

The McElvaine Investment Trust

To my partners:

For the six months ending June 30, 1999, The McElvaine Investment Trust's net asset value per unit increased by 24.3% after fees and expenses versus a total return for the TSE of 8.97%.

I have often said I would rather be lucky than right. Luck was certainly with us during the last 6 months. Japan treated us well and three large positions, MacMillan Bloedel, Scott's Restaurants and Okanagan Skeena, received take-over bids. Unfortunately I had "diworsified" our holdings a little more broadly than just those 4 positions!

Portfolio structure

As of mid-August, the Trust's assets were roughly as follows:

Investments – Canada	44%
Investments – Japan	16%
Workouts	14%
Derivatives	1%
Net cash/bonds/work capital	25%

Two income trusts account for about 25% of our Investments - Canada with the bulk of the balance in seven companies. Our largest equity position at this time is Small Fry Snack Foods Ltd. Small Fry is primarily a producer of potato chips including the Humpty Dumpty Brand in Eastern Canada. Always thinking of you, I have done extensive research into the potato chip industry involving a countless number of taste tests. (I can also say my daughters are suddenly interested in what I do!) Frito Lay undoubtedly calls the shots in this business and the best we can do is hope Humpty stays away from the edge of the wall.

We have lightened up slightly on several of our Japanese holdings. The bottom line is we have a fair amount of foreign content room which I would hope to use over the next couple of months. While there are some signs of deterioration in specific US securities, on the whole that market remains quite expensive both in absolute and historical terms. But I have said that before.

For the balance of the year, I can confidently predict that the Trust is unlikely to benefit from the current feeding frenzy taking place in Canadian base metal or oil & gas companies. Let's just say I was aware of the pricing, but unfortunately used Homer Simpson as my role model for initiative. I will reflect on what I cost us later over a donut!

Y2K

I have no idea what will happen on 01Jan2000. There are two "system" issues relating to the Trust: accounting and client software, and, the Trustee/Custodian. Cundill Funds Inc (a Mackenzie subsidiary) performs the Client service and accounting functions for the Trust on a subcontract basis. They have assured me their equipment is Y2K compliant. The Trust's securities are held by The Trust Company of The Bank of Montreal. Likewise they believe their equipment is Y2K compliant. Adequate backups will be done prior to yearend. (I found dealing with people on Y2K was like reciting that old camp song "there ain't no flies on us, there ain't no flies on us, there may be flies on some of you guys, but there ain't no flies on us". Doesn't that make you feel confident!)

Distributions

To date, the Trust has realized a significant amount of capital gains. Distributions do not occur until December 1999 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 4 months may impact the amount of any potential distribution.

Other matters

September 30 will mark our third anniversary. I enjoy working for people I like and trust. This is an enormous intangible benefit to me. (the tangible ones are helpful too!) I am pleased I have been able to keep up my side of the deal and provide respectable net returns to you on both an absolute and relative basis.

Looking forward, I am always curious how our investments will turn out. I realize this seems like an odd statement but really all I do is try to ensure we have a margin of safety. Unfortunately our investments are not aware that there are 365 days in a year and performance would be appreciated by 31Dec. This gets back to my statement at the beginning of this letter. Luck is very helpful!

Our merry band increased by 7 to 40. The new partners are a neat bunch and I am very pleased with the new relationships. The issue of course is whether a growing pie is a good idea. The key fact is our pie is growing primarily due to investment performance not the selling of units. (those of you who have experienced my marketing pitch can attest to this) We have one partner who is unfortunately leaving us (was a public co that was taken over) leaving our net "asset growth" at about \$2Mn year to date. Investment performance has accounted for about 2/3s of this increase. Due to the incentive fee and my own investment in the Trust (to which I continue to add), believe me, I favour investment performance!

As always, many thanks for your confidence and support.

Tim McElvaine
August 26, 1999