

The McElvaine Investment Trust
and
The McElvaine Investment Limited Partnership

Annual Report
2001

The McElvaine Investment Trust (“the Trust”)

The McElvaine Investment Trust is a RRSP eligible fund and as such must have 70% of its assets invested in Canadian securities. The Trust was formed on September 27, 1996 with the following philosophy:

- 1. Highly satisfactory longer-term performance can be achieved by focusing on companies selling below net asset value.*
- 2. Given the size of the Canadian market, a small investment fund has a significant competitive advantage.*
- 3. The purpose of an investment vehicle is to make money not to own stocks. This is an important distinction because it means the Trust will only invest when presented with an attractive situation.*
- 4. As there are few good ideas, there are times when concentration may be helpful.*
- 5. An incentive fee structure rewards performance not asset growth.*

The Trust is considered Canadian content for RRSPs.

The McElvaine Investment Limited Partnership (“the LP”)

The LP’s focus is global although it is expected to remain, for the most part, invested in countries where Tim is able to understand the annual report.

The LP was originally established in 1991 as Cundill Capital Limited Partnership. In the summer of 2000, the Partners of the LP approved a resolution transferring the investment counsel agreement to McElvaine Investment Management Ltd. and renaming the LP The McElvaine Investment Limited Partnership. Peter Cundill remains a substantial partner in the LP as well as a 40% owner of McElvaine Investment Management Ltd.

Performance Summaries

The McElvaine Investment Trust

Year to	TSE Total Return	Trust Pre-fee Return	Trust Net Return	Median Cdn Fund Return	T-bill Rate	Average Cash Balance
Dec01	-12.6%	37.2%	28.0%	-4.2%	3.8%	2%
Dec00	7.4%	24.6%	19.2%	12.0%	5.5%	9%
Dec99	31.6%	38.8%	29.5%	20.7%	4.7%	26%
Dec98	-1.6%	21.3%	16.6%	-2.1%	4.7%	27%
Dec97	15.0%	16.8%	12.8%	14.0%	3.2%	59%
5 Year compounded	6.9%	27.4%	21.1%	7.6%		

The McElvaine Investment Limited Partnership

Year to	Morgan Stanley World Index	LP Pre-fee Return	LP Net Return	Median Global Fund	BMO Rate	Average Cash Balance
Dec01	-11.5%	17.4%	13.9%	-12.4%	2.6%	-4%
July to Dec00	-10.9%	15.1%	13.6%	-8.8%	3.2%	8%

Notes:

1. As the Trust must invest 70% of its assets in Canada, Toronto Stock Exchange's (TSE 300) returns have been used. The TSE return includes reinvested dividends.
2. The LP has a global mandate and as such the Morgan Stanley World Index (Canadian Dollars) was used. I would caution that the LP's portfolio differs substantially from the makeup of this index.
3. Pre-fee Returns are the best indicator of the Funds' investment performance. These figures are net of all expenses except the Management fee, the Incentive fee and related GST. (historical data has been restated)
4. Net Returns are the returns to the unitholders/partners.
5. For the Trust, Median Canadian Equity Fund Return is included to provide a comparison to other managed funds. The return figures were provided by GlobeFund and are for the Canadian Equity Category. For the LP, Global Fund Returns were used. GlobeFund's Global Equity Category was the source of the data.
6. T-bill Rate refers to the average of the monthly 90-day T-bill rate during the year. For the LP, the average Bank of Montreal 30-day deposit rate is shown as it is the hurdle rate for the LP.
7. Average Cash balance represents the average of the month-end cash/ST bond balances held. This allows you to judge how invested we were in order to generate the return. For example, the 1997 pre-fee return for the Trust of 16.8% was earned while the portfolio was on average only 41% invested.
8. The performance table for the Trust excludes the 3 months from 27Sept96 to 31Dec96 (startup period). During this period, the Trust returned 3.1%.
9. The predecessor to the LP, Peter Cundill LP, was formed in 1979 and had a 21 year compound rate of return of 13.5%.
10. The figures above are unaudited and in many circumstances simply my estimates. As a disclaimer, I should also add that performance is yesterday's news and you should be careful about using it as a guide to tomorrow.

My Commitment to Reporting

In the pages that follow I have tried to present the material I believe is important for you to be able to assess the job I did. In other words, I have tried to put myself in your shoes and thought about what I would need to see to understand the performance of my investment. I hope I have done this in a fashion that neither trumpets my successes nor hides my warts.

You will find this report includes:

- 1. A general discussion of the issues affecting the funds.*
- 2. A specific discussion of each fund including:*
 - i. a review of pre-fee returns to show you how the portfolio performed.*
 - ii. a reconciliation of pre-fee returns to your return to allow you to understand the expenses you paid and thus how the fund return became your return.*
- 3. A discussion of my relationships with the Trust, LP and Cundill related entities.*
- 4. Audited financial statements for both the Trust and the LP.*

This report will not include a detailed discussion of our holdings. I have no intention of trying to sell you on each holding of ours. While the enclosed financial statements list the majority of our holdings, I believe a discussion of each not only has the potential to make me look quite foolish but also would not be in our best interests as partners. I do assume on these matters you trust my judgment and will hold me accountable each year for the collective performance of these individual decisions.

I caution you all figures are my estimates. While the spirit is true, the calculator sometimes strays. The figures are unaudited but I assure you any error is unintentional. You will of course find audited financial statements for each fund towards the end of this report.

Finally, I work for you. If you believe there are items or issues I have not discussed but you would like to see covered, please let me know.

To my Partners:

My letter to you will start on the next page. I did want to address the tragedies of 2001. I was unsure how to approach this until one of our daughters showed me the story of Sadako. I repeat it briefly here as Sadako, for me, represents the innocent victims of 2001, whether they were located in the World Trade Center, the mountains of Afghanistan, the streets of Palestine, the villages of Israel, the farms of Zimbabwe or elsewhere in the world.

Sadako was twelve when she died of leukemia. The year was 1955. Ten years earlier, two year old Sadako was living in Hiroshima when the atom bomb was dropped. Eleanor Coerr's book describes Sadako's quest for life; I have extracted these comments from it.

As she lay sick in hospital, Sadako was told an old legend that if she made one thousand paper cranes, the gods would grant her life. She completed 644 before she died. Her friends made an additional 356 and buried the thousand cranes under a monument to her in Hiroshima Peace Park.

On this monument, her friends inscribed a poem. I repeat it here both as a tribute to Sadako and to all the victims of violence:

*This is our cry,
this is our prayer;
peace in the world.*

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To my Partners:

You may recall last year I described us as a tortoise in drag. By comparison, 2001 was, for me, the year of the duck. We may have looked serene on the surface but underneath there was lots of paddling and clawing! I appreciate you may be tiring of my animal kingdom analogies. You ain't seen nothing yet.

I have changed the format of my report to you slightly. As mentioned last year, I believe it is important you see the "whole field" and as such this report discusses both The McElvaine Investment Trust (the Trust) and The McElvaine Investment Limited Partnership (the LP). While I appreciate this does make the Annual Report at times a little cumbersome, I do think it allows you to understand everything I am doing.

My report to you is structured as follows:

1. I will chat about the investment returns of each fund.
2. I will detail how the investment return translated into your return.
3. I will outline about how each fund is positioned.
4. I will discuss the conflicts raised by me being a director of Sun-Rype Products.
5. I will spend a page ranting from my toadstool.
6. I will discuss my rather convoluted relationships.
7. I will talk about some of the administrative changes that have occurred.

After my report, you will find:

1. The McElvaine Investment Trust Audited Financial Statements
2. The McElvaine Investment Limited Partnership Audited Financial Statements
3. 2000 Annual Report's "From the Toad Stool"
4. A copy of my letter to potential partners' from our "marketing" package.

As mentioned last year, by the time you have finished I suspect you will be pleased this is an annual report.

Warning label

Before I get into the performance, I want to say that the last couple of years have been kind to us. Our portfolios now contain substantial unrealized gains. This means two things:

1. Our portfolios in aggregate are not as cheap as they were.
2. Unrealized gains mean a potential tax liability for all unitholders. (except RRSPs)

I realize you correctly may ask "so what are you doing about it". I think Tom Hanks' character in the movie Cast Away best described my daily routine when he said:

"<I just> Keep breathing. For tomorrow the sun will rise and who knows what the tide will bring in."

Trust and LP Performance

For the Trust, our return for the 12 months ending 31Dec2001 after all fees and expenses was +28.0%. By comparison, the Toronto Stock Exchange (TSE 300) total return (including dividends) for this same period was negative 12.6% while the median Canadian equity fund fell by 4.2%.

For the LP, our return for the 12 months ending 31Dec2001 after all fees and expenses was +13.9%. By comparison, the Morgan Stanley World Index's (in Canadian dollars) total return (including dividends) for this same period was negative 11.5% while the median Global equity fund fell by 12.4%.

I wish I had a simple answer for why performance differs between the funds. In fact, on reflection, I do and it is simply the portfolios are different. The LP has more foreign exposure; the Trust is 70% Canadian. My discussion below will shed a little more light on this.

Investment return versus your return

To illustrate our performance, I have expressed the details as a percentage of our opening net asset value. I should caution you that these figures are my estimates and are unaudited:

	<i>Trust</i>	<i>LP</i>
Returns from investments	38.3%	18.0%
Operating expenses	-0.4%	-0.5%
Taxes paid	-0.7%	-0.1%
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Return pre-management and pre-incentive fee	37.2%	17.4%
Management fee	-0.4%	-0.4%
Incentive fee	-8.2%	-2.9%
GST (tax) on fees	-0.6%	-0.2%
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Net return to you	28.0%	13.9%

A couple of comments:

1. Operating expenses primarily consist of audit, legal, custodial and trustee fees (for the Trust). In addition, the structure of the LP (as originally established in 1991 by the Cundill Group) allows for the LP to pay various costs related to the distribution of its units while in the Trust, I pay these. This accounts for the small differences in operating expenses.
2. The Trust unfortunately pays Alternate Minimum Tax. The LP does not. When the Trust reaches 150 unitholders (it has about 136 now) this obligation to pay Alternate Minimum Tax may, per KPMG, go away. This accounts for the differences in taxes paid.
3. The incentive fees are based on the portfolio returns over a hurdle rate. In the case of the Trust, the incentive fee is 25% of the fund return over the average 90 day T-bill rate. For 2001, the T-bill rate monthly average was 3.8%. The incentive fee on the LP is 20% of the fund return over the average monthly Bank of Montreal deposit rate. For 2001, this rate was 2.6%.

4. I appreciate my fees are large when performance is good. Please note I am not saying I am worth what you are paying; I am just explaining the math. I would ask you to keep in mind fees represent revenue not net income to McElvaine Investment Management. As stated in the past, I do acknowledge my margins are better than a grocery store so I am not complaining.
5. As promised, I reduced the incentive fee for both the Trust and the LP by an estimate of the after-tax benefit to me of the director's fees I received from being a director at Sun-Rype.
6. As mentioned earlier, the majority of our gains this year are unrealized. What I mean is we have not sold the securities that gave us those gains. This is good and bad. It is good because it means we have incurred little tax and no friction costs. It is bad because we are counting our chickens before they have hatched so to speak. In other words, we do not have the cash in our pocket. For your information, at December 31 2001, our unrealized gains per unit were roughly as follows:

For The McElvaine Investment Trust	\$4. per unit
For The McElvaine Investment LP	\$6,300. per unit

Returns from investments

To give you a better idea of where we earned our returns, I have estimated the largest components of our investment returns as follows:

The McElvaine Investment Trust

Sun-Rype Products	4.6%
Primex Forest	3.4%
Mattel (including Softkey shares)	3.2%
Arbor Memorial	3.1%
Loewen bonds	2.8%
Highwood Resources	-0.6%
Fairfax Financial	-2.1%
Net return from everything else	23.9%

Returns from investments	38.3%

The McElvaine Investment Limited Partnership

Sun-Rype Products	4.8%
Mattel	3.8%
Loewen bonds	2.9%
Westshore Terminals	2.6%
Torstar	2.1%
Utilivest	-2.0%
Fairfax Financial	-3.0%
Net return from everything else	6.8%

Returns from investments	18.0%

A couple of observations:

1. For the most part, the two funds benefited in similar amounts from the same names.
2. Net return from “everything else” includes all other securities held during the year, the impact of interest (both income and expense), the impact of realized foreign exchange gains and losses and the impact of currency forwards.
3. “Everything else” accounted for the majority of the difference in performance. Everything else in the Trust primarily was 10 Canadian securities each of which added at least 1% to the Trust’s performance. The LP however did not own all of these Canadian stocks and had only 3 additional holdings (West Fraser, Humpty Dumpty and Nipponkoa) which contributed over 1% to performance.

Investments- Both funds

I decided the easiest way to discuss the portfolios was to do it collectively. In mid-April 2002, our holdings were as follows:

The McElvaine Investment Trust		
Sun-Rype Products	13.4%	of net assets
Torstar Corporation	9.6%	
Mattel Inc. (including Softkey shares)	9.5%	
Alderwoods Group	9.3%	
Glacier Ventures International	8.6%	
All other holdings including net working capital	49.6%	
The McElvaine Investment LP		
Sun-Rype Products	16.2%	of net assets
Mattel Inc.	13.6%	
Alderwoods Group	9.5%	
Nikko Cordial Corporation	8.7%	
Humpty Dumpty Snack Foods	7.9%	
All other holdings including net working capital	44.1%	

First, my usual caveats: I caution you several of our largest holdings are trading at prices different from our cost so the weighting is partially a consequence of the market rather than a conscious investment decision. In addition, while I am not a trader, I do periodically sell positions so over time the top list may change. The two portfolios differ partially due to their size and focus. As discussed earlier, the Trust is a Canadian focused fund while the LP has no such constraint. Finally, even in the case of similar security positions, the portfolios may differ slightly due to cash inflows and outflows.

Sun-Rype is our largest position in both funds. I will chat a little more about this in the next section. As mentioned above, a position’s size is partially a consequence of the market. In the case of Sun-Rype, it is currently at a price in excess of our cost so I would not like you to assume it is the largest position based on its relative attractiveness today.

As discussed last year, Mattel was and continues to be an important position. Mattel is not a traditional value stock. Its assets are not bricks and mortar but rather the brands it has in Barbie, Fisher-Price, Hot Wheels etc... Bob Eckert, who became CEO just after we purchased the stock, has done wonders to improve both the competitive and financial position of Mattel. We will definitely sell the position one day, just not yet.

We have filed collectively as owning more than 10% of the following companies:

1. Humpty Dumpty Snack Funds (Potato chips and other snack foods) – As mentioned last year, I am a fan of Gerry Schmalz who is the CEO and a large shareowner. All I can say is, if you are east of Thunder Bay, please eat Humpty Dumpty often and in volume.
2. Rainmaker Entertainment (Post production for film industry) - While Rainmaker is dominant in Vancouver, their business is closer to a job shop than a franchise. Nevertheless, with Hugh Mckinnon and Bob Scarabelli both as large shareowners and as Chairman and CEO respectively, I sleep like a baby!
3. Sun-Rype Products (juice and food products)– As discussed below, I am on the Board so I will leave that part of the discussion to the next section. Chairman Merv Geen, a substantial shareowner, and President Lawrence Bates have shown a dedication and love of the business that is second to none. I am learning a lot and appreciate their understanding.
4. Glacier Ventures (publishing) – The day I showed up at their offices, I knew it was a gem. Sam Gripo, the largest shareowner, and President Jon Kennedy operate out of offices, well, let me just say the washroom is not even on the same floor as the offices!

One other area I should chat with you about is Japan. I actually do not like to talk about it this way as I view us as owning individual companies not a country. Nevertheless, I raise the issue as the yearend financials in this report do not reflect the size of our current position. In early February, Japan was a little under the weather and as such, I found “stuff” to do. Our current “exposure” to Japan is as follows:

	% of net assets in Japan	
	at 31Dec01	at 15Apr02
The McElvaine Investment Trust	1%	15%
The McElvaine Investment LP	25%	32%

Each of our holdings, beyond an attractive purchase price, has the following attributes:

1. It has an important presence. In other words, it is a real business.
2. It has a very strong balance sheet.
3. It is large meaning over \$1Bn in market cap. Usually this does not matter to me but I just want to stress our investments are not marginal operations.
4. It has in some fashion indicated to me they value shareholders. In the majority of cases, there is a large and influential foreign shareholder.

For sure the headlines about Japan are negative and prices are likely to be volatile. That is exactly what I look for. I do want to stress again though, I am focused on the companies not the geography. We own some neat businesses at neat prices.

In summary, there was “stuff” to do in 2001. You may recall in 1997 the cash in the Trust averaged close to 60% of net assets. (I did not manage the LP then) If it makes sense to hold cash, I will. Today we are fully invested in both the Trust and the LP. As mentioned on the first page, a number of our holdings have risen in value and as such are not as cheap as they were previously. While this causes me to be cautious, I do want to mention I am comfortable and confident in our holdings.

Sun-Rype discussion and conflicts

I discussed the conflicts involved with Sun-Rype in my June 2001 “I am here” sheet. I have updated and reprinted those comments below:

We collectively own just under 1,500,000 shares of Sun-Rype Products or about 14.2% of the company. As mentioned to you in my letter in May 2001, I am now on the Board of Sun-Rype. Sparing you the details, I would mention the new directors at Sun-Rype were not the slate proposed by management. As such, I felt it important that I represent our interests rather than put someone in an uncomfortable position. As a result of me now being a director, there are several items I need to discuss with you:

- 1. Conflicts*
- 2. Compensation*
- 3. Shareholding*

On conflicts, once I became a director, the nature of our investment changed. Conflicts are introduced between my responsibilities to you as an investor in my funds and my responsibilities to Sun-Rype as a director. While I will continue to operate in our best interests as investors, there will be circumstances when my duty will be to Sun-Rype. At the end of the day, I am not overly fussed as I believe we are much better off stepping into the fray than avoiding it.

On compensation, I receive directors fees. By accepting these fees, I am “double dipping” given you already pay me to handle your investments. It is therefore my intention to reduce any incentive fee payable to me in December by the after tax amount of any directors fees I have received. In addition, I have asked not to participate in any Sun-Rype director option plan. While my solution is not perfect, it does clear my conscience.

On shareholdings, as a director of Sun-Rype I believe it is important that I own shares. In mid-May 2001, I did personally purchase shares. While my Sun-Rype investment is not insignificant for our family, it is substantially less than our family’s (including our holding company, Hakuna Matata) investment in our funds. As the song goes “you are always on my mind”.

From the Toad Stool

Last year I talked about certainty. You may recall certainty to me was not about the price but rather my certainty (or confidence level) over the items I focus on: the value of the company, the volatility of my estimate of this value and whether management was working for or against shareholders. For those who are bored, I have included last year's discussion under Appendix B.

To change tack a little, I thought I might touch on uncertainty this year. I raise this given the large position we have in Japan. I appreciate the numerous calls I have had on the prospects for Japan. I agree the future is uncertain.

It is this lack of certainty that provides the prices we need to buy companies at our valuations. In other words, the best bargains I have found are when the seller does not care about price. In my experience, this occurs either due to a special situation/constraint (such as a spin-off) or because the seller just wants out. For example, in the early part of 2002, investors did not want to be in the Japanese stock market. This was exacerbated by regulations encouraging banks to dispose of large portions of their equity holdings by 31Mar2002. It was during this period, our investments in Japan increased significantly.

That is the macro stuff. I do not invest that way but rather look at what is available on a stock by stock basis. As such, I will discuss Nikko Cordial Corporation, our largest Japanese investment. The entire position was purchased recently (February of 2002) in both the Trust and the LP. I am of course risking egg on my face here as it is too early to crow. I just want to use a real time example so you understand how I am investing our money.

You may recall I look at three elements when investing:

1. The value of the company

My numbers will be rough. I do not use a spreadsheet. Very simply, Nikko's business consists of three parts: one of the largest institutional brokers and underwriters in Japan via Nikko Salomon, 3rd largest retail broker (including web-broker) and money management. All three businesses I believe are worth significantly more than tangible book and in fact I think represent a toll-gate on the coming securitization of the Japanese economy. To put some meat on the bones, tangible book is about Y400 per share and our average cost is about Y470. In addition, in contrast to the Tokyo analysts, I think Nikko has the potential, a couple years out, to earn Y100 per share.

2. The volatility of my estimate of this value

Time will tell. Nikko's balance sheet is pretty good. Leverage, for a broker, is low and all assets are marked to market. This is significantly different from the banks. There is transparency. My conclusion was there is some risk of further deterioration but more likely due to business losses than asset write-offs. On the positive side, business value is very volatile on the upside as a pickup in the market does wonders for the business.

3. Whether management was working for or against shareholders
This is an important consideration for me. In all our Japanese investments, I have attempted to focus on those situations where I believe the Board recognizes it has a responsibility to shareholders. Specifically in Nikko's case, there is a significant foreign shareholder. Citigroup effectively owns 25% of Nikko, a position purchased about two years ago as part of a restructuring of Nikko.

The key comments cited in various research reports on Nikko were:

1. transaction volumes due to a weak stock market will be low and hence the time to buy Nikko is when this improves. My comments: transaction volumes are definitely low today and maybe tomorrow. I look out 3 or 4 years and say Nikko has an important presence in what I think is an important industry.
2. problems in the money management business resulted in a significant decrease in assets under management. My comments: this is true but it is an issue that is interesting but unimportant to the valuation.

Well, the bottom line is we own Nikko Cordial. We were able to buy it because I had a lot of comfort or certainty over the characteristics I focus on. This was combined with significant uncertainty in the market. Discussion even continues today as to whether Nikko has had a false run and the next move is down. I do not have a clue. In fact, not worrying about the next month or the next quarter is a huge competitive advantage we have.

As in the past, I am often wrong. Nikko may prove to be a mistake. Nevertheless I thought it was an interesting way to let you know what I am thinking when I invest our money.

Relationships

I want to address motivation and focus. I effectively have 4 responsibilities: I manage the Trust and the LP, am CIO of Cundill and work on the Cundill Value Fund team.

On motivation and my funds, as mentioned in last year's report, there is greed and ego. My immediate family's, meaning myself, Celina, our daughters and Hakuna Matata Holdings Ltd., investments are structured as follows:

Investments in the Trust and the LP	77% of our investments
Everything else	23%

Everything else includes our interest in 60% of McElvaine Investment Mgmt at cost, my interest in 11% of Peter Cundill and Associates Bermuda at cost, my shares of Sun-Rype Products at market and any other securities owned at market.

On the funds, I am often asked if one should invest in the Trust or in the LP. I have a tough time answering this. The facts are:

1. We have more of our money invested in the Trust than in the LP due to its history.
2. The LP has the potential to produce more fees to me than the Trust.
3. Each quarter, we invest roughly an equivalent amount of money in both the Trust and the LP.

I believe our structure results in me making money when you make money and in me losing money when you lose money. I think our interests are aligned.

Administration

Since December, there have been a number of changes:

1. In January of 2002, Kim Nazaroff threw caution into the wind and joined me as Operations Manager. She is the person to talk to if you have any questions on your account. I have told her I am in charge of opportunities, she is in charge of problems!
2. Mackenzie Financial gave us notice that after 31 March it would no longer provide administrative services to our funds.
3. We entered into an agreement to centralize record keeping, valuation, banking, custody and trustee (for the Trust) at Royal Trust. This greatly simplifies our life.
4. Related to Royal Trust, we circulated a resolution to the Partners of the LP asking for approval for a 1,000 for 1 unit split to allow for improved record keeping. In addition, we mailed a resolution to amend the Partnership Agreement on several administrative matters.
5. We drafted and will circulate in the next week, a resolution to the Partners of the Trust asking for approval to amend a number of sections of the Trust agreement. These changes are primarily administrative related and as a result of our move to Royal Trust.

As discussed in separate letters to Partners of the Trust and LP, the legal costs (to my knowledge thus the only cost) of the transfer to Royal Trust are being paid by McElvaine Investment Management. While the agreements allow for these costs to be charged to the respective funds, I feel I caused this transfer and I should pay for it.

Also as discussed, I expect Royal Trust's annual fees as custodian (and Trustee for the Trust) will be higher than our previous arrangement with CIBC Mellon. We had advantageous terms because of our relationship with Mackenzie and as the administration agreement was coming to an end, this could not continue. As in the past, custodial and trustee fees are paid by the funds and form part of operating expenses discussed earlier. I do not expect the impact of this increase to be significant though (less than 1/10th of 1% of net asset value per year)

Photos of you

I was delighted with the number of you who sent in pictures of yourselves. It was wonderful to see how much fun and love there is in your lives. I do note some of you did not send in pictures. I have concluded you are either modest or ugly.

Acknowledgements

Kim Nazaroff, as always, continues to make my life easier. (except when I attempted to pay myself and found she is the only authorized person to adjust our payroll at McElvaine Investment Mgmt; you should have seen me grovel!) Nevertheless, I appreciate her work.

I continue to try the patience of Peter Cundill and my colleagues at Cundill Investment Research. To them I say “thank you for your understanding”!

As I have mentioned in the past, I am blessed to be doing something I enjoy for people I like and respect. Given the number of investment alternatives available in the market place, I consider myself very fortunate to have your trust. Thank you.



Tim McElvaine
April 16, 2002

Appendix A
2000 Annual Report
From the Toad Stool

I want to talk for a second on certainty (or confidence level) and investing. I think this is especially important given our large holdings in several companies. As I get older in this business, I value certainty more and more. Let me clarify what I mean. I am not referring to a prediction of what is going to happen to the stock price. I am referring to certainty over the items I focus on. As discussed in the past, these are:

1. What I think the company is worth
This is always a guess at a broad range. It does not depend solely on assets on hand.
2. How volatile I think this rough estimate of worth is
This is a stress test of item 1. I think about the story of the three little pigs. The grass house and the stick house, from the perspective of a pig hoping for longevity, are much more “volatile” structures than the brick house.
3. Do I think mgmt and the board are working for or against us.

Let’s take an example: Loewen Group. We purchased the senior bonds of this bankrupt funeral home business around 50 cents per \$1 face of bond. I am confident Loewen is a reasonable business that is worth more than we effectively paid via the bonds. I am comfortable with the proposed new structure of the balance sheet and of the business. I am positive Paul Houston and John Lacey will operate in a conservative and honest fashion both with us and with their customers. In other words, I am certain we have a margin of safety.

You will note I said nothing about return. I have no idea what the price will do. Certainty with me is not about price fluctuations, it is about the business and the Board. I do recognize there will be unexpected events. Further, there will be many occasions where I misjudge the risks. I do think, on average, we will do better focusing on those situations where we can be certain about the controllable factors.

Appendix B

Tim's letter in the marketing package

Dear Potential Partner:

In this package I have tried to provide all the information you require to make an informed decision. It is not an exciting package to read and I apologize in advance for that.

As you may be aware, McElvaine Investment Management Ltd is the Investment Counsel for two funds: The McElvaine Investment Trust ("the Trust") and The McElvaine Investment Limited Partnership ("the LP"). In addition, I am Chief Investment Officer of Cundill Investment Research Ltd as well as a co-manager of several of their (and Mackenzie Financial's) funds. This leads to a confusing set of relationships which I will try to explain later in this package.

This package deals with my "stuff". I think the best place to start is how I view our relationship:

1. I view you as a partner regardless of the technical relationship. You contribute capital and I contribute investment advice. There is a modest flat fee and the profits are divided.
2. The Trust and the LP are not products and you are not my customers. I am not trying to "sell" you anything. My service is "spotty" at best. On the other hand, I do not have a marketing department and a PR agency does not review my correspondence. I will be honest with you and will try to provide the information necessary for you to assess whether I am keeping up my side of the bargain.
3. As a partner, I ask you to be cognizant of your other partners. A partner who comes in for a "flip" does no one any favours (especially as it may be a flop). If you are not comfortable with what you read, please do not join us. I would hate for you to spend your time worrying about what I am up to.
4. I suggest the Trust or the LP be only a part of your investment portfolio. I do not expect them to be funds for all seasons. Quite often, in the past, I have been doing the rumba while the market is doing the waltz. It is not a pretty sight. During those periods, I do not ask that you enjoy the show but that you be patient.
5. In the words of Sonny & Cher, "you got me babe". What I mean is The McElvaine Investment Trust and The McElvaine Investment Limited Partnership are not managed by a portfolio manager or a committee, they are managed by me. My (including Celina and our daughters) money is invested in the Trust and in the LP and my name is on the door. The good news and the bad news is you got me!
6. If you have any questions, please call or email. I am always delighted to talk with my partners. As I stated in the 1998 Annual Report, I have been asked if it wouldn't be easier on the nerves to manage the money of people I didn't know. My response was and is simply that I prefer to be working for people I like and trust. This is an important aspect to me of having my own funds.
7. Please carefully read the Offering Memorandum. Pay particular attention to the section Risk Factors. It is important you understand what the Trust and/or the LP is.

I appreciate your interest.

Tim

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