

# CHOU AMERICA MUTUAL FUNDS

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## **Annual Report** **December 31, 2013**

### **Fund Adviser:**

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**CHOU OPPORTUNITY FUND**

A MESSAGE TO OUR SHAREHOLDERS (Unaudited)

DECEMBER 31, 2013

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Dear Shareholder,

During the year 2013, the Chou Opportunity Fund (the “Fund”) was up 29.82%, while the S&P 500 Total Return Index (the “S&P 500”) generated a return of 32.39% during the same period. The Fund's past performance is not necessarily an indication of how the Fund will perform in the future.

#### Portfolio Commentary

Overstock.com (OSTK) was the largest contributor to the positive performance of the Fund. The stock increased in value to \$30.79 as of December 31, 2013, up from \$14.31 as of December 31, 2012. At the beginning of the year, we had 875,931 shares, comprising just over 30% of the portfolio. As the price of OSTK has now risen significantly and is trading closer to its intrinsic value, we have drastically reduced our position. We held only 15,000 shares as of December 31, 2013.

As a group, our investments in the TARP warrants of Bank of America, JPMorgan Chase and Wells Fargo worked out well during 2013. TARP warrants have several characteristics that make them appealing long-term investments. Specifically, they are long dated, with most expiring around 2018-2019. This time frame of four-plus years allows banks to grow their intrinsic value to a high enough level to have an appreciable impact on the strike price of the stock warrant. In addition, we believe the strike price will be adjusted downward for any quarterly dividend that exceeds a set price. This is rarely seen in a stock warrant. An example: for Bank of America, class 'A' warrants, the strike price is adjusted downward for any quarterly dividend paid exceeding one cent per share.

Though the TARP warrants appreciated substantially in 2013, we still consider them undervalued on a long term basis because the stocks underlying the TARP warrants are still cheap.

MannKind Corporation's convertible 3.75% notes matured in December 2013. We received 100 cents on a dollar for a bond that was trading at 71 cents on a dollar on December 31, 2012.

Our common stock investment in MBIA Inc. has also performed well, increasing in value to \$11.94 as of December 31, 2013 from \$7.85 as of December 31, 2012. There was a big overhang on the stock and that was removed when MBIA Inc. and Bank of America settled their lawsuits. Although MBIA is cheap based on book value, it would make me sleep better if the company receives permission to start writing business again. Investing in companies, where the main operating business is mothballed for a while, makes it harder to evaluate its intrinsic value. Time is not on the side of investors in that type of business.

We had a small holding in Dell Inc. It was trading at \$10.13 on December 31, 2012. After a protracted battle, the founder Michael Dell was able to buy out the shareholders at a price of \$13.75 per share, plus a 13 cent special dividend.

We substantially raised our position in the common stocks of Resolute Forest Product and Sears Holdings when their stock prices fell to a level where we felt they were compelling bargains. As a result, investors should be advised that due to our portfolio's high exposure to these two stocks, the net asset value of the Fund can be volatile. However, we are not bothered by this volatility because our focus has always been, and continues to be, on how inexpensive we believe the stocks are, relative to their intrinsic value. Based

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on year-end prices, in our view, these two stocks are trading at significant discounts to their intrinsic value.

We believe that Sears Holdings is a misunderstood story. There are many moving parts but we believe Sears Holdings' intrinsic value lies in its real estate assets. It also has other valuable assets such as Lands' End, Kenmore, Craftsman and Diehard. Being a traditional department store has become a tough business during the last decade but, according to management, Sears is transitioning its historic focus on running a brick and mortar department store into a business that provides and delivers value by serving its members in the manner most convenient for them: whether in store, at home or through digital devices. The value of its real estate allows Eddie Lampert, the controlling shareholder and CEO, the time and money to effect the changes. If the transformation does not work out as expected, we believe the real estate values are high enough that we would not lose money in our investment at current prices after netting out all liabilities.

In general, we believe that stocks and non-investment grade bonds are fairly valued. We do not time the market but when bargains are scarce, we are happy to hold cash equivalents as an alternative.

Yours truly,



Francis Chou

Portfolio Manager and CEO

Chou America Management Inc.

The views in this report were those of the Fund manager as of December 31, 2013, and may not reflect his view on the date this report is first published or anytime thereafter. The views are intended to assist the shareholders of the Fund in understanding their investments in the Fund and do not constitute investment advice. This letter may contain discussions about certain investments held and not held in the portfolio. All current and future holdings are subject to risk and to change. There can be no guarantee of success with any technique, strategy or investment.

The S&P 500 is an unmanaged index representing the average performance of 500 widely held, publicly traded, large capitalization stocks. One cannot invest directly in an index.

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**CHOU INCOME FUND**

A MESSAGE TO OUR SHAREHOLDERS (Unaudited)

DECEMBER 31, 2013

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Dear Shareholder,

For the year 2013, the Chou Income Fund (the "Fund") was up 22.86%, while the Barclay's Capital U.S. Corporate High Yield Index generated a return of 7.44% during the same period. The Fund's performance is not necessarily indicative of how the Fund will perform in the future.

For the year 2012 our return was 34.69% and now we have two years where our returns were way above average.

However, we caution it would be difficult to extrapolate the Fund's 2012 and the 2013 returns into the future. Our returns during this time frame will be virtually impossible to duplicate due to current prices of non-investment grade securities. Also there are other constraints, such as being able to recognize a mispriced bond when one comes along. In the universe of debt securities, we can understand maybe less than 10% of debt securities. As a result, we may be holding fewer non-investment grade debt securities and more short-term cash equivalents like Treasury bills and bank deposits.

The common stock of Resolute Forest Products (RFP) contributed significantly to the returns of the Fund. We do not normally buy common stock for the Fund but every now and then, due to restructuring, we receive shares for a debt security we hold. Such was the case with RFP. We received shares of RFP for our holdings in McMinn County, Tennessee revenue bonds. To cut a long story short, we purchased 15.48 million bonds for a total consideration of \$155,800. We paid roughly one cent on a dollar for each bond, preparing to hold them for several years. We knew McMinn's obligor was AbitibiBowater and we have been following AbitibiBowater story for a while (AbitibiBowater changed its name to Resolute Forest Products in 2011). McMinn bonds belong to a class of creditors that were in dispute with AbitibiBowater 7.95% class bonds, a dispute many thought would not likely be settled for several years. We figured that even if McMinn lost the lawsuit, and 100% of the disputed claim was awarded to the 7.95% class, we would not lose money on the McMinn bonds considering the price we paid. Lo and behold, a few months later, the lawsuit was settled and we received 52,564 common shares of RFP for our holdings of McMinn bonds. At the year-end price of \$16.02, these shares of RFP were worth approximately \$842,075.

Such a windfall comes maybe once every 20 years and we would not recommend this case as a regular way to invest in bonds. You needed a seller who was desperate to sell his holdings within a short time frame but could not find a buyer. And in a fortuitous way, we had invested in RFP for several years and were well acquainted with the story and the lawsuit. Further, the outcome was also dependent on a quick favorable legal judgment. The lawsuit could have dragged on for years which would have diminished the annualized returns by a considerable margin.

The price of MBIA Corp.'s 14% ("MBIA") fell following rumors in December that it might not get permission from the New York State Department of Financial Services to pay interest that was due on January 15, 2013. Although the company was not permitted to make that interest payment, the company was not deemed to be in default.

In May 2013, the lawsuits involving MBIA and Bank of America were settled and the price of MBIA Corp. 14% moved up considerably. We sold all of our holdings at \$79 apiece. On December 31, 2012 it was priced at 18 cents on a dollar. Normally we don't invest based on the outcome of a lawsuit but we

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**CHOU INCOME FUND**

A MESSAGE TO OUR SHAREHOLDERS (Unaudited)

DECEMBER 31, 2013

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believed that MBIA had a strong case. Even if MBIA had lost, we believed that we had an even chance of getting our money back. But we also believed that any kind of a positive settlement would see the bonds appreciate considerably, which is exactly what happened. We limited our investment to less than 5% of the Fund's assets even though our conviction was strong.

Another debt security that worked out well was MannKind Corporation's 3¾% that matured in December 2013. Our average cost was 58.75 cents on a dollar and in December we got paid 100 cents on a dollar. Last year on December 31, 2012, it was priced at 71 cents on a dollar. When we bought into it, we believed MannKind's 3¾%, debt security was attractively priced, even though its future performance depended on FDA approval of the drug Afrezza.

Not every large holding worked out in 2013. R.H. Donnelley's term loan was down from 68.90 cents on a dollar to 61.20 on a dollar as of December 31, 2013. We bought into it as we believed it was well covered by its earning power, assets, and covenants that are protective to debt holders. In addition, this term loan comes with a cash flow sweep, which means that any free cash flow remaining after all operational needs are met can be used to buy back debt at par from its holders. In April 2013, SuperMedia Inc. and Dex One Corporation, the parent company of R.H. Donnelley and Dex Media West, completed their merger, creating Dex Media, Inc. -- one of the largest national providers of social, local and mobile marketing solutions through direct relationships with local businesses. Dex Media estimates it will realize approximately \$150-\$175 million in cost savings by 2015, and expects to preserve Dex One's remaining tax attributes of roughly \$1.8 billion, which can be used to offset income attributable to the combined company following the completion of the transaction. We continue to believe that at current prices, R.H. Donnelley is underpriced.

**Non-Investment (or High Yield) grade debt securities**

Some prices for non-investment grade bonds do not reflect the risks inherent in these securities. A company can float 10 year non-investment grade bonds with a coupon of 5.5% and investors will buy them at 100 cents on the dollar. Just a few years ago, a similar bond would be trading for 60 cents or less.

In fact, there is a good chance that these debt securities may now be overvalued, and that the possibility of a large, permanent loss of capital is extremely high.

Investors should be advised that we run a highly focused portfolio - sometimes just two securities may comprise close to 50% of the assets of the Fund. As a result, the net asset value of the Fund can be volatile. However, we are not bothered by this volatility because our focus has always been, and continues to be, on how mispriced the debt securities are relative to their intrinsic value or to their liquidation value. Effective May 1, 2014, pending Trustee approval, the 80% Policy of the Fund will expand to include preferred stocks, so that under normal market conditions, the Fund will invest at least 80% of its net assets in fixed-income securities, financial instruments that provide exposure to fixed-income securities, and preferred stocks (the "80% Policy"). Previously, the Fund treated its investments in preferred stock as equity securities, however, in seeking and evaluating investment opportunities for the Fund, we find that many forms of preferred stock have fixed income characteristics, are similar to bonds and other fixed income securities, and are more appropriately treated as fixed income securities. Therefore, we find these preferred stocks suitable for inclusion as fixed income investments under the

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**CHOU INCOME FUND**

A MESSAGE TO OUR SHAREHOLDERS (Unaudited)

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Fund's 80% Policy.

At year-end our cash position was approximately 14.23% of net assets.

Yours truly,

*Francis Chou*

Francis Chou

Portfolio Manager and CEO

Chou America Management Inc.

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The Barclays Capital U.S. Corporate High Yield Index is comprised of issues that meet the following criteria: at least \$150 million par value outstanding, maximum credit rating of Ba1 (including defaulted issues) and at least one year to maturity. One cannot invest directly in an index.

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**CHOU OPPORTUNITY FUND**

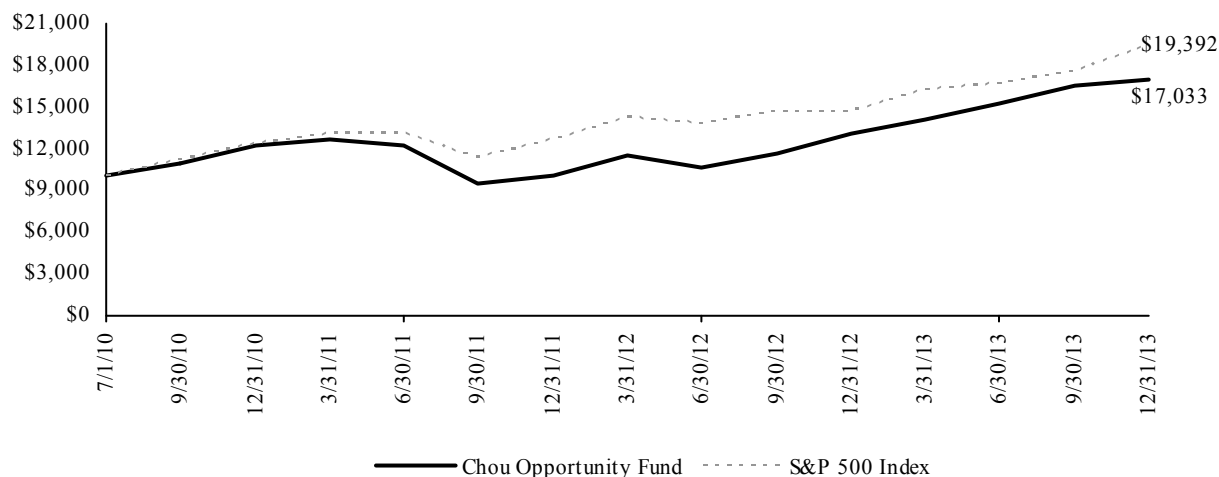
PERFORMANCE CHART AND ANALYSIS (Unaudited)

DECEMBER 31, 2013

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The following chart reflects the change in the value of a hypothetical \$10,000 investment, including reinvested dividends and distributions, in Chou Opportunity Fund (the "Fund") compared with the performance of the benchmark, S&P 500 Index ("S&P 500"), since inception. The S&P 500 is a broad-based, unmanaged measurement of changes in stock market conditions based on the average of 500 widely held common stocks. The total return of the S&P 500 includes the reinvestment of dividends and income. The total return of the Fund includes operating expenses that reduce returns, while the total return of the S&P 500 does not include expenses. The Fund is professionally managed while the S&P 500 is unmanaged and is not available for investment.

**Comparison of Change in Value of a \$10,000 Investment  
Chou Opportunity Fund vs. S&P 500 Index**

**Average Annual Total Return as of 12/31/13**

Chou Opportunity Fund

S&amp;P 500 Index

**One Year**

29.82%

32.39%

**Since Inception (07/01/10)**

16.43%

20.82%

*Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than original cost. For the most recent month-end performance, please call (877) 682-6352. Shares redeemed or exchanged within 120 days of purchase will be charged a 2.00% redemption fee. As stated in the Fund's current prospectus, the annual operating expense ratio (gross) is 1.55%. The Fund's adviser has contractually agreed to reduce a portion of its fees and reimburse expenses to limit total operating expenses to 1.50% (excluding other expenses, taxes, leverage interest, acquired fund fees and expenses, dividends or interest on short positions, other interest expenses, brokerage commissions, and extraordinary expenses such as litigation), through May 1, 2014. The performance table and graph do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. Returns greater than one year are annualized.*



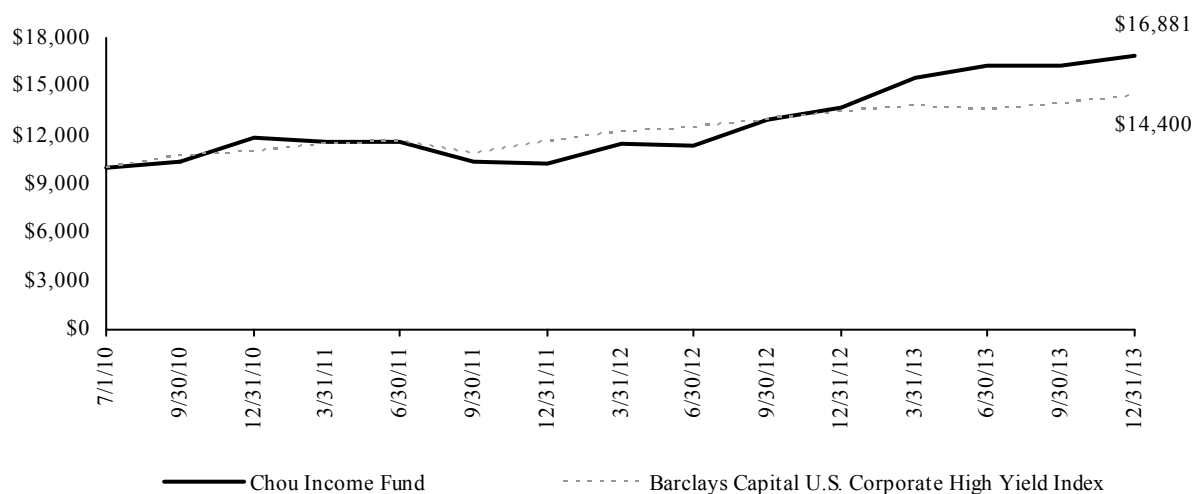
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**CHOU INCOME FUND****PERFORMANCE CHART AND ANALYSIS (Unaudited)**DECEMBER 31, 2013

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The following chart reflects the change in the value of a hypothetical \$10,000 investment, including reinvested dividends and distributions, in Chou Income Fund (the "Fund") compared with the performance of the benchmark, Barclays Capital U.S. Corporate High Yield Index ("Barclays Index"), since inception. The Barclays Index is comprised of issues that meet the following criteria: at least \$150 million par value outstanding, maximum credit rating of Ba1 (including defaulted issues) and at least one year to maturity. The total return of the Barclays Index includes the reinvestment of dividends and income. The total return of the Fund includes operating expenses that reduce returns, while the total return of the Barclays Index does not include expenses. The Fund is professionally managed while the Barclays Index is unmanaged and is not available for investment.

**Comparison of Change in Value of \$10,000 Investment  
Chou Income Fund vs. Barclays Capital U.S. Corporate High Yield Index**

**Average Annual Total Return as of 12/31/13**

Chou Income Fund  
Barclays Capital U.S. Corporate High Yield Index

**One Year**

22.86%  
7.44%

**Since Inception (07/01/10)**

16.13%  
10.98%

*Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than original cost. For the most recent month-end performance, please call (877) 682-6352. Shares redeemed or exchanged within 120 days of purchase will be charged a 2.00% redemption fee. As stated in the Fund's current prospectus, the annual operating expense ratio (gross) is 4.09%. However, the Fund's adviser has contractually agreed to reduce a portion of its fees and reimburse expenses to limit total operating expenses to 1.50% (excluding other expenses, taxes, leverage interest, acquired fund fees and expenses, dividends or interest on short positions, other interest expenses, brokerage commissions, and extraordinary expenses such as litigation), through May 1, 2014. During the period, certain fees were waived and/or expenses reimbursed; otherwise, returns would have been lower. The performance table and graph do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. Returns greater than one year are annualized.*

**CHOU OPPORTUNITY FUND**  
**SCHEDULE OF INVESTMENTS**  
**DECEMBER 31, 2013**

| <u>Shares</u>                             | <u>Security Description</u>                | <u>Value</u>             |
|---|--|--------------------------|
| <b>Common Stock - 62.1%</b>               |  |                          |
| <b>Communications - 3.2%</b>              |  |                          |
| 15,000                                    | Overstock.com, Inc. (a)                    | \$ 461,850               |
| 74,364                                    | PTGi Holding, Inc. (a)                     | 211,938                  |
| 519,507                                   | UTStarcom Holdings Corp. (a)               | 1,439,034                |
|   |  | <u>2,112,822</u>         |
| <b>Consumer Discretionary - 25.6%</b>     |  |                          |
| 37,904                                    | Sears Canada, Inc.                         | 469,631                  |
| 286,619                                   | Sears Holdings Corp. (a)                   | 14,055,796               |
| 96,813                                    | Sears Hometown and Outlet Stores, Inc. (a) | 2,468,731                |
|   |  | <u>16,994,158</u>        |
| <b>Financials - 6.0%</b>                  |  |                          |
| 157,480                                   | Asta Funding, Inc. (a)                     | 1,325,981                |
| 225,000                                   | MBIA, Inc. (a)                             | 2,686,500                |
|   |  | <u>4,012,481</u>         |
| <b>Materials - 27.3%</b>                  |  |                          |
| 1,131,940                                 | Resolute Forest Products, Inc. (a)         | 18,133,679               |
| Total Common Stock<br>(Cost \$35,426,329) |  | <u><b>41,253,140</b></u> |

The inputs or methodology used for valuing securities are not necessarily an indication of the risks associated with investing in those securities. For more information on valuation inputs, and their aggregation into the levels used in the table below, please refer to the Security Valuation section in Note 2 of the accompanying Notes to Financial Statements.

The following is a summary of the inputs used to value the Fund's investments and other financial instruments and liabilities as of December 31, 2013.

| <u>Valuation Inputs</u>                       | <u>Investments in Securities</u> |
|---|----------------------------------|
| Level 1 - Quoted Prices                       | \$ 47,828,854                    |
| Level 2 - Other Significant Observable Inputs | -                                |
| Level 3 - Significant Unobservable Inputs     | -                                |
| <b>Total</b>                                  | <b><u>\$ 47,828,854</u></b>      |

The Level 1 value displayed in this table is Common Stock and Warrants. Refer to the Schedule of Investments for a further breakout of each security by type.

There were no transfers between Level 1, Level 2 and Level 3 for the year ended December 31, 2013.

|  | <u>Exer. Price</u>        | <u>Exp. Date</u> |                             |
|--|---------------------------|------------------|-----------------------------|
| <b>Warrants - 9.9%</b>   |                           |                  |                             |
| 150,000  | JPMorgan Chase & Co. (a)  | \$42.42 10/18    | 2,908,500                   |
| 77,400   | Wells Fargo & Co. (a)     | 34.01 10/18      | 1,225,242                   |
| 377,430  | Bank of America Corp. (a) | 13.30 01/19      | 2,441,972                   |
| Total Warrants<br>(Cost \$2,940,003)                                   |                           |                  | <u><b>6,575,714</b></u>     |
| <b>Total Investments in Securities - 72.0%</b><br>(Cost \$38,366,332)* |                           |                  | <b>\$ 47,828,854</b>        |
| <b>Other Assets &amp; Liabilities, Net - 28.0%</b>                     |                           |                  | <u><b>18,573,370</b></u>    |
| <b>Net Assets - 100.0%</b>   |                           |                  | <b><u>\$ 66,402,224</u></b> |

**PORTFOLIO HOLDINGS**

| <u>% of Total Investments</u> |                        |
|-------------------------------|------------------------|
| 4.4%                          | Communications         |
| 35.5%                         | Consumer Discretionary |
| 8.4%                          | Financials             |
| 37.9%                         | Materials              |
| 13.8%                         | Warrants               |
| <u>100.0%</u>                 |                        |

(a) Non-income producing security.

\* Cost for federal income tax purposes is \$38,485,894 and net unrealized appreciation consists of:

|                               |                     |
|-------------------------------|---------------------|
| Gross Unrealized Appreciation | \$ 10,128,207       |
| Gross Unrealized Depreciation | (785,247)           |
| Net Unrealized Appreciation   | <u>\$ 9,342,960</u> |

**CHOU INCOME FUND**  
**SCHEDULE OF INVESTMENTS**  
**DECEMBER 31, 2013**

| <u>Shares</u>                                   | <u>Security Description</u>           | <u>Value</u>   | <u>Principal</u>  | <u>Security Description</u>           | <u>Rate</u>   | <u>Maturity</u> | <u>Value</u> |
|---|---------------------------------------|----------------|---|---------------------------------------|---|-----------------|--------------|
| <b>Equity Securities - 6.9%</b>                 |                                       |                | <b>Financials - 0.8%</b>  |                                       |   |                 |              |
| <b>Common Stock - 6.2%</b>                      |                                       |                | 212,000   | Sears Roebuck                         |   |                 |              |
| <b>Communications - 0.3%</b>                    |                                       |                |   | Acceptance Corp.                      | 7.00%   | 06/01/32        | \$ 117,660   |
| 1,619   | Level 3 Communications, Inc. (a)      | \$ 53,702      | <b>Materials - 2.2%</b>   |                                       |   |                 |              |
| <b>Materials - 5.9%</b>                         |                                       |                | 314,899   | Catalyst Paper Corp. (b)              | 11.00   | 10/30/17        | 201,535      |
| 3,745   | Catalyst Paper Corp. (a)              | 4,530          | 162,968   | Emerald Plantation Holdings, Ltd. (a) |   |                 |              |
| 145,851   | Emerald Plantation Holdings, Ltd. (a) | 21,878         | 193,000   | Sino-Forest Corp. (c)                 | 10.25   | 07/28/14        | 1,448        |
| 52,613  | Resolute Forest Products, Inc. (a)    | 842,860        | 125,000   | Sino-Forest Corp. (c)                 | 10.25   | 07/28/14        | 938          |
|   |                                       | 869,268        | 225,000   | Sino-Forest Corp. (c)                 | 6.25  | 10/21/17        | 1,687        |
| Total Common Stock                              |                                       |                | 400,000   | Sino-Forest Corp. (c)                 | 6.25  | 10/21/17        | 3,000        |
| (Cost \$220,229)                                |                                       | <b>922,970</b> | Total Corporate Non-Convertible Bonds (Cost \$2,150,437)                                |                                       |   |                 |              |
|   | <u>Rate</u>                           |                | <b>2,218,043</b>  |                                       |   |                 |              |
| <b>Preferred Stock - 0.7%</b>                   |                                       |                | <b>Syndicated Loans - 7.1%</b>  |                                       |   |                 |              |
| <b>Financials - 0.7%</b>                        |                                       |                | 269,140   | Dex Media West, Inc. (d)              | 8.00  | 12/31/16        | 211,544      |
| 8,900   | Sears Roebuck Acceptance Corp.        |                | 1,356,578   | RH Donnelley, Inc. (d)                | 9.75  | 12/31/16        | 830,226      |
| (Cost \$117,925)                                | 7.00%                                 | 97,778         | Total Syndicated Loans (Cost \$1,472,280)   |                                       |   |                 |              |
| <b>Total Equity Securities (Cost \$338,154)</b> |                                       |                | <b>1,020,748</b>  |                                       |   |                 |              |
|   |                                       |                | <b>Total Fixed Income Securities (Cost \$4,563,230)</b>                                 |                                       |   |                 |              |
| <u>Principal</u>                                | <u>Security Description</u>           | <u>Rate</u>    | <u>Maturity</u>   | <u>Value</u>                          | <b>3,931,679</b>  |                 |              |
| <b>Fixed Income Securities - 26.7%</b>          |                                       |                | <b>Total Investments - 33.6%</b>  |                                       |   |                 |              |
| <b>Corporate Convertible Bonds - 4.6%</b>       |                                       |                | <b>(Cost \$4,901,384)*</b>  |                                       |   |                 |              |
| <b>Financials - 2.4%</b>                        |                                       |                | <b>\$ 4,952,427</b>   |                                       |   |                 |              |
| 850,000   | Atlantacus Holdings Corp.             | 5.88           | 11/30/35  | 346,375                               | <b>Other Assets &amp; Liabilities, Net - 66.4%</b>  |                 |              |
| <b>Materials - 2.2%</b>                         |                                       |                | <b>9,784,430</b>  |                                       |   |                 |              |
| 283,000   | Fortress Paper, Ltd.                  | 6.50           | 12/31/16  | 186,491                               | <b>Net Assets - 100.0%</b>  |                 |              |
| 400,000   | USEC, Inc.                            | 3.00           | 10/01/14  | 139,000                               | <b>\$ 14,736,857</b>  |                 |              |
|   |                                       |                |   | 325,491                               | LLC Limited Liability Company   |                 |              |
| Total Corporate Convertible Bonds               |                                       |                |   | <b>671,866</b>                        | (a) Non-income producing security.  |                 |              |
| (Cost \$940,513)                                |                                       |                |   |                                       | (b) Payment in-Kind Bond. Security that gives the issuer the option at each interest payment date of making interest payments in either cash or additional debt securities. |                 |              |
| <b>Corporate Non-Convertible Bonds - 15.0%</b>  |                                       |                | (c) Security is currently in default and is on scheduled interest or principal payment. |                                       |   |                 |              |
| <b>Communications - 0.1%</b>                    |                                       |                | (d) Variable rate security. Rate presented is as of December 31, 2013.                  |                                       |   |                 |              |
| 45,901  | Dex One, Inc. (b)                     | 14.00          | 01/29/17  | 24,327                                |   |                 |              |
| <b>Consumer Discretionary - 11.9%</b>           |                                       |                |   |                                       |   |                 |              |
| 2,000,000                                       | JC Penney Corp., Inc.                 | 7.95           | 04/01/17  | 1,755,000                             |   |                 |              |

**CHOU INCOME FUND**  
**SCHEDULE OF INVESTMENTS**  
**DECEMBER 31, 2013**

\* Cost for federal income tax purposes is \$5,120,638 and net unrealized depreciation consists of:

|                               |           |                  |
|-------------------------------|-----------|------------------|
| Gross Unrealized Appreciation | \$        | 909,952          |
| Gross Unrealized Depreciation |           | (1,078,163)      |
| Net Unrealized Depreciation   | <u>\$</u> | <u>(168,211)</u> |

The inputs or methodology used for valuing securities are not necessarily an indication of the risks associated with investing in those securities. For more information on valuation inputs, and their aggregation into the levels used in the table below, please refer to the Security Valuation section in Note 2 of the accompanying Notes to Financial Statements.

The following is a summary of the inputs used to value the Fund's investments as of December 31, 2013.

|                                 | <u>Level 1</u>      | <u>Level 2</u>      | <u>Level 3</u> | <u>Total</u>        |
|---------------------------------|---------------------|---------------------|----------------|---------------------|
| <b>Investments At Value</b>     |                     |                     |                |                     |
| Common Stock                    |                     |                     |                |                     |
| Communications                  | \$ 53,702           | \$ -                | \$ -           | \$ 53,702           |
| Materials                       | 864,738             | 4,530               | -              | 869,268             |
| Preferred Stock                 |                     |                     |                |                     |
| Financials                      | 97,778              | -                   | -              | 97,778              |
| Corporate Convertible Bonds     | -                   | 671,866             | -              | 671,866             |
| Corporate Non-Convertible Bonds | -                   | 2,218,043           | -              | 2,218,043           |
| Syndicated Loans                | -                   | 1,041,770           | -              | 1,041,770           |
| <b>Total Assets</b>             | <u>\$ 1,016,218</u> | <u>\$ 3,936,209</u> | <u>\$ -</u>    | <u>\$ 4,952,427</u> |

There were no transfers between Level 1, Level 2 and Level 3 for the year ended December 31, 2013.

**PORTFOLIO HOLDINGS**

**% of Total Investments**

|                                 |               |
|---------------------------------|---------------|
| Common Stock                    | 18.6%         |
| Preferred Stock                 | 2.0%          |
| Corporate Convertible Bonds     | 13.6%         |
| Corporate Non-Convertible Bonds | 44.8%         |
| Syndicated Loans                | 21.0%         |
|                                 | <u>100.0%</u> |

**CHOU AMERICA MUTUAL FUNDS**  
**STATEMENTS OF ASSETS AND LIABILITIES**  
**DECEMBER 31, 2013**

|  | <b>CHOU<br/>OPPORTUNITY<br/>FUND</b> | <b>CHOU INCOME<br/>FUND</b> |
|--|--------------------------------------|-----------------------------|
| <b>ASSETS</b>  |                                      |                             |
| Total investments, at value (Cost \$38,366,332 and \$4,901,384, respectively)          | \$ 47,828,854                        | \$ 4,952,427                |
| Cash   | 18,652,663                           | 2,097,039                   |
| Foreign currency (Cost \$0 and \$8,995, respectively)                                  | -                                    | 8,995                       |
| Receivables:   |                                      |                             |
| Fund shares sold   | 5,000                                | 7,614,431                   |
| Investment securities sold   | -                                    | 7,021                       |
| Interest   | 2,137                                | 75,196                      |
| From investment adviser  | -                                    | 13,665                      |
| Prepaid expenses   | 12,002                               | 11,251                      |
| <b>Total Assets</b>  | <b>66,500,656</b>                    | <b>14,780,025</b>           |
| <b>LIABILITIES</b>   |                                      |                             |
| Payables:  |                                      |                             |
| Fund shares redeemed   | -                                    | 10,035                      |
| Accrued Liabilities:   |                                      |                             |
| Investment adviser fees  | 55,299                               | -                           |
| Trustees' fees and expenses  | 271                                  | 29                          |
| Fund services fees   | 14,486                               | 5,840                       |
| Other expenses   | 28,376                               | 27,264                      |
| <b>Total Liabilities</b>   | <b>98,432</b>                        | <b>43,168</b>               |
| <b>NET ASSETS</b>  | <b>\$ 66,402,224</b>                 | <b>\$ 14,736,857</b>        |
| <b>COMPONENTS OF NET ASSETS</b>  |                                      |                             |
| Paid-in capital  | \$ 55,954,975                        | \$ 14,907,747               |
| Distributions in excess of net investment income                                       | -                                    | (196,542)                   |
| Accumulated net realized gain (loss)   | 984,727                              | (25,445)                    |
| Net unrealized appreciation  | 9,462,522                            | 51,097                      |
| <b>NET ASSETS</b>  | <b>\$ 66,402,224</b>                 | <b>\$ 14,736,857</b>        |
| <b>SHARES OF BENEFICIAL INTEREST AT NO PAR VALUE<br/>(UNLIMITED SHARES AUTHORIZED)</b> | <b>4,912,381</b>                     | <b>1,335,244</b>            |
| <b>NET ASSET VALUE, OFFERING AND REDEMPTION PRICE<br/>PER SHARE*</b>                   | <b>\$ 13.52</b>                      | <b>\$ 11.04</b>             |

\* Shares redeemed or exchanged within 120 days of purchase are charged a 2.00% redemption fee.

**CHOU AMERICA MUTUAL FUNDS**  
**STATEMENTS OF OPERATIONS**  
**YEAR ENDED DECEMBER 31, 2013**

|  | <b>CHOU<br/>OPPORTUNITY<br/>FUND</b> | <b>CHOU<br/>INCOME<br/>FUND</b> |
|--|--------------------------------------|---------------------------------|
| <b>INVESTMENT INCOME</b>   |                                      |                                 |
| Dividend income (Net of foreign withholding taxes of \$26,645 and \$0, respectively) | \$ 200,575                           | \$ 15,575                       |
| Interest income  | 892,913                              | 733,016                         |
| Total Investment Income  | <u>1,093,488</u>                     | <u>748,591</u>                  |
| <b>EXPENSES</b>  |                                      |                                 |
| Investment adviser fees  | 601,540                              | 75,691                          |
| Fund services fees   | 166,488                              | 70,077                          |
| Custodian fees   | 11,161                               | 10,062                          |
| Registration fees  | 21,522                               | 20,536                          |
| Audit fees   | 19,200                               | 19,200                          |
| Legal fees   | 32,635                               | 32,635                          |
| Trustees' fees and expenses  | 7,026                                | 6,563                           |
| Miscellaneous expenses   | 41,816                               | 23,451                          |
| Total Expenses   | <u>901,388</u>                       | <u>258,215</u>                  |
| Fees waived and expenses reimbursed  | <u>(13,334)</u>                      | <u>(144,679)</u>                |
| Net Expenses   | <u>888,054</u>                       | <u>113,536</u>                  |
| <b>NET INVESTMENT INCOME</b>   | <u>205,434</u>                       | <u>635,055</u>                  |
| <b>NET REALIZED AND UNREALIZED GAIN (LOSS)</b>                                       |                                      |                                 |
| Net realized gain (loss) on:   |                                      |                                 |
| Investments  | 8,519,414                            | 26,016                          |
| Foreign currency transactions  | (45)                                 | 7,122                           |
| Written options  | 6,673                                | -                               |
| Net realized gain  | <u>8,526,042</u>                     | <u>33,138</u>                   |
| Net change in unrealized appreciation (depreciation) on:                             |                                      |                                 |
| Investments  | 5,806,725                            | 659,554                         |
| Foreign currency translations  | -                                    | (4,236)                         |
| Written options  | (50,895)                             | -                               |
| Net change in unrealized appreciation (depreciation)                                 | <u>5,755,830</u>                     | <u>655,318</u>                  |
| <b>NET REALIZED AND UNREALIZED GAIN</b>  | <u>14,281,872</u>                    | <u>688,456</u>                  |
| <b>INCREASE IN NET ASSETS FROM OPERATIONS</b>  | <u>\$ 14,487,306</u>                 | <u>\$ 1,323,511</u>             |

**CHOU AMERICA MUTUAL FUNDS**  
**STATEMENTS OF CHANGES IN NET ASSETS**

|  | <b>CHOU OPPORTUNITY FUND</b> |                    | <b>CHOU INCOME FUND</b> |                |
|--|------------------------------|--------------------|-------------------------|----------------|
|  |                              | <u>Shares</u>      |                         | <u>Shares</u>  |
| <b>NET ASSETS DECEMBER 31, 2011</b>                                    | <u>\$ 56,724,467</u>         |                    | <u>\$ 5,050,966</u>     |                |
| <b>OPERATIONS</b>  |                              |                    |                         |                |
| Net investment income  | 1,409,635                    |                    | 924,213                 |                |
| Net realized gain (loss)   | 1,147,690                    |                    | (67,882)                |                |
| Net change in unrealized appreciation (depreciation)                   | <u>9,429,759</u>             |                    | <u>835,812</u>          |                |
| Increase in Net Assets Resulting from Operations                       | <u>11,987,084</u>            |                    | <u>1,692,143</u>        |                |
| <b>DISTRIBUTIONS TO SHAREHOLDERS FROM</b>                              |                              |                    |                         |                |
| Net investment income  | (1,412,330)                  |                    | (1,020,482)             |                |
| Net realized gain  | <u>(3,827,151)</u>           |                    | <u>(2,631)</u>          |                |
| Total Distributions to Shareholders                                    | <u>(5,239,481)</u>           |                    | <u>(1,023,113)</u>      |                |
| <b>CAPITAL SHARE TRANSACTIONS</b>                                      |                              |                    |                         |                |
| Sale of shares   | 9,349,092                    | 917,582            | 278,335                 | 26,939         |
| Reinvestment of distributions  | 5,200,343                    | 471,230            | 985,095                 | 104,375        |
| Redemption of shares   | (36,901,149)                 | (3,457,214)        | (255,475)               | (27,286)       |
| Redemption fees  | <u>11,264</u>                |                    | <u>-</u>                |                |
| Increase (Decrease) in Net Assets from Capital Share Transactions      | <u>(22,340,450)</u>          | <u>(2,068,402)</u> | <u>1,007,955</u>        | <u>104,028</u> |
| Increase (Decrease) in Net Assets                                      | <u>(15,592,847)</u>          |                    | <u>1,676,985</u>        |                |
| <b>NET ASSETS DECEMBER 31, 2012 (Including line (a))</b>               | <u>\$ 41,131,620</u>         |                    | <u>\$ 6,727,951</u>     |                |
| <b>OPERATIONS</b>  |                              |                    |                         |                |
| Net investment income  | 205,434                      |                    | 635,055                 |                |
| Net realized gain  | 8,526,042                    |                    | 33,138                  |                |
| Net change in unrealized appreciation (depreciation)                   | <u>5,755,830</u>             |                    | <u>655,318</u>          |                |
| Increase in Net Assets Resulting from Operations                       | <u>14,487,306</u>            |                    | <u>1,323,511</u>        |                |
| <b>DISTRIBUTIONS TO SHAREHOLDERS FROM</b>                              |                              |                    |                         |                |
| Net investment income  | (839,533)                    |                    | (685,760)               |                |
| Net realized gain  | <u>(4,918,742)</u>           |                    | <u>-</u>                |                |
| Total Distributions to Shareholders                                    | <u>(5,758,275)</u>           |                    | <u>(685,760)</u>        |                |
| <b>CAPITAL SHARE TRANSACTIONS</b>                                      |                              |                    |                         |                |
| Sale of shares   | 21,081,797                   | 1,693,658          | 12,006,109              | 1,077,027      |
| Reinvestment of distributions  | 5,704,186                    | 425,411            | 669,365                 | 60,310         |
| Redemption of shares   | (10,356,772)                 | (810,644)          | (5,319,510)             | (483,715)      |
| Redemption fees  | <u>112,362</u>               |                    | <u>15,191</u>           |                |
| Increase in Net Assets from Capital Share Transactions                 | <u>16,541,573</u>            | <u>1,308,425</u>   | <u>7,371,155</u>        | <u>653,622</u> |
| Increase in Net Assets   | <u>25,270,604</u>            |                    | <u>8,008,906</u>        |                |
| <b>NET ASSETS DECEMBER 31, 2013 (Including line (b))</b>               | <u>\$ 66,402,224</u>         |                    | <u>\$ 14,736,857</u>    |                |
| (a) Distributions in excess of net investment income December 31, 2012 | <u>\$ (243)</u>              |                    | <u>\$ (152,839)</u>     |                |
| (b) Distributions in excess of net investment income December 31, 2013 | <u>\$ -</u>                  |                    | <u>\$ (196,542)</u>     |                |

See Notes to Financial Statements.

**CHOU OPPORTUNITY FUND**  
**FINANCIAL HIGHLIGHTS**

These financial highlights reflect selected data for a share outstanding throughout each period.

|   | <b>For the Years Ended December 31,</b> |             |             | <b>July 1, 2010 (a)</b>              |
|---|---|-------------|-------------|--------------------------------------|
|   | <b>2013</b>                             | <b>2012</b> | <b>2011</b> | <b>through<br/>December 31, 2010</b> |
| <b>NET ASSET VALUE, Beginning of Period</b> | \$ 11.41                                | \$ 10.00    | \$ 12.20    | \$ 10.00                             |
| <b>INVESTMENT OPERATIONS</b>                |   |             |             |                                      |
| Net investment income (loss) (b)            | 0.05                                    | 0.32        | 0.02        | (0.09)                               |
| Net realized and unrealized gain (loss)     | 3.31                                    | 2.68        | (2.19)      | 2.29                                 |
| Total from Investment Operations            | 3.36                                    | 3.00        | (2.17)      | 2.20                                 |
| <b>DISTRIBUTIONS TO SHAREHOLDERS FROM</b>   |   |             |             |                                      |
| Net investment income                       | (0.19)                                  | (0.40)      | (0.01)      | —                                    |
| Net realized gain                           | (1.09)                                  | (1.19)      | (0.02)      | —                                    |
| Total Distributions to Shareholders         | (1.28)                                  | (1.59)      | (0.03)      | —                                    |
| <b>REDEMPTION FEES (b)</b>                  | 0.03                                    | —(c)        | —(c)        | —                                    |
| <b>NET ASSET VALUE, End of Period</b>       | \$ 13.52                                | \$ 11.41    | \$ 10.00    | \$ 12.20                             |
| <b>TOTAL RETURN</b>                         | 29.82%                                  | 30.81%      | (17.78)%    | 22.00%(d)                            |
| <b>RATIOS/SUPPLEMENTARY DATA</b>            |   |             |             |                                      |
| Net Assets at End of Period (000's omitted) | \$66,402                                | \$41,132    | \$56,724    | \$1,039                              |
| Ratios to Average Net Assets:               |   |             |             |                                      |
| Net investment income (loss)                | 0.34%                                   | 2.89%       | 0.15%       | (1.60)%(e)                           |
| Net expense                                 | 1.48%                                   | 1.48%       | 1.53%       | 1.75%(e)                             |
| Gross expense (f)                           | 1.50%                                   | 1.55%       | 1.93%       | 28.58%(e)                            |
| <b>PORTFOLIO TURNOVER RATE</b>              | 56%                                     | 17%         | 11%         | 33%(d)                               |

(a) Commencement of operations.

(b) Calculated based on average shares outstanding during each period.

(c) Less than \$0.01 per share.

(d) Not annualized.

(e) Annualized.

(f) Reflects the expense ratio excluding any waivers and/or reimbursements.



**CHOU INCOME FUND**  
**FINANCIAL HIGHLIGHTS**

These financial highlights reflect selected data for a share outstanding throughout each period.

|   | <b>For the Years Ended December 31,</b> |             |             | <b>July 1, 2010 (a)</b>              |
|---|---|-------------|-------------|--------------------------------------|
|   | <b>2013</b>                             | <b>2012</b> | <b>2011</b> | <b>through<br/>December 31, 2010</b> |
| <b>NET ASSET VALUE, Beginning of Period</b> | \$ 9.87                                 | \$ 8.74     | \$ 11.60    | \$ 10.00                             |
| <b>INVESTMENT OPERATIONS</b>                |   |             |             |                                      |
| Net investment income (b)                   | 0.94                                    | 1.58        | 1.30        | 0.20                                 |
| Net realized and unrealized gain (loss)     | 1.28                                    | 1.27        | (2.86)      | 1.65                                 |
| Total from Investment Operations            | 2.22                                    | 2.85        | (1.56)      | 1.85                                 |
| <b>DISTRIBUTIONS TO SHAREHOLDERS FROM</b>   |   |             |             |                                      |
| Net investment income                       | (1.07)                                  | (1.72)      | (1.27)      | (0.25)                               |
| Net realized gain                           | —                                       | —(c)        | (0.03)      | —                                    |
| Total Distributions to Shareholders         | (1.07)                                  | (1.72)      | (1.30)      | (0.25)                               |
| <b>REDEMPTION FEES (b)</b>                  | 0.02                                    | —           | —(c)        | —                                    |
| <b>NET ASSET VALUE, End of Period</b>       | \$ 11.04                                | \$ 9.87     | \$ 8.74     | \$ 11.60                             |
| <b>TOTAL RETURN</b>                         | 22.86%                                  | 34.69%      | (13.83)%    | 18.54%(d)                            |
| <b>RATIOS/SUPPLEMENTARY DATA</b>            |   |             |             |                                      |
| Net Assets at End of Period (000's omitted) | \$14,737                                | \$6,728     | \$5,051     | \$766                                |
| Ratios to Average Net Assets:               |   |             |             |                                      |
| Net investment income                       | 8.39%                                   | 16.25%      | 12.24%      | 3.82%(e)                             |
| Net expense                                 | 1.50%                                   | 1.50%       | 1.50%       | 1.50%(e)                             |
| Gross expense (f)                           | 3.41%                                   | 4.09%       | 4.71%       | 33.37%(e)                            |
| <b>PORTFOLIO TURNOVER RATE</b>              | 40%                                     | 23%         | 17%         | 0%(d)                                |

(a) Commencement of operations.

(b) Calculated based on average shares outstanding during each period.

(c) Less than \$0.01 per share.

(d) Not annualized.

(e) Annualized.

(f) Reflects the expense ratio excluding any waivers and/or reimbursements.

**Note 1. Organization**

The Chou Opportunity Fund and Chou Income Fund (individually, a “Fund” and, collectively the “Funds”) are non-diversified portfolios of Chou America Mutual Funds (the “Trust”). The Trust is a Delaware statutory trust that is registered as an open-end, management investment company under the Investment Company Act of 1940 (the “Act”), as amended. Under its Trust Instrument, the Trust is authorized to issue an unlimited number of each Fund’s shares of beneficial interest without par value. Chou Opportunity Fund’s investment objective is to seek long-term growth of capital. Chou Income Fund’s investment objective is to provide capital appreciation and income production with capital preservation as a secondary consideration. The Funds commenced operations on July 1, 2010, with the sale of 50,000 shares of each Fund at \$10 per share to Chou Associates Management Inc.

**Note 2. Summary of Significant Accounting Policies**

These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of increases and decreases in net assets from operations during the fiscal year. Actual amounts could differ from those estimates. The following summarizes the significant accounting policies of each Fund:

**Security Valuation** – Exchange-traded securities and over-the-counter securities are valued using the last quoted sale or official closing price, provided by independent pricing services as of the close of trading on the market or exchange for which they are primarily traded, on each Fund business day. In the absence of a sale, such securities are valued at the mean of the last bid and ask price provided by independent pricing services. Non-exchange traded securities for which quotations are available are valued using the last quoted sales price, or in the absence of a sale, at the mean of the last bid and ask prices provided by independent pricing services. Debt securities may be valued at prices supplied by a fund’s pricing agent based on broker or dealer supplied valuations or matrix pricing, a method of valuing securities by reference to the value of other securities with similar characteristics such as rating, interest rate and maturity. Exchange-traded options for which there were no sales reported that day are generally valued at the mean of the last bid and ask prices. Options not traded on an exchange are generally valued at broker-dealer bid quotations. Short-term investments that mature in 60 days or less may be valued at amortized cost.

Each Fund values its investments at fair value pursuant to procedures adopted by the Trust’s Board of Trustees (the “Board”) if (1) market quotations are insufficient or not readily available or (2) the adviser believes that the values available are unreliable. The Trust’s Valuation Committee, as defined in each Fund’s registration statement, performs certain functions as they relate to the administration and oversight of each Fund’s valuation procedures. Under these procedures, the Valuation Committee convenes on a regular and ad-hoc basis to review such securities and considers a number of factors, including valuation methodologies and significant unobservable inputs, when arriving at fair value.

The Valuation Committee may work with the adviser to provide valuation inputs. In determining fair valuations, inputs may include market-based analytics which may consider related or comparable assets or liabilities, recent transactions, market multiples, book values and other relevant investment information. Adviser inputs may include an income-based approach in which the anticipated future cash flows of the investment are discounted in determining fair value. Discounts may also be applied based on the nature or duration of any restrictions on the disposition of the investments. The Valuation Committee performs regular reviews of valuation methodologies, key inputs and assumptions, disposition analysis and market activity.

Fair valuation is based on subjective factors and, as a result, the fair value price of an investment may differ from the security’s market price and may not be the price at which the asset may be sold. Fair valuation could result in a

different Net Asset Value (“NAV”) than a NAV determined by using market quotes.

Each Fund has a three-tier fair value hierarchy. The basis of the tiers is dependent upon the various “inputs” used to determine the value of each Fund’s investments. These inputs are summarized in the three broad levels listed below:

Level 1 — quoted prices in active markets for identical assets

Level 2 — other significant observable inputs (including quoted prices of similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 — significant unobservable inputs (including each Fund’s own assumptions in determining the fair value of investments)

The aggregate value by input level, as of December 31, 2013, for each Fund’s investments is included at the end of each Fund’s Schedule of Investments.

**Security Transactions, Investment Income and Realized Gain and Loss** – Investment transactions are accounted for on the trade date. Dividend income is recorded on the ex-dividend date. Foreign dividend income is recorded on the ex-dividend date or as soon as possible after each Fund determines the existence of a dividend declaration after exercising reasonable due diligence. Income and capital gains on some foreign securities may be subject to foreign withholding taxes, which are accrued as applicable. Interest income is recorded on an accrual basis. Premium is amortized and discount is accreted using the effective interest method. Identified cost of investments sold is used to determine the gain and loss for both financial statement and federal income tax purposes.

**Foreign Currency Transactions** – Each Fund may enter into transactions to purchase or sell foreign currency contracts and options on foreign currency. Forward currency contracts are agreements to exchange one currency for another at a future date and at a specified price. A fund may use forward currency contracts to facilitate transactions in foreign securities, to manage a fund’s foreign currency exposure and to protect the U.S. dollar value of its underlying portfolio securities against the effect of possible adverse movements in foreign exchange rates. These contracts are intrinsically valued daily based on forward rates, and a fund’s net equity therein, representing unrealized gain or loss on the contracts as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is recorded as a component of net asset value. These instruments involve market risk, credit risk, or both kinds of risks, in excess of the amount recognized in the Statement of Assets and Liabilities. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates. Due to the risks associated with these transactions, a fund could incur losses up to the entire contract amount, which may exceed the net unrealized value included in its net asset value.

**Written Options** – When a fund writes an option, an amount equal to the premium received by the fund is recorded as a liability and is subsequently adjusted to the current value of the option written. Premiums received from writing options that expire unexercised are treated by the fund on the expiration date as realized gain from written options. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the fund has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the fund. The fund, as writer of an option, bears the market risk of an unfavorable change in the price of the security underlying the written option. Written options are non-income producing securities.

The volume of open positions may vary on a daily basis as the Fund transacts written options in order to achieve the

**CHOU AMERICA MUTUAL FUNDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

exposure desired by the adviser. The Chou Opportunity Fund entered into written options with a total value of \$1,676,062 during the year ended December 31, 2013.

Transactions in written options during the year ended December 31, 2013 were as follows:

| Chou Opportunity Fund                         | <b>Calls</b>                   |                 |
|---|--------------------------------|-----------------|
|   | <b>Number of<br/>Contracts</b> | <b>Premiums</b> |
| <i>Options Outstanding, December 31, 2012</i> | (1,271)                        | \$ (163,390)    |
| Options written                               | (9,031)                        | (1,676,062)     |
| Options terminated in closing transactions    | 1,844                          | 398,670         |
| Options exercised                             | 1,961                          | 423,720         |
| Options expired                               | 6,497                          | 1,017,062       |
| <i>Options Outstanding, December 31, 2013</i> | -                              | \$ -            |

**Derivatives Transactions** - The Chou Opportunity Fund's use of derivatives during the year ended December 31, 2013, was limited to written options. Following is a summary of how the derivatives are treated in the financial statements and their impact on the Chou Opportunity Fund.

Realized and unrealized gains and losses on derivatives contracts entered into during the year ended December 31, 2013, by the Chou Opportunity Fund are recorded in the following locations in the Statements of Operations:

| <b>Contract<br/>Type/Primary Risk<br/>Exposure</b> | <b>Location of Gain or (Loss) on<br/>Derivatives</b>   | <b>Realized Gain<br/>(Loss) on<br/>Derivatives</b> | <b>Change in<br/>Unrealized<br/>Appreciation<br/>(Depreciation) on<br/>Derivatives</b> |
|--|--|--|--|
| Equity Contracts                                   | Realized gain (loss) – Written<br>Options and Change in<br>unrealized appreciation<br>(depreciation) – Written Options | \$6,673  | \$(50,895)   |

**Distributions to Shareholders** – Distributions to shareholders of net investment income, if any, are declared and paid at least semi-annually. Distributions to shareholders of net capital gains, if any, are declared and paid annually. Distributions to shareholders are recorded on the ex-dividend date. Distributions are based on amounts calculated in accordance with applicable federal income tax regulations, which may differ from GAAP. These differences are due primarily to differing treatments of income and gain on various investment securities held by each Fund, timing differences and differing characterizations of distributions made by each Fund.

**Federal Taxes** – Each Fund intends to continue to qualify each year as a regulated investment company under Subchapter M of the Internal Revenue Code and to distribute all of their taxable income to shareholders. In addition, by distributing in each calendar year substantially all of their net investment income and capital gains, if any, the Funds will not be subject to a federal excise tax. Therefore, no federal income or excise tax provision is required. Each Fund files a U.S. federal income and excise tax return as required. A fund's federal income tax returns are subject to examination by the Internal Revenue Service for a period of three fiscal years after they are filed. As of December 31, 2013, there are no uncertain tax positions that would require financial statement recognition, de-recognition, or disclosure.

**Income and Expense Allocation** – The Trust accounts separately for the assets, liabilities and operations of each of its investment portfolios. Expenses that are directly attributable to more than one investment portfolio are allocated among the respective investment portfolios in an equitable manner.

**Redemption Fees** – A shareholder who redeems or exchanges shares within 120 days of purchase will incur a redemption fee of 2.00% of the current net asset value of shares redeemed or exchanged, subject to certain limitations. The fee is charged for the benefit of the remaining shareholders and will be paid to each Fund to help offset transaction costs. The fee is accounted for as an addition to paid-in capital. Each Fund reserves the right to modify the terms of or terminate the fee at any time. There are limited exceptions to the imposition of the redemption fee.

**Commitments and Contingencies** – In the normal course of business, each Fund enters into contracts that provide general indemnifications by each Fund to the counterparty to the contract. Each Fund’s maximum exposure under these arrangements is dependent on future claims that may be made against each Fund and, therefore, cannot be estimated; however, based on experience, the risk of loss from such claims is considered remote.

### **Note 3. Fees and Expenses**

**Investment Adviser** – Chou America Management Inc. (the “Adviser”) is the investment adviser to each Fund. Pursuant to an investment advisory agreement, the Adviser receives an advisory fee from each Fund at an annual rate of 1.00% of each Fund’s average daily net assets.

**Distribution** – Rafferty Capital Markets, LLC serves as each Fund’s distributor (the “Distributor”). The Trust has adopted a Rule 12b-1 plan under which the Funds may pay an annual fee of up to 0.25% of the average daily net assets of the Funds for distribution services and/or the servicing of shareholder accounts. The Board has not authorized the Funds to pay a Rule 12b-1 fee at this time. The Distributor is not affiliated with the Adviser or Atlantic Fund Administration, LLC (d/b/a Atlantic Fund Services) (“Atlantic”) or their affiliates.

**Other Service Providers** – Atlantic provides fund accounting, fund administration, compliance and transfer agency services to each Fund. Atlantic also provides certain shareholder report production, and EDGAR conversion and filing services. Pursuant to an Atlantic services agreement, each Fund pays Atlantic customary fees for its services. Atlantic provides a Principal Financial Officer, a Chief Compliance Officer, and an Anti-Money Laundering Officer to each Fund, as well as certain additional compliance support functions.

**Trustees and Officers** – The Trust pays each Trustee an annual retainer fee of \$8,000 for service to the Trust. Each Trustee is also reimbursed for all reasonable out-of-pocket expenses incurred in connection with their duties as a Trustee, including travel and related expenses incurred in attending Board meetings. No officers of the Funds are compensated by the Funds, but officers are reimbursed for travel and related expenses incurred in attending Board meetings.

### **Note 4. Expense Reimbursements and Fees Waived**

The Adviser has contractually agreed to waive a portion of its fee and reimburse certain expenses to limit total annual operating expenses to 1.50% of the average daily net assets of the Chou Opportunity Fund and Chou Income Fund, through May 1, 2014 (excluding other expenses, taxes, leverage interest, acquired fund fees and expenses, dividends or interest on short positions, other interest expenses, brokerage commissions, and extraordinary expenses such as litigation). For the year ended December 31, 2013, fees waived and expenses reimbursed were as follows:

**CHOU AMERICA MUTUAL FUNDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

|                       | <u>Investment Adviser Fees<br/>Waived</u> | <u>Investment Adviser<br/>Expenses Reimbursed</u> | <u>Total Fees Waived and<br/>Expenses Reimbursed</u> |
|-----------------------|---|---|--|
| Chou Opportunity Fund | \$ 13,334                                 | \$ -  | \$ 13,334  |
| Chou Income Fund      | 75,691                                    | 68,988  | 144,679  |

The Funds may pay the Adviser for fees reduced and expenses reimbursed pursuant to the expense cap if (1) such payment is made within three years of the fees waived or expense reimbursement, (2) such payment is approved by the Board and (3) and the overall expenses fall below the lesser of the Fund's then current expense limit or the expense limit in effect at the time of such reimbursement. As of December 31, 2013, the following amounts are subject to recapture by the Adviser:

| Chou Opportunity Fund | <u>Amount of Fees Waived<br/>and/or Expenses<br/>Reimbursed</u> | <u>Expiration Date to<br/>Recoup Fees Waived<br/>and/or Expenses<br/>Reimbursed</u> | <u>Fees Recouped</u> |
|-----------------------|---|---|----------------------|
| December 31, 2011     | \$ 110,128  | December 31, 2014   | \$ -                 |
| December 31, 2012     | 32,384  | December 31, 2015   | -                    |
| December 31, 2013     | 13,334  | December 31, 2016   | -                    |

| Chou Income Fund  | <u>Amount of Fees Waived<br/>and/or Expenses<br/>Reimbursed</u> | <u>Expiration Date to<br/>Recoup Fees Waived<br/>and/or Expenses<br/>Reimbursed</u> | <u>Fees Recouped</u> |
|-------------------|---|---|----------------------|
| December 31, 2011 | \$ 166,086  | December 31, 2014   | \$ -                 |
| December 31, 2012 | 147,380   | December 31, 2015   | -                    |
| December 31, 2013 | 144,679   | December 31, 2016   | -                    |

**Note 5. Security Transactions**

The cost of purchases and proceeds from sales of investment securities (including maturities), other than short-term investments during the year ended December 31, 2013, were as follows:

|                       | <u>Purchases</u> | <u>Sales</u>  |
|-----------------------|------------------|---------------|
| Chou Opportunity Fund | \$ 24,334,849    | \$ 30,999,021 |
| Chou Income Fund      | 1,906,382        | 3,178,790     |

**Note 6. Federal Income Tax and Investment Transactions**

Distributions paid during the fiscal years ended as noted were characterized for tax purposes as follows:

|                       | <u>Ordinary<br/>Income</u> | <u>Long-Term<br/>Capital Gain</u> | <u>Total</u> |
|-----------------------|----------------------------|-----------------------------------|--------------|
| Chou Opportunity Fund |                            |                                   |              |
| 2013                  | \$ 332,710                 | \$ 5,425,565                      | \$ 5,758,275 |
| 2012                  | 5,239,481                  | -                                 | 5,239,481    |
| Chou Income Fund      |                            |                                   |              |
| 2013                  | 685,760                    | -                                 | 685,760      |
| 2012                  | 1,023,113                  | -                                 | 1,023,113    |

**CHOU AMERICA MUTUAL FUNDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

As of December 31, 2013, distributable earnings (accumulated loss) on a tax basis were as follows:

|                       | <b>Undistributed<br/>Ordinary<br/>Income</b> | <b>Undistributed<br/>Long-Term<br/>Gain</b> | <b>Capital and<br/>Other Losses</b> | <b>Unrealized<br/>Appreciation<br/>(Depreciation)</b> | <b>Total</b>  |
|-----------------------|--|---|-------------------------------------|---|---------------|
| Chou Opportunity Fund | \$ 150,236                                   | \$ 954,053                                  | \$ -                                | \$ 9,342,960  | \$ 10,447,249 |
| Chou Income Fund      | 22,712                                       | -   | (25,445)                            | (168,157)   | (170,890)     |

The difference between components of distributable earnings on a tax basis and the amounts reflected in the Statement of Assets and Liabilities in Chou Opportunity Fund and Chou Income Fund are primarily due to straddles and contingent payment debt instruments, respectively.

As of December 31, 2013, Chou Income Fund had \$311 available short term capital loss carryforwards and \$25,134 available long term capital loss carryforwards that have no expiration date.

On the Statements of Assets and Liabilities, as a result of permanent book to tax differences, certain amounts have been reclassified for the year ended December 31, 2013. The following reclassifications were the result of currency gain/loss and re-designation of distributions and have no impact on the net assets of each Fund.

|                       | <b>Distributions in Excess<br/>of Net Investment<br/>Income</b> | <b>Accumulated Net<br/>Realized Gain (Loss)</b> |
|-----------------------|---|---|
| Chou Opportunity Fund | \$ 634,342  | \$ (634,342)                                    |
| Chou Income Fund      | 7,002   | (7,002)   |

**Note 7. Subsequent Events**

Subsequent events occurring after the date of this report through the date these financial statements were issued have been evaluated for potential impact and each Fund has had no such events.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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To the Board of Trustees of Chou America Mutual Funds and the Shareholders of Chou Income Fund and Chou Opportunity Fund

We have audited the accompanying statements of assets and liabilities, including the schedules of investments, of the Chou Opportunity Fund and the Chou Income Fund, each a series of shares of beneficial interest of Chou America Mutual Funds, as of December 31, 2013, and the related statements of operations for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the three-year period then ended and for the period July 1, 2010 (commencement of operations) through December 31, 2010. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2013 by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Chou Opportunity Fund and the Chou Income Fund as of December 31, 2013, the results of their operations for the year then ended, the changes in their net assets for each of the years in the two-year period then ended, and their financial highlights for each of the years in the three-year period then ended and for the period July 1, 2010 through December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

*BBD, LLP*

BBD, LLP

Philadelphia, Pennsylvania  
February 28, 2014



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**CHOU AMERICA MUTUAL FUNDS**  
ADDITIONAL INFORMATION (Unaudited)  
DECEMBER 31, 2013

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**Proxy Voting Information**

A description of the policies and procedures that each Fund uses to determine how to vote proxies relating to securities held in each Fund's portfolio is available, without charge and upon request, by calling (877) 682-6352 and on the U.S. Securities and Exchange Commission's (the "SEC") website at [www.sec.gov](http://www.sec.gov). Each Fund's proxy voting record for the most recent twelve-month period ended June 30 is available, without charge and upon request, by calling (877) 682-6352 and on the SEC's website at [www.sec.gov](http://www.sec.gov).

**Availability of Quarterly Portfolio Schedules**

Each Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. These filings are available, without charge and upon request on the SEC's website at [www.sec.gov](http://www.sec.gov) or may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330.

**Shareholder Expense Example**

As a shareholder of the Funds, you incur two types of costs: (1) transaction costs, including redemption fees, and (2) ongoing costs, including management fees, distribution (12b-1) fees and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Funds, and to compare these costs with the ongoing costs of investing in other mutual funds.

The example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period from July 1, 2013, through December 31, 2013.

**Actual Expenses** – The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during the period.

**Hypothetical Example for Comparison Purposes** – The second line of the table below provides information about hypothetical account values and hypothetical expenses based on each Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not each Fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in each Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as redemption fees. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

|                                       | <u>Beginning<br/>Account Value<br/>July 1, 2013</u> | <u>Ending<br/>Account Value<br/>December 31, 2013</u> | <u>Expenses<br/>Paid During<br/>Period*</u> | <u>Annualized<br/>Expense<br/>Ratio*</u> |
|---------------------------------------|---|---|---|--|
| <b>Chou Opportunity Fund</b>          |   |   |   |  |
| Actual                                | \$ 1,000.00   | \$ 1,119.55   | \$ 7.80                                     | 1.46%                                    |
| Hypothetical (5% return before taxes) | \$ 1,000.00   | \$ 1,017.85   | \$ 7.43                                     | 1.46%                                    |

**CHOU AMERICA MUTUAL FUNDS**  
 ADDITIONAL INFORMATION (Unaudited)  
 DECEMBER 31, 2013

|                                       | <u>Beginning<br/>Account Value<br/>July 1, 2013</u> | <u>Ending<br/>Account Value<br/>December 31, 2013</u> | <u>Expenses<br/>Paid During<br/>Period*</u> | <u>Annualized<br/>Expense<br/>Ratio*</u> |
|---------------------------------------|---|---|---|--|
| <b>Chou Income Fund</b>               |   |   |   |  |
| Actual                                | \$ 1,000.00   | \$ 1,033.96   | \$ 7.69                                     | 1.50%                                    |
| Hypothetical (5% return before taxes) | \$ 1,000.00   | \$ 1,017.64   | \$ 7.63                                     | 1.50%                                    |

\* Expenses are equal to each Fund's annualized expense ratio as indicated above multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half-year divided by 365 to reflect the half-year period.

**Federal Tax Status of Dividends Declared during the Tax Year**

For federal income tax purposes, dividends from short-term capital gains are classified as ordinary income. The Chou Opportunity Fund designates 10.27% of its income dividend distributed as qualifying for the corporate dividends-received deduction (DRD) and 47.05% for the qualified dividend rate (QDI) as defined in Section 1(h)(11) of the Internal Revenue Code. The Chou Opportunity Fund also designates 61.66% as qualified interest income exempt from U.S. tax for foreign shareholders (QII) and 38.34% as short-term capital gain dividends exempt from U.S. tax for foreign shareholders (QSD). The Chou Income Fund designates 2.20% as DRD, 2.20% as QDI and 77.72% for QII.

**Trustees and Officers of the Trust**

The Board is responsible for oversight of the management of the Trust's business affairs and of the exercise of all the Trust's powers except those reserved for the shareholders. The following table provides information about each Board member and certain officers of the Trust. Each Trustee and officer holds office until the person resigns, is removed, or is replaced. Unless otherwise noted, the persons have held their principal occupations for more than five years. The address for all Trustees and officers is Three Canal Plaza, Suite 600, Portland, Maine 04101. Each Fund's Statement of Additional Information includes additional information about the Trustees and is available, without charge and upon request, by calling (877) 682-6352.

| Name and Year<br>of Birth    | Position with the<br>Trust | Length of<br>Time<br>Served | Principal Occupation(s)<br>During Past Five Years   | Number of<br>Series of Trust<br>Overseen by<br>Trustee | Other<br>Directorships<br>Held by<br>Trustee |
|------------------------------|----------------------------|-----------------------------|---|--|--|
| <b>Independent Trustees</b>  |                            |                             |   |  |  |
| Lily Pinarello<br>Born: 1953 | Trustee                    | Since<br>2010               | Retired since 1999.   | 2  | 0  |
| David McLean<br>Born: 1966   | Trustee                    | Since<br>2010               | Managing Director, McLean Asset Management, Ltd;<br>Managing Director,<br>MAMGMT Fund Services,<br>Ltd., 2007-2010. | 2  | 0  |

**CHOU AMERICA MUTUAL FUNDS**  
 ADDITIONAL INFORMATION (Unaudited)  
 DECEMBER 31, 2013

| <b>Name and Year of Birth</b>                                | <b>Position with the Trust</b>            | <b>Length of Time Served</b> | <b>Principal Occupation(s) During Past Five Years</b>   | <b>Number of Series of Trust Overseen by Trustee</b> | <b>Other Directorships Held by Trustee</b> |
|--|---|------------------------------|---|--|--|
| <b>Interested Trustee</b><br>Francis S.M. Chou<br>Born: 1956 | Trustee                                   | Since 2010                   | Chief Executive Officer, Chou America Management, Inc. since 2010; Chief Executive Officer, Chou Associates Management, Inc., since 1986. | 2  | 0  |
| <b>Officers</b><br>Francis S.M. Chou<br>Born: 1956           | President and Principal Executive Officer | Since 2010                   | Chief Executive Officer, Chou America Management, Inc. since 2010; Chief Executive Officer, Chou Associates Management, Inc., since 1986. | N/A  | N/A  |
| Michael J. McKeen<br>Born: 1971                              | Treasurer and Principal Financial Officer | Since 2010                   | Senior Vice President, Atlantic since 2008; Vice President, Citigroup Fund Services, LLC ("Citigroup") 2003-2008.                         | N/A  | N/A  |
| Megan Hadley Koehler<br>Born: 1978                           | Secretary                                 | Since 2010                   | Associate Counsel, Atlantic, since 2008; Assistant Vice President, Citigroup, 2007-2008.  | N/A  | N/A  |
| David Faherty<br>Born: 1970                                  | Vice President                            | Since 2010                   | Senior Counsel, Atlantic since 2009; Vice President, Citi Fund Services Ohio, Inc. 2007-2009.   | N/A  | N/A  |
| Timothy Bowden<br>Born: 1969                                 | Vice President                            | Since 2010                   | Manager, Atlantic since 2008; Vice President, Citigroup 2005-2008.  | N/A  | N/A  |
| Geoffrey Ney<br>Born: 1975                                   | Vice President                            | Since 2013                   | Manager, Atlantic since 2013; Senior Fund Accountant, Atlantic 2008-2013.   | N/A  | N/A  |
| Todd Proulx<br>Born: 1978                                    | Vice President                            | Since 2013                   | Manager, Atlantic since 2013; Senior Fund Accountant, Atlantic 2008-2013.   | N/A  | N/A  |

**FOR MORE INFORMATION:**

P.O. Box 588  
Portland, ME 04112  
(877) 682-6352

**INVESTMENT ADVISER**

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Toronto, Ontario, Canada M2N 6Y8

**TRANSFER AGENT**

Atlantic Fund Services  
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Portland, ME 04112  
[www.atlanticfundservices.com](http://www.atlanticfundservices.com)

**DISTRIBUTOR**

Rafferty Capital Markets, LLC  
1010 Franklin Avenue  
Garden City, NY 11530  
[www.raffcap.com](http://www.raffcap.com)

This report is submitted for the general information of the shareholders of the Funds. It is not authorized for distribution to prospective investors unless preceded or accompanied by an effective prospectus, which includes information regarding the Funds' risks, objectives, fees and expenses, experience of its management, and other information.

243-ANR-1213