



## Tim's "We are here" sheet

30Jun08

### To my Partners:

It has been an ugly 12 months for us. I have virtually all my investments in our positions so I am definitely aware of it. I must say I think our stocks are cheap. In a similar vein, I read a recent interview with Chris Davis whose grandfather formed the Davis Select Funds:

*"My grandfather always said, 'You make most of your money during a bear market; you just don't realize it at the time,'"*

This is consistent with our approach. You may recall from our Offering Documents that I have stated something to the effect that we make our money on the purchase. What I meant, and continue to mean, is that our margin of safety is built into the price we pay. I try to make sure that this margin increases with time but regardless I want it to be there when we buy.

This is important because it means if our stocks decline in value, the margin of safety is greater. I think of it like a bridge. If a bridge can support 10 tons and my car weights 4 tons, I have a margin of safety. If I decide to drive a smaller car that weights 3 tons, my margin of safety is larger. I appreciate that you may be concerned that you invested with me in a Mercedes and I am now offering a bicycle but nevertheless the concept holds.

There is a risk I may have made a mistake in judging our margin of safety. Certainly the tough thing with a stock is that the intrinsic value is a moving range and not a specific number. Events do influence this range of values. I believe that it is very difficult to pinpoint a specific value at a point in time and it is much easier to estimate a range a couple of years out.

The final component is, of course, the price we pay. I realize at this moment in time I certainly do not look particularly bright in the timing of our purchases but that does not mean I think I am wrong. I view it kind of like a wedding. It is not the worst thing to be an hour or two early, but it is not too great to be 10 minutes late!

My objective in the balance of this letter is to give you a little bit better feel for what we own and why. I would be delighted if after you read this letter you decide to add to your position with us but I realize I have not "earned your trust" of late.

Getting to basics, you may recall that I focus on 3 things:














1. Our margin of safety;
2. Items that impact the volatility of the intrinsic worth of our holdings (my 3 little pig analogy); and
3. Are we dealing with owners or just managers.

To put our holdings in perspective, I have constructed the chart on the following page (believe me when I say this tested my technology skills).

McElvaine Investment Management Ltd.  
Suite 463, Three Bentall Centre  
595 Burrard Street, P.O. Box 49308  
Vancouver, B.C. V7X 1L3  
[www.mcelvaine.com](http://www.mcelvaine.com)

Phone: (604) 601-8345  
Fax: (604) 601-8346  
E-mail: [tim@mcelvaine.com](mailto:tim@mcelvaine.com)  
[kim@mcelvaine.com](mailto:kim@mcelvaine.com)  
[diann@mcelvaine.com](mailto:diann@mcelvaine.com)  
[geoff@mcelvaine.com](mailto:geoff@mcelvaine.com)

## Holdings in the Funds which are larger than 5% of net asset value at 30Jun08

<i>Company</i>	<i>Business</i>	<i>Margin of safety</i>	<i>Volatility Factors</i>	<i>Owners or managers</i>	<i>View of "street"</i>	<i>Tim's rating</i>	<i>Impact on our performance this year</i>
Glacier Ventures	Community papers	<ul style="list-style-type: none"> <li>• Presence</li> </ul>	<ul style="list-style-type: none"> <li>• Integration and margins</li> <li>• Economy</li> <li>• Acquisitions</li> </ul>	Owners	Accumulate/ Outperform	 Good people=good things	
Indigo Books	Cdn retailer of books and gifts	<ul style="list-style-type: none"> <li>• Presence</li> <li>• Location of stores</li> <li>• Scale</li> </ul>	<ul style="list-style-type: none"> <li>• Cashflow</li> <li>• New concept</li> </ul>	Owners	Outperform	 The colour of money	
Maple Leaf Foods	Branded food (bread/meat)	<ul style="list-style-type: none"> <li>• Presence</li> <li>• Canada Bread business</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on brand</li> <li>• Margin</li> <li>• Commodity costs</li> </ul>	Owners	Near term not too exciting; longer term positive	 Making silk purses out of sow ears	
Newfoundland Capital	Cdn radio broadcaster	<ul style="list-style-type: none"> <li>• License</li> </ul>	<ul style="list-style-type: none"> <li>• New licenses</li> <li>• Margin</li> <li>• Economy</li> </ul>	Owners with insider buy in last 6 months	Good people but too expensive	 Not as expensive as it looks	
Rainmaker	Animation	<ul style="list-style-type: none"> <li>• Technology</li> <li>• Knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• Contracts</li> <li>• Development and ownership of content</li> </ul>	Managers with owners on board	Not followed	Not rated as I am on the board	
Citadel Broadcasting	Large US radio group and radio network	<ul style="list-style-type: none"> <li>• License</li> <li>• Debt structure</li> </ul>	<ul style="list-style-type: none"> <li>• Margin</li> <li>• Revenue</li> <li>• Economy</li> <li>• Debt</li> </ul>	Owners with insider buys in last 6 months	Outperform	 Killing me softly	
EGI Financial	Non-standard insurance	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Management</li> </ul>	<ul style="list-style-type: none"> <li>• Acquisition</li> <li>• Claims</li> <li>• Competitive issues</li> </ul>	Owners	Too expensive and short a history	 Oil up, claims down	

You will note that I have not chatted about the “macro outlook”. As stated, I realize that the economic backdrop will impact a company in the short term but I try to look for our margin of safety over a multi-year period.

I acknowledge that a significant amount of “sand” has been thrown into the wheels of finance. Bank lending is being restrained and credit losses will expand. Between housing and oil, the consumer is hurting. On the other side of the equation, Peter Cundill used to always remind me that with a lag, currencies matter. The weak US dollar will help. Somewhat similar, oil consumption, with a lag, follows price. In other words, over time, consumption will decrease as the price increases. In other words, I am not in the camp that for the price of oil the “sky is the limit”. Having said all of this, my focus is very much specific to the investment we are making. My grand view of things has seldom been correct and thankfully has not been the basis for any investment we have made.

The issue for me is what to do when the outlook is uncertain. It is of course this uncertainty that gives us the prices to invest with confidence. In other words, I try to minimize the risk of a permanent loss of capital to us by using the cheap prices created by uncertainty to invest. Seems counterintuitive but that is how markets work. This of course means I find the most to do when things are not going well. In other words, while we are hurting on the outside, I am finding things to invest in and would appreciate your confidence.

I have enclosed a couple of additional items this quarter:

1. The long lost annual report has finally arrived. It contains the letter I wrote to you in March as well as a brief analysis of our performance in 2007.
2. I have also included an article that I was fortunate enough to have been included in. I was unsure whether to include it but I decided my ego was beaten down enough by current markets to need the support! I would quickly add though that I think the only similarity between Buffett and me is I am an accomplished buffet (no extra t) diner!
3. I met with Peter Cundill in London in June and wanted to include my reflections. I spent over a decade working with Peter and the pleasure was definitely mine.

**The McElvaine Investment Trust:**

The 30Jun08 price for the Series B units of the Trust was \$22.12. This represents a loss for the first 6 months of 2008, net of all fees and expenses, of 17.5%. During this period, the TSX Total Return index rose by 6.0%.

**McElvaine Fund Ltd. (formerly The McElvaine Limited Partnership):**

The 30Jun08 price for MFL was \$39.92. This represents a loss for the first 6 months of 2008, net of all fees and expenses, of 16.1%.

**Conclusion:**

As always, many thanks for all your support and confidence. I appreciate your trust.

All the best,



Tim McElvaine  
08Jul08

## Performance Summary as of 31Dec07

### The McElvaine Investment Trust<sup>7</sup> Series B

Year (Period)	Pre-fee Return <sup>(1)(2)</sup> - Series B Units	Net Return <sup>(1)(3)</sup> - Series B Units	Index <sup>(4)</sup>	Average Cash Balance <sup>(5)</sup>
2007	1.0%	0.6%	9.8%	9%
2006	15.1%	11.9%	17.3%	11%
2005	22.9%	17.2%	24.1%	13%
2004	11.3%	8.6%	14.5%	23%
2003	36.5%	28.2%	26.7%	14%
2002	5.4%	5.0%	-12.4%	5%
2001	37.2%	28.0%	-12.6%	2%
2000	24.6%	19.2%	7.4%	9%
1999	38.8%	29.5%	31.6%	26%
1998	21.3%	16.6%	-1.6%	27%
1997	16.8%	12.8%	15.0%	59%
11 Year Compound	20.4%	15.8%	9.6%	
\$100 invested Jan97 is now		\$501	\$274	

Notes:

- (1) The “Pre-fee Return” and “Net Return” information includes distributions reinvested in additional units.
- (2) “Pre-fee Return” is our estimate of the increase in the asset value of the Trust during the period after the deduction of all expenses, other than the management fee and performance incentive fee, and applicable GST. The Pre-fee Return gives you the best indication of how the Trust’s investments have performed. However, the “Net Return” is a better indicator of the returns actually earned by investors.
- (3) “Net Return” is our estimate of the increase in the net asset value of the Series B units during the period, which is based upon the fees in effect prior to January 1, 2008. No Series A units or Series F units were issued during the periods shown. The Net Return for each series of units will differ since the fee and expense structure for each series units differs.
- (4) As the Trust invests primarily in Canadian securities, we have compared its performance to that of the S&P/TSX Composite Total Return Index (formerly the TSX 300 Total Return Index). This index tracks changes in the share price of 300 of the largest companies (by market capitalization) listed on the Toronto Stock Exchange (and includes the return from reinvested dividends). These companies represent a broad range of industries. The Trust may often invest in small-cap and mid-cap companies that are not included in the S&P/TSX Composite Total Return Index, and therefore, other indices may also be appropriate comparisons for the Trust.
- (5) “Average Cash Balance” is our estimate of the average of the month-end cash and short-term bond balances held by the Trust. We have included this to allow you to assess how the Trust was invested in order to generate the returns shown. For example, the 1997 Pre-fee Return of 16.8% was earned while the portfolio was on average only 41% invested.
- (6) This Performance Table excludes the three months from 27Sep96 to 31Dec96 (startup period). During this period, the Trust returned 3.1%
- (7) **It is important that you understand that performance is yesterday’s news and you should be careful about using it as a guide to tomorrow. The figures above are unaudited and in many circumstances, simply our estimates.**