

CHOU ASSOCIATES MANAGEMENT INC.

April 2024

DOES VALUE-INVESTING WORK OVER THE LONG TERM?

Fund category and rank	Performance period (number of years)							
	3	5	10	15	20	25	30	35
Global equity category:								
Chou Associates Fund (Series A), rank	3	917	786	267	102	4	1	1
Number of funds in this category	1,845	1,637	826	435	180	45	21	14
Canadian-focused small- and mid-cap equity:								
Chou RRSP Fund (Series A), rank	8	39	25	13	1	1	1	1
Number of funds in this category	53	44	25	17	< 10	< 10	< 10	< 10

Fund category and rank	Performance period (number of years)			
	3	5	10	15
Asia-Pacific equity (excluding Japan):				
Chou Asia Fund (Series A), rank	1	1	1	1
Number of funds in this category	46	46	40	18
Global fixed income, balanced:				
Chou Bond Fund (Series A), rank	2	2	2	2
Chou Bond Fund (Series F), rank	1	1	1	1
Number of funds in this category	813	705	324	133
European equity:				
Chou Europe Fund (Series A), rank	2	3	57	10
Chou Europe Fund (Series F), rank	1	1	47	7
Number of funds in this category	111	106	68	51

Note: Chou Asia Fund, Chou Europe Fund, and Chou Bond Fund do not have a 20-year performance history.

Source: All data courtesy of Fundata.

In May 2017, I was offered a chance to buy Stonetrust. So, I looked at the 2016 balance sheet, and what caught my eye was the ratio of Investable assets divided by shareholders' equity. It was greater than 2 to 1. So, if I can make 5% on investable assets, it translates to more than 10% return on Shareholder's equity. If I make 10%, then it translates to more than 20% on equity. Can I utilize my value investment principles to make money on Stonetrust? The answer is yes.

CONSOLIDATED FINANCIAL HIGHLIGHTS OF STONETRUST (2016)

(\$ in thousands)

INCOME STATEMENT	2016
Direct Written Premium	\$54,434
Gross Written Premium	55,367
Net Written Premium	53,130
Net Earned Premium	54,909
Loss & Loss Adjustment Exp.	(35,024)
Underwriting Expenses	(19,476)
Underwriting Income	\$409
Investment Income	2,089
Realized Capital Gains	(738)
Other Income	(168)
Pre-tax Income	1,592
Income Tax Expense (Benefit)	(165)
Net Income (Loss)	\$1,427

BALANCE SHEET	2016
Investable Assets	\$128,943
Receivables/Other Assets	24,295
Total Assets	153,238
Loss & Loss Adjustment Exp.	65,744
Unearned Premium Reserves	21,552
Other Liabilities	9,724
Total Liabilities	97,021
Surplus	4,000
Shareholder's Equity	\$52,217
RATIO	
Investable Assets/Shareholder's Equity	2.47x

FIXED INCOME INSTRUMENTS OF STONETRUST (Q1 2021)

Q1 2021

Company	Maturity	Coupon	Par Value	Cost Base	Bond Price*	% Change
Antero Resources Corp (SOLD)	2023-06-01	5.63%	\$4,000,000	\$43.25	\$67.38	35.81%
Continental Resources (SOLD)	2024-06-01	3.80%	2,000,000	50.50	96.50	47.67%
Occidental Petroleum (SOLD)	2022-08-15	2.70%	457,000	75.50	101.25	25.43%
Athabasca Oil Corp	2022-02-24	9.88%	8,235,000	22.04	78.00	71.74%
SRC Energy (formerly PDC Energy)	2025-12-01	6.25%	1,453,000	62.75	100.05	37.28%
PDC Energy (SOLD)	2026-05-15	5.75%	2,323,000	62.25	103.38	39.78%
Range Resources (SOLD)	2026-05-15	4.88%	2,000,000	59.00	98.62	40.17%
Southwestern Energy (SOLD)	2026-04-01	7.50%	1,200,000	75.75	105.50	28.20%
General Electric (SOLD)	2049-12-29	6.00%	3,500,000	69.60	94.00	25.96%
Peabody Energy	2022-03-31	6.00%	892,000	86.75	87.00	0.29%
PIC AU Holdings LLC	2024-12-31	10.00%	3,522,000	89.28	91.75	2.69%
MBIA	2028-10-01	6.63%	5,167,000	96.25	98.00	1.79%

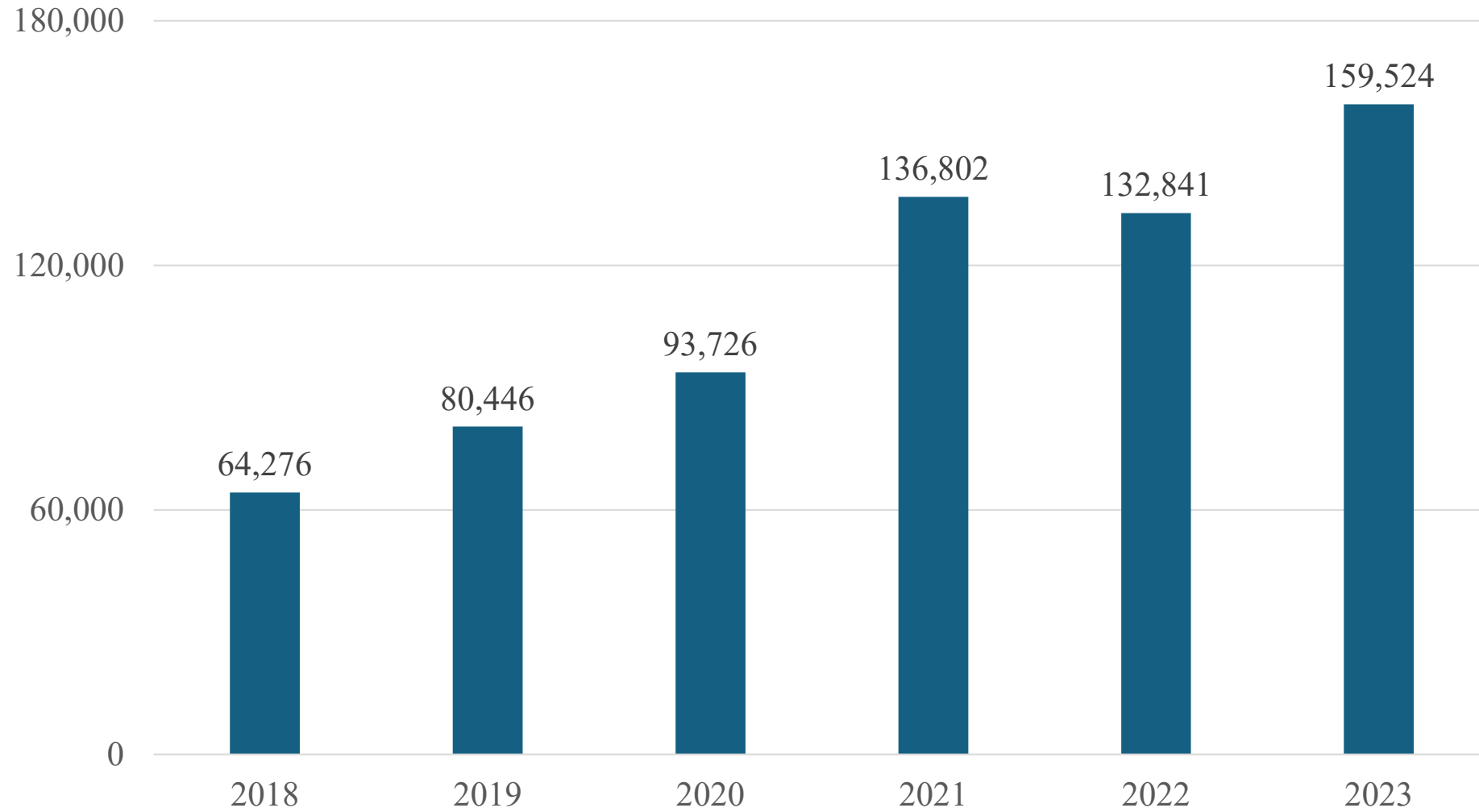
*Note: Bond prices are in USD as of March 31, 2021 or their selling price if the bond was sold prior to March 31, 2021.

EQUITY SECURITIES OF STONETRUST (Q4 2023)

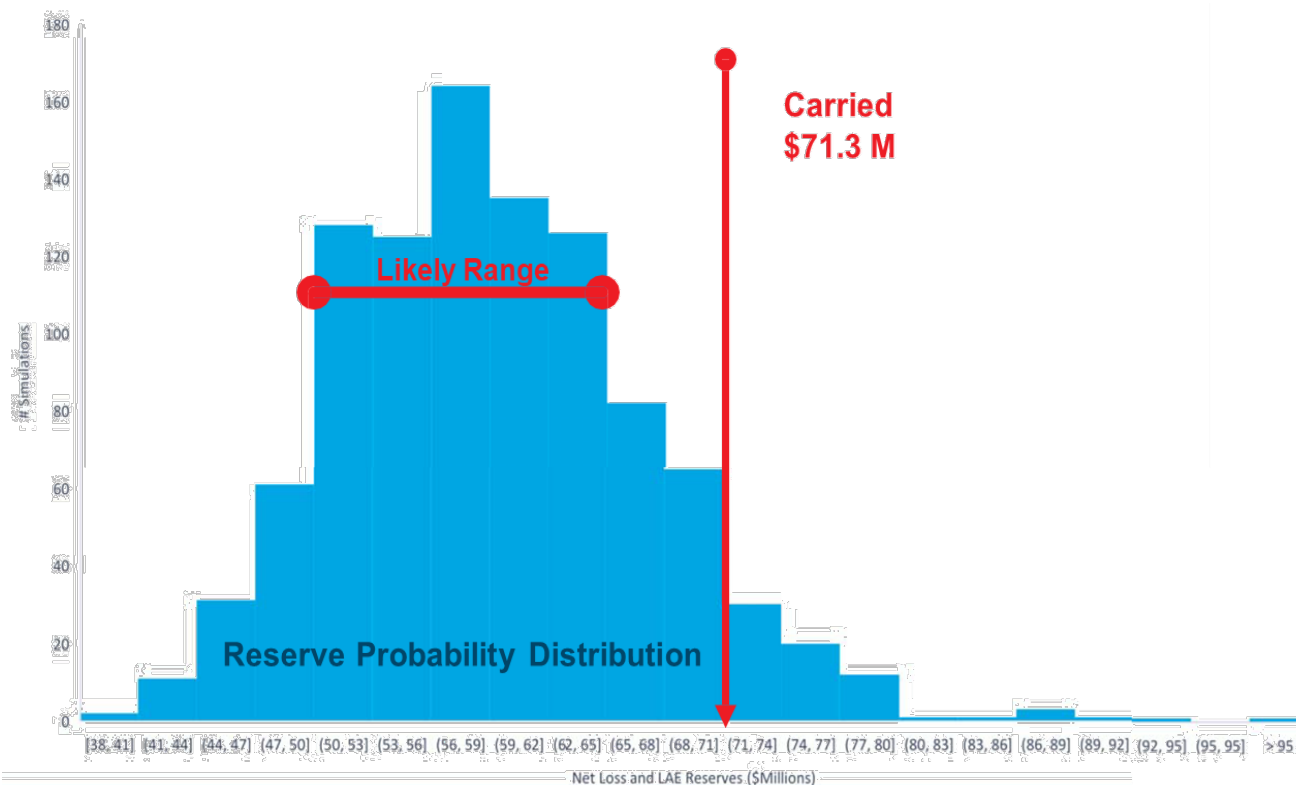
Q4 2023

Equity Holdings	Shares	Cost Base	Market Value	Unrealized gains +/-
Berkshire Hathaway Inc	25	\$ 7,901,245	\$ 13,565,626	\$ 5,664,381
Alphabet Inc	76,640	1,999,885	10,800,875	8,800,991
Stellantis	426,388	3,464,884	9,943,368	6,478,484
Exor N V	90,021	4,000,022	9,028,206	5,028,184
Apple Inc	44,000	1,862,693	8,471,320	6,608,627
Pool Corp	10,636	1,253,830	4,240,680	2,986,849
Synchrony Financial	62,000	2,016,798	2,367,780	350,982
Moody's	5,899	583,551	2,303,913	1,720,362
EXCO Resources Inc	133,377	1,597,954	2,248,069	650,116
Navient Corp	107,950	2,002,576	2,010,029	7,453
Wells Fargo	40,000	1,027,529	1,968,800	941,271
MBIA Inc*	321,000	0	1,964,520	1,964,520
Ally Financial	49,839	1,196,085	1,740,378	544,293
Bank of America	50,000	1,359,510	1,683,500	323,990

GROWTH IN STONETRUST'S BOOK VALUE



HIGH LIQUIDITY – FORT KNOX LIKE BALANCE SHEET



Cash/Carried Reserves	2021	2020
“A” rated Peer 1 in Louisiana	19.8%	15.9%
“A” rated Peer 2 in Louisiana	25.2%	22.7%
Stonetrust	115.9%	82.7%

Cash/Net premiums earned	2021	2020
“A” rated Peer 1 in Louisiana	41.5%	35.6%
“A” rated Peer 2 in Louisiana	30.0%	27.9%
Stonetrust	184.6%	148.7%

Cash/Book value (Surplus)	2021	2020
“A” rated Peer 1 in Louisiana	9.5%	7.8%
“A” rated Peer 2 in Louisiana	18.7%	18.0%
Stonetrust	58.7%	65.0%

Cash/Avg (Net premiums earned + Liabilities)	2021	2020
“A” rated Peer 1 in Louisiana	18.4%	15.0%
“A” rated Peer 2 in Louisiana	20.9%	19.4%
Stonetrust	104.6%	83.1%

BE CAREFUL WITH THE CONVENTIONAL DEFINITION OF SAFETY

PIMCO 25+ Yr Zero Coupon US Treasury Index



LOGGERHEAD RECIPROCAL INTERINSURANCE EXCHANGE (LRIE)

Last year, Loggerhead Reciprocal Interinsurance Exchange (LRIE) signed a deal with Progressive to acquire the renewal rights to approximately 100,000 policies they had set for non-renewal beginning May 1st, 2024. From that 100,000, LRIE will accept only those policies that meet its underwriting standards. We believe that a conversion ratio of 60% is achievable.

LRIE's projected gross written premiums

(\$ 000s)	----- Forecasted -----			
	2024	2025	2026	2027
Gross written premiums	199,720	298,313	327,003	353,103

LOGGERHEAD RISK MANAGEMENT, LLC (LRM)

A reciprocal insurance exchange is managed by an entity known as an “Attorney in Fact.” In the case of LRIE, its Attorney in Fact is Loggerhead Risk Management, LLC (“LRM”).

LRM’s projected income statement

(\$ 000s)	----- Forecasted -----			
	2024	2025	2026	2027
Income Statement:				
Total revenue	20,946	53,569	62,818	67,989
Insurance operating expenses	(13,615)	(33,481)	(37,689)	(40,793)
Pre-tax Income	7,331	20,088	25,126	27,196

The quality of earnings is really high at LRM given the following:

- 1) The after-tax earnings are cash earnings. They are not tied up in inventories, receivables, or fixed assets. Therefore, they can be paid out as dividends to the shareholders.
- 2) LRIE requires minimal capital to grow its premiums at a fairly good clip. The capital is provided by Members’ Contributions – a portion of their insurance premiums is set aside as capital or surplus for LRIE. Therefore, the fee generated by LRM grows proportionately, resulting in much higher pre-tax earnings.
- 3) Wintai America paid roughly \$9 million to own 90% of LRM. In 2025, they are potentially earning \$20 million in pre-tax income. Even if you put a low multiple of 8 times earnings, the intrinsic value of LRM can be approximately \$160 million. Most of the transactions in this type of business go for 15 times pre-tax earnings. Start dreaming along the lines of: Stonetrust’s book value at the end of 2023 was \$150 million, plus how much intrinsic value you want to ascribe to LRM – let’s take a range of 8 to 15 times pre-tax earnings of 2025 – that amounts to \$160 million to \$300 million.