Tim's "We are here" sheet

30Sept08

To my Partners:

I want to start this note with three key points:

- I realize the last couple of months have been unsettling. I apologize that our performance has been dismal, especially because in the past I have managed to zig while others zagged. I know I have disappointed you by not providing some protection during this period. As you know, I am an owner myself so I understand and appreciate your concerns.

- You are more likely to find a bargain at a garage sale than an auction, and the world is having one awfully big garage sale right now. More to the point, I was asked if we are buying anything. My response: I am a value investor and if I was not investing now, when would I ever invest.

- Thanks for standing by me. Our redemptions so far this year have been modest and I appreciate that.

Let's talk about each one of these in more detail:

<u>Macro stuff</u>
I do not pretend to be a deep thinker. My focus is simply on what we are paying and what we are getting. More sellers than buyers hurt our performance in the short term but improve our returns over the long run.

About a month ago, money stopped flowing through the financial system. Similar to the period after 9/11, people froze. I do think it was completely appropriate the US Government injected liquidity into the system (after all, the US has spent some $600B "saving Iraq", surely something somewhat higher is appropriate to "save the USA") Smarter people than I will argue over whether this was the proper mechanism. The US government certainly has the capacity and capability to borrow and is able to do so in its own currency. Time will tell whether part of this borrowing ends up being "spending" or "investment" but the bottom line is the government did respond and, in my view, this is not like 1929.

Healing will of course take time as there are still issues with consumer debt, derivatives and commercial lending. The market is partially a forecasting machine but also at times it has the temperament of a toddler. Emotion is behind each buy and each sell ticket. Layered on top is the work of the hedge funds and momentum (trend) players. We saw the upside of this last year as people felt optimistic about commodities so the market moved up. A positive feedback loop developed where buying caused increasing prices which lead to more buying. This loop was quite pleasant for those involved and like musical chairs nobody thought they would get stuck without a chair. Unfortunately, a feedback loop can work in the other direction too as we have seen over the last little while. This negative loop was further impacted by the need to de-lever and raise cash. The

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opportunity for you as an investor is step back from the fray and take a two or three year view. Whether it's with me or elsewhere, I encourage you to take advantage of the prices being offered. Prices may go lower in the short term but there is some cheap stuff out there.

Our stuff

My main mistake in the last year was not trimming some of our winners more aggressively. I felt the businesses were not overly expensive and did not want to take the tax gain or reinvestment risk. This hurt our performance and I ought to have been more disciplined. As of September 30th, and this is a very rough interpretation of our returns, I estimate about 2/3rds of our loss was due to longer term holdings falling in price. The balance of our loss was due to misjudgments I have made.

I would also stress that while I may be comfortable in the underlying value of our holdings, the stock prices have shown themselves to be quite volatile. The drop in share price in many cases has been much more significant than the change in underlying value. This means our margin of safety has widened, sometimes significantly. This hurts in the short term. Ben Graham once said in the short run the market is a voting machine, in the long run it is a weighing machine.

I understand that the volatility is scary. Certainly, I too have been surprised by the fluctuations but I am more focused on what our margin of safety is. The bottom line is our portfolio trades at a significant discount to what I think it is worth.

Redemptions

As at the end of September, I estimate our year-to-date redemptions have been about 6% average combined net assets. In other words, redemptions have been very manageable. Thank you for your confidence and support.

I appreciate a smart move might have been to redeem 18 months ago and buy back now. I suspect a not-so-good move would be to redeem now, when our valuations are depressed, with the hope of investing again in the future.

Going forward

I am finding things to buy. We have been able to lighten up modestly on some of our smaller names and buy bigger companies at cheaper valuations. In other words, we are able to get more liquidity and bang for our buck by moving upscale. This is the first time I have found this opportunity in my 17.5 years in the business.

We have done some work in the distressed debt market; we bid on one name but as of yet do not have any holdings. I expect we will add a name over two over the next little while. We have also re-opened our old research files on Japan. You may recall that we sold our remaining Japanese stocks a year or two ago. Prices have come back down and we are looking once again.

I would also mention a couple of other items:

- I have virtually all of my money in our stuff. I am not your pimp, I am your partner.
- Sadly, I have a lot of performance to make back before I get an incentive fee. In other words, our MER – or the fees you pay currently - is significantly lower than the average fund.
- Our liquidity is good. As of mid-October, our cash, net working capital and very marketable securities (equities with market caps in excess of $5B) represent about 20% of net assets.
- While our performance is not good, it seems to be in the neighbourhood of other value managers. This is not an excuse, just an observation.
- In the office we tossed around the idea that some of you might like us to hold a conference call and chat about what we are up to. If you would be interested in this, please let us know by sending Diann an email (diann@mcelvaine.com).

Having said all of this, I am optimistic about our holdings. While I do feel that both you and I have been through the ringer, I strongly believe, given the prices available to us in the marketplace, our future looks bright.

The McElvaine Investment Trust:
The 30Sep08 price for the Series B units of the Trust was $19.255. This represents a loss for the first 9 months of 2008, net of all fees and expenses, of 28.2%. During this period, the TSX Total Return index fell by 13.3%.

McElvaine Fund Ltd. (formerly The McElvaine Limited Partnership):
The 30Sep08 price for MFL was $34.6418. This represents a loss for the first 9 months of 2008, net of all fees and expenses, of 28.3%.

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

All the best,

Tim McElvaine
22Oct08

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Performance Summary as of 31Dec07

The McElvaine Investment Trust[7]
Series B

Year (Period)	Pre-fee Return (1)(2) - Series B Units	Net Return (1)(3) - Series B Units	Index (4)	Average Cash Balance (5)
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.**