

The McElvaine Investment Trust
and
The McElvaine Investment Limited Partnership

Annual Report
2000

The McElvaine Investment Trust (“the Trust”)

The McElvaine Investment Trust is a RRSP 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.

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 read 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
Dec00	7.4%	24.3%	19.2%	12.0%	5.5%	9%
Dec99	31.6%	38.2%	29.5%	20.7%	4.7%	26%
Dec98	-1.6%	21.0%	16.6%	-2.1%	4.7%	27%
Dec97	15.0%	16.5%	12.8%	14.0%	3.2%	59%

The McElvaine Investment Limited Partnership

6 mths to	Morgan Stanley World Index	LP Pre-fee Return	LP Net Return	Median Global Fund	BMO Rate	Average Cash Balance
Dec00	-10.9%	15.0%	13.6%	-8.8%	3.2%	7%

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 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 and the Incentive fee.
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/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 16.5% was earned while the portfolio was on average only 41% invested.
8. The performance table for the Trust excludes the 3 mths from 27Sept96 to 31Dec96. During this period, the Trust returned 3.1%.
9. The predecessor to the LP, Peter Cundill LP, was formed in 1979 and has 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:

The stock market “race” of 2000 was won hands down by the tortoise. The hare tired by the spring and was a fox’s lunch by the fall. I am not passing judgment on what happened and do not suggest that the tortoise ought to win each year. But the tortoise did in 2000 and we are definitely more tortoise than hare in our approach. In fact, a tortoise in drag may be the best description of how we do things. Please keep that in mind as you review our portfolio!

2000 was for me a year of many changes. It started with a beautiful new daughter and ended in a different city with expanded relationships. It is on this I ought to dwell for a second.

Peter Cundill Limited Partnership (and then Cundill Capital LP) has had a marvelous 21 year history of rewarding its partners. I was delighted when Peter came to me in early 2000 with a proposal to have McElvaine Investment Management Ltd become the Investment Counsel for the LP. I was pleased not only to “pick up the mantle” but also to step into the relationships. Given its history, I fussed about whether to rename the LP but did so to be consistent with the changes in the Investment Counsel. Peter continues to be a very significant investor in the LP as well as both my partner and my Chairman in McElvaine Investment Mgmt. I am fortunate in my relationships.

When we discussed Peter’s proposal, the key issues to me were whether the LP would conflict with my existing business at the Trust and did I think I could do a good job for the partners of the LP. Not lacking in ego, I assumed my involvement would benefit the partners but I ought to talk about the first issue. I recognize Trust partners were concerned the LP may provide a distraction and the potential for conflict. As such, I felt it important that I do a combined Annual Report showing both the Trust and the LP. My rationale was simple. I believe this approach allows you to see all the hands at the table and ensure each hand has been dealt, and is being played, fairly.

More to the point, I realize there were also concerns over my focus when I announced the move to Vancouver and my continued work with the Cundill Group. I would stress with McElvaine Investment Management, my name is on the door and my money is in my funds. In other words, there is ego and greed. I suspect that covers a lot of ground as far as motivation goes!

There are several issues I want to talk with you about in this Annual Report. The Report is structured as follows:

1. I will spend about a page or so on each fund’s performance clearly indicating the returns you received and the costs you incurred.
2. I will chat briefly about how each fund is positioned.
3. I will spend a page ranting as it is my annual report.
4. I will discuss relationships.

In the sections following my report you will find the audited financial statements of both the Trust and the LP. By the time you have finished I suspect you will be pleased this is an annual report.

The McElvaine Investment Trust

Our return for the 12 months ending 31Dec2000 after all fees and expenses was 19.2%. By comparison, the Toronto Stock Exchange (TSE 300) total return (including dividends) for this same period was 7.4% while the median Canadian equity fund rose by 12%.

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:

Returns from investments	25.0%
Operating expenses	-0.2%
Taxes paid	-0.5%

Return pre-management and pre-incentive fee	24.3%
Management fee	-0.4%
Incentive fee	-4.7%

Net return to you	19.2%

Returns from investments

I estimate the largest components of our investment returns were:

Fairfax Financial	4.6%
Rainmaker Entertainment	4.1%
Mattel (including Softkey shares)	4.0%
Mikes Restaurants	2.7%
Oceanex Income Fund	2.3%
Highwood Resources	-1.9%
Net return from all other holdings/activity(interest,FX)	9.2%

Returns from investments	25.0%

As the tables above illustrate, our gross return from activities in 2000 was 25% and after all fees and expenses this ended up being 19.2% in your pocket. Operating expenses primarily consist of audit, custodial and trustee fees while taxes were primarily GST. I view these expenses as our "cost of business" and net of these, our pre-fee return was 24.3%. This pre-fee return was then reduced by the mgmt fee and the incentive fee. The management fee is a flat 0.40% per year while, as you may recall, the incentive fee is based on performance. Net of all expenses and fees, your return for 2000 from the Trust was 19.2%.

As the majority of our "partners" hold their investment through their RRSP, tax perhaps is not a big issue. Having said that, there are a number of "taxable partners" in the Trust including a large portion of our investment. As such, I should point out, in contrast to 1999, the Trust's 2000 tax distribution was very low. In other words, most of our gains were unrealized. In early March 2001, unrealized gains amounted to some \$2.5Mn or \$2.90 per unit of the Trust. I point this out for your information but should add unrealized means just that. We have not as of yet sold the shares and

incurred tax but neither have we locked in the gain and put cash in our pockets. It is subject to the whims of the market!

Absence of large losses best describes 2000 as far as the Trust's portfolio went. We only had one loser of any size which was Highwood Resources. Fairfax, Rainmaker and Mattel performed well and continue to remain large holdings of ours. Mikes Restaurants (subs/pizza restaurants in Montreal) was acquired in 2000 and my thanks go to Austin Beutel and Neil Zeidel. Unfortunately for me, I can now no longer claim buying a pizza was part of my Mikes due diligence efforts.

The McElvaine Investment Limited Partnership (formerly Cundill Capital Limited Partnership)

Our return since the restructuring of the LP on June 30, 2000 was 13.6%. This means, your return for the 12 months to December 31, 2000 after all fees and expenses was 15.8%.

In order to provide an accounting to you, I will discuss the LP's performance over the last 12 months. Similar to the Trust's discussion, to illustrate our performance, I have expressed the details as a percentage of the opening net asset value. I should caution you that these figures are my estimates and are unaudited:

Returns from investments	18.0%
Operating expenses	-0.2%
Taxes paid	-0.4%

Return pre-management and pre-incentive fee	17.4%
Management fee	-0.4%
Incentive fee	-1.2%

Net return to you	15.8%

Returns from investments

I estimate the largest components of our investment returns were:

Fairfax Financial	4.3%
Mattel	2.7%
Teck Corp	2.3%
Nippon Broadcasting	2.3%
Jardine Matheson	2.0%
LTV	-1.5%
Net return from all other holdings/activity(interest,FX)	5.9%

Returns from investments	18.0%

Our gross return from activities in 2000 was 18% and after all fees and expenses this ended up being 15.8% in your pocket. Operating expenses primarily consist of audit, custodial and legal fees. As discussed in the summer, McElvaine Investment Mgmt paid the legal fees related to the transfer of the agreements so these costs were not borne by you. Taxes consist primarily of withholding taxes and GST. I view these expenses as our “cost of business” and net of these, our pre-fee return was 17.4%. This pre-fee return was then reduced by the mgmt fee and the incentive fee. The management fee is a flat 0.40% per year while, as you may recall, the incentive fee is based on performance. Please keep in mind that the incentive fee was reduced because I stepped into Peter’s shoes as investment counsel and assumed the incentive fee shortfall that existed prior to the restructuring. I estimate your return would have been 1.5% lower if the shortfall had not existed. I have no complaint; this is just an important item you need to be aware of. Nevertheless, your return for 2000 from the LP, net of all fees and expenses, was 15.8%.

Regarding taxes, you will have separately received the tax schedules. During the last 6 months of 2000, we managed to decrease substantially your investment income allocation and slightly reduce your realized gain allocation while the value of your investment rose. Of course, at the end of the day, the piper (govt) must be paid but tomorrow is better than today! In this vane, I do want to point out our unrealized gains, in early March 2001, are just under \$10Mn or roughly \$6,500 per unit. Once again, these are unrealized and as such do not represent cash in our pocket. I provide this just so you are aware of our situation.

Dealing with the LP’s performance in 2000, LTV, the S&P puts and Mitsui Marine all hurt our performance. These positions, for better or worse, were all disposed of by September. Jardine Matheson and Nippon Broadcasting helped out the portfolio in the early part of 2000 (thanks Peter) while Fairfax, Mattel and Teck helped the back half.

Investments- Both funds

I decided the easiest way to discuss the portfolios was to do it collectively. In early March 2001, our holdings were as follows:

The McElvaine Investment Trust		
Mattel Inc. (including Softkey shares)	16.2%	of net assets
Fairfax Financial	11.0%	
Rainmaker Entertainment	10.1%	
Sun-Rype Products	8.1%	
Oceanex Income Fund	6.4%	
All other holdings including net working capital	48.2%	
The McElvaine Investment LP		
Mattel Inc.	16.5%	of net assets
Fairfax Financial	12.2%	
Nippon Fire and Marine	9.9%	
Teck Corporation	5.7%	
Westshore Terminals	5.6%	
All other holdings including net working capital	50.1%	

First, I must 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 decision. I am a much better buyer than seller and have tended to sell too early in the past. Recognizing this and the tax consequence of a sale, I am trying to pace myself better. Having said this, if there is a better bargain to be found, the heck with the previous sentence!

The two portfolios differ partially due to their size and focus. As discussed earlier, the Trust is a Canadian focused fund while the LP is global. In addition, even in the case of similar security positions, the portfolios may differ slightly due to cash inflows and outflows. For example, both the Trust and the LP have a position in Westshore Terminals. The LP's is shown above at 5.6% of assets, while the Trust's is not shown as it is just under 5% of assets.

Clearly Mattel is an important position. Mattel has appreciated somewhat over the last 6 months and as of yet, we have not lightened up hence the large weighting. This also reflects my comments earlier about a tortoise in drag as Mattel is not a holding that could be justified on strictly a book value basis. Regardless, at the time of purchase, I was convinced we had a significant margin of safety.

In the Trust, at this time, we do not own any Japanese securities while in the LP we have approximately 18% of our money invested in 3 companies(although at the time of writing we are adding a fourth). Simply put, I prefer to shop first in my own backyard. For the Trust, unlike several years ago, during 2000 there was stuff to do in Canada. As such, especially given its RRSP restrictions and small size, it has remained mostly in Canada. For the LP, you will have seen over the last 6 months or so a significant increase in its holdings in Canada.

Getting back to Japan and the LP, a year ago, the LP had roughly 45% of its assets in 12 Japanese companies while today, as mentioned, we have 18% of the fund in 3 companies. Like in all our investments, I ask myself do I think management is for or against us. In Japan, this is certainly a grey area and I have tried to focus those situations where I think I understand where we sit in the pecking order.

We, collectively, own over 10% of two Canadian companies: Humpty Dumpty Snack Foods (potato chips primarily) and Rainmaker Entertainment (post-production work for film industry). Humpty Dumpty represents about 6% of the Trust's assets and 3.5% of the LP's. Sadly, my move to Vancouver put me out of the distribution network of Humpty Dumpty. Clearly the sale of Mikes and the reduction in my testing of Humpty Dumpty products will result in me losing many many pounds. Nevertheless, in spite of the sales drop off in the Kingston area, Gerry Schmalz of Humpty Dumpty continues to pull rabbits out of the hat in the US while fighting off Frito Lay in Canada. This is a difficult but cash generative business. I trust Gerry's judgment and am hopeful for the future. Our other "filing position" is Rainmaker which represents about 10% of the Trust's assets and 3.4% of the LP's. To his credit, Bob Scarabelli, President and CEO of Rainmaker, worked through many difficult decisions in 1999 in order to focus the company on its core business. The results speak for themselves given the sales and profit gains in 2000. In addition, the recent appointment of Hugh Mckinnon (you may recall Hugh was involved in an earlier holding of

the Trust's, Okanagan Skeena) as Chairman of Rainmaker gives me a lot of comfort as a shareholder. My discussion above was not meant to recommend either holding but I do think it was appropriate given our position as an owner.

To conclude on portfolio stuff, generally speaking, I find there is less to do today for a value investor than there was 6 months ago. I realize this differs from perhaps what has been going on in the indices. Further, this is not a prediction just an observation. We are for the most part fully invested and I am comfortable with all our holdings.

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.

I suspect this is what tripped the markets up last year. It is easy to envision a wonderful future. The analysts' predictions of specific corporate futures were indeed possible but I suggest they were far from certain. Unfortunately many stocks were priced off the potential outcomes without considering certainty. It is sad what damage has been done to investors and their savings.

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. The move to Vancouver perhaps made the last two items of my work easier and I don't believe detracted from the first two.

On motivation, as mentioned earlier in the report, there is greed and ego. Please do not underestimate my commitment to the LP and the Trust. My immediate family's, meaning myself, Celina, our daughters and our various entities, investments are structured as follows:

Investments in the Trust and the LP	80% of our investments
60% of McElvaine Investment Mgmt at cost and 11% of Peter Cundill & Associates Bermuda at underlying cost	20%
Other securities	less than 1%

I do own, in McElvaine Investment Mgmt, small positions in about 20 companies to ensure I am on their mailing list. This is part of our investment in McElvaine Investment Mgmt shown above.

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

1. We have significantly more money in the Trust than the LP due to its history.
2. The LP has the potential to produce significantly more fees to me than the Trust.
3. We have recently bought units of both the Trust and the LP. Going forward, I will attempt to split any investment of ours 50/50 between both to ensure no bias.

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

Acknowledgements

As you may be aware, I subcontract the bulk of my "back office" to Mackenzie. Kim Nazaroff continues to do a wonderful job handling legal and unitholder issues. David Tucker, Dominique Lee, David Pitt and the accounting team likewise do a great job in producing portfolio reports from my often incomprehensible trading instructions.

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
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