

**CHOU ASSOCIATES FUND**  
**CHOU ASIA FUND**  
**CHOU EUROPE FUND**  
**CHOU BOND FUND**  
**CHOU RRSP FUND**

**SEMI-ANNUAL REPORT 2020**

## Illustration of an assumed investment of \$10,000 in Canadian dollars (Unaudited)

### CHOU ASSOCIATES FUND

Period ended	Total value of shares
Dec.31, 1986	\$10,000
Dec.31, 1987	10,502
Dec.31, 1988	12,001
Dec.31, 1989	14,244
Dec.31, 1990	12,722
Dec.31, 1991	15,681
Dec.31, 1992	18,817
Dec.31, 1993	21,863
Dec.31, 1994	21,300
Dec.31, 1995	27,904
Dec.31, 1996	34,235
Dec.31, 1997	48,035
Dec.31, 1998	59,187
Dec.31, 1999	53,489
Dec.31, 2000	57,967
Dec.31, 2001	70,397
Dec.31, 2002	91,504
Dec.31, 2003	94,773
Dec.31, 2004	103,319
Dec.31, 2005	117,462
Dec.31, 2006	139,511
Dec.31, 2007	125,258
Dec.31, 2008	88,553
Dec.31, 2009	114,854
Dec.31, 2010	136,916
Dec.31, 2011	113,776
Dec.31, 2012	144,446
Dec.31, 2013	204,142
Dec.31, 2014	228,754
Dec.31, 2015	212,854
Dec.31, 2016	206,905
Dec.31, 2017	214,775
Dec.31, 2018	197,699
Dec.31, 2019	200,244
<b>June 30, 2020</b>	<b><u>\$141,723</u></b>

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

The table is presented only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

## PERFORMANCE OF THE FUNDS

Six months ended June 30, 2020 (unaudited)

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### **Chou Associates Fund**

Series A \$CAN	(29.2%)
Series A \$US	(32.3%)

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Series F \$CAN	(29.0%)
Series F \$US	(32.1%)

### **Chou Asia Fund**

Series A \$CAN	(0.4%)
Series A \$US	(4.7%)

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Series F \$CAN	(0.1%)
Series F \$US	(4.5%)

### **Chou Europe Fund**

Series A \$CAN	(8.8%)
Series A \$US	(12.7%)

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Series F \$CAN	(8.5%)
Series F \$US	(12.5%)

### **Chou Bond Fund**

Series A \$CAN	18.8%
Series A \$US	13.6%

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Series F \$CAN	19.4%
Series F \$US	14.2%

### **Chou RRSP Fund**

Series A \$CAN	(26.0%)
Series A \$US	(29.3%)

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Series F \$CAN	(25.8%)
Series F \$US	(29.1%)

## TABLE OF CONTENTS

Chou Associates Fund Manager's Letter	1-5
Management's Responsibility for Financial Reporting	6
<b>Chou Associates Fund</b>	
Statements of Financial Position	7
Statements of Comprehensive Income	8
Statements of Changes in Net Assets	9
Statements of Cash Flows	10
Schedule of Investments	11
Discussion of Financial Risk Management	12-13
<b>Chou Asia Fund</b>	
Fund Manager's Letter	14-16
Statements of Financial Position	17
Statements of Comprehensive Income	18
Statements of Changes in Net Assets	19
Statements of Cash Flows	20
Schedule of Investments	21
Discussion of Financial Risk Management	22-23
<b>Chou Europe Fund</b>	
Fund Manager's Letter	24-26
Statements of Financial Position	27
Statements of Comprehensive Income	28
Statements of Changes in Net Assets	29
Statements of Cash Flows	30
Schedule of Investments	31
Discussion of Financial Risk Management	32-33
<b>Chou Bond Fund</b>	
Fund Manager's Letter	34-37
Statements of Financial Position	38
Statements of Comprehensive Income	39
Statements of Changes in Net Assets	40
Statements of Cash Flows	41
Schedule of Investments	42
Discussion of Financial Risk Management	43-44
<b>Chou RRSP Fund</b>	
Fund Manager's Letter	45-49
Statements of Financial Position	50
Statements of Comprehensive Income	51
Statements of Changes in Net Assets	52
Statements of Cash Flows	53
Schedule of Investments	54
Discussion of Financial Risk Management	55-56
<b>Notes to Financial Statements</b>	57-81

## **CHOU ASSOCIATES FUND**

(unaudited)

August 25, 2020

Dear Unitholders of Chou Associates Fund,

The net asset value per unit (“NAVPU”) of a Series A unit of Chou Associates Fund at June 30, 2020 was \$73.09 compared to \$103.28 at December 31, 2019, a decrease of 29.2%; during the same period, the S&P 500 Total Return Index increased 1.7% in Canadian dollars. In U.S. dollars, a Series A unit of Chou Associates Fund decreased by 32.3% while the S&P 500 Total Return Index decreased 3.1%.

The table shows our one-year, three-year, five-year, 10-year, 15-year and 20-year annual compound rates of return.

<b>June 30, 2020 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>	<b>15 Years</b>	<b>20 Years</b>
Chou Associates Fund (\$CAN)	(26.3%)	(12.7%)	(8.7%)	1.7%	1.6%	4.9%
S&P 500 (\$CAN)	11.8%	12.5%	12.7%	16.8%	9.6%	5.5%
Chou Associates Fund (\$US) <sup>1</sup>	(28.9%)	(14.0%)	(10.2%)	(0.8%)	0.9%	5.3%
S&P 500 (\$US)	7.5%	10.7%	10.7%	14.0%	8.8%	5.9%

Rates of return are historical total returns that include changes in unit prices, and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and that could reduce these returns. The returns are not guaranteed. The Fund’s past performance does not necessarily indicate future performance. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

### **Factors Influencing the First Six-Month Results**

The largest decliners in the period were the equity holdings of Wells Fargo & Company, Resolute Forest Products, Bausch Health, Citigroup, and EXCO Resources.

The increase in prices of DaVita shares and Overstock preferred shares helped to offset some of the losses. The Canadian currency depreciated against the US dollar, which also positively affected the Fund.

During the period, the Fund reduced its holdings in DaVita, Berkshire Hathaway, JPMorgan Chase, and Bausch Health. The Fund also received Overstock Series A-1 preferred shares as digital dividends.

The Fund did not make any new investments or sell any covered call options in the first half of 2020.

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<sup>1</sup> The alternative method of purchasing Chou Associates Fund in \$US has been offered since September 2005. Performance for years prior to September 2005 is based on the \$US equivalent conversion of the results of the Chou Associates Fund (\$CAN). The investments in the Chou Associates Fund (\$CAN) are the same as the investments in Chou Associates Fund (\$US) except for the currency applied.

## **Portfolio Commentary**

COVID-19 is a new disease and humans, as we know, have no immunity to it. However, the actions of almost all the governments in the world have caused severe economic disruptions. Every industry has been affected to some extent – some worse than others and we are in a wait and see attitude before we commit excess funds to the market.

### **Financials – Banks and Insurance**

**Banks** – In general, we do not think that the intrinsic values of the banks have depreciated much in the long-term. In the short-term, the revenues and net interest margins may take a hit due to low interest rates (close to zero), and defaults on bad loans will likely increase under the current anemic economic conditions. However, we think the loose monetary policy of today will benefit the banks in the long-term with its excessive printing of money, since banks are always the first beneficiary of easy money. Having endured the annual stress tests, banks are also in much better financial shape than they were during the Great Recession of 2008.

**Berkshire Hathaway** – We believe it is the best run company in the world. They have great operating companies that generate huge amounts of cash relative to the capital deployed. When they cannot deploy them at an acceptable rate of return, they give it to Warren Buffett to redeploy them in the purchase of new companies or the stocks of excellent companies at a reasonable price. This is a type of company that executives should study carefully. Instead they are given all kinds of cookie cutter type examples in business schools. Berkshire Hathaway has been operating since 1965 under Buffett and it is not a one-day wonder.

Berkshire Hathaway had grown to as much as 32% of the Fund's net assets over the years due to significant capital appreciation. We are quite happy to hold them for the long-term, but the overconcentration of securities over 10% of the Fund can be frowned upon by regulators. As a result, we have reduced the Fund's position of Berkshire Hathaway in early 2020.

### **Resolute Forest Products (“RFP”)**

As of June 30, 2020, the market price of Resolute Forest Products was US\$2.11 per share, down 50% from the price at year end 2019. RFP has been a huge disappointment since our initial purchase some eight years ago. It shows how tough it is to turn around a troubled company despite the best efforts of management. Having said that, it is quite comical to experience how a commodity stock can be hammered beyond all logical comprehension. RFP paid a special dividend of US\$1.50 a share in 2018, and it was trading as low as US\$1.17 per share in April 2020. Back in March 2020, the company announced that it would buy back 15% of its common shares for US\$100 million. At the lowest year-to-date price of US\$1.17, the whole market capitalization would be approximately US\$99 million. In other words, instead of buying back 15% of the company with US\$100 million, it could repurchase 100% of the company at one point. RFP shares have since recovered 300% to US\$4.69 as of August 25, 2020.

One bright spot has been their lumber operations. The high prices for lumber should make up the declines in newsprint and specialty papers. The COVID -19 pandemic has shifted the focus more towards lumber/pulp/tissue operations and I believe that should generate greater cash flow in the future.

In general, our experience with a commodity business that has virtually no pricing power is to be cautious when management talks about investing in new equipment or upgrades that would significantly lower the cost structure compared to its competitors. That may be true for six months to a couple of years, but in time, competitors will have a new cost structure that is as competitive if not superior to the company. It is the same treadmill where hardly anyone in the industry can make a decent return on the assets invested in the company. The same story can be seen repeatedly in various commoditized industries. There is no sustainable long-term advantage in a mediocre business with no pricing power. It is important not to get seduced by discount to book value. If the company cannot generate a decent return on book value over a long period of time, that book value is not worth much.

### **Bausch Health Companies Inc. (“Bausch”)**

In early August, Bausch Health Companies Inc. announced that it is planning to spin off its eye care business, Bausch + Lomb, into an independent publicly traded company. This will allow the company to concentrate on its gastroenterology, aesthetics/dermatology, neurology and international pharma business.

Chairman and CEO Joseph Papa said, "We've looked at the value of our pure health companies like Alcon and Cooper and believe that Bausch + Lomb would compare very favorably when investors have an opportunity to make a judgment about the relative value of the stand-alone business".

Comparables like Cooper Companies and Alcon Inc. are currently trading between 18 and 20 times EBITDA. If Bausch + Lomb trades at similar multiples as a stand-alone company, the total value of Bausch Health using sum-of-the-parts method, net of debt, should be worth north of \$35 per share, as an inference. For a long time we have felt that Bausch was undervalued, but the investors were not giving credit that management has done a good job in running the operations, selling non-core assets, as well as de-leveraging its balance sheet. They felt the process was too slow, we hope the spin-off of Bausch + Lomb unit will be the catalyst that is needed for investors to price the company closer to its intrinsic value.

### **EXCO Resources (“EXCO”)**

In early July of 2019, the company emerged from bankruptcy and the 1.75 lien term loans were converted into 28.38 equity shares for every \$1,000 in par value, after netting out certain adjustments. We received 1,518,570 shares of EXCO in the Fund. The equivalent price is \$9.5144 per share of EXCO.

Looking back on this investment, we underestimated how long the price of natural gas would stay low for and how low it has been relative to the price of oil. Historically, there had been a strong relationship between the prices of oil and natural gas. Thinking about the two fuels in terms of energy equivalency, 6,000 cubic feet (6 mcf) of natural gas has the same amount of energy content as 1 barrel of oil. In the past, this 6 to 1 ratio guided the relationship between oil and natural gas prices but for the last few years the ratio between prices has gone up to as high as 50 to 1.

Long story short, it was not such a great idea in investing in the 1.75 lien of EXCO.

## Does Value Investing Work?

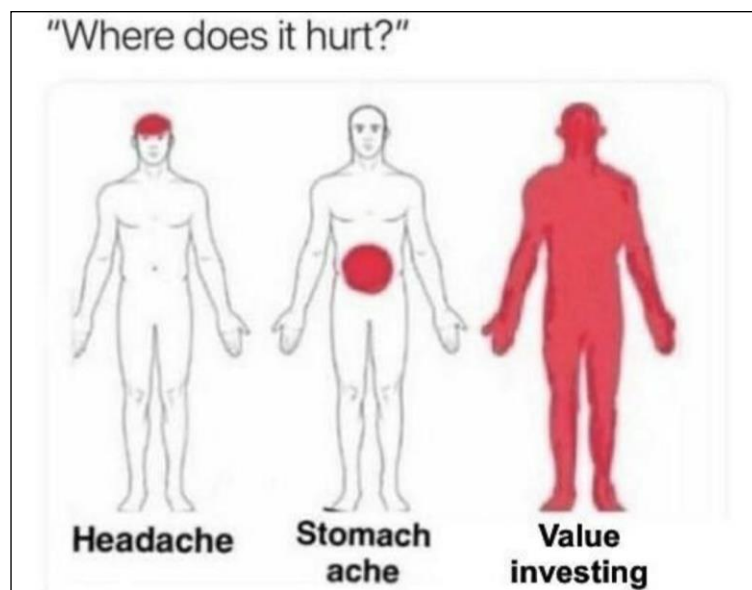
With the lackluster returns by value funds in recent years compared to growth and index funds, there is some doubt as to whether value investing can still work in the current market. We hold the view that value investing certainly works, but only when executed properly. Sometimes it is easier to blame the market environment than to admit our own faults. Although factors such as low interest rates, the popularity of passive investing and elevated market valuations played a role in blunting returns for value investors, we also accentuated the problem. The key to value investing is appraisal. If that is not precise enough, everything falls apart. We tend to fish in troubled waters, and what caused the biggest problem in recent years was that our appraisal of troubled companies was off the mark.

When we thought a company was worth 100 cents, it was actually worth closer to 60 cents. We tended to give much higher weight to asset values and not enough weight to the value of the operating company. We used the asset value as a huge security blanket and became blind to the deterioration of the worth of the operating company.

That was a mistake of commission. We also made a bundle of mistakes of omission.

Over the last 30 years, roughly half our portfolio was in troubled companies and the other half was in good companies. So, we are well acquainted with investing in both types of companies. But what happened over the last few years was that we spent most of the time undervaluing the good companies. When our assessment showed that the investments were worth 100 cents, they were more accurately close to 150 cents, thus causing us to miss most of those opportunities. These “omissions”, though they are unseen mistakes, are nevertheless as real as mistakes of commission. In summary, although the markets have been less kind to value investing, we exacerbated the problem as practitioners.

We believe the value investors can empathize with the picture below:



*Picture: Courtesy of David Shapiro @davidshapiro61*



## **Caution to the Investors**

Investors should be advised that we run a highly focused portfolio, frequently just three to five securities may comprise close to 50% of the assets of the Fund. In addition, the Fund has securities that are non-U.S. and could be subjected to geopolitical risks, which may trump or at least negatively influence the financial performance of the company. Also, we may enter into some derivative contracts, such as credit default swaps when we feel that the market conditions are right to use those instruments. Because of any or all of these factors, the net asset value of the Fund can be from time to time more volatile than at other times. However, we are not bothered by this volatility because our focus has always been, and continues to be, on how inexpensive we believe the Fund's portfolio holdings are relative to what we believe to be their intrinsic value.

## **Other Matters**

FOREIGN CURRENCY CONTRACTS: None existed at June 30, 2020.

CREDIT DEFAULT SWAPS: None existed at June 30, 2020.

U.S. DOLLAR VALUATION: Any investor who wishes to purchase the Chou Funds in U.S. dollars may do so.

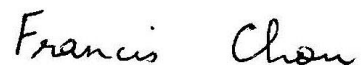
REDEMPTION FEE: We have a redemption fee of 2% if unitholders redeem their units in less than 3 months. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders.

INDEPENDENT REVIEW COMMITTEE: The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Peter Gregoire and Joe Tortolano. The 2019 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of August 25, 2020, the NAVPU of a Series A unit of the Fund was \$81.80 and the cash position was approximately 4.6% of net assets. The Fund is down 20.8% from the beginning of the year. In U.S. dollars, it is down 22.0%.

Except for the performance numbers of the Chou Associates Fund, this letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained or implied herein may not be suitable for all investors.

Yours truly,

A handwritten signature in cursive script that reads "Francis Chou".

Francis Chou  
Fund Manager

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## **Management's Responsibility for Financial Reporting**

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To the unitholders of the Chou Funds:

The accompanying financial statements have been prepared by the management of Chou Associates Management Inc. Management is responsible for the information and representations made in these financial statements.

Management has applied appropriate processes to ensure that the statements contain relevant and reliable financial information. The financial statements have been produced in accordance with accounting principles generally accepted in Canada and include certain amounts based on estimates and judgements. The significant accounting policies that management believes are appropriate for the Chou Funds are described in Note 2 to the financial statements.

The Trustee of each of the Trusts is responsible for reviewing and approving the financial statements, and for overseeing management's performance of its financial reporting responsibilities. The Trustee reviews the financial statements, the adequacy of internal controls, the audit process and the financial data with management and the external auditors.

The Board of Directors of Chou Associates Management Inc. is responsible for reviewing and approving the financial statements, and for overseeing management's performance of its financial reporting responsibilities. It reviews the financial statements, the adequacy of internal controls, the audit process and the financial data with management and the external auditors. Once satisfied, the Board approves the financial statements.

Grant Thornton LLP is the external auditor of the Chou Funds. They are appointed by the respective Boards and cannot be changed without the prior approval of the Independent Review Committee and on 60 days notice to the unitholders.



Francis Chou  
Chou Associates Management Inc.  
August 31, 2020

# CHOU ASSOCIATES FUND

## Statements of Financial Position

June 30, 2020 (Unaudited) and December 31, 2019

	June 30, 2020	December 31, 2019
<b>Assets</b>		
Current assets:		
Investments (note 8)	\$ 123,153,384	\$ 209,926,956
Cash and cash equivalents	11,915,818	—
Receivable for redeemable units subscribed	7,029	16,702
Due from broker	—	5,413,039
Dividends receivable	44,894	167,569
Total assets	135,121,125	215,524,266
<b>Liabilities</b>		
Current liabilities:		
Bank overdraft	—	1,032,848
Accrued expenses	1,447,750	1,133,196
Payable for units redeemed	224,349	4,319,119
Distributions payable	—	73,106
Total liabilities	1,672,099	6,558,269
Net assets attributable to unitholders of redeemable units	\$ 133,449,026	\$ 208,965,997
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 115,976,064	\$ 180,516,920
Series F	17,472,962	28,449,077
	\$ 133,449,026	\$ 208,965,997
Number of redeemable units outstanding (note 4):		
Series A	1,586,679	1,747,907
Series F	240,531	277,980
Net assets attributable to unitholders of redeemable units per unit:		
Canadian dollars:		
Series A	\$ 73.09	\$ 103.28
Series F	72.64	102.34
U.S. dollars:		
Series A	53.84	79.53
Series F	53.51	78.81

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors of Chou Associates Management Inc.:




# CHOU ASSOCIATES FUND

## Statements of Comprehensive Income (Loss)

Six months ended June 30, 2020 and 2019 (Unaudited)

	2020	2019
<b>Income:</b>		
Dividends	\$ 589,483	\$ 1,314,125
Securities lending income (note 7)	4,871	14,406
Foreign currency loss on cash and other net assets	(500,226)	(42,090)
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain (loss) on disposal of investments	17,973,782	(3,488,151)
Net realized gain on derivatives	—	1,890,191
Change in unrealized depreciation on investments	(74,983,231)	(2,770,802)
Change in unrealized depreciation on derivatives	—	(1,366,590)
	(56,915,321)	(4,448,911)
<b>Expenses:</b>		
Management fees (note 5)	1,345,763	2,297,368
Custodian fees	—	159,000
Audit	—	81,035
Filing fees	—	31,124
Independent review committee fees	—	24,367
FundSERV fees	14,221	12,777
Legal fees	9,100	9,050
Transaction costs (note 6)	65,588	37,824
Foreign withholding taxes	87,146	205,997
Other	23,657	13,758
	1,545,475	2,872,300
Decrease in net assets attributable to unitholders of redeemable units	\$ (58,460,796)	\$ (7,321,211)
Decrease in net assets attributable to unitholders of redeemable units per series:		
Series A	\$ (50,634,930)	\$ (6,465,477)
Series F	(7,825,866)	(855,734)
	\$ (58,460,796)	\$ (7,321,211)
Average number of redeemable units outstanding for the period for the Series:		
Series A	1,658,335	2,347,502
Series F	258,667	340,450
Decrease in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ (30.53)	\$ (2.75)
Series F	(30.25)	(2.51)

See accompanying notes to financial statements.

# CHOU ASSOCIATES FUND

## Statements of Changes in Net Assets Attributable to Unitholders of Redeemable Units

Six months ended June 30, 2020 and 2019 (Unaudited)

	2020	2019
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	\$ 180,516,920	\$ 250,374,883
Decrease in net assets attributable to unitholders of redeemable units	(50,634,930)	(6,465,477)
Proceeds from issue of redeemable units	530,093	912,465
Payments on redemption of redeemable units	(14,436,019)	(21,996,754)
Net assets attributable to unitholders of redeemable units, end of period	\$ 115,976,064	\$ 222,825,117
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	28,449,077	35,383,167
Decrease in net assets attributable to unitholders of redeemable units	(7,825,866)	(855,734)
Proceeds from issue of redeemable units	447,690	1,443,100
Payments on redemption of redeemable units	(3,597,939)	(2,791,227)
Net assets attributable to unitholders of redeemable units, end of period	\$ 17,472,962	\$ 33,179,306
Total net assets attributable to unitholders of redeemable units, end of period	\$ 133,449,026	\$ 256,004,423

See accompanying notes to financial statements.

# CHOU ASSOCIATES FUND

## Statements of Cash Flows

Six months ended June 30, 2020 and 2019 (Unaudited)

	2020	2019
<b>Cash flows from operating activities:</b>		
Decrease in net assets attributable to unitholders of redeemable units	\$ (58,460,796)	\$ (7,321,211)
Adjustments for:		
Foreign currency loss on cash and other net assets	500,226	42,090
Net realized (gain) loss on disposal of investments and derivatives	(17,973,782)	1,597,960
Change in unrealized depreciation on investments and derivatives	74,983,231	4,137,392
Change in non-cash operating working capital:		
Decrease (increase) in dividends receivable	122,675	(37,964)
Increase (decrease) in accrued expenses	314,554	(29,238)
Purchase of investments	(48,177)	(84,695)
Proceeds from sales of investments	35,225,339	17,741,626
Net cash generated from operating activities	34,663,270	16,045,960
<b>Cash flows from financing activities:</b>		
Distributions reinvested	(73,106)	(5,253)
Proceeds from redeemable units issued	987,456	2,357,969
Amount paid on redemption of redeemable units	(22,128,728)	(23,712,989)
Net cash used in financing activities	(21,214,378)	(21,360,273)
Foreign currency loss on cash and other net assets	(500,226)	(42,090)
Increase (decrease) in cash and cash equivalents	12,948,666	(5,356,403)
(Bank overdraft) cash and cash equivalents, beginning of period	(1,032,848)	4,523,311
<b>Cash and cash equivalents (bank overdraft), end of period</b>	<b>\$ 11,915,818</b>	<b>\$ (833,092)</b>
<b>Supplemental information:</b>		
Dividends received, net of withholding tax	625,012	1,070,164
Security lending income received	4,871	14,406

See accompanying notes to financial statements.

# CHOU ASSOCIATES FUND

## Schedule of Investments

June 30, 2020 (Unaudited)

	Number of securities	Cost	Fair value
<b>Equities*</b>			
Allegiant Travel Company	4,317	\$ 794,549	\$ 640,054
Bausch Health Companies Inc.	1,325,000	28,636,080	32,900,418
Berkshire Hathaway Inc., Class 'A'	100	10,546,612	36,288,648
Citigroup Inc.	67,695	1,710,329	4,696,230
DaVita Inc.	22,743	1,566,867	2,443,518
EXCO Resources Inc.	1,281,244	31,646,701	10,871,355
JPMorgan Chase & Company	34,275	2,395,497	4,376,775
MBIA Inc.	652,531	4,515,702	6,422,602
Overstock.com Inc., Series 'A-1'	4,273	48,177	110,220
Overstock.com Inc., Series 'B'	42,730	883,805	957,169
Resolute Forest Products Inc.	3,347,772	50,233,049	9,589,813
Spirit Airlines Inc.	50,000	2,334,425	1,208,264
The Goldman Sachs Group Inc.	20,000	2,502,438	5,365,778
Wells Fargo & Company	209,542	11,181,178	7,282,540
Total long		148,995,409	123,153,384
Total investments		148,995,409	123,153,384
Transaction costs		(126,190)	—
Total Investments in Non-Derivative Financial Assets		148,869,219	123,153,384
Derivative Liabilities		—	—
Portfolio total		\$ 148,869,219	\$ 123,153,384

\* Common shares unless indicated otherwise

See accompanying notes to financial statements.

# CHOU ASSOCIATES FUND

## Discussion of Financial Risk Management

Six months ended June 30, 2020 and 2019 (Unaudited)

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### Investment objective and strategies:

The Fund's objective is to provide long-term growth of capital by investing primarily in equity securities of U.S. and foreign businesses considered by the Manager to be undervalued. The Fund may also invest in the equity securities of Canadian businesses. Investments may include common and preferred shares, convertible debentures, options, warrants, government and corporate bonds and short-term debt.

The investment process followed in selecting equity investments for the Fund is a value-oriented approach to investing. The level of investments in the Fund's securities is generally commensurate with the current price of the Fund's securities in relation to its intrinsic value. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

### Financial risk management:

The Fund's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's objectives and risk tolerance.

#### (a) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge a commitment that it has entered into with the Fund. As at June 30, 2020, the Fund did not invest any of its net assets in non-investment grade debt instruments (December 31, 2019 – \$Nil). Non-investment grade is the term applied to bonds rated below Baa3 on the Moody's credit rating scale and below BBB- on the equivalent ratings systems from Standard & Poor's and Fitch. These credit ratings denote that the company's financial position is weak and its bonds should be considered a speculative investment. As at June 30, 2020, the Fund did not invest any of its net assets in non-rated bonds (December 31, 2019 – \$Nil).

#### (b) Interest rate risk:

Interest rate risk arises from the effect of changes in interest rates on future cash flows or the current value of financial instruments. The table below summarizes the Fund's exposure to interest rate risk by remaining term to maturity:

Debt instruments by maturity date:

	June 30, 2020	December 31, 2019
Less than 1 year	\$ —	\$ —
1 - 3 years	—	—
3 - 5 years	—	—
Greater than 5 years	—	—

As at June 30, 2020, had interest rates decreased or increased by 0.25%, with all other variables remaining constant, there would be no increase or decrease in net assets for the period (December 31, 2019 - \$Nil).

In practice, the actual trading results may differ and the difference could be material.



# CHOU ASSOCIATES FUND

## Discussion of Financial Risk Management

Six months ended June 30, 2020 and 2019 (Unaudited)

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### Financial risk management (continued):

#### (c) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 84.14% (December 31, 2019 – 92.88%) of the Fund's net assets held at June 30, 2020 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at June 30, 2020, the net assets of the Fund would have increased or decreased by approximately \$5,614,101 or 4.21% (December 31, 2019 – \$9,704,864 or 4.64%) of the net assets, all other factors remaining constant.

In practice, the actual trading results may differ and the difference could be material.

#### (d) Foreign currency risk:

Currencies to which the Fund had exposure as at June 30, 2020 and December 31, 2019 expressed in CAD are as follows:

<b>June 30, 2020</b>	<b>Investments and derivatives</b>	<b>Cash and cash equivalents</b>	<b>Other assets and liabilities</b>	<b>Total</b>	<b>Percentage of net asset value</b>
United States dollar (USD)	\$ 123,153,384	\$ 11,472,665	\$ 44,894	\$ 134,670,943	100.9%

<b>December 31, 2019</b>	<b>Investments and derivatives</b>	<b>Cash and cash equivalents</b>	<b>Other assets and liabilities</b>	<b>Total</b>	<b>Percentage of net asset value</b>
United States dollar (USD)	\$ 209,926,956	\$ 88,834	\$ 5,580,609	\$ 215,596,399	103.2%

The amounts in the above tables are based on the market value of the Fund's financial instruments. This includes cash and cash equivalents, investments, dividend receivable, interest receivable, receivable for units subscribed, due from broker, payable for units redeemed, distributions payable and due to broker that are denominated in foreign currencies.

As at June 30, 2020, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$1,346,709 (December 31, 2019 - \$2,155,964).

In practice, the actual trading results may differ and the difference could be material.

## CHOU ASIA FUND (unaudited)

August 25, 2020

Dear Unitholders of Chou Asia Fund,

The net asset value per unit (“NAVPU”) of a Series A unit of Chou Asia Fund at June 30, 2020 was \$17.18 compared to \$17.25 at December 31, 2019, a decrease of 0.4%; during the same period, the MSCI AC (Morgan Stanley Capital International All Country) Asia Pacific Total Return Index in Canadian dollars decreased 1.6%. In U.S. dollars, a Series A unit of Chou Asia Fund was down 4.7% while the MSCI AC Asia Pacific Total Return Index decreased 6.2%.

The table shows our one-year, three-year, five-year, 10-year and 15-year annual compound rates of return.

<b>June 30, 2020 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>	<b>15 Years</b>
Chou Asia Fund (\$CAN)	2.0%	(0.9%)	1.0%	4.3%	5.5%
MSCI AC Asia Pacific TR (\$CAN)	5.5%	5.3%	6.3%	9.2%	6.9%
Chou Asia Fund (\$US) <sup>1</sup>	(1.6%)	(2.4%)	(0.7%)	1.7%	4.8%
MSCI AC Asia Pacific TR (\$US)	1.5%	3.7%	4.5%	6.5%	6.1%

Rates of return are historical total returns that include changes in unit prices, and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and that could reduce these returns. The returns are not guaranteed. The Fund’s past performance does not necessarily indicate future performance. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

### Factors Influencing the First Six-Month Results

The major positive contributors to the Fund’s performance in the first half of 2020 were the equity holdings of China Yuchai International, BYD Company Limited, and BYD Electronic (International) Company. The Canadian currency depreciated against the Hong Kong dollar, which also positively affected the Fund.

The largest decliners in the same period were the equity holdings of IDFC Limited, AirAsia Group, Shriram Transport Finance Company, and POSCO.

During the period, the Fund reduced its holdings in BYD Company Limited. The Seaspan Corporation preferred Series H shares were converted to Atlas Corporation shares as a result of a holding company reorganization.

The Fund did not make any new investments or sell any covered call options in the first half of 2020.

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<sup>1</sup> The alternative method of purchasing Chou Asia Fund in \$US has been offered since September 2005. Performance for years prior to September 2005 is based on the \$US equivalent conversion of the results of the Chou Asia Fund (\$CAN). The investments in the Chou Asia Fund (\$CAN) are the same as the investments in Chou Asia Fund (\$US) except for the currency applied.

## **Portfolio Commentary**

### **BYD Company Limited and BYD Electronic Company**

BYD Company Limited, together with its subsidiaries, engages in the rechargeable battery and photovoltaic, handset components and assembly, and automobile businesses worldwide. We first heard about the story of Wang Chuanfu, a person who combines two traits that are extremely rare in business: a brilliant chemist with a great business acumen. So, we kept track of the two companies that he founded — BYD Company Limited and BYD Electronic Company. The latter is an investment holding company that manufactures, assembles, and sells mobile handset components and modules. As it happens in the stock market, we felt that at some point in time, his two companies would fall out of favor and a buying opportunity may present itself with an undervalued price. The opportunity came in late 2011 and in 2012, we were able to buy 250,000 shares of BYD Company Limited at \$11.70 HKD per share and one million shares of BYD Electronic Company at \$1.58 HKD per share. You will not believe that we bought BYD Electronic at a discount to its net-net working capital. Both have worked out well since our purchase. On June 30, 2020, BYD Company Limited and BYD Electronic Company were trading at \$59.85 HKD and \$17.74 HKD per share, respectively.

We are quite happy to hold them for the long-term, but the over-concentration of securities over 10% of the Fund can be frowned upon by regulators. As a result, we have reduced the Fund's position of BYD Company Limited in early 2020. We may reduce our holdings in BYD Electronic Company for the same reason in the future.

### **India**

As mentioned in previous letters, we have started to look closely at the market in India. With a current population of 1.3 billion, India is the world's second most populous country. It has one of Asia's youngest populations with the median age of 27.3 compared to China at 37.6 and Japan at 47.1.

In recent years, the Indian government has enacted reforms to further support the growth of India's economy. India's performance on the World Bank's Ease of Doing Business index, which ranks countries on parameters such as regulations for businesses and protections for private property, has increased from a rank of 132 out of 190 in 2016 to 63 out of 190 in 2019.

As with any foreign ventures, the investments in India will face the risk of negative currency movements. As a result, we are awaiting further developments and remain cautious of the market. Compared to other markets, the Indian stock market has not recovered anywhere close to the pre-COVID levels. In addition, we are also looking at the South Korean, Japanese, Singaporean, and Taiwanese markets for any potential bargains.

### **Caution to the Investors**

Investors should be advised that we run a highly focused portfolio, frequently just three to five securities may comprise more than 50% of the assets of the Fund. In addition, the Fund has securities that are non-U.S. and could be subjected to geopolitical risks, which may trump or at least negatively influence the financial performance of the company. Also, we may enter into some derivative contracts, such as credit default swaps when we feel that the market conditions

are right to use those instruments. Because of any or all of these factors, the net asset value of the Fund can be from time to time more volatile than at other times. However, we are not bothered by this volatility because our focus has always been, and continues to be, on how inexpensive we believe the Fund's portfolio holdings are relative to what we believe to be their intrinsic value.

Also, the Fund's cash position was approximately 13% of net assets as at June 30, 2020. This large cash position may depress returns for a while as we hunt for undervalued securities. Obviously, if there is a severe correction in the market in the near future, it will cushion the Fund against losses while providing us with the wherewithal to find good investment opportunities. But for now, it could be a drag on returns. If we cannot find any bargains, the large cash position may stay for a long time.

### **Other Matters**

**FOREIGN CURRENCY CONTRACTS:** None existed at June 30, 2020.

**U.S. DOLLAR VALUATION:** Any investor who wishes to purchase the Chou Funds in U.S. dollars may do so.

**REDEMPTION FEE:** We have a redemption fee of 2% if unitholders redeem their units in less than 3 months. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders.

**INDEPENDENT REVIEW COMMITTEE:** The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Peter Gregoire and Joe Tortolano. The 2019 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of August 25, 2020, the NAVPU of a Series A unit of the Fund was \$19.86 and the cash position was approximately 12.9% of net assets. The Fund is up 15.1% from the beginning of the year. In U.S. dollars, it is up 13.4%.

Except for the performance numbers of the Chou Asia Fund, this letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained or implied herein may not be suitable for all investors.

Yours truly,

*Francis Chou*

Francis Chou  
Fund Manager

# CHOU ASIA FUND

## Statements of Financial Position

June 30, 2020 (Unaudited) and December 31, 2019

	June 30, 2020	December 31, 2019
<b>Assets</b>		
Current assets:		
Investments (note 8)	\$ 11,380,137	\$ 14,230,953
Cash and cash equivalents	2,393,416	1,096,539
Receivable for redeemable units subscribed	28,000	–
Due from broker	–	1,267,569
Interest receivable	2,597	139
Dividends receivable	17,492	12,255
Total assets	13,821,642	16,607,455
<b>Liabilities</b>		
Current liabilities:		
Accrued expenses	148,996	115,075
Payable for units redeemed	75,745	226,340
Distribution payable	–	24,258
Total liabilities	224,741	365,673
Net assets attributable to unitholders of redeemable units	\$ 13,596,901	\$ 16,241,782
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 12,382,759	\$ 14,729,651
Series F	1,214,142	1,512,131
	\$ 13,596,901	\$ 16,241,782
Number of redeemable units outstanding (note 4):		
Series A	720,628	853,782
Series F	69,194	86,073
Net assets attributable to unitholders of redeemable units per unit:		
Canadian dollars:		
Series A	\$ 17.18	\$ 17.25
Series F	17.55	17.57
U.S. dollars:		
Series A	12.66	13.29
Series F	12.92	13.53

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors of Chou Associates Management Inc.:

Francis Chou



# CHOU ASIA FUND

## Statements of Comprehensive Income (Loss)

Six months ended June 30, 2020 and 2019 (Unaudited)

	2020	2019
<b>Income:</b>		
Interest for distribution purposes and other	\$ 48	\$ 24,652
Dividends	96,503	177,478
Securities lending income (note 7)	82,267	71,067
Foreign currency loss on cash and other net assets	(148,488)	(13,234)
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain on disposal of investments	2,193,652	7,925
Change in unrealized depreciation on investments	(2,164,796)	(299,133)
	59,186	(31,245)
<b>Expenses:</b>		
Management fees (note 5)	120,380	179,978
Custodian fees	—	12,720
Audit	—	6,714
Filing fees	—	2,776
Independent review committee fees	—	1,922
FundSERV fees	1,396	3,354
Legal fees	679	—
Transaction costs (note 6)	7,096	4,137
Foreign withholding taxes	10,594	13,717
Other	2,015	1,272
	142,160	226,590
Decrease in net assets attributable to unitholders of redeemable units	\$ (82,974)	\$ (257,835)
Decrease in net assets attributable to unitholders of redeemable units per Series:		
Series A	\$ (70,674)	\$ (234,334)
Series F	(12,300)	(23,501)
	\$ (82,974)	\$ (257,835)
Average number of redeemable units outstanding for the period for the Series:		
Series A	780,996	1,112,021
Series F	78,820	119,243
Decrease in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ (0.09)	\$ (0.21)
Series F	(0.16)	(0.20)

See accompanying notes to financial statements.

# CHOU ASIA FUND

## Statements of Changes in Net Assets Attributable to Unitholders of Redeemable Units

Six months ended June 30, 2020 and 2019 (Unaudited)

	2020	2019
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	\$ 14,729,651	\$ 20,300,189
Decrease in net assets attributable to unitholders of redeemable units	(70,674)	(234,334)
Proceeds from issue of redeemable units	77,693	53,306
Payments on redemption of redeemable units	(2,353,911)	(1,870,296)
Net assets attributable to unitholders of redeemable units, end of period	\$ 12,382,759	\$ 18,248,865
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	1,512,131	2,238,621
Decrease in net assets attributable to unitholders of redeemable units	(12,300)	(23,501)
Proceeds from issue of redeemable units	56,844	32,150
Payments on redemption of redeemable units	(342,533)	(204,112)
Net assets attributable to unitholders of redeemable units, end of period	\$ 1,214,142	\$ 2,043,158
Total net assets attributable to unitholders of redeemable units, end of period	\$ 13,596,901	\$ 20,292,023

See accompanying notes to financial statements.

# CHOU ASIA FUND

## Statements of Cash Flows

Six months ended June 30, 2020 and 2019 (Unaudited)

	2020	2019
<b>Cash flows from operating activities:</b>		
Decrease in net assets attributable to unitholders of redeemable units	\$ (82,974)	\$ (257,835)
Adjustments for:		
Foreign currency loss (gain) on cash and other net assets	148,488	13,234
Net realized gain on disposal of investments and derivatives	(2,193,652)	(7,925)
Change in unrealized depreciation on investments and derivatives	2,164,796	299,133
Change in non-cash operating working capital:		
(Increase) decrease in interest receivable	(2,458)	2,447
Increase in dividends receivable	(5,237)	(55,727)
Increase in accrued expenses	33,921	1,661
Purchase of investments	—	(4,029,226)
Proceeds from sales of investments	4,147,241	2,297,846
Net cash generated from (used in) operating activities	4,210,125	(1,736,392)
<b>Cash flows from financing activities:</b>		
Distributions paid to unitholders	(24,258)	(2,372)
Proceeds from redeemable units issued	106,537	97,456
Amount paid on redemption of redeemable units	(2,847,039)	(1,963,831)
Net cash used in financing activities	(2,764,760)	(1,868,747)
Foreign currency loss on cash and other net assets	(148,488)	(13,234)
Increase (decrease) in cash and cash equivalents	1,296,877	(3,618,373)
Cash and cash equivalents, beginning of period	1,096,539	8,910,126
Cash and cash equivalents, end of period	\$ 2,393,416	\$ 5,291,753
<b>Supplemental information:</b>		
Interest received, net of withholding tax	\$ —	\$ 27,099
Dividends received, net of withholding taxes	80,672	108,034
Security lending income received	82,267	71,067

See accompanying notes to financial statements.



# CHOU ASIA FUND

## Schedule of Investments

June 30, 2020 (Unaudited)

	Number of securities		Cost		Fair value
<b>Equities*</b>					
AirAsia Group Berhad	650,000	\$	670,997	\$	180,195
AJIS Company Limited	30,400		213,157		980,414
Atlas Corporation, Series 'H'	19,711		619,056		560,080
BYD Company Limited, Class 'H'	173,000		298,844		1,813,645
BYD Electronic (International) Company Limited	798,000		193,535		2,479,697
China Yuchai International Limited	73,364		1,242,575		1,432,233
Hanfeng Evergreen Inc.	95,850		228,548		—
IDFC Limited	1,010,000		750,376		334,151
POSCO, ADR	21,000		1,259,883		1,055,996
Pyne Gould Corporation Limited	5,277,219		1,179,914		1,340,712
Samsung Electronics Company Limited, GDR	420		500,073		628,922
Shriram Transport Finance Company Limited	46,300		888,504		574,092
Total long			8,045,462		11,380,137
Total investments			8,045,462		11,380,137
Transaction costs			(22,165)		—
Portfolio total		\$	8,023,297	\$	11,380,137

\* Common shares unless indicated otherwise

See accompanying notes to financial statements.

# CHOU ASIA FUND

## Discussion of Financial Risk Management

Six months ended June 30, 2020 and 2019 (Unaudited)

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### Investment objective and strategies:

The Fund's objective is to provide long-term growth of capital by investing primarily in the securities of Asian businesses considered by the Manager to be undervalued. Investments may be made in securities other than equities and in businesses located outside of Asia. Investments may include common and preferred shares, convertible debentures, options, warrants, government and corporate bonds and short-term debt.

The investment process followed in selecting equity investments for the Fund is a value-oriented approach to investing that focuses on the Asian market. The investment strategy follows strong disciplines with regard to price paid to acquire portfolio investments. The level of investments in the Fund's securities is generally commensurate with the current price of the company's securities in relation to its intrinsic value. That approach is designed to provide an extra margin of safety, which in turn serves to reduce overall portfolio risk.

### Financial risk management:

The Fund's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's objectives and risk tolerance.

#### (a) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 83.7% of the Fund's net assets held at June 30, 2020 were publicly traded equities (December 31, 2019 – 95.42%). If equity prices on the exchange had increased or decreased by 5% as at June 30, 2020, the net assets of the Fund would have increased or decreased by approximately \$569,007 or 4.18% (December 31, 2019 – \$711,548 or 4.38%) of the net assets, all other factors remaining constant.

In practice, the actual trading results may differ and the difference could be material.

#### (b) Foreign currency risk:

Currencies to which the Fund had exposure as at June 30, 2020 and December 31, 2019 expressed in CAD are as follows:

June 30, 2020	Investments and derivatives	Cash and cash equivalents	Other assets and liabilities	Total	Percentage of net asset value
United States dollar (USD)	\$ 3,677,231	\$ 2,156,334	\$ 18,210	\$ 5,851,775	43.0%
Hong Kong dollar (HKD)	\$ 4,293,342	\$ -	\$ -	\$ 4,293,342	31.6%
New Zealand dollar (NZD)	\$ 1,340,712	\$ -	\$ -	\$ 1,340,712	9.9%
Indian Rupee (₹)	\$ 908,243	\$ 214,730	\$ -	\$ 1,122,973	8.3%
Japanese yen (¥)	\$ 980,414	\$ 23,488	\$ 87	\$ 1,003,989	7.4%
Malaysian Ringgit (RM)	\$ 180,195	\$ -	\$ -	\$ 180,195	1.3%
China Renminbi (CNY)	\$ -	\$ -	\$ 1,793	\$ 1,793	0.0%

# CHOU ASIA FUND

## Discussion of Financial Risk Management (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

### Financial risk management (continued):

#### (b) Foreign currency risk (continued):

December 31, 2019	Investments and derivatives	Cash and cash equivalents	Other assets and liabilities	Total	Percentage of net asset value
Hong Kong dollar (HKD)	\$ 5,701,783	\$ 49,463	\$ –	\$ 5,751,246	35.4%
United States dollar (USD)	\$ 3,968,479	\$ (29,356)	\$ 12,255	\$ 3,951,378	24.3%
Indian Rupee (₹)	\$ 1,707,633	\$ 216,559	\$ –	\$ 1,924,192	11.8%
New Zealand dollar (NZD)	\$ 1,458,371	\$ 120,523	\$ –	\$ 1,578,894	9.7%
Japanese yen (¥)	\$ 1,164,422	\$ 55,705	\$ –	\$ 1,220,127	7.5%
Malaysian Ringgit (RM)	\$ 350,788	\$ 293,011	\$ –	\$ 643,799	4.0%
Singapore dollar (SGD)	\$ –	\$ 168,381	\$ –	\$ 168,381	1.0%

The amounts in the above tables are based on the market value of the Fund's financial instruments. This includes cash and cash equivalents, investments, dividends receivable, interest receivable, receivable for units subscribed, payable for units redeemed, distributions payable and due to broker that are denominated in foreign currencies.

As at June 30, 2020, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$137,948 (December 31, 2019 – \$152,380).

In practice, the actual trading results may differ and the difference could be material.

## **CHOU EUROPE FUND** (unaudited)

August 25, 2020

Dear Unitholders of Chou Europe Fund,

The net asset value per unit (“NAVPU”) of a Series A unit of Chou Europe Fund at June 30, 2020 was \$8.01 compared to \$8.78 at December 31, 2019, an decrease of 8.8%; during the same period, the MSCI AC (Morgan Stanley Capital International All Country) Europe Total Return Index in Canadian dollars decreased 8.6%. In U.S. dollars, a Series A unit of Chou Europe Fund was down 12.7% while the MSCI AC Europe Total Return Index decreased 12.9%.

The table shows our one-year, three-year, five-year, 10-year and 15-year annual compound rates of return.

<b>June 30, 2020 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>	<b>15 Years</b>
Chou Europe Fund (\$CAN)	(5.1%)	(8.6%)	(9.1%)	2.2%	(1.1%)
MSCI AC Europe TR (\$CAN)	(2.9%)	2.2%	3.8%	8.6%	5.0%
Chou Europe Fund (\$US) <sup>1</sup>	(8.4%)	(11.6%)	(10.6%)	(0.4%)	(1.9%)
MSCI AC Europe TR (\$US)	(6.7%)	0.6%	2.0%	6.0%	4.3%

Rates of return are historical total returns that include changes in unit prices, and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and that could reduce these returns. The returns are not guaranteed. The Fund’s past performance does not necessarily indicate future performance. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

### **Factors Influencing the First Six-Month Results**

The largest decliners in the period were the equity holdings of Bank of Ireland, Intralot, Rolls-Royce Holdings, and Eurobank Ergasias. The increase in prices of Abbey, Dart Group, and Wizz Air Holdings helped to offset some of the losses.

The Euro appreciated against the Canadian currency during the period, which also contributed positively to the performance of the Fund.

During the period, the Fund initiated investments in Dart Group, easyJet, and Wizz Air Holdings shares. The Fund also sold its holdings in Sanofi.

The Fund did not enter into any forward currency contracts for pounds sterling or Euros in the first half of 2020. The Fund also had no covered call options in its portfolio as at June 30, 2020.

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<sup>1</sup> The alternative method of purchasing Chou Europe Fund in \$US has been offered since September 2005. Performance for years prior to September 2005 is based on the \$US equivalent conversion of the results of the Chou Europe Fund (\$CAN). The investments in the Chou Europe Fund (\$CAN) are the same as the investments in Chou Europe Fund (\$US) except for the currency applied.

## **Portfolio Commentary**

### **Ultra Low Cost Carriers (“ULCC”)**

The airline industry got clobbered in this COVID-19 pandemic. With all the restrictions with regard to social distancing and face masks to limit virus spread, it may be a while before revenue come back to the pre-COVID time. In the 9/11 incident it took the airline industry close to six years to return to normal. However, we believe there is bright spot in a small segment of the airline industry. It is called the Ultra Low Cost Carrier (ULCC) airlines. Their success depends on unbundling the services to focus on travel only. Most major airlines offer other services such as drinks, food, lounge and conveniences of major airports, however ULCCs are only interested in charging passengers from going from point A to point B with no frills. Everything else is eschewed. Airfares are substantially reduced as a result. For example, you can fly from Brussels, Belgium to Barcelona, Spain and back again for a total cost of less than €50. However, if you want to use the washroom while in flight, you have to pay one Euro for it. In spite of that, it is a terrific deal for the passengers. And they have made bundles of money doing that for the last 20 years.

We believe the ULCC will be the first ones to recover from the COVID pandemic. However, there are several things they have to do, chief among them are:

1. Passengers have to be assured about their personal safety from the virus. Airlines have to enhance cabin cleaning and air filtration systems, and will require all passengers to wear masks or coverings.
2. Steps need to be taken to leave middle seats open or restrict ticket sales.
3. Initially they have to run the airlines as close as possible so as to not lose money. As time goes by, and hopefully a vaccine is developed withing six months, enough demand comes back to start making money. Meanwhile the government bailout will keep the ULCC afloat. The ULCC companies we have invested in have enough liquidity to last for a year.

Below are the companies we have invested in. We bought them cheap and at the point of maximum pessimism. We believe that they have a bright future.

<b>ULCC Common Shares</b>	<b>Average Cost Base (“ACB”)</b>	<b>Price on June 30, 2020</b>	<b>% Increase from ACB</b>
Ryanair Holdings	US\$27.61	US\$66.34	140%
Dart Group	£4.00	£8.40	110%
easyJet	£4.90	£6.80	39%
Wizz Air Holdings	£19.83	£33.36	68%

### **Fiat Chrysler Automobiles (“FIAT”)**

We initiated a position in FIAT back in late 2018 since it was a cheap stock with good amounts of cash. It caught our attention when the controlling shareholders wanted to unlock value either by paying special dividends, buybacks of shares or through strategic merger and acquisition. Since our purchase in December 2018, we have received US\$2.70 in regular and special

dividends, accounting for over 30% of the original price paid. We expect the regular and special dividend payments to continue once the COVID-19 crisis abates.

### **Caution to the Investors**

Investors should be advised that we run a highly focused portfolio, frequently just three to five securities may comprise close to 50% of the assets of the Fund. In addition, the Fund has securities that are non-U.S. and could be subjected to geopolitical risks, which may trump or at least negatively influence the financial performance of the company. Also, we may enter into some derivative contracts, such as credit default swaps when we feel that the market conditions are right to use those instruments. Because of any or all of these factors, the net asset value of the Fund can be from time to time more volatile than at other times. However, we are not bothered by this volatility because our focus has always been, and continues to be, on how inexpensive we believe the Fund's portfolio holdings are relative to what we believe to be their intrinsic value.

Also, the Fund's cash position was approximately 22% of net assets as at June 30, 2020. This large cash position may depress returns for a while as we hunt for undervalued securities. Obviously, if there is a severe correction in the market in the near future, it will cushion the Fund against losses while providing us with the wherewithal to find good investment opportunities. But for now, it could be a drag on returns. If we cannot find any bargains, the large cash position may stay for a long time.

### **Other Matters**

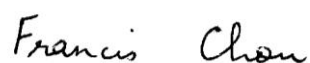
**REDEMPTION FEE:** We have a redemption fee of 2% if unitholders redeem their units in less than 3 months. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders.

**INDEPENDENT REVIEW COMMITTEE:** The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Peter Gregoire and Joe Tortolano. The 2019 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of August 25, 2020, the NAVPU of a Series A unit of the Fund was \$8.16 and the cash position was approximately 16.2% of net assets. The Fund is down 7.0% from the beginning of the year. In U.S. dollars, it is down 8.4%.

Except for the performance numbers of the Chou Europe Fund, this letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained or implied herein may not be suitable for all investors.

Yours truly,



Francis Chou  
Fund Manager

# CHOU EUROPE FUND

## Statements of Financial Position

June 30, 2020 (Unaudited) and December 31, 2019

	June 30, 2020	December 31, 2019
<b>Assets</b>		
Current assets:		
Investments (note 8)	\$ 4,354,074	\$ 5,179,958
Cash and cash equivalents	1,265,562	2,889,903
Receivable for redeemable units subscribed	500	5,262
Due from broker	—	189,215
Interest receivable	1,273	2,052
Dividends receivable	—	6,391
Total assets	5,621,409	8,272,781
<b>Liabilities</b>		
Current liabilities:		
Accrued expenses	34,250	21,360
Payable for units redeemed	—	1,034,435
Distributions payable	—	18
Due to broker	—	383,847
Total liabilities	34,250	1,439,660
Net assets attributable to unitholders of redeemable units	\$ 5,587,159	\$ 6,833,121
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 2,654,311	\$ 3,481,204
Series F	2,932,848	3,351,917
	\$ 5,587,159	\$ 6,833,121
Number of redeemable units outstanding (note 4):		
Series A	331,405	396,577
Series F	354,311	370,498
Net assets attributable to unitholders of redeemable units per unit:		
Canadian dollars:		
Series A	\$ 8.01	\$ 8.78
Series F	8.28	9.05
U.S. dollars:		
Series A	5.90	6.76
Series F	6.10	6.97

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors of Chou Associates Management Inc.:

Francis Chou



# CHOU EUROPE FUND

## Statements of Comprehensive Income (Loss)

Six months ended June 30, 2020 and 2019 (Unaudited)

	2020	2019
<b>Income:</b>		
Interest for distribution purposes and other	\$ 2,724	\$ 6,699
Dividends	5,350	209,890
Securities lending income (note 7)	152	133
Foreign currency gain on cash and other net assets	7,225	7,859
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain (loss) on investments	376,932	(3,971)
Net realized gain on derivatives	—	168,749
Change in unrealized depreciation on investments	(939,935)	(685,169)
Change in unrealized depreciation on derivatives	—	(125,172)
	(547,552)	(420,982)
<b>Expenses:</b>		
Management fees (note 5)	41,785	55,233
Custodian fees	4,271	4,240
Audit	—	2,904
Filing fees	533	1,006
Independent review committee fees	—	634
FundSERV fees	584	2,821
Legal fees	332	—
Transaction costs (note 6)	6,930	1,119
Foreign withholding taxes	331	19,894
Other	638	571
	55,404	88,422
Decrease in net assets attributable to unitholders of redeemable units	\$ (602,956)	\$ (509,404)
Decrease in net assets attributable to unitholders of redeemable units per Series:		
Series A	\$ (312,679)	\$ (253,614)
Series F	(290,277)	(255,790)
	\$ (602,956)	\$ (509,404)
Average number of redeemable units outstanding for the period for the Series:		
Series A	360,317	447,372
Series F	363,876	365,761
Decrease in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ (0.87)	\$ (0.57)
Series F	(0.80)	(0.70)

See accompanying notes to financial statements.



# CHOU EUROPE FUND

## Statements of Changes in Net Assets Attributable to Unitholders of Redeemable Units

Six months ended June 30, 2020 and 2019 (Unaudited)

	2020	2019
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	\$ 3,481,204	\$ 4,325,387
Decrease in net assets attributable to unitholders of redeemable units	(312,679)	(253,614)
Proceeds from issue of redeemable units	15,920	150,934
Payments on redemption of redeemable units	(530,134)	(626,875)
Net assets attributable to unitholders of redeemable units, end of period	\$ 2,654,311	\$ 3,595,832
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	3,351,917	3,101,742
Decrease in net assets attributable to unitholders of redeemable units	(290,277)	(255,790)
Proceeds from issue of redeemable units	100,804	654,829
Payments on redemption of redeemable units	(229,596)	(50,512)
Net assets attributable to unitholders of redeemable units, end of period	\$ 2,932,848	\$ 3,450,269
Total net assets attributable to unitholders of redeemable units, end of period	\$ 5,587,159	\$ 7,046,101

See accompanying notes to financial statements.

# CHOU EUROPE FUND

## Statements of Cash Flows

Six months ended June 30, 2020 and 2019 (Unaudited)

	2020	2019
<b>Cash flows from operating activities:</b>		
Decrease in net assets attributable to unitholders of redeemable units	\$ (602,956)	\$ (509,404)
Adjustments for:		
Foreign currency gain on cash and other net assets	(7,225)	(7,859)
Net realized gain on investments and derivatives	(376,932)	(164,778)
Change in unrealized depreciation on investments and derivatives	939,935	810,341
Change in non-cash operating working capital:		
Decrease in interest receivable	779	486
Decrease in dividends receivable	6,391	274
Increase in accrued expenses	12,890	2,495
Purchase of investments	(1,380,371)	(861,974)
Proceeds from sales of investments	1,448,620	—
Net cash generated from (used in) operating activities	41,131	(730,419)
<b>Cash flows from financing activities:</b>		
Distributions paid to unitholders	(18)	—
Proceeds from redeemable units issued	121,486	818,083
Amount paid on redemption of redeemable units	(1,794,165)	(686,324)
Net cash (used in) generated from financing activities	(1,672,697)	131,759
Foreign currency gain on cash and other net assets	7,225	7,859
Decrease in cash and cash equivalents	(1,624,341)	(590,801)
Cash and cash equivalents, beginning of period	2,889,903	2,686,337
Cash and cash equivalents, end of period	\$ 1,265,562	\$ 2,095,536
<b>Supplemental information:</b>		
Interest received, net of withholding tax	\$ 3,503	\$ 7,185
Dividends received, net of withholding taxes	11,410	190,270
Security lending income received	152	133

See accompanying notes to financial statements.

# CHOU EUROPE FUND

## Schedule of Investments

June 30, 2020 (Unaudited)

	Number of securities		Cost		Fair value
<b>Equities*</b>					
Abbey Public Limited Company	29,371	\$	211,019	\$	671,974
Bank of Ireland	113,333		1,112,510		315,473
CPL Resources PLC	35,000		329,565		382,029
Dart Group PLC	60,000		402,447		847,323
easyJet PLC	34,000		294,722		380,807
Eurobank Ergasias Services and Holdings S.A.	250,000		960,458		155,576
Fiat Chrysler Automobiles N.V.	30,000		594,276		417,055
Intralot A.E.	517,575		1,197,068		112,731
Rolls-Royce Holdings PLC	32,000		383,847		154,875
Ryanair Holdings PLC, ADR	4,575		132,084		412,039
Wizz Air Holdings PLC	9,000		303,146		504,192
Total long			5,921,142		4,354,074
Total investments			5,921,142		4,354,074
Transaction costs			(15,893)		—
Portfolio total		\$	5,905,249	\$	4,354,074

\* Common shares unless indicated otherwise

See accompanying notes to financial statements.

# CHOU EUROPE FUND

## Discussion of Financial Risk Management

Six months ended June 30, 2020 and 2019 (Unaudited)

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### Investment objective and strategies:

The Fund's objective is to provide long-term growth of capital by investing primarily in equity securities of European businesses considered by the Manager to be undervalued. Investments may be made in securities other than equities and in businesses located outside of Europe. Investments may include common and preferred shares, convertible debentures, options, warrants, government and corporate bonds and short-term debt.

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

### Financial risk management:

The Fund's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's objectives and risk tolerance.

#### (a) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 77.93% of the Fund's net assets held at June 30, 2020 were publicly traded equities (December 31, 2019 – 70.19%). If equity prices on the exchange had increased or decreased by 5% as at June 30, 2020, the net assets of the Fund would have increased or decreased by approximately \$217,704 or 3.90% (December 31, 2019 – \$239,806 or 3.51%) of the net assets, all other factors remaining constant.

In practice, the actual trading results may differ and the difference could be material.

#### (b) Foreign currency risk:

Currencies to which the Fund had exposure as at June 30, 2020 and December 31, 2019 expressed in CAD are as follows:

June 30, 2020	Investments and derivatives	Cash and cash equivalents	Other assets and liabilities	Total	Percentage of net asset value
United States dollar (USD)	\$ 2,250,997	\$ 961,749	\$ 1,273	\$ 3,214,019	57.5%
Euro currency (€)	\$ 1,255,754	\$ 117,120	\$ -	\$ 1,372,874	24.6%
Sterling pound (£)	\$ 847,323	\$ 302	\$ -	\$ 847,625	15.2%

# CHOU EUROPE FUND

## Discussion of Financial Risk Management (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

### Financial risk management (continued):

#### (b) Foreign currency risk (continued):

December 31, 2019	Investments and derivatives	Cash and cash equivalents	Other assets and liabilities	Total	Percentage of net asset value
United States dollar (USD)	\$ 3,671,159	\$ –	\$ 196,231	\$ 3,867,390	56.6%
Euro currency (€)	\$ 2,008,753	\$ 106,422	\$ –	\$ 2,115,175	31.0%
Sterling pound (£)	\$ –	\$ 308	\$ –	\$ 308	0.0%

The amounts in the above tables are based on the market value of the Fund's financial instruments. This includes cash and cash equivalents, investments, dividends receivable, interest receivable, receivable for units subscribed, payable for units redeemed, distributions payable and due to broker that are denominated in foreign currencies.

As at June 30, 2020, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$54,345 (December 31, 2019 – \$59,829).

In practice, the actual trading results may differ and the difference could be material.

## CHOU BOND FUND

(unaudited)

August 25, 2020

Dear Unitholders of Chou Bond Fund,

The net asset value per unit (“NAVPU”) of a Series A unit of Chou Bond Fund at June 30, 2020 was \$7.02 compared to \$5.91 at December 31, 2019, an increase of 18.8%; during the same period, Barclays U.S. Corporate High Yield Index (\$CAN) returned 1.0% in Canadian dollars. In U.S. dollars, a Series A unit of Chou Bond Fund returned 13.6% while Barclays U.S. Corporate High Yield Index decreased 3.8%.

The table shows our one-year, three-year, five-year and 10-year annual compound rates of return.

<b>June 30, 2020 (Series A)</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Chou Bond Fund (\$CAN)	6.1%	1.9%	1.1%	3.7%
Barclays’ U.S. High Yield (\$CAN)	4.3%	5.0%	6.6%	9.4%
Chou Bond Fund (\$US) <sup>1</sup>	2.4%	0.3%	(0.6%)	1.2%
Barclays’ U.S High Yield (\$US)	0.0%	3.3%	4.8%	6.7%

Rates of return are historical total returns that include changes in unit prices, and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and that could reduce these returns. The returns are not guaranteed. The Fund’s past performance does not necessarily indicate future performance. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

### Factors Influencing the First Six-Month Results

The major positive contributors to the Fund’s performance in the first half of 2020 were the fixed income holdings of Continental Resources, Athabasca Oil Corporation, PDC Energy, and Antero Resources Corporation.

The largest decliners in the same period were the fixed income holdings of Signet UK Finance, GameStop Corporation, and the equity holdings of EXCO Resources.

The Canadian currency depreciated against the US dollar, which also positively affected the Fund.

During the period, the Fund reduced exposure to EXCO Resources shares and sold its debt holdings in Atlanticus Holdings.

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<sup>1</sup> The alternative method of purchasing Chou Bond Fund in \$US has been offered since September 2005. The investments in the Chou Bond Fund (\$CAN) are the same as the investments in Chou Bond Fund (\$US) except for the currency applied.

The Fund made a series of new bond investments in the oil and gas sector. These include the following bonds:

- Continental Resources Inc., 3.800%, due June 1, 2024
- Athabasca Oil Corporation, 9.875%, due February 24, 2022
- Southwestern Energy Company, 7.500%, due April 1, 2026
- Antero Resources Corporation, 5.625%, due June 1, 2023
- Occidental Petroleum Corporation, 2.700%, due August 15, 2022
- PDC Energy Inc., 6.250%, due December 1, 2025
- PDC Energy Inc., 5.750%, due May 15, 2026

The Fund did not enter into any foreign currency contracts during the period, and had no covered call options in its portfolio as at June 30, 2020.

### **Portfolio Commentary**

#### **EXCO Resources (“EXCO”)**

In early July of 2019, the company emerged from bankruptcy and the 1.75 lien term loans were converted into 28.38 equity shares for every \$1,000 in par value, after netting out certain adjustments. We received 117,864 shares of EXCO in the Fund. The equivalent price is \$9.5144 per share of EXCO.

Looking back on this investment, we underestimated how long the price of natural gas would stay low for and how low it has been relative to the price of oil. Historically, there had been a strong relationship between the prices of oil and natural gas. Thinking about the two fuels in terms of energy equivalency, 6,000 cubic feet (6 mcf) of natural gas has the same amount of energy content as 1 barrel of oil. In the past, this 6 to 1 ratio guided the relationship between oil and natural gas prices but for the last few years the ratio between prices has gone up to as high as 50 to 1.

Long story short, it was not such a great idea in investing in the 1.75 lien of EXCO.

In June 2020, an affiliate of Chou Associates Management Inc. purchased 60,136 units of EXCO shares from the Fund to reduce the Fund’s exposure to illiquid securities. The security was sold at the fair market value at the time of the trade. To avoid any potential conflict of interest concerns, the transaction was approved by the Independent Review Committee and received exemption relief from the Ontario Securities Commission. As at June 30, 2020, EXCO comprised 1.7% of the net assets of the Fund.

#### **Purchase of bonds caused by COVID-19 pandemic**

At the end of 2019, we had excess cash and they amounted to close to 35% of the net assets of the Fund. In addition, at the beginning of the year we sold a big chunk of bonds, which raised our cash to almost 55% of the assets of the Fund. We were able to deploy most of that to fixed income instruments ranging from investment grade to below investment grade bonds. We looked at securities with sufficient margin of safety to recover the original prices paid, even in the event of a bankruptcy or restructuring. We also kept an eye on Washington and invested in companies where we believe the government is likely to provide support through relief funds. Most of the

time, we limited the bond duration to less than 3 years since the bailout money would most likely be used to pay off the bonds as they mature.

In early 2020, we were able to deploy a significant amount of the cash into the bonds of oil and gas companies, whose prices have been severely beaten down due to the recent oil price war between Russia and Saudi Arabia, and the COVID-19 pandemic. Many of the recent investments have worked out well so far, with some of the bond prices up as much as 85% since our purchase. Below is the table of our purchases of all the oil and gas companies and their current prices as of June 30, 2020.

Company	Maturity	Coupon	Par Value	Average Cost Base	June 2020 Bond Price	Percentage Change
Continental Resources	01/06/2024	3.800%	\$ 1,000,000	\$ 50.50	\$ 93.77	85.7%
Athabasca Oil Corp	24/02/2022	9.875%	\$ 2,000,000	\$ 23.50	\$ 41.10	74.9%
Southwestern Energy	01/04/2026	7.500%	\$ 800,000	\$ 75.75	\$ 87.85	16.0%
Antero Resources Corp	01/06/2023	5.625%	\$ 1,000,000	\$ 42.25	\$ 64.31	52.2%
Occidental Petroleum	15/08/2022	2.700%	\$ 500,000	\$ 75.50	\$ 93.28	23.5%
PDC Energy Inc	01/12/2025	6.250%	\$ 500,000	\$ 55.25	\$ 84.50	52.9%
PDC Energy Inc	15/05/2026	5.750%	\$ 303,000	\$ 58.25	\$ 91.32	56.8%

*Note: All values are in local price USD.*

## Goodwill

We have not done well in the recent past and, particularly, in the previous year. So, as a gesture of goodwill and what we believe to be the fairest way to behave, we made a voluntary capital contribution of \$1.43 million in 2019. This is close to four years of management fees that we received from the Fund.

## Caution to the Investors

Investors should be advised that we run a highly focused portfolio, frequently just three to five securities may comprise close to 50% of the assets of the Fund. In addition, the Fund has securities that are non-U.S. and could be subjected to geopolitical risks, which may trump or at least negatively influence the financial performance of the company. Also, we may enter into some derivative contracts, such as credit default swaps when we feel that the market conditions are right to use those instruments. Because of any or all of these factors, the net asset value of the Fund can be from time to time more volatile than at other times. However, we are not bothered by this volatility because our focus has always been, and continues to be, on how inexpensive we believe the Fund's portfolio holdings are relative to what we believe to be their intrinsic value.

Also, the Fund's cash position was approximately 15% of net assets as at June 30, 2020. This large cash position may depress returns for a while as we hunt for undervalued securities. Obviously, if there is a severe correction in the market in the near future, it will cushion the Fund against losses while providing us with the wherewithal to find good investment opportunities.



But for now, it could be a drag on returns. If we cannot find any bargains, the large cash position may stay for a long time.

### **Other Matters**

FOREIGN CURRENCY CONTRACTS: None existed at June 30, 2020.

CREDIT DEFAULT SWAPS: None existed at June 30, 2020.

U.S. DOLLAR VALUATION: Any investor who wishes to purchase the Chou Funds in U.S. dollars may do so.

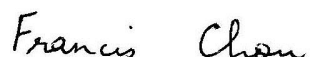
REDEMPTION FEE: We have a redemption fee of 2% if unitholders redeem their units in less than 3 months. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders.

INDEPENDENT REVIEW COMMITTEE: The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Peter Gregoire and Joe Tortolano. The 2019 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of August 25, 2020, the NAVPU of a Series A unit of the Fund was \$7.26 and the cash position was approximately 10.3% of net assets. The Fund is up 20.5% from the beginning of the year. In U.S. dollars, it is up 18.7%.

Except for the performance numbers of the Chou Bond Fund, this letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained or implied herein may not be suitable for all investors.

Yours truly,

A handwritten signature in cursive script that reads "Francis Chou".

Francis Chou  
Fund Manager

# CHOU BOND FUND

## Statements of Financial Position

June 30, 2020 (Unaudited) and December 31, 2019

	June 30, 2020	December 31, 2019
<b>Assets</b>		
Current assets:		
Investments (note 8)	\$ 8,635,829	\$ 6,628,655
Cash and cash equivalents	783,862	3,732,711
Due from broker	780,567	—
Receivable for redeemable units subscribed	13,484	—
Interest receivable	—	120,156
Total assets	10,213,742	10,481,522
<b>Liabilities</b>		
Current liabilities:		
Accrued expenses	141,852	124,827
Payable for units redeemed	16,583	520,298
Distributions payable	—	29,189
Other liabilities	21,395	—
Total liabilities	179,830	674,314
Net assets attributable to unitholders of redeemable units	\$ 10,033,912	\$ 9,807,208
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 7,911,857	\$ 7,713,187
Series F	2,122,055	2,094,021
	\$ 10,033,912	\$ 9,807,208
Number of redeemable units outstanding (note 4):		
Series A	1,127,648	1,305,522
Series F	293,321	345,626
Net assets attributable to unitholders of redeemable units per unit (note 10):		
Canadian dollars:		
Series A	\$ 7.02	\$ 5.91
Series F	7.23	6.06
U.S. dollars:		
Series A	5.17	4.55
Series F	5.33	4.67

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors of Chou Associates Management Inc.:

Francis Chou



# CHOU BOND FUND

## Statements of Comprehensive Income (Loss)

Six months ended June 30, 2020 and 2019 (Unaudited)

	2020	2019
<b>Income:</b>		
Interest for distribution purposes and other	\$ 221,544	\$ 375,731
Securities lending income (Note 7)	5,368	44
Foreign currency gain (loss) on cash and other net assets	350,927	(31,533)
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized (loss) gain on disposal of investments	(305,080)	2,826,937
Change in unrealized appreciation (depreciation) on investments	1,451,980	(5,790,649)
	1,724,739	(2,619,470)
<b>Expenses:</b>		
Management fees (note 5)	63,274	103,861
Custodian fees	—	15,900
Audit	—	7,538
Filing fees	—	2,974
Independent review committee fees	—	1,459
FundSERV fees	1,638	3,358
Legal fees	393	—
Other expenses	914	855
	66,219	135,945
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ 1,658,520	\$ (2,755,415)
Increase (decrease) in net assets attributable to unitholders of redeemable units per Series:		
Series A	\$ 1,288,588	\$ (2,278,157)
Series F	369,932	(477,258)
	\$ 1,658,520	\$ (2,755,415)
Average number of redeemable units outstanding for the period for the Series:		
Series A	1,206,295	1,587,882
Series F	324,151	324,573
Increase (decrease) in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ 1.07	\$ (1.43)
Series F	1.14	(1.47)

See accompanying notes to financial statements.

# CHOU BOND FUND

## Statements of Changes in Net Assets Attributable to Unitholders of Redeemable Units

Six months ended June 30, 2020 and 2019 (Unaudited)

	2020	2019
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	\$ 7,713,187	\$ 15,015,703
Increase (decrease) in net assets attributable to unitholders of redeemable units	1,288,588	(2,278,157)
Proceeds from issue of redeemable units	40,648	372,520
Payments on redemption of redeemable units	(1,130,774)	(3,401,930)
Reinvested distributions	208	—
Net assets attributable to unitholders of redeemable units, end of period	\$ 7,911,857	\$ 9,708,136
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	2,094,021	2,863,208
Increase (decrease) in net assets attributable to unitholders of redeemable units	369,932	(477,258)
Proceeds from issue of redeemable units	31,040	613,170
Payments on redemption of redeemable units	(372,938)	(429,859)
Net assets attributable to unitholders of redeemable units, end of period	\$ 2,122,055	\$ 2,569,261
Total net assets attributable to unitholders of redeemable units, end of period	\$ 10,033,912	\$ 12,277,397

See accompanying notes to financial statements.

# CHOU BOND FUND

## Statements of Cash Flows

Six months ended June 30, 2020 and 2019 (Unaudited)

	2020	2019
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets attributable to unitholders of redeemable units	\$ 1,658,520	\$ (2,755,415)
Adjustments for:		
Foreign currency (gain) loss on cash and other net assets	(350,927)	31,533
Net realized loss (gain) on disposal of investments	305,080	(2,826,937)
Change in unrealized (appreciation) depreciation on investments	(1,451,980)	5,790,649
Change in non-cash operating working capital:		
Decrease in interest receivable	120,156	4,780
Increase in accrued expenses	17,025	8,267
Increase in other liabilities	21,395	—
Purchase of investments	(4,000,572)	—
Proceeds from sales of investments	2,359,731	5,114,106
Net cash flows (used in) generated from operating activities	(1,321,572)	5,366,983
<b>Cash flows from financing activities:</b>		
Distributions paid to unitholders	(28,981)	(16,574)
Proceeds from redeemable units issued	58,204	965,490
Amount paid on redemption of redeemable units	(2,007,427)	(3,851,789)
Net cash used in financing activities	(1,978,204)	(2,902,873)
Foreign currency gain (loss) on cash and other net assets	350,927	(31,533)
(Decrease) increase in cash and cash equivalents	(2,948,849)	2,432,577
Cash and cash equivalents, beginning of period	3,732,711	(184,368)
Cash and cash equivalents, end of period	\$ 783,862	\$ 2,248,209
<b>Supplemental information:</b>		
Interest received, net of withholding tax	\$ 341,700	\$ 380,511
Dividends received, net of withholding taxes	—	—
Security lending income received	5,368	44

See accompanying notes to financial statements.

# CHOU BOND FUND

## Schedule of Investments

June 30, 2020 (Unaudited)

	Number of shares	Cost	Fair value
<b>Equities*</b>			
EXCO Resources Inc.**	20,046	\$ 693,988	\$ 170,090
Wow Unlimited Media Inc.**	1,165,742	2,675,094	343,894
		3,369,082	513,984
<b>Bonds</b>			
Antero Resources Corporation, 5.625%, June 1, 2023, Callable	1,000,000	596,232	873,107
Athabasca Oil Corporation, 9.875%, February 24, 2022, Callable	2,000,000	680,865	1,115,988
Avangardco Investments Public Limited, 10.00%, October 29, 2018	2,191,273	2,253,653	245,427
Continental Resources Inc., 3.80%, June 1, 2024, Callable	1,000,000	718,060	1,273,008
Fortress Global Enterprises Inc., 9.75%, December 31, 2021, Convertible Bonds, Callable	3,659,000	2,058,513	366
GameStop Corporation, Series '144A', 6.75%, March 15, 2021, Callable	500,000	661,600	541,767
Occidental Petroleum Corporation, 2.70%, August 15, 2022	500,000	544,619	633,181
PDC Energy Inc., 5.75%, May 15, 2026, Callable	303,000	251,271	375,629
PDC Energy Inc., 6.25%, December 1, 2025, Callable	500,000	398,546	573,586
Signet UK Finance PLC, 4.70%, June 15, 2024, Callable	500,000	584,714	477,634
Southwestern Energy Company, 7.50%, April 1, 2026, Callable	800,000	810,980	954,072
Taiga Building Products Limited, 7.00%, November 17, 2022, Callable	467,000	482,761	483,345
Ukrlandfarming PLC, 10.875%, March 26, 2018 7.50%, April 1, 2026, Callable	6,513,021	5,984,448	574,735
		16,026,263	8,121,845
Total long		19,395,345	8,635,829
Total investments		19,395,345	8,635,829
Transaction costs		(14,926)	—
Portfolio total	\$	19,380,419	\$ 8,635,829

\* Common shares unless indicated otherwise

\*\*Shares received from debt restructuring

See accompanying notes to financial statements.

# CHOU BOND FUND

## Discussion of Financial Risk Management

Six months ended June 30, 2020 and 2019 (Unaudited)

### Investment objective and strategies:

The Fund's objective is to invest in securities that it believes are undervalued in order to achieve capital appreciation over the long-term. Conservation of principal and interest production will be fundamental considerations in this objective. The Fund invests primarily in Canadian and U.S. bonds. These fixed income securities include, but are not limited to Government of Canada, provincial, municipal and corporate issues, including convertibles and high yield fixed income securities, and fixed income securities outside of Canada and U.S. No more than 35% of the net assets of the Fund, at the time of purchase, will be invested in fixed income securities outside of Canada and U.S.

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. 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.

### Financial risk management:

The Fund's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's objectives and risk tolerance.

#### (a) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge a commitment that it has entered into with the Fund. As at June 30, 2020, the Fund invested 67.95% of its net assets in non-investment grade debt instruments (December 31, 2019 – 12.76%). Non-investment grade is the term applied to bonds rated below Baa3 on the Moody's credit rating scale and below BBB- on the equivalent ratings systems from Standard & Poor's and Fitch. The credit ratings could denote that the Company's financial position is weak and its bonds should be considered a speculative investment. As at June 30, 2020, the Fund invested approximately 12.99% (December 31, 2019 – 38.37%) of its net assets in non-rated bonds.

#### (b) Interest rate risk:

Interest rate risk arises from the effect of changes in interest rates on future cash flows or the current value of financial instruments. The table below summarizes the Fund's exposure to interest rate risk by remaining term to maturity:

Debt instruments by maturity date:

	June 30, 2020	December 31, 2019
Less than 1 year	\$ 1,361,929	\$ 847,920
1 - 3 years	3,105,987	1,123,247
3 - 5 years	1,750,642	612,211
Greater than 5 years	1,903,287	2,430,963

# CHOU BOND FUND

## Discussion of Financial Risk Management (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

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### Financial risk management (continued):

#### (b) Interest rate risk (continued):

As at June 30, 2020, had interest rates decreased or increased by 0.25%, with all other variables remaining constant, the increase or decrease in net assets for the period would have amounted to approximately \$48,727 (December 31, 2019 – \$63,178).

In practice, the actual trading results may differ and the difference could be material.

#### (c) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 1.70% (December 31, 2019 – 6.36%) of the Fund's net assets held at June 30, 2020 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at June 30, 2020, the net assets of the Fund would have increased or decreased by approximately \$8,505 or 0.08% (December 31, 2019 – \$31,184 or 0.32%) of the net assets, all other factors remaining constant.

In practice, the actual trading results may differ and the difference could be material.

#### (d) Foreign currency risk:

Currencies to which the Fund had exposure as at June 30, 2020 and December 31, 2019 expressed in CAD are as follows:

June 30, 2020		Investments and derivatives	Cash and cash equivalents	Other assets and liabilities	Total	Percentage of net asset value
United States dollar (USD)	\$	7,808,224	\$ 783,862	\$ 794,051	\$ 9,386,137	93.54%

December 31, 2019		Investments and derivatives	Cash and cash equivalents	Other assets and liabilities	Total	Percentage of net asset value
United States dollar (USD)	\$	8,521,300	\$ –	\$ 115,757	\$ 8,637,057	88.1%

The amounts in the above tables are based on the market value of the Fund's financial instruments. This includes cash and cash equivalents, investments, interest receivable, dividends receivable, receivable for units subscribed, payable for units redeemed and due to brokers that are denominated in foreign currencies.

As at June 30, 2020, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$93,861 (December 31, 2019 – \$86,371).

In practice, the actual trading results may differ and the difference could be material.



## CHOU RRSP FUND

(unaudited)

August 25, 2020

Dear Unitholders of Chou RRSP Fund,

The net asset value per unit (“NAVPU”) of a Series A unit of Chou RRSP Fund at June 30, 2020 was \$16.86 compared to \$22.79 at December 31, 2019, a decrease of 26.0%; during the same period, the S&P/TSX Total Return Index decreased 7.5% in Canadian dollars. In U.S. dollars, a Series A unit of Chou RRSP Fund was down 29.3% while the S&P/TSX Total Return Index decreased 11.8%.

The table shows our one-year, three-year, five-year, 10-year, 15-year and 20-year annual compound rates of return.

June 30, 2020 (Series A)	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
Chou RRSP Fund (\$CAN)	(34.0%)	(12.7%)	(9.8%)	0.5%	(0.0%)	4.3%
S&P/TSX (\$CAN)	(2.2%)	3.9%	4.4%	6.3%	6.0%	4.8%
Chou RRSP Fund (\$US) <sup>1</sup>	(36.4%)	(14.0%)	(11.3%)	(1.9%)	(0.7%)	4.7%
S&P/TSX (\$US)	(5.9%)	2.3%	2.6%	3.7%	5.3%	5.2%

Rates of return are historical total returns that include changes in unit prices, and assume the reinvestment of all distributions. These annual compounded returns do not take into account any sales charges, redemption fees, other optional expenses or income taxes that you have to pay and that could reduce these returns. The returns are not guaranteed. The Fund’s past performance does not necessarily indicate future performance. The table is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

### Factors Influencing the First Six-Month Results

The largest decliners in the period were the equity holdings of Resolute Forest Products, Bausch Health, EXCO Resources, Bank of America, and Linamar Corporation. The increase in prices of Torstar shares and Overstock preferred shares helped to offset some of the losses.

During the period, the Fund reduced its holdings in BlackBerry Limited, Bank of America, EXCO Resources, and Bausch Health Companies, as well as sold its holdings in Fairfax Financial Holdings. The Fund also received Overstock Series A-1 preferred shares as digital dividends.

The Fund did not make any new investments or sell any covered call options in the first half of 2020.

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<sup>1</sup> The alternative method of purchasing Chou RRSP Fund in \$US has been offered since September 2005. Performance for years prior to September 2005 is based on the \$US equivalent conversion of the results of the Chou RRSP Fund (\$CAN). The investments in the Chou RRSP Fund (\$CAN) are the same as the investments in Chou RRSP Fund (\$US) except for the currency applied.

## **Portfolio Commentary**

COVID-19 is a new disease and humans, as we know, have no immunity to it. However, the actions of almost all the governments in the world have caused severe economic disruptions. Every industry has been affected to some extent – some worse than others and we are in a wait and see attitude before we commit excess funds to the market.

### **Resolute Forest Products (“RFP”)**

As of June 30, 2020, the market price of Resolute Forest Products was US\$2.11 per share, down 50% from the price at year end 2019. RFP has been a huge disappointment since our initial purchase some eight years ago. It shows how tough it is to turn around a troubled company despite the best efforts of management. Having said that, it is quite comical to experience how a commodity stock can be hammered beyond all logical comprehension. RFP paid a special dividend of US\$1.50 a share in 2018, and it was trading as low as US\$1.17 per share in April 2020. Back in March 2020, the company announced that it would buy back 15% of its common shares for US\$100 million. At the lowest year-to-date price of US\$1.17, the whole market capitalization would be approximately US\$99 million. In other words, instead of buying back 15% of the company with US\$100 million, it could repurchase 100% of the company at one point. RFP shares have since recovered 300% to US\$4.69 as of August 25, 2020.

One bright spot has been their lumber operations. The high prices for lumber should make up the declines in newsprint and specialty papers. The COVID -19 pandemic has shifted the focus more towards lumber/pulp/tissue operations and I believe that should generate greater cash flow in the future.

In general, our experience with a commodity business that has virtually no pricing power is to be cautious when management talks about investing in new equipment or upgrades that would significantly lower the cost structure compared to its competitors. That may be true for six months to a couple of years, but in time, competitors will have a new cost structure that is as competitive if not superior to the company. It is the same treadmill where hardly anyone in the industry can make a decent return on the assets invested in the company. The same story can be seen repeatedly in various commoditized industries. There is no sustainable long-term advantage in a mediocre business with no pricing power. It is important not to get seduced by discount to book value. If the company cannot generate a decent return on book value over a long period of time, that book value is not worth much.

### **Bausch Health Companies Inc. (“Bausch”)**

In early August, Bausch Health Companies Inc. announced that it is planning to spin off its eye care business, Bausch + Lomb, into an independent publicly traded company. This will allow the company to concentrate on its gastroenterology, aesthetics/dermatology, neurology and international pharma business.

Chairman and CEO Joseph Papa said, "We've looked at the value of our pure health companies like Alcon and Cooper and believe that Bausch + Lomb would compare very favorably when investors have an opportunity to make a judgment about the relative value of the stand-alone business".

Comparables like Cooper Companies and Alcon Inc. are currently trading between 18 and 20 times EBITDA. If Bausch + Lomb trades at similar multiples as a stand-alone company, the total value of Bausch Health using sum-of-the-parts method, net of debt, should be worth north of \$35 per share, as an inference. For a long time we have felt that Bausch was undervalued, but the investors were not giving credit that management has done a good job in running the operations, selling non-core assets, as well as de-leveraging its balance sheet. They felt the process was too slow, we hope the spin-off of Bausch + Lomb unit will be the catalyst that is needed for investors to price the company closer to its intrinsic value.

### **EXCO Resources (“EXCO”)**

In early July of 2019, the company emerged from bankruptcy and the 1.75 lien term loans were converted into 28.38 equity shares for every \$1,000 in par value, after netting out certain adjustments. We received 357,285 shares of EXCO in the Fund. The equivalent price is \$9.5144 per share of EXCO.

Looking back on this investment, we underestimated how long the price of natural gas would stay low for and how low it has been relative to the price of oil. Historically, there had been a strong relationship between the prices of oil and natural gas. Thinking about the two fuels in terms of energy equivalency, 6,000 cubic feet (6 mcf) of natural gas has the same amount of energy content as 1 barrel of oil. In the past, this 6 to 1 ratio guided the relationship between oil and natural gas prices but for the last few years the ratio between prices has gone up to as high as 50 to 1.

Long story short, it was not such a great idea in investing in the 1.75 lien of EXCO.

In June 2020, an affiliate of Chou Associates Management Inc. purchased 242,914 units of EXCO shares from the Fund to reduce the Fund’s exposure to illiquid securities. The security was sold at the fair market value at the time of the trade. To avoid any potential conflict of interest concerns, the transaction was approved by the Independent Review Committee and received exemption relief from the Ontario Securities Commission. As at June 30, 2020, EXCO comprised 3.5% of the net assets of the Fund.

### **Does Value Investing Work?**

With the lackluster returns by value funds in recent years compared to growth and index funds, there is some doubt as to whether value investing can still work in the current market. We hold the view that value investing certainly works, but only when executed properly. Sometimes it is easier to blame the market environment than to admit our own faults. Although factors such as low interest rates, the popularity of passive investing and elevated market valuations played a role in blunting returns for value investors, we also accentuated the problem. The key to value investing is appraisal. If that is not precise enough, everything falls apart. We tend to fish in troubled waters, and what caused the biggest problem in recent years was that our appraisal of troubled companies was off the mark.

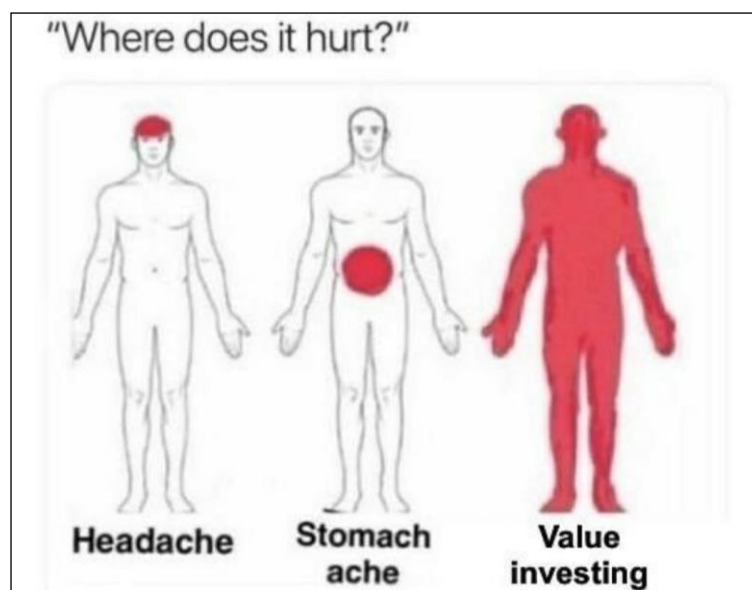
When we thought a company was worth 100 cents, it was actually worth closer to 60 cents. We tended to give much higher weight to asset values and not enough weight to the value of the

operating company. We used the asset value as a huge security blanket and became blind to the deterioration of the worth of the operating company.

That was a mistake of commission. We also made a bundle of mistakes of omission.

Over the last 30 years, roughly half our portfolio was in troubled companies and the other half was in good companies. So, we are well acquainted with investing in both types of companies. But what happened over the last few years was that we spent most of the time undervaluing the good companies. When our assessment showed that the investments were worth 100 cents, they were more accurately close to 150 cents, thus causing us to miss most of those opportunities. These “omissions”, though they are unseen mistakes, are nevertheless as real as mistakes of commission. In summary, although the markets have been less kind to value investing, we exacerbated the problem as practitioners.

We believe the value investors can empathize with the picture below:



*Picture: Courtesy of David Shapiro @davidshapiro61*

### **Caution to the Investors**

Investors should be advised that we run a highly focused portfolio, frequently just three to five securities may comprise close to 50% of the assets of the Fund. In addition, the Fund has securities outside of Canada and could be subjected to geopolitical risks, which may trump or at least negatively influence the financial performance of the company. Also, we may enter into some derivative contracts, such as credit default swaps when we feel that the market conditions are right to use those instruments. Because of any or all of these factors, the net asset value of the Fund can be from time to time more volatile than at other times. However, we are not bothered by this volatility because our focus has always been, and continues to be, on how inexpensive we believe the Fund's portfolio holdings are relative to what we believe to be their intrinsic value.

**Other Matters**

FOREIGN CURRENCY CONTRACTS: None existed at June 30, 2020.

CREDIT DEFAULT SWAPS: None existed at June 30, 2020.

U.S. DOLLAR VALUATION: Any investor who wishes to purchase the Chou Funds in U.S. dollars may do so.

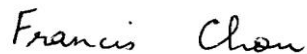
REDEMPTION FEE: We have a redemption fee of 2% if unitholders redeem their units in less than 3 months. None of this fee goes to the Fund Manager. It is put back into the Fund for the benefit of the remaining unitholders.

INDEPENDENT REVIEW COMMITTEE: The Manager has established an IRC as required by NI 81-107. The members of the IRC are Sandford Borins, Peter Gregoire and Joe Tortolano. The 2018 IRC Annual Report is available on our website [www.choufunds.com](http://www.choufunds.com).

As of August 25, 2020, the NAVPU of a Series A unit of the Fund was \$20.16 and the cash position was approximately 7.4% of net assets. The Fund is down 11.5% from the beginning of the year. In U.S. dollars, it is down 12.9%.

Except for the performance numbers of the Chou RRSP Fund, this letter contains estimates and opinions of the Fund Manager and is not intended to be a forecast of future events, a guarantee of future returns or investment advice. Any recommendations contained or implied herein may not be suitable for all investors.

Yours truly,

A handwritten signature in cursive script that reads "Francis Chou".

Francis Chou  
Fund Manager

# CHOU RRSP FUND

## Statements of Financial Position

June 30, 2020 (Unaudited) and December 31, 2019

	June 30, 2020	December 31, 2019
<b>Assets</b>		
Current assets:		
Investments (note 8)	\$ 25,000,358	\$ 42,415,096
Cash and cash equivalents	—	210,276
Due from broker	3,153,029	1,238,866
Interest receivable	26,301	26,362
Total assets	28,179,688	43,890,600
<b>Liabilities</b>		
Current liabilities:		
Bank overdraft	214,784	—
Accrued expenses	320,125	273,014
Payable for units redeemed	75,181	756,561
Distributions payable	—	74,671
Total liabilities	610,090	1,104,246
Net assets attributable to unitholders of redeemable units	\$ 27,569,598	\$ 42,786,354
Net assets attributable to unitholders of redeemable units:		
Series A	\$ 25,010,698	\$ 38,864,778
Series F	2,558,900	3,921,576
	\$ 27,569,598	\$ 42,786,354
Number of redeemable units outstanding (note 4):		
Series A	1,483,668	1,705,179
Series F	151,507	172,209
Net assets attributable to unitholders of redeemable units per unit:		
Canadian dollars:		
Series A	\$ 16.86	\$ 22.79
Series F	16.89	22.77
U.S. dollars:		
Series A	12.42	17.55
Series F	12.44	17.54

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors of Chou Associates Management Inc.:

Francis Chou



# CHOU RRSP FUND

## Statements of Comprehensive Income (Loss)

Six months ended June 30, 2020 and 2019 (Unaudited)

	2020	2019
<b>Income:</b>		
Interest for distribution purposes and other	\$ 104,067	\$ 178,168
Dividends	104,878	283,431
Securities lending income (note 7)	4,034	8,694
Foreign currency loss on cash and other net assets	(12,689)	(76,464)
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized (loss) gain on disposal of investments	(2,159,318)	12,119
Net realized gain on disposal of derivatives	—	204,268
Change in unrealized depreciation on investments	(8,299,977)	(4,472,344)
Change in unrealized depreciation on derivatives	—	(194,028)
	(10,259,005)	(4,056,156)
<b>Expenses:</b>		
Management fees (note 5)	266,199	533,244
Custodian fees	—	40,280
Audit	—	16,428
Filing fees	2,517	4,783
Independent review committee fees	—	5,618
FundSERV fees	1,540	—
Legal fees	1,214	1,207
Transaction costs (note 6)	7,526	—
Foreign withholding taxes	851	5,090
Other expenses	4,561	3,546
	284,408	610,196
Decrease in net assets attributable to unitholders of redeemable units	\$ (10,543,413)	\$ (4,666,352)
Decrease in net assets attributable to unitholders of redeemable units per Series:		
Series A	\$ (9,608,151)	\$ (4,209,160)
Series F	(935,262)	(457,192)
	\$ (10,543,413)	\$ (4,666,352)
Average number of redeemable units outstanding for the period for the Series:		
Series A	1,568,794	1,918,484
Series F	157,003	204,284
Decrease in net assets attributable to unitholders of redeemable units per unit:		
Series A	\$ (6.12)	\$ (2.19)
Series F	(5.96)	(2.24)

See accompanying notes to financial statements.

# CHOU RRSP FUND

## Statements of Changes in Net Assets Attributable to Unitholders of Redeemable Units

Six months ended June 30, 2020 and 2019 (Unaudited)

	2020	2019
<b>Series A</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	\$ 38,864,778	\$ 59,989,119
Decrease in net assets attributable to unitholders of redeemable units	(9,608,151)	(4,209,160)
Proceeds from issue of redeemable units	106,003	146,031
Payments on redemption of redeemable units	(4,351,932)	(5,099,612)
Net assets attributable to unitholders of redeemable units, end of period	\$ 25,010,698	\$ 50,826,378
<b>Series F</b>		
Net assets attributable to unitholders of redeemable units, beginning of period	3,921,576	6,232,573
Decrease in net assets attributable to unitholders of redeemable units	(935,262)	(457,192)
Proceeds from issue of redeemable units	233,148	220,272
Payments on redemption of redeemable units	(660,562)	(339,328)
Net assets attributable to unitholders of redeemable units, end of period	\$ 2,558,900	\$ 5,656,325
Total net assets attributable to unitholders of redeemable units, end of period	\$ 27,569,598	\$ 56,482,703

See accompanying notes to financial statements.



# CHOU RRSP FUND

## Statements of Cash Flows

Six months ended June 30, 2020 and 2019 (Unaudited)

	2020	2019
<b>Cash flows from operating activities:</b>		
Decrease in net assets attributable to unitholders of redeemable units	\$ (10,543,413)	\$ (4,666,352)
Adjustments for:		
Foreign currency loss on cash and other net assets	12,689	76,464
Net realized loss (gain) on disposal of investments	2,159,318	(216,387)
Change in unrealized depreciation on investments and derivatives	8,299,977	4,666,372
Change in non-cash operating working capital:		
Decrease in interest receivable	61	5,057
Increase (decrease) in accrued expenses	47,111	(21,607)
Purchase of investments	(17,136)	(779,999)
Proceeds from sales of investments	5,058,416	—
Net cash generated from (used in) operating activities	5,017,023	(936,452)
<b>Cash flows from financing activities:</b>		
Distributions paid to unitholders	(74,671)	(7,023)
Proceeds from redeemable units issued	339,151	369,503
Amount paid on redemption of redeemable units	(5,693,874)	(5,412,253)
Net cash used in financing activities	(5,429,394)	(5,049,773)
Foreign currency loss on cash and other net assets	(12,689)	(76,464)
Decrease in cash and cash equivalents	(425,060)	(6,062,689)
Cash and cash equivalents, beginning of period	210,276	7,126,955
(Bank overdraft) cash and cash equivalents, end of period	\$ (214,784)	\$ 1,064,266
<b>Supplemental information:</b>		
Interest received, net of withholding tax	\$ 104,128	\$ 183,225
Dividends received, net of withholding tax	104,027	278,341
Security lending income received	4,034	8,694

See accompanying notes to financial statements.

# CHOU RRSP FUND

## Schedule of Investments

June 30, 2020 (Unaudited)

	Number of securities	Cost	Fair value
<b>Equities*</b>			
Bank of America Corporation	18,376	\$ 378,880	\$ 592,497
Bausch Health Companies Inc.	213,992	6,796,714	5,313,529
BlackBerry Limited	429,040	3,343,385	2,840,245
Canfor Pulp Products Inc.	293,900	836,324	1,587,060
EXCO Resources Inc.	114,371	2,373,080	970,438
Interfor Corporation	125,500	746,362	1,435,720
Linamar Corporation	24,000	1,332,040	880,800
Magna International Inc., Class 'A'	20,000	1,249,418	1,209,078
Overstock.com Inc., Class 'A-1'	1,519	17,126	39,182
Overstock.com Inc., Class 'B'	15,198	314,348	340,441
Reitmans (Canada) Limited	348,600	1,914,063	94,122
Resolute Forest Products Inc.	1,224,188	13,844,859	3,506,731
Torstar Corporation, Class 'B'	280,716	6,126,119	176,851
TVA Group Inc.	355,028	5,133,273	532,542
TWC Enterprises Limited	201,944	1,077,639	2,233,501
Wow Unlimited Media Inc.	93,680	1,930,473	27,636
		47,414,104	21,780,373
<b>Bonds</b>			
Fortress Paper Limited, 7.000%, December 31, 2021, Convertible Bonds, Callable	1,000,000	780,000	100
Taiga Building Products Ltd., 7.000%, November 17, 2022, Callable	3,111,000	3,215,996	3,219,885
		3,995,996	3,219,985
Total long		51,410,100	25,000,358
Total investments		51,410,100	25,000,358
Transaction costs		(41,216)	—
Portfolio total		\$ 51,368,884	\$ 25,000,358

\* Common shares unless indicated otherwise

See accompanying notes to financial statements.

# CHOU RRSP FUND

## Discussion of Financial Risk Management

Six months ended June 30, 2020 and 2019 (Unaudited)

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### Investment objective and strategies:

The Fund's objective is to provide long-term growth of capital by investing primarily in equity securities of Canadian businesses considered by the Manager to be undervalued. The Fund may also invest in equity and debt instruments of U.S. and foreign businesses. Investments may include common and preferred shares, convertible debentures, options, warrants, government and corporate bonds and short-term debt.

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

### Financial risk management:

The Fund's investment activities expose it to various types of risk associated with the financial instruments and markets in which it invests. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's objectives and risk tolerance.

#### (a) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge a commitment that it has entered into with the Fund. As at June 30, 2020, the Fund did not invest any of its net assets in non-investment grade debt instruments (December 31, 2019 – \$Nil). Non-investment grade is the term applied to bonds rated below Baa3 on the Moody's credit rating scale and below BBB- on the equivalent ratings systems from Standard & Poor's and Fitch. These credit ratings could denote that the company's financial position is weak and its bonds should be considered a speculative investment. As at June 30, 2020, the Fund invested approximately 11.68% (December 31, 2019 – 7.53%) of its net assets in non-rated debt instruments.

#### (b) Interest rate risk:

Interest rate risk arises from the effect of changes in interest rates on future cash flows or the current value of financial instruments. The table below summarizes the Fund's exposure to interest rate risk by remaining term to maturity:

Debt instruments by maturity date:

	June 30, 2020	December 31, 2019
Less than 1 year	\$ –	\$ –
1 - 3 years	3,219,985	3,219,885
3 - 5 years	–	–
Greater than 5 years	–	–

As at June 30, 2020, had interest rates decreased or increased by 0.25%, with all other variables remaining constant, the increase or decrease in net assets for the year would have amounted to approximately \$17,858 (December 31, 2019 – \$21,249).

In practice, the actual trading results may differ and the difference could be material.

# CHOU RRSP FUND

## Discussion of Financial Risk Management (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

### Financial risk management (continued):

#### (c) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. Approximately 75.48% (December 31, 2019 – 81.29%) of the Fund's net assets held at June 30, 2020 were publicly traded equities. If equity prices on the exchange had increased or decreased by 5% as at June 30, 2020, the net assets of the Fund would have increased or decreased by approximately \$1,040,497 or 3.77% (December 31, 2019 – \$1,739,044 or 4.06%) of the net assets, all other factors remaining constant.

In practice, the actual trading results may differ and the difference could be material.

#### (d) Foreign currency risk:

Currencies to which the Fund had exposure as at June 30, 2020 and December 31, 2019 expressed in CAD are as follows:

June 30, 2020	Investments and derivatives	Cash and cash equivalents	Other assets and liabilities	Total	Percentage of net asset value
United States dollar (USD)	\$ 11,971,897	\$ -	\$ 3,153,029	\$ 15,124,926	55.0%

December 31, 2019	Investments and derivatives	Cash and cash equivalents	Other assets and liabilities	Total	Percentage of net asset value
United States dollar (USD)	\$ 24,381,354	\$ -	\$ 1,145,111	\$ 25,526,465	59.7%

The amounts in the above tables are based on the market value of the Fund's financial instruments. This includes cash and cash equivalents, investments, interest receivable, receivable for units subscribed, due from broker, payable for units redeemed, distribution payable and due to brokers that are denominated in foreign currencies.

As at June 30, 2020, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased by approximately \$151,249 (December 31, 2019 – \$255,265).

In practice, the actual trading results may differ and the difference could be material.

# CHOU FUNDS

## Notes to Financial Statements

Six months ended June 30, 2020 and 2019 (Unaudited)

### 1. Formation of the Chou Funds:

The individual funds comprising the family of Chou Funds (the "Chou Funds" or the "Funds") are open-ended investment mutual fund trusts formed pursuant to Declarations of Trust under the laws of the Province of Ontario. Chou Associates Management Inc. is the Manager and Trustee of the Chou Funds. The address of the Funds' registered office is: 110 Sheppard Avenue East, Suite 301, Box 18, Toronto, Ontario, M2N 6Y8.

The Funds were formed on the following dates:

Chou Associates Fund	September 1, 1986
Chou Asia Fund	August 26, 2003
Chou Europe Fund	August 26, 2003
Chou Bond Fund	August 10, 2005
Chou RRSP Fund	September 1, 1986

### 2. Significant accounting policies:

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting as published by the International Accounting Standards Board ("IASB") and as required by Canadian securities legislation and the Canadian Accounting Standards Board.

The unaudited interim financial statements were authorized for issue by the Manager on August 31, 2020.

The following is a summary of significant accounting policies used by the Funds:

#### (a) Financial instruments:

The Funds applied IFRS 9, Financial Instruments ("IFRS 9"). The standard requires financial assets to be classified as amortized cost, fair value through profit or loss ("FVTPL"), or fair value through other comprehensive income ("FVOCI") based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of these assets. Assessment and decision on the business model approach used is an accounting judgement.

The Funds' investments and derivative assets and liabilities are classified and measured at FVTPL.

The classification and measurements of financial assets and liabilities are at amortized cost with the exception of financial assets and liabilities recorded at FVTPL. For financial liabilities, fair value changes attributable to changes in the entity's own credit risk are to be presented in other comprehensive income unless they affect amounts recorded in income. Under amortized cost, financial assets and liabilities reflect the amounts to be received or paid, discounted when appropriate at the financial instrument's effective interest rate. The fair value of the Funds' financial assets and liabilities that are not carried at FVTPL approximate their carrying amounts due to their short-term nature.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

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### 2. Significant accounting policies (continued):

#### (b) Recognition, initial measurement and classification:

Financial assets and financial liabilities at FVTPL are initially recognized on the trade date, at fair value, with transaction costs recognized in profit or loss. Other financial assets and financial liabilities are recognized on the date on which they are originated at fair value.

The Funds classify financial assets and financial liabilities into the following categories:

Financial assets at FVTPL:

- Derivatives: warrants and options; and
- Investments: debt securities and equity investments.

Financial liabilities at FVTPL:

- Derivatives: securities sold short, warrants, and options.

All other financial assets and financial liabilities are classified and measured at amortized cost. The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. The Funds' obligations for net assets attributable to unitholders is measured at FVTPL, with fair value being the redemption amount as of the reporting dates.

#### (c) Fair value measurement:

When available, the Funds measure the fair value of a financial instrument using the quoted price in an active market for that instrument. The Funds measure instruments quoted in an active market at the last traded market price.

Bonds and debentures are valued at the mid-point of their last evaluated bid price and their last evaluated ask price received from recognized investment dealers and their last evaluated price for short positions.

If there is no quoted price in an active market, then the Funds use valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Funds recognize transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

There are no differences between the Funds' method for measuring fair value for financial reporting purposes and that for the purposes of calculating net asset value for unitholder transactions.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

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### 2. Significant accounting policies (continued):

#### (c) Fair value measurement (continued):

Derecognition:

The Funds derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire, or they transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Funds neither transfer nor retain substantially all of the risks and rewards of ownership and do not retain control of the financial asset.

The Funds derecognize a financial liability when their contractual obligations are discharged, cancelled, or expired.

#### (d) Critical accounting estimates and judgments:

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future.

On March 11, 2020, the World Health Organization declared the global outbreak of COVID-19 a pandemic. Market disruptions associated with the COVID-19 pandemic have had a global impact, and uncertainty exists as to the long-term implications. Such disruptions can adversely impact the financial instrument risks and the fair values of each of the Funds' portfolios.

The following discusses the most significant accounting judgments and estimates that the Funds have made in preparing the financial statements:

##### (i) Fair value measurement of derivatives and securities not quoted in an active market:

The Funds hold financial instruments that are not quoted in active markets, including derivative securities. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. Where no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by experienced personnel of the Manager, independent of the party that created them. The models used for private equity securities are based mainly on earnings multiples adjusted for a lack of marketability, as appropriate.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Funds consider observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. Refer to note 8 for further information about the fair value measurement of the Fund's financial instruments.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

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### 2. Significant accounting policies (continued):

#### (ii) Classification and measurement of investments and application of the fair value option:

In classifying and measuring financial instruments held by the Funds, the Manager is required to make significant judgments in determining the most appropriate classification in accordance with IFRS 9. The Manager has assessed the Funds' business models, the manner in which all financial assets and financial liabilities are managed and performance evaluated as a group on a fair value basis, and concluded that FVTPL in accordance with IFRS 9 provides the most appropriate classification of the Funds' financial instruments.

These financial statements are presented in Canadian dollars, which is the Funds' functional currency.

#### (e) Cost of investments:

The cost of investments represents the amount paid for each security, and is determined on an average cost basis excluding transaction costs. Investment transactions are accounted for as of the trade date.

#### (f) Offsetting financial instruments:

Financial assets and liabilities are offset and the net amount reported in the statements of financial position where the Funds have a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis for gains and losses from financial instruments at fair value through profit or loss and foreign exchange gains and losses.

#### (g) Transaction costs:

Transaction costs are incremental costs directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. In accordance with IFRS, transaction costs are expensed and are included in transaction costs in the statements of comprehensive income (loss).

#### (h) Cash and cash equivalents:

Cash and cash equivalents consist of cash on deposit and short-term debt instruments with terms to maturity less than 90 days. Cash and cash equivalents are reported at fair value which closely approximates their amortized cost due to the nature of being highly liquid and having short terms to maturity. Where cash and cash equivalents are in net bank overdraft positions, these are presented as current liabilities in the Statements of Financial Position.



# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

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### 2. Significant accounting policies (continued):

#### (i) Investment transactions and income recognition:

All investment transactions are accounted for on the trade date.

Income from investments held is recognized on an accrual basis. Interest income is accrued as earned and dividend income and distributions from investment trusts are recognized on the ex-dividend dates.

Distributions received from investment trusts are recorded as income, capital gains or a return of capital, based on the best information available to the Manager. Due to the nature of these investments, actual allocations could vary from this information. Distributions from investment trusts that are treated as a return of capital for income tax purposes reduce the average cost of the underlying investment trust on the schedule of investments.

#### (j) Foreign exchange:

Securities and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing on each valuation day. Purchases and sales of investments and derivatives, income and expenses are translated into Canadian dollars at the exchange rates prevailing on the respective dates of such transactions. Realized and unrealized foreign exchange gains (losses) on investments and derivatives are included in realized gain (loss) on sale of investments and derivatives and change in unrealized appreciation (depreciation) on investments and derivatives, respectively, in the statements of comprehensive income (loss).

#### (k) Derivative transactions:

Options:

The Manager may use options to offset potential losses from changes in the prices of the Funds' investments instead of buying and selling securities directly. There can be no assurance that the hedging strategies will be effective. Losses may also arise if the counterparty does not perform under the contract.

Warrants:

The cost of warrants is included in derivatives on the statements of financial position. The unrealized gain or loss is reflected in the statements of comprehensive income (loss) in unrealized gain (loss) on derivatives.

#### (l) Multi-series funds:

Where a Fund offers more than one series of redeemable units, the realized gains/losses from the sale of investments, changes in unrealized gains (losses) on investments, income and expenses that are common to the Fund as a whole, are allocated daily to each series based on the proportionate share of the net asset value of the series. The proportionate share of each series is determined by adding the current day's net unitholder subscriptions of the series to the prior day's net asset value of the series. Any income or expense amounts that are unique to a particular series (for example, management fees) are accounted for separately in that particular series so as to not affect the net asset value of the other series.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

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### 2. Significant accounting policies (continued):

#### (m) Valuation of Fund redeemable units:

The net assets attributable to holders of redeemable units of each Fund are computed by dividing the net assets attributable to holders of a series of redeemable units by the total number of redeemable units of the series outstanding at the time. The net assets attributable to holders of redeemable units are determined at the close of business each Friday.

#### (n) Securities lending income:

The Funds lend portfolio securities from time to time in order to earn additional income. Income from securities lending is included in the statements of comprehensive income (loss) of the Funds and is recognized on an accrual basis. Any securities on loan continue to be displayed in the schedule of investments and the market value of the securities loaned and collateral held is determined daily (note 7).

#### (o) Classification of redeemable units issued by the Fund:

The Funds' outstanding redeemable units' entitlements include a contractual obligation to distribute any net income and net realized gains annually in cash (at the request of the unitholder) and therefore the ongoing redemption feature is not the units' only contractual obligation. Consequently, the Funds' outstanding redeemable units are classified as financial liabilities in accordance with the requirements of IAS 32, *Financial Instruments: Presentation*. The Funds' obligation for net assets attributable to unitholders is measured at FVTPL, with fair value being the redemption amounts as of the reporting date.

#### (p) Impairments:

IFRS 9 requires that an entity recognize a loss allowance for expected credit losses on financial assets which are measured at amortized cost or FVOCI. Financial assets held by the Fund which are measured at FVTPL will not be subject to the impairment requirements.

With respect to financial assets classified and measured at cost, the Funds consider both historical analysis and forward-looking information in determining any expected credit loss. As at the financial statement date, financial assets classified and measured at cost are due to be settled within the short term. The Funds consider the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligation in the near term. Given the limited exposure of the Funds to credit risk, no loss allowance has been recognized as any such impairment will not have a significant impact on the financial statements.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

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### 3. Financial and risk management:

Investment activities of the Funds expose them to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, other price risk and currency risk). The level of risk depends on each of the Funds' investment objectives and the type of securities each Fund invests in. Funds that invest in underlying funds are also exposed to indirect financial risks in the event that the underlying funds are exposed to these risks.

The Manager of the Funds seeks to minimize these risks by managing the security portfolios of the Funds on a daily basis according to market events and the investment objectives of the Funds. CPA Canada Handbook disclosures that are specific to each of the Funds are presented in the discussion of financial risk management under the schedule of investments. The sensitivity analysis shown in the discussion of financial risk management may differ from actual results and the difference could be significant.

The Manager maintains a risk management practice that includes monitoring compliance with investment restrictions to ensure that the Funds are being managed in accordance with the Funds' stated investment objectives, strategies and securities regulations. The risk positions noted below are monitored by the Manager on a regular basis.

#### (a) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge a commitment that it has entered into with the Funds. The fair value of a financial instrument takes into account the credit rating of its issuer, and accordingly, represents the maximum credit risk exposure of a Fund. The Funds' main credit risk concentration is in debt securities and trading derivative instruments which are disclosed in the respective Funds' schedule of investments. All transactions in securities are settled or paid for upon delivery through brokers. As such, credit risk is considered minimal in the Funds on investment transactions, as delivery of securities sold is made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

The Funds have provided the prime broker with a general lien over the financial assets held in custody as security for the prime broker's exposure relating to provision of custody services to the Funds. The terms under which the general lien is provided are usual and customary for prime broker agreements.

#### (b) Liquidity risk:

Liquidity risk is the risk that the Funds may not be able to settle or meet their obligations on time or at a reasonable price. The Funds are exposed to redemptions as units are redeemable on demand and unitholders may redeem their units on each valuation date. Therefore, in accordance with the Funds' Simplified Prospectus, the Funds invest their assets in investments that are traded in an active market and can be readily disposed. In addition, each Fund aims to retain sufficient cash and cash equivalent positions to maintain liquidity. The Funds may, from time to time, invest in securities that are not traded in an active market and may be illiquid.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

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### 3. Financial instruments and risk management (continued):

#### (c) Market risk:

##### (i) Interest rate risk:

Interest rate risk is the risk that the fair value of the Funds' interest-bearing investments will fluctuate due to changes in the prevailing levels of market interest rates. The Funds' exposure to interest rate risk is concentrated in investments in debt securities (such as bonds and debentures or short-term instruments) and derivative instruments, if any. Other assets and liabilities are short-term in nature and are non-interest bearing. There is minimal sensitivity to interest rate fluctuations on cash and cash equivalents invested at short-term market interest rates.

##### (ii) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) caused by factors specific to a security, its issuer or all factors affecting a market or a market segment. The Funds are exposed to market risk since all financial instruments held by the Funds present a risk of loss of capital. The maximum risk resulting from financial instruments is equivalent to their fair value, except for options written and future contracts where possible losses can be unlimited.

##### (iii) Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash and cash equivalents and foreign currency derivative instruments) that are denominated in a currency other than Canadian dollars, which represents the functional currency of the Funds. Therefore, the Funds' financial instruments that are denominated in other currencies will fluctuate due to changes in the foreign exchange rates of those currencies in relation to the Funds' functional currency.

### 4. Holders of redeemable units:

The Manager considers the Funds' capital to consist of holders of redeemable units representing the net assets attributable to holders of redeemable units. The Funds' capital is managed in accordance with each of the Funds' investment objectives, policies, and restrictions, as outlined in the Funds' Prospectus. Changes in the Funds' capital during the period are reflected in the statements of changes in net assets attributable to unitholders of redeemable units. The Funds have no specific restrictions or specific capital requirements on the subscriptions and redemptions of redeemable units, other than minimum subscription requirements. The Funds endeavor to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions. Holders of redeemable units are entitled to distributions when declared. Distributions on redeemable units of a Fund are reinvested in additional redeemable units of the Fund or at the option of the holders of redeemable units, paid in cash. Redeemable units of the Funds are redeemable at the option of the holders of redeemable units in accordance with the Prospectus.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

### 4. Holders of redeemable units (continued):

	Series A		Series F	
	June 30,		June 30,	
	2020	2019	2020	2019
<b>Chou Associates Fund</b>				
Redeemable units outstanding, beginning of period	1,747,907	2,424,781	277,980	344,195
Add redeemable units issued during the period	6,713	8,656	5,436	13,877
Deduct redeemable units redeemed during the period	(167,941)	(213,361)	(42,885)	(26,933)
Redeemable units outstanding before income distribution	1,586,679	2,220,076	240,531	331,139
Add redeemable units issued on reinvested income	—	—	—	—
Deduct redeemable units redeemed during the period	—	—	—	—
Redeemable units outstanding, end of period	1,586,679	2,220,076	240,531	331,139
<b>Chou Asia Fund</b>				
Redeemable units outstanding, beginning of period	853,782	1,158,473	86,073	125,082
Add redeemable units issued during the period	4,463	2,976	3,161	1,786
Deduct redeemable units redeemed during the period	(137,617)	(105,658)	(20,040)	(11,455)
Redeemable units outstanding before income distribution	720,628	1,055,791	69,194	115,413
Add redeemable units issued on reinvested income	—	—	—	—
Deduct redeemable units redeemed during the period	—	—	—	—
Redeemable units outstanding, end of period	720,628	1,055,791	69,194	115,413
<b>Chou Europe Fund</b>				
Redeemable units outstanding, beginning of period	396,577	477,657	370,498	330,952
Add redeemable units issued during the period	2,266	16,335	12,244	68,553
Deduct redeemable units redeemed during the period	(67,438)	(67,794)	(28,431)	(5,491)
Redeemable units outstanding before income distribution	331,405	426,198	354,311	394,014
Add redeemable units issued on reinvested income	—	—	—	—
Deduct redeemable units redeemed during the period	—	—	—	—
Redeemable units outstanding, end of period	331,405	426,198	354,311	394,014

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

### 4. Holders of redeemable units (continued):

	Series A		Series F	
	June 30,		June 30,	
	2020	2019	2020	2019
<b>Chou Bond Fund</b>				
Redeemable units outstanding,				
beginning of period	1,305,522	1,666,054	345,626	312,347
Add redeemable units issued during the period	5,046	43,271	4,282	73,941
Deduct redeemable units redeemed during the period	(182,920)	(424,724)	(56,587)	(52,380)
Redeemable units outstanding before				
income distribution	1,127,648	1,284,601	293,321	333,908
Add redeemable units issued on reinvested income	—	—	—	—
Deduct redeemable units redeemed during the period	—	—	—	—
Redeemable units outstanding, end of period	1,127,648	1,284,601	293,321	333,908
<b>Chou RRSP Fund</b>				
Redeemable units outstanding,				
beginning of period	1,705,179	1,994,527	172,209	206,334
Add redeemable units issued during the period	5,539	4,783	12,317	7,056
Deduct redeemable units redeemed during the period	(227,050)	(168,629)	(33,019)	(11,092)
Redeemable units outstanding before				
income distribution	1,483,668	1,830,681	151,507	202,298
Add redeemable units issued on reinvested income	—	—	—	—
Deduct redeemable units redeemed during the period	—	—	—	—
Redeemable units outstanding, end of period	1,483,668	1,830,681	151,507	202,298

### 5. Related party transactions:

#### Management fees:

The Manager manages the Funds under a management agreement dated August 10, 2005. The Manager is entitled to an annual investment management fee equal to 1.5% of the net asset value of Series A redeemable units and 1.0% of the net asset value of Series F redeemable units for all Funds other than the Chou Bond Fund on which the Manager is entitled to an annual investment management fee equal to 1.15% of the net asset value of Series A redeemable units and 1.0% of the net asset value of Series F redeemable units. All other expenses attributable to the Funds are also payable out of the assets of the Funds.

During the period, management fees for each Fund are as follows:

	June 30,	
	2020	2019
Chou Associates Fund	\$ 1,345,763	\$ 2,297,368
Chou Asia Fund	120,380	179,978
Chou Europe Fund	41,785	55,233
Chou Bond Fund	63,274	103,861
Chou RRSP Fund	266,199	533,244

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

### 5. Related party transactions (continued):

As at period end, included in accrued expenses of each Fund are the following amounts due to the Manager, for management fees payable:

	June 30, 2020	December 31, 2019
Chou Associates Fund	\$ 693,130	\$ 260,388
Chou Asia Fund	64,886	19,707
Chou Europe Fund	22,179	8,191
Chou Bond Fund	36,506	9,683
Chou RRSP Fund	133,873	53,826

The Manager, its officers and directors invest in redeemable units of the Funds from time to time in the normal course of business. All transactions with the Manager are measured at the exchange amounts.

As at June 30, 2020, the following amounts of Series A redeemable units were held by the Manager, its employees, and directors. No amounts of Series F redeemable units were held by the Manager, its employees, and directors.

	June 30, 2020	December 31, 2019
Chou Associates Fund	74,051	74,051
Chou Asia Fund	—	—
Chou Europe Fund	4,924	4,924
Chou Bond Fund	—	—
Chou RRSP Fund	36,660	36,660

#### (a) Chou Associates Fund:

As at June 30, 2020, 4.7% of Series A redeemable units (December 31, 2019 – 4.3%) were held by the Manager, its employees, and directors.

#### (b) Chou Europe Fund:

As at June 30, 2020, 1.5% of Series A redeemable units (December 31, 2019 – 1.2%) were held by the Manager, its employees, and directors.

#### (c) Chou RRSP Fund:

As at June 30, 2020, 2.5% of Series A redeemable units (December 31, 2019 – 2.3%) were held by the Manager, its employees, and directors.

On June 25, 2020, an affiliate of the Manager purchased 242,914 units of EXCO Resources shares from the Chou RRSP Fund for proceeds of \$3,153,029 to reduce the Fund's exposure to illiquid securities. The security was sold at the fair market value price as determined by an independent pricing company as at December 31, 2019, which was the most recent valuation report of the shares at the time of the trade. This related party transaction was approved by the Independent Review Committee and received exemption relief from the Ontario Securities Commission to record a trade transaction with an affiliate.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

### 5. Related party transactions (continued):

#### (d) Chou Bond Fund:

As at June 30, 2020, no Series A redeemable units were held by the Manager, its employees, and directors.

On June 25, 2020, an affiliate of the Manager purchased 60,136 units of EXCO Resources shares from the Chou Bond Fund for proceeds of \$780,567 to reduce the Fund's exposure to illiquid securities. The security was sold at the fair market value price as determined by an independent pricing company as at December 31, 2019, which was the most recent valuation report of the shares at the time of the trade. This related party transaction was approved by the Independent Review Committee and received exemption relief from the Ontario Securities Commission to record a trade transaction with an affiliate.

### 6. Brokers' commissions:

Total commissions paid to brokers in connection with portfolio transactions for the six months ended June 30, 2020 and 2019 are as follows:

		June 30,
	2020	2019
Chou Associates Fund	\$ 65,588	\$ 37,824
Chou Asia Fund	7,096	4,137
Chou Europe Fund	6,930	1,119
Chou Bond Fund	—	—
Chou RRSP Fund	7,526	—

### 7. Securities lending:

The Funds have entered into a securities lending program with CIBC Mellon. The Funds receive collateral of at least 102% of the value of the securities on loan. Collateral may be comprised of cash and obligations of or guaranteed by, the Government of Canada or a province thereof, or by the United States Government or its agencies, but may include obligations of other governments with appropriate credit ratings. The aggregate dollar values of the securities that are on loan and the collateral received by the Funds as at June 30, 2020 and December 31, 2019 are as follows:

	Market value of securities on loan	Market value of collateral received
<b>June 30, 2020</b>		
Chou Associates Fund	\$ 12,886,704	\$ 13,534,835
Chou Asia Fund	600,544	638,451
Chou Europe Fund	23,879	25,484
Chou Bond Fund	230,741	243,907
Chou RRSP Fund	3,631,505	3,852,100



# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

### 7. Securities lending (continued):

December 31, 2019	Market value of securities on loan	Market value of collateral received
Chou Associates Fund	\$ 12,914,218	\$ 13,631,412
Chou Asia Fund	5,499,059	5,860,340
Chou Europe Fund	190,371	200,153
Chou Bond Fund	572,275	615,367
Chou RRSP Fund	3,776,402	4,008,515

The tables below presents a reconciliation of the securities lending income as presented in the statements of comprehensive income (loss) for the six months ended June 30, 2020 and June 30, 2019. It shows the gross amount of securities lending revenues generated from the securities lending transactions of the Fund, less any taxes withheld and amounts due to parties entitled to receive payments out of the gross amount as part of any securities lending agreements.

#### Chou Associates Fund:

		2020	June 30, 2019
Gross securities lending revenue	\$	7,150 100 %	\$ 24,998 100 %
Withholding taxes		(1,061) (15)%	(6,992) (28)%
Agent fees		(1,218) (17)%	(3,600) (14)%
Securities lending revenue	\$	4,871 68 %	\$ 14,406 58 %

#### Chou Asia Fund:

		2020	June 30, 2019
Gross securities lending revenue	\$	102,834 100 %	\$ 88,833 100 %
Withholding taxes		— —	— —
Agent fees		(20,567) (20)%	(17,766) (20)%
Securities lending revenue	\$	82,267 80 %	\$ 71,067 80 %

#### Chou Europe Fund:

		2020	June 30, 2019
Gross securities lending revenue	\$	213 100 %	\$ 169 100 %
Withholding taxes		(23) (11)%	(3) (2)%
Agent fees		(38) (18)%	(33) (19)%
Securities lending revenue	\$	152 71 %	\$ 133 79 %

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

### 7. Securities lending (continued):

#### Chou Bond Fund:

		2020	June 30,		2019
Gross securities lending revenue	\$	9,562	100 %	\$	55 100 %
Withholding taxes		(2,852)	(30)%		–
Agent fees		(1,342)	(14)%		(11) (20)%
Securities lending revenue	\$	5,368	56 %	\$	44 80 %

#### Chou RRSP Fund:

		2020	June 30,		2019
Gross securities lending revenue	\$	5,142	100 %	\$	11,251 100 %
Withholding taxes		(101)	(2)%		(385) (4)%
Agent fees		(1,007)	(20)%		(2,172) (19)%
Securities lending revenue	\$	4,034	78 %	\$	8,694 77 %

### 8. Fair value measurement:

Below is a classification of fair measurements of the Funds' investments based on a three level fair value hierarchy and a reconciliation of transactions and transfers within that hierarchy. The hierarchy of fair valuation inputs is summarized as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - inputs for the assets or liabilities that are not based on observable market data. Additional quantitative disclosures are required for Level 3 securities.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

### 8. Fair value measurement (continued):

#### (a) Chou Associates Fund:

June 30, 2020	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 112,282,029	\$ —	\$ 10,871,355	\$ 123,153,384
Bonds	—	—	—	—
Warrants	—	—	—	—
Total	\$ 112,282,029	\$ —	\$ 10,871,355	\$ 123,153,384

December 31, 2019	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 194,097,284	\$ —	\$ 15,829,672	\$ 209,926,956
Bonds	—	—	—	—
Warrants	—	—	—	—
Total	\$ 194,097,284	\$ —	\$ 15,829,672	\$ 209,926,956

The following table reconciles the Fund's Level 3 fair value measurement of financial instruments for the six months ended June 30, 2020.

	Equities	Bonds	Total
Balance, December 31, 2019	\$ 15,829,672	\$ —	\$ 15,829,672
Purchase of investments	—	—	—
Proceeds from sales during the period	—	—	—
Net transfers in (out) during the period	—	—	—
Net realized loss on sale of investments	—	—	—
Change in unrealized depreciation in value of investments	(4,958,317)	—	(4,958,317)
Balance, June 30, 2020	\$ 10,871,355	\$ —	\$ 10,871,355

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

### 8. Fair value measurement (continued):

#### (a) Chou Associates Fund (continued):

The following table reconciles the Fund's Level 3 fair value measurement of financial instruments for the year ended December 31, 2019.

	Equities	Bonds	Total
Balance, December 31, 2018	\$ —	\$ 32,407,065	\$ 32,407,065
Purchase of investments	—	—	—
Net transfers in (out) during the year	37,508,649	(37,508,649)	—
Proceeds from sales during the year	(2,999,998)	—	(2,999,998)
Net realized loss on sale of investments	(2,861,949)	—	(2,861,949)
Change in unrealized (depreciation) appreciation in value of investments	(15,817,029)	5,101,584	(10,715,445)
Balance, December 31, 2019	\$ 15,829,672	\$ —	\$ 15,829,672

During the six months period ended June 30, 2020 and the year ended December 31, 2019, there were no significant transfers between Level 1 and Level 2.

For the year ended December 31, 2019, term loans valued at \$37,508,649 were exchanged for common shares of the same company as a result of a restructuring proceeding.

Financial instruments classified as Level 2 investments are valued based on the prices provided by an independent reputable pricing services company who prices the securities based on recent transactions and quotes received from market participants and through incorporating observable market data.

#### Level 3 additional disclosures:

The tables below set out information about significant unobservable inputs used at reporting period-end in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

##### June 30, 2020

Securities/Instruments	Line item on the hierarchy table	Fair value (\$)	Valuation technique	Unobservable input	Range of input value	Possible shift +/- (absolute value/%)	Change in valuation (\$ +/-)
Equity – Private Company	Equity Security	10,871,355	Market Approach & Income Approach	Third party	N/A	10%	1,087,136/(1,087,136)

#### Third party source

The price for this security was received from a third party source whose valuation methodology was model driven and included proxy security to capture interest rate and credit risk. Although the Fund believes that its estimates of fair value are appropriate, different methodologies or assumptions could lead to different measurements of fair value.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

### 8. Fair value measurement (continued):

#### (a) Chou Associates Fund (continued):

December 31, 2019

Securities/Instruments	Line item on the hierarchy table	Fair value (\$)	Valuation technique	Unobservable input	Range of input value	Possible shift +/- (absolute value/%)	Change in valuation (\$ +/-)
Equity – Private Company	Equity Security	15,829,672	Market Approach & Income Approach	Third party	N/A	10%	1,582,967/(1,582,967)

#### Third party source

The price for this security was received from a third party source whose valuation methodology was model driven and included proxy security to capture interest rate and credit risk. Although the Fund believes that its estimates of fair value are appropriate, different methodologies or assumptions could lead to different measurements of fair value.

#### (b) Chou Asia Fund:

June 30, 2020	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 10,039,425	\$ 1,340,712	\$ —	\$ 11,380,137
Bonds	—	—	—	—
Options	—	—	—	—
Total	\$ 10,039,425	\$ 1,340,712	\$ —	\$ 11,380,137

December 31, 2019	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 12,893,106	\$ 1,337,847	\$ —	\$ 14,230,953
Bonds	—	—	—	—
Options	—	—	—	—
Total	\$ 12,893,106	\$ 1,337,847	\$ —	\$ 14,230,953

During the six months period ended June 30, 2020, there were no significant transfers between Level 1, Level 2, and Level 3.

For the year ended December 31, 2019, equities valued at \$1,337,847 were transferred from Level 1 to Level 2 due to a decrease in liquidity and trading volumes.

Financial instruments classified as Level 2 investments are valued based on prices by a reputable independent pricing services company who prices the securities based on recent transactions and quotes received from market participants and through incorporating observable market data.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

### 8. Fair value measurement (continued):

#### (c) Chou Europe Fund:

June 30, 2020	Level 1		Level 2		Level 3		Total
<b>Financial Assets</b>							
Equities	\$	4,354,074	\$	—	\$	—	\$ 4,354,074
Bonds		—		—		—	—
Options		—		—		—	—
Total	\$	4,354,074	\$	—	\$	—	\$ 4,354,074

December 31, 2019	Level 1		Level 2		Level 3		Total
Financial Assets							
Equities	\$	4,789,094	\$	390,864	\$	—	\$ 5,179,958
Bonds		—		—		—	—
Options		—		—		—	—
Total	\$	4,789,094	\$	390,864	\$	—	\$ 5,179,958

During the six months period ended June 30, 2020, equities valued at \$382,029 were transferred from Level 2 to Level 1 due to an increase in liquidity and trading volumes.

During the year ended December 31, 2019, there were no significant transfers between Level 1, Level 2 and Level 3.

Financial instruments classified as Level 2 investments are valued based on the prices provided by an independent reputable pricing services company who prices the securities based on recent transactions and quotes received from market participants and through incorporating observable market data.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

### 8. Fair value measurement (continued):

#### (d) Chou Bond Fund:

June 30, 2020	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 343,894	\$ —	\$ 170,090	\$ 513,984
Bonds	—	8,121,479	366	8,121,845
Options	—	—	—	—
Total	\$ 343,894	\$ 8,121,479	\$ 170,456	\$ 8,635,829

December 31, 2019	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 623,672	\$ —	\$ 990,642	\$ 1,614,314
Bonds	—	5,013,975	366	5,014,341
Options	—	—	—	—
Total	\$ 623,672	\$ 5,013,975	\$ 991,008	\$ 6,628,655

The following table reconciles the Fund's Level 3 fair value measurement of financial instruments for the six months ended June 30, 2020.

	Equities	Bonds	Total
Balance, December 31, 2019	\$ 990,642	\$ 366	\$ 991,008
Net transfers in during the period	—	—	—
Proceeds from sales during the period	(780,567)	—	(780,567)
Net realized (loss) gain on sale of investments	(1,301,330)	—	(1,301,330)
Change in unrealized (depreciation) appreciation in value of investments	1,261,345	—	1,261,345
Balance, June 30, 2020	\$ 170,090	\$ 366	\$ 170,456

The following table reconciles the Fund's Level 3 fair value measurement of financial instruments for the year ended December 31, 2019.

	Equities	Bonds	Total
Balance, December 31, 2018	\$ 2,928,934	\$ 3,956,223	\$ 6,885,157
Net transfers in during the year	4,080,429	(4,080,063)	366
Proceeds from sales during the year	(3,409,253)	(1,405,172)	(4,814,425)
Net realized gain on sale of investments	910,202	877,976	1,788,178
Change in unrealized (depreciation) appreciation in value of investments	(3,519,670)	651,402	(2,868,268)
Balance, December 31, 2019	\$ 990,642	\$ 366	\$ 991,008

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

### 8. Fair value measurement (continued):

#### (d) Chou Bond Fund (continued):

During the six months period ended June 30, 2020, and the year ended December 31, 2019, there were no significant transfers between Level 1 and Level 2.

For the year ended December 31, 2019, term loans valued at \$4,080,429 were exchanged for common shares of the same company as a result of a restructuring proceeding.

Financial instruments classified as Level 2 investments are valued based on the prices provided by an independent reputable pricing services company who prices the securities based on recent transactions and quotes received from market participants and through incorporating observable market data.

#### Level 3 additional disclosures:

The tables below set out information about significant unobservable inputs used at reporting period-end in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

##### June 30, 2020

Securities/Instruments	Line item on the hierarchy table	Fair value (\$)	Valuation technique	Unobservable input	Range of input value	Possible shift +/- (absolute value/%)	Change in valuation (\$ +/-)
Equity – Private Company	Equity Security	170,090	Market Approach & Income Approach	Third party	N/A	10%	17,009/ (17,009)
Convertible loan	Convertible Loan	366	Market Approach	Market value of company	N/A	10%	37/ (37)

#### Third party source

The price for this security was received from a third party source whose valuation methodology was model driven and included proxy security to capture interest rate and credit risk. Although the Fund believes that its estimates of fair value are appropriate, different methodologies or assumptions could lead to different measurements of fair value.

##### December 31, 2019

Securities/Instruments	Line item on the hierarchy table	Fair value (\$)	Valuation technique	Unobservable input	Range of input value	Possible shift +/- (absolute value/%)	Change in valuation (\$ +/-)
Equity – Private Company	Equity Security	990,642	Market Approach & Income Approach	Third party	N/A	10%	99,064/ (99,064))
Convertible loan	Convertible Loan	366	Market Approach	Market value of company	N/A	10%	37/ (37)

#### Third party source

The price for this security was received from a third party source whose valuation methodology was model driven and included proxy security to capture interest rate and credit risk. Although the Fund believes that its estimates of fair value are appropriate, different methodologies or assumptions could lead to different measurements of fair value.



# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

### 8. Fair value measurement (continued):

#### (e) Chou RRSP Fund:

June 30, 2020	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 20,715,813	\$ 94,122	\$ 970,438	\$ 21,780,373
Bonds	—	3,219,885	100	3,219,985
Warrants	—	—	—	—
Total	\$ 20,715,813	\$ 3,314,007	\$ 970,538	\$ 25,000,358

December 31, 2019	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
Equities	\$ 34,780,882	\$ —	\$ 4,414,229	\$ 39,195,111
Bonds	—	3,219,885	100	3,219,985
Warrants	—	—	—	—
Total	\$ 34,780,882	\$ 3,219,885	\$ 4,414,329	\$ 42,415,096

The following table reconciles the Fund's Level 3 fair value measurement of financial instruments for the six months ended June 30, 2020.

	Equities	Bonds	Total
Balance, December 31, 2019	\$ 4,414,229	\$ 100	\$ 4,414,329
Net transfers in during the period	—	—	—
Proceeds from sales during the period	(3,153,029)	—	(3,153,029)
Net realized (loss) gain on sale of investments	(1,887,185)	—	(1,887,185)
Change in unrealized (depreciation) appreciation in value of investments	1,596,423	—	1,596,423
Balance, June 30, 2020	\$ 970,438	\$ 100	\$ 970,538

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

### 8. Fair value measurement (continued):

#### (e) Chou RRSP Fund (continued):

The following table reconcile the Fund's Level 3 fair value measurement of financial instruments for the year ended December 31, 2019.

	Equities	Bonds	Total
Balance, December 31, 2018	\$ —	\$ 7,624,651	\$ 7,624,651
Net transfers in during the year	7,413,295	(7,413,195)	100
Proceeds from sales during the year	—	—	—
Net realized gain (loss) on sale of investments	—	—	—
Change in unrealized depreciation in value of investments	(2,999,066)	(211,356)	(3,210,422)
Balance, December 31, 2019	\$ 4,414,229	\$ 100	\$ 4,414,329

During the six months period ended June 30, 2020, equities valued at \$94,122 were transferred from Level 1 to Level 2 due to a decrease in liquidity and trading volumes.

During the year ended December 31, 2019, there were no significant transfers between Level 1 and Level 2.

For the year ended December 31, 2019, term loans valued at \$7,413,295 were exchanged for common shares of the same company as a result of a restructuring proceeding.

Financial instruments classified as Level 2 investments are valued based on the prices provided by an independent reputable pricing services company who prices the securities based on recent transactions and quotes received from market participants and through incorporating observable market data.

#### Level 3 additional disclosures:

The tables below set out information about significant unobservable inputs used at reporting period-end in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

##### June 30, 2020

Securities/Instruments	Line item on the hierarchy table	Fair value (\$)	Valuation technique	Unobserv- able input	Range of input value	Possible shift +/- (absolute value/%)	Change in valuation (\$ +/-)
Equity – Private Company	Equity Security	970,438	Market Approach & Income Approach	Third party	N/A	10%	97,044/ (97,044)
Convertible Loan	Convertible Loan	100	Market Approach	Market value of company	N/A	10%	10/ (10)

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

### 8. Fair value measurement (continued):

#### (e) Chou RRSP Fund (continued):

##### Third party source

The price for this security was received from a third party source whose valuation methodology was model driven and included proxy security to capture interest rate and credit risk. Although the Fund believes that its estimates of fair value are appropriate, different methodologies or assumptions could lead to different measurements of fair value.

December 31, 2019

Securities/Instruments	Line item on the hierarchy table	Fair value (\$)	Valuation technique	Unobservable input	Range of input value	Possible shift +/- (absolute value/%)	Change in valuation (\$ +/-)
Equity – Private Company	Equity Security	4,419,229	Market Approach & Income Approach	Third party	N/A	10%	441,923/ (441,923)
Convertible Loan	Convertible Loan	100	Market Approach	Market value of company	N/A	10%	10/ (10)

##### Third party source

The price for this security was received from a third party source whose valuation methodology was model driven and included proxy security to capture interest rate and credit risk. Although the Fund believes that its estimates of fair value are appropriate, different methodologies or assumptions could lead to different measurements of fair value.

### 9. Fund valuation adjustments:

June 30, 2020

Subsequent to June 30, 2020, the Chou Bond Fund identified an interest income accrued amount of \$178,377 from a Level 3 term loan investment that did not meet the IFRS interest income recognition criteria as at June 30, 2020. This resulted in an overstatement of the Net Asset Value ("NAV") as at June 30, 2020. As a result, the Chou Bond Fund did not accurately reflect the actual NAV at the time of computation for transactional purposes for all capital stock transactions in the Fund with a trade date of February 18, 2020 to July 3rd, 2020. No other transactions were impacted by this error.

In July 2020, the error was retroactively corrected, and the NAV was restated for the affected period, February 18, 2020 to July 3rd, 2020. The financial statements of the Chou Bond Fund correctly reflect the Net Assets Attributable to Unitholders of Redeemable Units as at June 30, 2020. Adjustments were made in accordance with Chou Bond Fund's NAV error procedures.

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

### 9. Fund valuation adjustments (continued):

The following table illustrates the adjustments made to the NAV to reflect the correction in the interest income from the Level 3 investment on June 30, 2020:

Class:	Unadjusted Net Asset Value per Unit as at June 30, 2020	Adjustment to reflect the effects of over valuation:	Adjusted Net Asset Value per Unit as at June 30, 2020
--------	--	---	--

#### Canadian Dollars:

Bond Fund (series A)	\$7.13	(\$0.11)	\$7.02
Bond Fund (series F)	\$7.35	(\$0.12)	\$7.23

#### U.S. Dollars:

Bond Fund (series A)	\$5.25	(\$0.08)	\$5.17
Bond Fund (series F)	\$5.42	(\$0.08)	\$5.33

#### December 31, 2019

Subsequent to December 31, 2019, the Chou Bond Fund identified an interest income accrued amount of \$178,377 from a Level 3 term loan investment that did not meet the IFRS interest income recognition criteria as at December 31, 2019. This resulted in an overstatement of the Net Asset Value ("NAV") as at December 31, 2019. As a result, the Chou Bond Fund did not accurately reflect the actual NAV at the time of computation for transactional purposes for all capital stock transactions in the Fund with a trade date of December 31, 2019 to January 9, 2020. No other transactions were impacted by this error.

In March 2020, the error was retroactively corrected, and the NAV was restated for the affected period, December 31, 2019 to January 9, 2020. The financial statements of the Chou Bond Fund correctly reflect the Net Assets Attributable to Unitholders of Redeemable Units as at December 31, 2019. Adjustments were made in accordance with Chou Bond Fund's NAV error procedures.

The following table illustrates the adjustments made to the NAV to reflect the correction in the interest income from the Level 3 investment on December 31, 2019:

Class:	Unadjusted Net Asset Value per Unit as at Dec. 31, 2019	Adjustment to reflect the effects of over valuation:	Adjusted Net Asset Value per Unit as at Dec.31, 2019
--------	--	---	---

#### Canadian Dollars:

Bond Fund (series A)	\$6.02	(\$0.12)	\$5.91
Bond Fund (series F)	\$6.18	(\$0.12)	\$6.06

#### U.S. Dollars:

Bond Fund (series A)	\$4.64	(\$0.09)	\$4.55
Bond Fund (series F)	\$4.76	(\$0.09)	\$4.67

# CHOU FUNDS

## Notes to Financial Statements (continued)

Six months ended June 30, 2020 and 2019 (Unaudited)

### 10. Income taxes:

The Chou Funds qualify as mutual fund trusts under the provisions of the Income Tax Act (Canada). General income tax rules apply to the Chou Funds; however, no income tax is payable by the Chou Funds on investment income and/or net realized capital gains which are distributed to unitholders. In addition, income taxes payable on undistributed net realized capital gains are refundable on a formula basis when redeemable units of the Funds are redeemed. Sufficient net income and realized capital gains of the Chou Funds, have been, or will be distributed to the unitholders such that no tax is payable by the Chou Funds and, accordingly, no provision for taxes has been made in the financial statements.

Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains in future years.

The Funds have the following net realized capital losses available for utilization against net realized capital gains in future years:

	2020	June 30, 2019
Chou Associates Fund:		
Capital loss carryforward	\$ 12,981,174	\$ —
Chou Europe Fund:		
Capital loss carryforward	3,451,693	3,048,569
Non-capital loss carryforward	50,174	50,174
Chou Bond Fund:		
Capital loss carryforward	9,681,833	11,217,036
Chou RRSP Fund:		
Capital loss carryforward	2,773,197	463,488
Chou Asia Fund:		
Capital loss carryforward	167,964	167,964

**Illustration of an assumed investment of \$10,000 in Canadian dollars (unaudited)**

**CHOU ASIA FUND**

<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 2003	\$10,000
Dec.31, 2004	11,850
Dec.31, 2005	12,678
Dec.31, 2006	14,598
Dec.31, 2007	16,972
Dec.31, 2008	13,979
Dec.31, 2009	17,015
Dec.31, 2010	18,786
Dec.31, 2011	17,931
Dec.31, 2012	17,609
Dec.31, 2013	21,799
Dec.31, 2014	23,472
Dec.31, 2015	24,760
Dec.31, 2016	25,284
Dec.31, 2017	30,625
Dec.31, 2018	26,728
Dec.31, 2019	27,001
<b>June 30, 2020</b>	<b><u>\$26,893</u></b>

**CHOU EUROPE FUND**

<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 2003	\$10,000
Dec.31, 2004	11,361
Dec.31, 2005	12,650
Dec.31, 2006	14,002
Dec.31, 2007	11,881
Dec.31, 2008	6,655
Dec.31, 2009	8,962
Dec.31, 2010	8,885
Dec.31, 2011	8,451
Dec.31, 2012	10,753
Dec.31, 2013	15,199
Dec.31, 2014	15,342
Dec.31, 2015	15,629
Dec.31, 2016	12,705
Dec.31, 2017	13,161
Dec.31, 2018	11,856
Dec.31, 2019	11,495
<b>June 30, 2020</b>	<b><u>\$10,488</u></b>

**CHOU BOND FUND**

<b>Period ended</b>	<b>Total value of shares</b>
Dec.31, 2005	\$10,000
Dec.31, 2006	12,200
Dec.31, 2007	11,870
Dec.31, 2008	7,396
Dec.31, 2009	10,534
Dec.31, 2010	13,980
Dec.31, 2011	11,408
Dec.31, 2012	12,884
Dec.31, 2013	15,944
Dec.31, 2014	17,502
Dec.31, 2015	16,875
Dec.31, 2016	18,411
Dec.31, 2017	18,114
Dec.31, 2018	20,805
Dec.31, 2019	15,582
<b>June 30, 2020</b>	<b><u>\$18,515</u></b>

## Illustration of an assumed investment of \$10,000 in Canadian dollars (unaudited)

### CHOU RRSP FUND

Period ended	Total value of shares
Dec.31, 1986	\$10,000
Dec.31, 1987	10,818
Dec.31, 1988	12,281
Dec.31, 1989	14,350
Dec.31, 1990	12,722
Dec.31, 1991	13,284
Dec.31, 1992	14,500
Dec.31, 1993	16,727
Dec.31, 1994	14,961
Dec.31, 1995	17,808
Dec.31, 1996	21,735
Dec.31, 1997	32,741
Dec.31, 1998	38,806
Dec.31, 1999	36,217
Dec.31, 2000	42,188
Dec.31, 2001	49,370
Dec.31, 2002	65,095
Dec.31, 2003	72,658
Dec.31, 2004	82,362
Dec.31, 2005	95,294
Dec.31, 2006	104,479
Dec.31, 2007	94,817
Dec.31, 2008	54,629
Dec.31, 2009	69,818
Dec.31, 2010	102,367
Dec.31, 2011	81,150
Dec.31, 2012	108,860
Dec.31, 2013	132,029
Dec.31, 2014	150,763
Dec.31, 2015	131,417
Dec.31, 2016	126,719
Dec.31, 2017	154,716
Dec.31, 2018	143,655
Dec.31, 2019	118,267
<b>June 30, 2020</b>	<b><u>\$87,471</u></b>

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

The table is presented only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual funds or returns on the mutual funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing.

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