

**To my partners:**

I am writing to you a little earlier this year as I am in the process of packing up. In fact, this is my last note from the Kingston “office”. Perhaps similar to how others have retreated to the desert to find themselves, I retreated to Kingston to find my investing self. Time will tell if it was well spent!

The semi-annual financial statements will be mailed separately to you. I expect this to occur in the next couple of weeks.

You will find this report is addressed to both of you: the Partners of The McElvaine Investment Trust and the Partners of The McElvaine Investment LP (formerly Cundill Capital LP). I decided on this approach as I think this allows you to keep an eye on what I am doing. Also, for those of you who have an investment in both the Trust and the LP, I suspect I would test the strength of our relationship to expect you to read two reports of mine! The LP partners will also receive their usual mailing from Mackenzie in August. I expect to review this format in September and make changes at that time.

As discussed before, the two funds are somewhat different. The McElvaine Investment Trust (the Trust) is a RRSP eligible fund and must have 75% of its assets in Canada. The McElvaine Investment Limited Partnership (the LP) is a global fund hence may invest anywhere. Further, the majority of the Trust’s partners are non-taxable while the majority of the LP partners are taxable. These are the two important differences. While performance in any one year will vary between the Trust and the L.P., I would expect, over time, that their returns will be similar.

I realize there have been a number of changes over the last couple of months. I appreciate the notes and calls I have received from many of you. I want to reiterate I very much enjoy our relationship and am committed to ensuring there is a financial as well as intangible benefit for us all.

### **The McElvaine Investment Trust – the facts**

Our return for the 6 months ending 30Jun2000 after all fees and expenses was 5.4%. By comparison, the Toronto Stock Exchange total return (including dividends) for this same period was +21.9% (1) while the average Canadian Equity fund rose by 12.6%.(1)

In late July, our portfolio was invested as follows:

Investments	69%	of net assets
Income Trusts	12%	
Workouts	10%	
Cash/other	9%	

At this time, our largest investments in the Trust are as follows:

Mattel Inc (including Softkey shares)	13%	of net assets
Fairfax Financial	10%	
Sun-Rype Products	9%	
Rainmaker Entertainment	8%	
Other investments – 10 companies	29%	

### **The McElvaine Investment Trust – my attempt at an explanation**

While the first half of the year has been quiet performance-wise, I continue to be both comfortable and optimistic on our holdings. Our cash is relatively low because there are things to do especially in the small cap area. This differs significantly from 2 years ago where I found this market generally expensive. Regarding the big cap market, I continue to be concerned over the valuation of a number of securities as there is simply no margin of safety.

Our Mattel position is significant. (the position is composed of a direct position in Mattel common shares as well as an indirect position via Softkey exchangeable shares). Perhaps I ought to spend a second on Mattel.

Mattel combines a new focus with old brands. The conventional view is the toy industry is too fad oriented to have a brand. Hasbro's recent results have indicated there certainly is a fad component. On the other hand, Mattel has a strong underpinning in Barbie, Fisher-Price and Hot Wheels/Tyco. Mattel's problem has been one of mgmt focus. An enormous amount of shareholder value has been "wasted" over the past 5 years.

There are new activist Board members. There is a new Chairman formerly of Kraft Foods. There is potential to both cut costs and expand sales internationally. I am interested simply because I think the underlying business is worth a lot of money. We continue to have a margin of safety but I acknowledge this position will be impacted, in the shorter term, by events in the US market.

More generally, I note the TSE300 is approximately 35% Nortel. When I invest, I look for a margin of safety in the specific investment. I suspect some investors find their margin of safety, not in the fundamentals, but rather in how they are positioned relative to an index. This seems silly to me but then again, I am not in any position to preach. I can promise you one thing though: our investments will be chosen one by one based on my assessment of the underlying values. I do not and will not consider index makeup in this decision.

(1) my source for the performance data was globefund.com

## **The McElvaine Investment Limited Partnership (formerly Cundill Capital LP) – the facts**

On 31 July 2000, McElvaine Investment Mgmt will become the Investment Counsel for Cundill Capital and the LP's name will change to The McElvaine Investment LP. Over the last couple of weeks I have worked through the portfolio. As discussed previously, my immediate objectives are:

1. To put my "stamp" on the portfolio
2. To do pt (1) without causing you to pay tax.

I think we are about 70% there.

As you can imagine, things are a little bit in flux but I would like to give you an idea of where we stand. Taking into account pending trades, our portfolio in late July looks as follows:

Investments-Japan	30%	of net assets
Investments-Canada	21%	
Investments-US	11%	
Investments-other countries	27%	
Cash/other	11%	

At this time, our largest investments are as follows:

Nippon Fire and Marine	10%	of net assets
Mattel Inc.	8%	
Fairfax Financial	8%	
Other investments – 21 companies	26%	

## **The McElvaine Investment Limited Partnership – my discussion**

As mentioned in earlier mailings, my investment rationale has three components:

1. Discount to net asset value or business value
2. Consideration of the volatility of the business value (not volatility of the stock price)
3. Is management/board working for shareholders.

I applied these "filters" on our portfolio and made several changes.

Japan is an interesting area to invest. It combines a large economy, usually good balance sheets, conservative accounting and a trend to more shareholder focus. These are very positive tail winds. The main risks are time and mgmt. Time is a risk as the longer one waits, if the value is constant, the lower the return. Mgmt risk to me is simply that any value does not end up in shareholder hands.

With these risks in mind, I have refocused slightly our portfolio. At 31 Dec 99, there were 12 Japanese holdings representing about 44% of assets. Today we have 6 holdings representing about 30% of our assets. I would like to stress I do not have any problem with having significantly more of our capital in Japan, if the ideas are right.

Our largest holding was purchased over the last month and reflects my comments above. I agree with Peter that the non-life industry in Japan is cheap. Within the group, I tried to focus on those companies where I think the Board is thinking about shareholder value. In a similar vein, I replaced several of our smaller Japanese positions with a large position in a Japanese consumer product firm. Once again, I believe we have similar asset protection but have upgraded the shareholder focus.

I would like to stress two points. First, the new additions are not small companies; their market caps are in the billions of dollars. Secondly, we are not paying anything for my view that these companies are increasing becoming shareholder focused. If I am correct, I think we will have significantly reduced our time and mgmt risk. If I am incorrect, we still own very cheap stocks.

## **Other matters**

I do have a website although it will win no awards for excitement. We are in the process of “cleaning it up” but will continue to post the month-end prices. For our LP partners, I expect to provide at least an estimated price within 3 days of each month-end. I need to work out some details once I get to Vcr to turn the “estimated” into a more final number. The month-end price for the Trust also appears in both the Globe and the National Post’s Mutual Fund section. The price is listed towards the end of the funds’ listing specifically under “Other Funds”. I expect to get the LP listed here also in the fall. The website address is : [www.mcelvaine.com](http://www.mcelvaine.com) You may also email me at [tim@mcelvaine.com](mailto:tim@mcelvaine.com) These will not change as part of my move.

My office is a disaster area as I try to pack for the move. I apologize if I am not as quick to get back to you during this period. I expect to be up and running again by early September. The best place to contact me going forward is:

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## **Conclusion**

Once again, I am blessed with the relationships I have: old and new. I enjoy working for you and appreciate your support.

Tim McElvaine  
July 26, 2000