverse Repurchase Transactions*

The Fund may enter into repurchase and reverse repurchase and securities lending agreements in order to earn additional income and manage its portfolio after giving investors 60 days prior written notice. For a description of these transactions and the strategies to be used by the Fund to minimize the risks associated with these transactions, please see the discussion under **Securities Lending, Repurchase and Reverse Repurchase Risk** at page 6.

## WHAT ARE THE RISKS OF INVESTING IN CHOU ASSOCIATES FUND?

In addition to the above risks which apply to the Funds generally, investors in Chou Associates Fund face the following additional risks. See page 2 and following for a full discussion of these risks:

- Below-Investment Grade Securities Risk
- Credit Risk
- Concentration Risk

## **CHOU ASSOCIATES FUND**

- Covered Call Option Risk
- Currency Risk
- Derivatives Risk
- Distressed Securities Risk
- Equity Risk
- Foreign Market Risk
- General Market Risk
- Issuer Risk
- Interest Rate Risk
- Legal and Regulatory Risk
- Liquidity Risk
- Political Risk
- Prepayment Risk
- Refinancing Risk
- Securities Lending, Repurchase and Reverse Repurchase Risk
- Series Risk
- Value Stock Risk

As at September 2, 2011, Fairfax Financial Holdings holds approximately 26.0% of the Series A Units of the Fund. If Fairfax redeems its securities, a significant portion of the Fund's investments may have to be liquidated in order to redeem these securities unless a proportionate amount of the investments can be transferred to Fairfax. The timing of such liquidation may not be appropriate and all investors may suffer a proportionate loss as a result of such liquidation.

### **WHO SHOULD INVEST IN CHOU ASSOCIATES FUND?**

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.

### **DISTRIBUTION POLICY**

The Fund's distribution policy is described on page 20.

### **FUND EXPENSES INDIRECTLY BORNE BY INVESTORS**

Mutual funds pay for some expenses out of the Fund's assets. This means that investors in a mutual fund indirectly pay for these expenses through lower returns.

The table below is intended to help you compare the cumulative costs of investing in the Fund with the cost of investing in other mutual funds. The table shows the amount of the fees and expenses of the Fund which would be attributable to each \$1,000 investment which you make assuming that the Fund's annual performance is a constant 5% per year and that the Fund's management expense ratio remained the same as in its last financial year for the complete 10 years. See page 15 for information on **Fees and Expenses Payable directly by an Investor** which are not included in the calculation of the management expense ratio.

## CHOU ASSOCIATES FUND

Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Ten Years</b>
Series A	\$18.35	\$57.84	\$101.38	\$230.77
Series F	\$12.81	\$40.39	\$70.80	\$161.15

Any decision to waive the management fee, in whole or in part, is reviewed annually and determined at the discretion of the Manager without notice to unitholders.

## CHOU RRSP FUND

### FUND DETAILS

<b>Type of Fund</b>	Equity
<b>Date the Fund was Started</b>	Series A: September 1, 1986 Series F: August 10, 2005
<b>Securities Offered</b>	Series A and Series F units of a mutual fund trust
<b>Registered tax plan status</b>	Eligible for RRSP's, RRIF's, RDSP's, DPSP's, RESP's and TFSA's
<b>Fees and expenses</b>	Series A: Management Fee of 1.5% per annum plus the Fund's operating expenses, payable monthly. Series F: Management Fee of 1% per annum plus the Fund's operating expenses, payable monthly.

### WHAT DOES CHOU RRSP FUND INVEST IN?

#### Investment Objectives

- The Fund's objective is to provide long-term growth of capital by investing in equity and debt instruments of primarily Canadian businesses. The Fund may invest in equity and debt instruments of U.S. and foreign businesses.
- Investments may include common and preferred shares, convertible debentures, government and corporate bonds and short-term indebtedness.
- Unitholder approval is required in order to change the fundamental investment objectives of the Fund.

#### Investment Strategies

##### *The Chou Funds Investment Process*

The investment process followed in selecting equity investments for the Funds is a value-oriented approach to investing. This involves a detailed analysis of the strengths of individual companies, with much less emphasis on short-term market factors. Far greater importance is placed upon an assessment of a company's balance sheet, cash flow characteristics, profitability, industry position, special strengths, future growth potential and management ability. No more than 49% of the net assets of the Fund, at the time of purchase, will be invested in equity and debt instruments of U.S. and foreign businesses.

The investment strategy follows strong disciplines with regard to price paid to acquire portfolio investments. The level of investments in the company's securities is generally commensurate with the current price of the company's securities in relation to its intrinsic value as determined by the above factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

Once an investment is made, the Fund is expected to be a patient, long-term investor, which results in low portfolio turnover, reduced transaction costs and deferred realization of accrued capital gains. Portfolio holdings are typically concentrated within a limited number of companies,

## CHOU RRSP FUND

usually 25 to 35 per Fund portfolio. This helps to maintain awareness of corporate developments and communication for each company.

The Manager may decide to maintain a larger portion of the Fund's assets in short-term fixed income securities during periods of high market valuations and volatility.

### *Investments in Derivative Instruments*

The Fund currently uses short term covered call options. The use of covered call options is intended to increase the return on investment by the amount of premium received. The Fund uses covered call options to improve returns by accepting a more certain, lower return rather than seeking a less certain, higher potential return. The Fund has provided the appropriate notice to investors that it may invest in Credit Default Swaps ("CDS"). The use of CDS's is to hedge against general market risks, including market turmoil. No more than 5% of the net assets of the Fund, at the time of purchase, will be invested in CDS's. The Fund has provided the appropriate notice to investors that it may invest in CMS's. The use of CMS's is to hedge against interest rate increases by central banks as a result of inflationary pressures. No more than 5% of the net assets of the Fund, at the time of purchase, will be invested in CMS's. The Fund may use derivatives such as, but not limited to, futures, options, swaps and forward contracts to gain exposure to securities and asset classes consistent with the objectives of the Fund, and to hedge portfolio exposure against losses from foreign currency exposure and changes in securities prices. Commencing January 1, 2012, the Fund may use derivatives to hedge portfolio exposure against losses from Canadian dollar exposure. Commencing January 1, 2012, the Fund may enter into derivatives to hedge against Canadian dollar exposure. The Fund may enter into other derivative transactions after giving investors 60 days prior written notice. For a description of these transactions and the strategies to be used by the Fund to minimize the risks associated with these transactions, please see the discussion under **Derivatives Risk** at page 3.

### *Interim Investments*

While waiting to invest or disburse cash reserves in the Funds, we may buy short-term debt securities and money market instruments, or we may deposit cash in interest-bearing accounts with a bank or trust company.

### *Securities Lending, Repurchase and Reverse Repurchase Transactions*

The Fund may enter into repurchase and reverse repurchase and securities lending agreements in order to earn additional income and manage its portfolio after giving investors 60 days prior written notice. For a description of these transactions and the strategies to be used by the Fund to minimize the risks associated with these transactions, please see the discussion under **Securities Lending, Repurchase and Reverse Repurchase Risk** at page 6.

## WHAT ARE THE RISKS OF INVESTING IN CHOU RRSP FUND?

In addition to the above risks which apply to the Funds generally, investors in Chou RRSP Fund face the following additional risks. See page 2 and following for a full discussion of these risks:

- Below-Investment Grade Securities Risk
- Credit Risk
- Concentration Risk

## **CHOU RRSP FUND**

- Covered Call Option Risk
- Currency Risk
- Derivatives Risk
- Distressed Securities Risk
- Equity Risk
- Foreign Market Risk
- General Market Risk
- Issuer Risk
- Interest Rate Risk
- Legal and Regulatory Risk
- Liquidity Risk
- Political Risk
- Prepayment Risk
- Refinancing Risk
- Securities Lending, Repurchase and Reverse Repurchase Risk
- Series Risk
- Value Stock Risk

### **WHO SHOULD INVEST IN CHOU RRSP FUND?**

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.

### **DISTRIBUTION POLICY**

The Fund's distribution policy is described on page 20.

### **FUND EXPENSES INDIRECTLY BORNE BY INVESTORS**

Mutual funds pay for some expenses out of the Fund's assets. This means that investors in a mutual fund indirectly pay for these expenses through lower returns.

The table below is intended to help you compare the cumulative costs of investing in the Fund with the cost of investing in other mutual funds. The table shows the amount of the fees and expenses of the Fund which would be attributable to each \$1,000 investment which you make assuming that the Fund's annual performance is a constant 5% per year and that the Fund's management expense ratio remained the same as in its last financial year for the complete 10 years. See page 15 for information on **Fees and Expenses Payable directly by an Investor** which are not included in the calculation of the management expense ratio.

## CHOU RRSP FUND

Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Ten Years</b>
Series A	\$18.45	\$58.16	\$101.95	\$232.06
Series F	\$12.92	\$40.71	\$71.36	\$162.44

Any decision to waive the management fee, in whole or in part, is reviewed annually and determined at the discretion of the Manager without notice to unitholders.

## CHOU EUROPE FUND

### FUND DETAILS

<b>Type of Fund</b>	Equity
<b>Date the Fund was Started</b>	Series A: August 26, 2003 Series F: August 10, 2005
<b>Securities Offered</b>	Series A and Series F units of a mutual fund trust
<b>Registered tax plan status</b>	Eligible for RRSP's, RRIF's, RDSP's, DPSP's, RESP's and TFSA's
<b>Fees and expenses</b>	Series A: Management Fee of 1.5% per annum plus the Fund's operating expenses, payable monthly. Series F: Management Fee of 1% per annum plus the Fund's operating expenses, payable monthly.

### WHAT DOES CHOU EUROPE FUND INVEST IN?

#### **Investment Objectives**

- The Fund's objective is to provide long-term growth of capital by investing primarily in the securities markets of Europe considered by the Manager to be undervalued. Investments may be made in securities markets outside of Europe.
- Investments may include common and preferred shares, convertible debentures, government and corporate bonds and short-term indebtedness.
- Unitholder approval is required in order to change the fundamental investment objectives of the Fund.

#### **Investment Strategies**

##### ***The Chou Funds Investment Process***

The investment process followed in selecting equity investments for the Funds is a value-oriented approach to investing that focuses on the European market. This involves a detailed analysis of the strengths of individual companies, with much less emphasis on short-term market factors. Far greater importance is placed upon an assessment of a company's balance sheet, cash flow characteristics, profitability, industry position, special strengths, future growth potential and management ability.

The investment strategy follows strong disciplines with regard to price paid to acquire portfolio investments. The level of investments in the company's securities is generally commensurate with the current price of the company's securities in relation to its intrinsic value as determined by the above factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

Once an investment is made, the Fund is expected to be a patient, long-term investor, which results in low portfolio turnover, reduced transaction costs and deferred realization of accrued capital gains. Portfolio holdings are typically concentrated within a limited number of companies, usually 25 to 35 per Fund portfolio. This helps to maintain awareness of corporate developments and communication for each company.

## CHOU EUROPE FUND

The Manager may decide to maintain a larger portion of the Fund's assets in short-term fixed income securities during periods of high market valuations and volatility.

### *Investments in Derivative Instruments*

The Fund currently uses short term covered call options. The use of covered call options is intended to increase the return on investment by the amount of premium received. The Fund uses covered call options to improve returns by accepting a more certain, lower return rather than seeking a less certain, higher potential return. The Fund has provided the appropriate notice to investors that it may invest in Credit Default Swaps ("CDS"). The use of CDS's is to hedge against general market risks, including market turmoil. No more than 5% of the net assets of the Fund, at the time of purchase, will be invested in CDS's. The Fund has provided the appropriate notice to investors that it may invest in CMS's. The use of CMS's is to hedge against interest rate increases by central banks as a result of inflationary pressures. No more than 5% of the net assets of the Fund, at the time of purchase, will be invested in CMS's. The Fund may use derivatives such as, but not limited to, futures, options, swaps and forward contracts to gain exposure to securities and asset classes consistent with the objectives of the Fund, and to hedge portfolio exposure against losses from foreign currency exposure and changes in securities prices. Commencing January 1, 2012, the Fund may use derivatives to hedge portfolio exposure against losses from Canadian dollar exposure. The Fund may enter into other derivative transactions after giving investors 60 days prior written notice. For a description of these transactions and the strategies to be used by the Fund to minimize the risks associated with these transactions, please see the discussion under **Derivatives Risk** at page 3.

### *Interim Investments*

While waiting to invest or disburse cash reserves in the Funds, we may buy short-term debt securities and money market instruments, or we may deposit cash in interest-bearing accounts with a bank or trust company.

### *Securities Lending, Repurchase and Reverse Repurchase Transactions*

The Fund may enter into repurchase and reverse repurchase and securities lending agreements in order to earn additional income and manage its portfolio after giving investors 60 days prior written notice. For a description of these transactions and the strategies to be used by the Fund to minimize the risks associated with these transactions, please see the discussion under **Securities Lending, Repurchase and Reverse Repurchase Risk** at page 6.

## WHAT ARE THE RISKS OF INVESTING IN CHOU EUROPE FUND?

In addition to the above risks which apply to the Funds generally, investors in Chou Europe Fund face the following additional risks. See page 2 and following for a full discussion of these risks:

- Below-Investment Grade Securities Risk
- Credit Risk
- Covered Call Option Risk
- Currency Risk
- Derivatives Risk
- Emerging Markets Risk

## **CHOU EUROPE FUND**

- Distressed Securities Risk
- Equity Risk
- Foreign Market Risk
- General Market Risk
- Issuer Risk
- Interest Rate Risk
- Legal and Regulatory Risk
- Liquidity Risk
- Political Risk
- Prepayment Risk
- Refinancing Risk
- Securities Lending, Repurchase and Reverse Repurchase Risk
- Series Risk
- Value Stock Risk

As at September 2, 2011, the Manager holds approximately 52.2% of the Series A Units of the Fund. If the Manager redeems its securities, a significant portion of the Fund's investments may have to be liquidated in order to redeem these securities unless a proportionate amount of the investments can be transferred to the Manager. The timing of such liquidation may not be appropriate and all investors may suffer a proportionate loss as a result of such liquidation.

### **WHO SHOULD INVEST IN CHOU EUROPE FUND?**

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. The Fund is generally suitable to diversify asset classes within a larger portfolio rather than as a core holding.

### **DISTRIBUTION POLICY**

The Fund's distribution policy is described on page 20.

### **FUND EXPENSES INDIRECTLY BORNE BY INVESTORS**

Mutual funds pay for some expenses out of the Fund's assets. This means that investors in a mutual fund indirectly pay for these expenses through lower returns.

The table below is intended to help you compare the cumulative costs of investing in the Fund with the cost of investing in other mutual funds. The table shows the amount of the fees and expenses of the Fund which would be attributable to each \$1,000 investment which you make assuming that the Fund's annual performance is a constant 5% per year and that the Fund's management expense ratio remained the same as in its last financial year for the complete 10 years. See page 15 for information on **Fees and Expenses Payable directly by an Investor** which are not included in the calculation of the management expense ratio.

## CHOU EUROPE FUND

Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Ten Years</b>
Series A	\$19.58	\$61.72	\$108.18	\$246.24
Series F	\$13.63	\$42.98	\$75.33	\$171.47

Any decision to waive the management fee, in whole or in part, is reviewed annually and determined at the discretion of the Manager without notice to the unitholders.

## CHOU ASIA FUND

### FUND DETAILS

<b>Type of Fund</b>	Equity
<b>Date the Fund was Started</b>	Series A: August 26, 2003 Series F: August 10, 2005
<b>Securities Offered</b>	Series A and Series F units of a mutual fund trust
<b>Registered tax plan status</b>	Eligible for RRSP's, RRIF's, RDSP's, DPSP's, RESP's and TFSA's
<b>Fees and expenses</b>	Series A: Management Fee of 1.5% per annum plus the Fund's operating expenses, payable monthly. Series F: Management Fee of 1% per annum plus the Fund's operating expenses, payable monthly.

### WHAT DOES CHOU ASIA FUND INVEST IN?

#### Investment Objectives

- The Fund's objective is to provide long-term growth of capital by investing primarily in the securities markets of Asia considered by the Manager to be undervalued. Investments may be made in securities markets outside of Asia.
- Investments may include common and preferred shares, convertible debentures, government and corporate bonds and short-term indebtedness.
- Unitholder approval is required in order to change the fundamental investment objectives of the Fund.

#### Investment Strategies

##### *The Chou Funds Investment Process*

The investment process followed in selecting equity investments for the Funds is a value-oriented approach to investing that focuses on the Asian market. This involves a detailed analysis of the strengths of individual companies, with much less emphasis on short-term market factors. Far greater importance is placed upon an assessment of a company's balance sheet, cash flow characteristics, profitability, industry position, special strengths, future growth potential and management ability.

The investment strategy follows strong disciplines with regard to price paid to acquire portfolio investments. The level of investments in the company's securities is generally commensurate with the current price of the company's securities in relation to its intrinsic value as determined by the above factors. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

Once an investment is made, the Fund is expected to be a patient, long-term investor, which results in low portfolio turnover, reduced transaction costs and deferred realization of accrued capital gains. Portfolio holdings are typically concentrated within a limited number of companies, usually 25 to 35 per Fund portfolio. This helps to maintain awareness of corporate developments and communication for each company.

## CHOU ASIA FUND

The Manager may decide to maintain a larger portion of the Fund's assets in short-term fixed income securities during periods of high market valuations and volatility.

### *Investments in Derivative Instruments*

The Fund currently uses short term covered call options. The use of covered call options is intended to increase the return on investment by the amount of premium received. The Fund uses covered call options to improve returns by accepting a more certain, lower return rather than seeking a less certain, higher potential return. The Fund has provided the appropriate notice to investors that it may invest in Credit Default Swaps ("CDS"). The use of CDS's is to hedge against general market risks, including market turmoil. No more than 5% of the net assets of the Fund, at the time of purchase, will be invested in CDS's. The Fund has provided the appropriate notice to investors that it may invest in CMS's. The use of CMS's is to hedge against interest rate increases by central banks as a result of inflationary pressures. No more than 5% of the net assets of the Fund, at the time of purchase, will be invested in CMS's. The Fund may use derivatives such as, but not limited to, futures, options, swaps and forward contracts to gain exposure to securities and asset classes consistent with the objectives of the Fund, and to hedge portfolio exposure against losses from foreign currency exposure and changes in securities prices. Commencing January 1, 2012, the Fund may use derivatives to hedge portfolio exposure against losses from Canadian dollar exposure. The Fund may enter into other derivative transactions after giving investors 60 days prior written notice. For a description of these transactions and the strategies to be used by the Fund to minimize the risks associated with these transactions, please see the discussion under **Derivatives Risk** at page 3.

### *Interim Investments*

While waiting to invest or disburse cash reserves in the Funds, we may buy short-term debt securities and money market instruments, or we may deposit cash in interest-bearing accounts with a bank or trust company.

### *Securities Lending, Repurchase and Reverse Repurchase Transactions*

The Fund may enter into repurchase and reverse repurchase and securities lending agreements in order to earn additional income and manage its portfolio after giving investors 60 days prior written notice. For a description of these transactions and the strategies to be used by the Fund to minimize the risks associated with these transactions, please see the discussion under **Securities Lending, Repurchase and Reverse Repurchase Risk** at page 6.

## WHAT ARE THE RISKS OF INVESTING IN CHOU ASIA FUND?

In addition to the above risks which apply to the Funds generally, investors in Chou Asia Fund face the following additional risks. See page 2 and following for a full discussion of these risks:

- Below-Investment Grade Securities Risk
- Credit Risk
- Covered Call Option Risk
- Currency Risk
- Derivatives Risk
- Emerging Markets Risk
- Distressed Securities Risk

## CHOU ASIA FUND

- Equity Risk
- Foreign Market Risk
- General Market Risk
- Issuer Risk
- Interest Rate Risk
- Legal and Regulatory Risk
- Liquidity Risk
- Political Risk
- Prepayment Risk
- Refinancing Risk
- Securities Lending, Repurchase and Reverse Repurchase Risk
- Series Risk
- Value Stock Risk

### WHO SHOULD INVEST IN CHOU ASIA FUND?

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. The Fund is generally suitable to diversify asset classes within a larger portfolio rather than as a core holding.

### DISTRIBUTION POLICY

The Fund's distribution policy is described on page 20.

### FUND EXPENSES INDIRECTLY BORNE BY INVESTORS

Mutual funds pay for some expenses out of the Fund's assets. This means that investors in a mutual fund indirectly pay for these expenses through lower returns.

The table below is intended to help you compare the cumulative costs of investing in the Fund with the cost of investing in other mutual funds. The table shows the amount of the fees and expenses of the Fund which would be attributable to each \$1,000 investment which you make assuming that the Fund's annual performance is a constant 5% per year and that the Fund's management expense ratio remained the same as in its last financial year for the complete 10 years. See page 15 for information on **Fees and Expenses Payable directly by an Investor** which are not included in the calculation of the management expense ratio.

Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Ten Years</b>
Series A	\$18.55	\$58.49	\$102.51	\$233.35
Series F	\$12.92	\$40.71	\$71.36	\$162.44

Any decision to waive the management fee, in whole or in part, is reviewed annually and determined at the discretion of the Manager without notice to unitholders.

## CHOU BOND FUND

### FUND DETAILS

<b>Type of Fund</b>	Foreign Bond
<b>Date the Fund was Started</b>	Series A and Series F: August 10, 2005
<b>Securities Offered</b>	Series A and Series F units of a mutual fund trust
<b>Registered tax plan status</b>	Eligible for RRSP's, RRIF's, RDSP's, DPSP's, RESP's and TFSA's
<b>Fees and expenses</b>	Series A: Management Fee of 1.15% per annum plus the Fund's operating expenses, payable monthly. Series F: Management Fee of 1% per annum plus the Fund's operating expenses, payable monthly.

### WHAT DOES CHOU BOND FUND INVEST IN?

#### Investment Objectives

- 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 U.S.
- Unitholder approval is required in order to change the fundamental investment objectives of the Fund.

#### Investment Strategies

##### *The Chou Funds Investment Process*

The Fund seeks to achieve its investment objectives by investing in securities that it believes are undervalued. The Fund will generally be fully invested. A combination of investment strategies will be utilized in managing the portfolio including relative value trades, yield enhancement strategies and interest rate anticipation trades. The Fund will primarily invest in securities issued by governments, municipalities, provinces and corporations in Canada and the United States but can invest anywhere in the world. The Fund may invest in a wide variety of fixed income instruments including government bonds, corporate bonds (both investment grade and non-investment grade), preferred securities, income trusts, bank debt, commercial paper, repurchase agreements, mortgage backed securities, convertible securities and credit default swaps. No more than 35% of the net assets of the Fund, at the time of purchase, will be invested in bonds outside of Canada and U.S. Investments made by the Fund are not guaranteed. Fixed income securities issued by governments may decrease in value as a result of changes in interest rates. Fixed income securities issued by corporations may decrease in value due to general market conditions or credit risks associated with the issuer.

##### *Investments in Derivative Instruments*

The Fund uses short term covered call options. The use of covered call options is intended to increase the return on investment by the amount of premium received. The Fund uses covered call options to improve returns by accepting a more certain, lower return rather than seeking a less certain, higher potential return. In order to fulfill its obligation under a covered call option,

## CHOU BOND FUND

the Fund will have to purchase the corresponding equity security. Any purchase of equity securities by the Fund will be limited to covering its position under a covered call option. The Fund has provided the appropriate notice to investors that it may invest in Credit Default Swaps ("CDS"). The use of CDS's is to hedge against general market risks, including market turmoil. No more than 5% of the net assets of the Fund, at the time of purchase, will be invested in CDS's. The Fund has provided the appropriate notice to investors that it may invest in CMS's. The use of CMS's is to hedge against interest rate increases by central banks as a result of inflationary pressures. No more than 5% of the net assets of the Fund, at the time of purchase, will be invested in CMS's. The Fund may use derivatives such as, but not limited to, futures, options, swaps and forward contracts to gain exposure to securities and asset classes consistent with the objectives of the Fund, and to hedge portfolio exposure against losses from foreign currency exposure and changes in securities prices. Commencing January 1, 2012, the Fund may use derivatives to hedge portfolio exposure against losses from Canadian dollar exposure. For a description of these transactions and the strategies to be used by the Fund to minimize the risks associated with these transactions, please see the discussion under **Derivatives Risk** at page 3.

### *Interim Investments*

While waiting to invest or disburse cash reserves in the Funds, we may buy short-term debt securities and money market instruments, or we may deposit cash in interest-bearing accounts with a bank or trust company.

### *Securities Lending, Repurchase and Reverse Repurchase Transactions*

The Fund may enter into repurchase and reverse repurchase and securities lending agreements in order to earn additional income and manage its portfolio after giving investors 60 days prior written notice. For a description of these transactions and the strategies to be used by the Fund to minimize the risks associated with these transactions, please see the discussion under **Securities Lending, Repurchase and Reverse Repurchase Risk** at page 6.

## WHAT ARE THE RISKS OF INVESTING IN CHOU BOND FUND?

In addition to the above risks which apply to the Funds generally, investors in Chou Bond Fund face the following additional risks. See page 2 and following for a full discussion of these risks:

- Below-Investment Grade Risk
- Credit Risk
- Concentration Risk
- Covered Call Option Risk
- Currency Risk
- Derivatives Risk
- Distressed Securities Risk
- Foreign Market Risk
- General Market Risk
- Issuer Risk
- Interest Rate Risk
- Legal and Regulatory Risk
- Liquidity Risk
- Political Risk

## CHOU BOND FUND

- Prepayment Risk
- Refinancing Risk
- Securities Lending, Repurchase and Reverse Repurchase Risk
- Series Risk

As at September 2, 2011, the Manager holds approximately 19.2% of the Series A Units of the Fund. If the Manager redeems its securities, a significant portion of the Fund's investments may have to be liquidated in order to redeem these securities unless a proportionate amount of the investments can be transferred to the Manager. The timing of such liquidation may not be appropriate and all investors may suffer a proportionate loss as a result of such liquidation.

### WHO SHOULD INVEST IN CHOU BOND FUND?

The Fund is suitable for investors seeking income while preserving invested capital with a medium to high tolerance for risk. The Fund is not appropriate for an investor with a short-term investment horizon.

### DISTRIBUTION POLICY

The Fund's distribution policy is described on page 20.

### FUND EXPENSES INDIRECTLY BORNE BY INVESTORS

Mutual funds pay for some expenses out of the Fund's assets. This means that investors in a mutual fund indirectly pay for these expenses through lower returns.

The table below is intended to help you compare the cumulative costs of investing in the Fund with the cost of investing in other mutual funds. The table shows the amount of the fees and expenses of the Fund which would be attributable to each \$1,000 investment which you make assuming that the Fund's annual performance is a constant 5% per year and that the Fund's management expense ratio remained the same as in its last financial year for the complete 10 years. See page 15 for information on **Fees and Expenses Payable directly by an Investor** which are not included in the calculation of the management expense ratio.

Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Ten Years</b>
Series A	\$14.66	\$46.21	\$80.99	\$184.36
Series F	\$12.92	\$40.71	\$71.36	\$162.44

Any decision to waive the management fee, in whole or in part, is reviewed annually and determined at the discretion of the Manager without notice to the unitholders.

[BACK COVERING]

**CHOU MUTUAL FUNDS**

**CHOU ASSOCIATES FUND**

**CHOU RRSP FUND**

**CHOU EUROPE FUND**

**CHOU ASIA FUND**

**CHOU BOND FUND**

**Chou Associates Management Inc.**

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**Toronto, Ontario**

**M2N 6Y8**

Additional information about the Funds is available in the Funds' Annual Information Form, fund facts, management reports of fund performance and financial statements. These documents are incorporated by reference into this Simplified Prospectus, which means that they legally form part of this document just as if they were printed as a part of this document.

You can get a copy of these documents, at your request, and at no cost, by calling toll-free at 1-888-357-5070, or from your dealer or by e-mail at [admin@choufunds.com](mailto:admin@choufunds.com).

These documents and other information about the Funds, such as information circulars and material contracts, are also available on the internet site at [www.sedar.com](http://www.sedar.com).