

## The McElvaine Investment Trust

### To my partners:

For the six months ending June 30, 1998, The McElvaine Investment Trust's net asset value per unit increased by 19.4% after fees and expenses versus a total return for the TSE of 10.5%. Cash and bonds for this period averaged approximately 30% of net assets.

The period subsequent to June has been volatile. Between 30 June and the time of writing, the Trust is up a percentage or so while the TSE has fallen by approximately 14%. These suggests the year-to-date return figures are about +20% or so for the Trust vs -5% for Total Return TSE. I caution you that the Trust's returns are dependent on the performance of a limited number of stocks. A stiff breeze through any of these issues could substantially change our net asset value.

### Portfolio structure

As of the end of July, the Trust's assets were roughly as follows:

Investments – Canada	36%
Investments – Japan	20%
Workouts - Canada	27%
Derivatives	1%
Net cash/bonds/work capital	16%

One could argue whether several workout positions are better called equities or quasi-equities. My intent is not to mislead you. While these positions have market risk, I view their return as very much more dependent on a specific event.

I understand my Japanese position is not conventional but I strongly believe it is conservative. We own a number of cheap smaller companies. To the end of July, considering all our Japanese activity, we have a modest gain. I would expect the road to continue to be rocky.

Earlier in the year I had the joy of going on a wild roller coaster ride with my daughters. About 30 seconds into the ride, one of my daughters suggested it was time to get off. We of course had no alternative but to tighten our belts and hang on. This describes value investing and most certainly investing in smaller cap Japanese companies.

### Mackenzie deal

As you may be aware, Mackenzie Financial will be acquiring Peter Cundill's mutual fund business. I have been very impressed with Jim Hunter and his colleagues and believe the deal will be good for Peter and for Mackenzie.

As you may recall, I have not been the biggest fan of large mutual funds. As a partner, you should be concerned how my managing a large Canadian mutual fund may impact your returns. I myself am uncertain of where my discussions with Peter and Mackenzie may lead. I remind you that the fee

structure of the Trust rewards performance. Our interests are aligned.

You should also be aware that I have notified the Trust's Trustee that I intend to "assign" both the Master Management Agreement and the Master Investment Counsel Agreement from Peter Cundill & Associates Ltd. to a new company, McElvaine Investment Management Ltd. I would expect this to occur at the earliest opportunity.

### **Distributions**

To date, the Trust has realized a significant amount of capital gains. Distributions do not occur until December 1998 but I would expect the distribution to exceed \$1. If you hold units outside of a RRSP, there will be a tax impact. Of course, events over the next 5 months may impact the amount of any potential distribution.

### **Other matters**

For your information, I have attached part of the package I circulate to people who inquire about the Trust. If you are interested in receiving the entire package, let me know.

In spite of my stubbornness on investment ideas such as Japan, I was unable to avoid being consumed by the Internet "vortex". We now have a website ([www.mcelvaine.com](http://www.mcelvaine.com)) where information about the Trust as well as the recent NAV is posted. If you wish to send me an email, feel free to use [tim@mcelvaine.com](mailto:tim@mcelvaine.com).

### **Conclusion**

Last year, I commented that I felt like I had been invited to the party but forced to sit at the top of the stairs. Well, this year I got all dressed up and was invited down only to find out it was a wake! I caution you the next little while will likely be volatile. As always, your support is appreciated.

Tim McElvaine  
August 21, 1998