

The McElvaine Investment Trust
and
The McElvaine Investment Limited Partnership

Annual Report
2002

The McElvaine Investment Trust (the “Trust”)

The McElvaine Investment Trust is a 100% RRSP eligible fund and as such must have a minimum of 70% of its assets invested in Canadian securities. The Trust was formed on September 27, 1996 with the following in mind:

- 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”)

Originally I thought The LP’s focus would be global. Instead I have concluded it ought to be opportunistic. Whether that means a Canadian security, a Japanese security or a private investment depends on the price and the situation. It is a far more flexible fund than the trust both in terms of where and what it might invest in.

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 Trust⁸

Year to	S&P/TSX Composite Index Return ¹	Trust Pre-fee Return ³	Trust Net Return ⁴	Median Cdn Equity Fund Return ⁵	T-bill Rate ⁶	Average Cash Balance ⁷
Dec02	-12.4%	5.4%	5.0%	-12.0%	2.6%	5%
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%
6 Year compounded	3.5%	23.5%	18.2%	4.1%		

The McElvaine Investment Limited Partnership⁹

Year to	Morgan Stanley World Index Return ²	LP Pre-fee Return ³	LP Net Return ⁴	Median Global Fund Return ⁵	BMO Rate ⁶	Average Cash Balance ⁷
Dec02	-20.2%	-1.2%	-1.6%	-20.1%	0.9%	2%
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, the S&P/TSX Composite Index returns have been used. This 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 an indicator of how the investments of the Trust and the LP actually performed. 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 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.

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:

As with last year, my letter to you will start on the next page. In last year's annual report, I repeated the story of Sadako, the Japanese girl who died of leukemia. Sadako was one of the many innocent victims of war. Sadly there will be many new Sadakos in 2003. Appendix D reprints this part of last year's annual.

A couple of years ago, Jewel wrote a beautiful song called *Hands*. I think about it often and thought it might be appropriate given our world today. I apologize in advance to Jewel and her fans as I realize I may be placing the lyrics out of context. Nevertheless here they are:

*If I could tell the world just one thing
It would be that we're all OK
And not to worry 'cause worry is wasteful
And useless in times like these.*

*I won't be made useless
I won't be idle with despair
I will gather myself around my faith
For light does the darkness most fear.*

*My hands are small, I know
But they're not yours, they are my own
And I am never broken.*

*In the end only kindness matters
In the end only kindness matters.*

From the song *Hands*
Written and performed by Jewel on her album [Spirit](#)

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To my Partners:

For better or worse you ought to think of me as the Homer Simpson of investment managers. While you may not appreciate that I have his intellect, you ought to be relieved that I share his lethargy. The reason I say this is it appears that everything I sold last year went up after I sold it and everything I bought went down after I bought it. The saving grace was I did very little. In other words, if you call and I say I am hard at work, you are well advised to suggest: “Tim, how about taking a donut break!”

As mentioned in the past, 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 how each fund is positioned.
4. I will spend a page ranting from my toadstool.
5. I will chat about several compliance related issues.
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” (Appendix A).
4. Sun-Rype discussion and conflicts from 2001 Annual Report (Appendix B).
5. A copy of my letter to potential partners from our “marketing” package (Appendix C).
6. The story of Sadako from the 2001 Annual Report (Appendix D).

By the time you have finished I suspect you will be pleased this is an annual report.

Warning label

First and foremost, I caution you all figures are my estimates. While the spirit is true, the calculator sometimes strays! Secondly, I want to stress that all figures in the body of my report are unaudited. You will of course find audited financial statements for each fund after my report. Finally, some of my comments could be considered predictions. While my statements are made with the best of intentions, history has shown I am often quite wrong.

Trust and LP Performance

For the Trust, our return for the 12 months ending 31Dec2002 after all fees and expenses was +5.0%. By comparison, the S&P/TSX Composite Index total return (including dividends) for this same period was negative 12.4% while the median Canadian equity fund fell by 12.0%.

For the LP, our loss for the 12 months ending 31Dec2002 after all fees and expenses was 1.6%. By comparison, the Morgan Stanley World Index total return (in Canadian dollars and including dividends) for this same period was negative 20.2% while the median Global equity fund fell by 20.1%.

I would expect the two funds to have similar performance over time. Given their portfolios are a little different, in any given period I am not surprised that performance differs. Hopefully my discussion below will shed a little more light on this for you.

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	5.8%	-0.8%
Operating expenses	-0.3%	-0.3%
Taxes paid	-0.1%	-0.1%
	-----	-----
Return pre-management and pre-incentive fee	5.4%	-1.2%
Management fee	-0.4%	-0.4%
Incentive fee	0%	0%
GST (tax) on fees	0%	0%
	-----	-----
Net return to you	5.0%	-1.6%

A few comments:

1. Operating expenses primarily consist of audit, legal, custodial and trustee fees (for the Trust).
2. The management fee is a fixed fee of 4/10 of 1% of the net assets of each fund.
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 2002, the T-bill rate monthly average was 2.6%. (While the Trust's performance was higher than the hurdle rate, the mechanics of the calculation resulted in no incentive fee.)
4. The incentive fee on the LP is 20% of the fund return over the average monthly Bank of Montreal deposit rate. For 2002, this deposit rate was 0.9%. I had a low hurdle but I still managed to trip over it!
5. In 2001, when our performance was good, you paid me a large fee. This year there is no incentive fee. This was not a good result for either of us!
6. Before any incentive fee is earned in 2003, both the Trust and the LP have a shortfall to make up. This shortfall is approximately \$500,000 in the Trust and \$1,100,000 in the LP.

7. This shortfall has been increased by an estimate of the after-tax benefit to me of the director's fees I received during 2002 from being a director at Sun-Rype.
8. As I "warned" in last year's annual report, both funds had taxable income in 2002 (primarily capital gains). A large contributor to this was the conversion of Rainmaker Entertainment from a corporation to a trust. For financial statement purposes we are required to leave Rainmaker at our cost. For tax purposes, Revenue Canada required that we recognize a gain on this transaction even though we continue to own Rainmaker. By way of background, Bob Scarabelli (CEO) and Hugh McKinnon (Chairman) of Rainmaker decided to change Rainmaker's structure in order to improve Rainmaker's corporate governance by distributing Rainmaker's profits to its owners (as an aside, I should mention many view income trusts as yield plays. This is dangerous thinking to my mind. Whether a business is structured as a trust, a corporation, or a LP may change slightly the attractiveness of it as an investment, but it does not change the underlying economics of its business). Getting back to the tax issue, Rainmaker was the bulk of our distribution in 2002. I realize it was disappointing for you to have unsatisfactory investment performance and a tax bill. As I am a large partner too, I understand!
9. While on the subject of tax, and for your information, I estimate the unrealized gain per unit of each fund as follows:

	<i>Trust</i>	<i>LP</i>
At 31Dec01	\$3.87	\$6.42
At 31Dec02	\$1.36	\$2.80

Please keep in mind these are only estimates and change each day as the market prices of our securities change. Furthermore, this does not mean we expect to realize these gains in 2003, events will determine our actions.

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

Glacier Ventures	3.2%
Concord Pacific	2.8%
BNN Investments	2.6%
Rainmaker Entertainment	2.5%
Humpty Dumpty Snack Foods	2.1%
Alderwoods	-7.0%
CINAR	-5.1%
Net return from everything else	4.7%

Returns from investments	5.8%

The McElvaine Investment Limited Partnership

Japanese holdings (various)	2.8%
Concord Pacific	2.0%
Humpty Dumpty Snack Foods	1.7%
Mattel	1.4%
West Fraser Timber	1.3%
Alderwoods	-6.3%
CINAR	-3.5%
Net return from everything else	-0.2%

Returns from investments	-0.8%

A few observations:

1. Clearly two stocks significantly hurt our results. Of the two, Alderwoods was an error on my part. Simply put, I bought too much. The idea has merit but not as a core position. The second stock was of course CINAR. I remain optimistic about our CINAR position and will chat a little more on this later.
2. Concord Pacific was a real estate developer owned both in the Trust and the LP. Terry Hui took the company private towards the end of the year. Sadly, your brilliant investment manager sold the position about mid-year at a somewhat lower price. I do think David McLean, Chairman of Concord, did a good job on behalf of the minority shareholders and I am sorry we did not benefit in the final chapter.
3. Glacier, Rainmaker, Humpty, Mattel and West Fraser were owned in both funds. Whether a stock makes the top five list for a fund is based on its relative contribution. For example, Mattel contributed about 1.5% to the Trust's performance but is not included in its list as there were 5 stocks with a larger contribution. The bottom line is both funds benefited from these holdings.
4. Japan was a larger position in the LP hence had more impact on its performance. The majority of these gains were realized as a number of our Japanese holdings were sold by mid-year. I have begun building back up the Japanese position and I will chat a little more about that below.

Investments- Both funds

I decided the easiest way to discuss the portfolios was to do it collectively. At the end of February 2003, our holdings were as follows:

The McElvaine Investment Trust

CINAR Corp.	14.5%	of net assets
Mattel Inc.	10.1%	
Sun-Rype Products	9.3%	
Glacier Ventures International	7.2%	
Torstar Corporation	7.2%	
All other holdings including net working capital	51.7%	

The McElvaine Investment Limited Partnership

Sun-Rype Products	15.3%	of net assets
Mattel Inc.	14.4%	
CINAR Corp.	12.9%	
Humpty Dumpty Snack Foods	8.9%	
Torstar Corporation	8.1%	
All other holdings including net working capital	40.4%	

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 Canadian content constraint. Finally, even in the case of similar security positions, the portfolios may differ slightly due to cash inflows and outflows.

Sun-Rype continues to be a large position in both funds. As you may recall, I am on the Board of Sun-Rype. This relationship is discussed further in Appendix B. As mentioned in last year's annual report, I respect Merv Geen's (Chairman) and Lawrence Bates (President) passion for the business.

Mattel also continues as one of our largest investments. The CEO, Bob Eckert, continues to do a wonderful job growing sales, reducing costs and producing cashflow.

What can I say about CINAR! Actually there are a number of points I ought to make:

1. CINAR finished 2002 with a strong balance sheet and improved operations.
2. In CINAR's recent annual report, Robert Despres, the Chairman, makes the following comments:

Outstanding issues remain and we will continue to address them diligently and expeditiously. Among those, we will seek a lifting of the cease-trade order of the Quebec Securities Commission and the reinstatement of CINAR on the stock exchange. (p. 13 CINAR 2002 Annual Report)

3. The owners of the multiple voting shares have hired an investment banker to find a buyer for their shares. This may or may not result in our CINAR shares being acquired.

4. There is somewhat of a shareholder tussle going on between CINAR's US shareholders and CINAR's board. This is primarily over what direction or mandate the Board has.
5. As mentioned in September, I will waive any incentive fee that may accrue from CINAR trading over our cost.

On the topic of Japan, as mentioned, I have been adding to our position. In fact as I write this, we have an order out to increase our Japanese weighting. I do want to make it clear that we will buy Japanese stocks when I believe they have both a significant margin of safety AND are relatively cheaper than alternatives I am finding in North America. Nevertheless our current "exposure" to Japan is as follows:

	% of net assets in Japan
The McElvaine Investment Trust	9%
The McElvaine Investment Limited Partnership	20%

This is a little less than when I wrote to you last year. We sold the majority of our Japanese holdings by last summer and only just started to rebuild in the last couple of months. Nikko Cordial continues to remain a large holding. In addition, in both funds, we own the largest publicly traded broadcaster in Japan. The LP's holdings also include the 2nd largest publicly traded broadcaster, a large consumer product firm and the 2nd largest Japanese brewer. All our Japanese investments have multi-billion market caps, cash producing businesses and important presences. Three of the five companies have repurchased (or announced repurchase programs of) their own shares in the last month.

In sum, I am of course uncertain about how events will transpire in the world. Having said this, I find the margin of safety improving in the vast majority of our investments. I do not know when or if this will be reflected in the share prices but I am comfortable with our investments.

From the Toad Stool

Over the last two years I have chatted with you about certainty and uncertainty.

The 2000 Annual Report discussed certainty (included under Appendix A) in our investments. Simply put, 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.

The 2001 Annual Report talked about uncertainty in the market. This market uncertainty creates the low prices that allow us to invest. In other words, the best bargains I have found are when the seller does not care about price. This primarily occurs when investors are either scared or disinterested in a stock. Our biggest gains have come from us buying into situations where the newspapers are negative.

The great equalizer between these two issues is of course price. Ben Graham talked about this at length and summed up the whole issue when he stated that the margin of safety is dependent on the price paid.

The funny thing is whenever I buy a stock it goes down usually by a third (examples: Mattel, Scott's, CINAR, Humpty Dumpty, Nikko Cordial and others). While I realize this may not comfort you, the good news is I don't buy often! The bad news that is around a stock when we are investing always takes a little time to clear. The bigger issue is whether or not we have a margin of safety when we buy. If this is true, a lower price simply means a larger margin of safety. Ben Graham also had a great quote when he stated in the short run the stock market is a voting machine (meaning emotion rules) while in the long run it is a weighing machine.

The bottom line is that I have no idea what will happen to the market prices of any of our investments in any month, quarter or year. To me this is the "voting part of the market" and perhaps any analysis is better suited to a psychiatrist than me. I hang our hat on the belief that over time our investments will be "weighed" by the market. Assuming I did not mess up, that is when we make money.

The closest analogy I can give is our portfolio is a lot like me (a father) hanging around his soon to be teenage daughters. The majority of the time, when out in public and close to their school, they would prefer I was not around (voting machine or emotion!). But when I show up in the rain with the van (weighing machine), Dad is a hero (and that is why we live in BC)!

Compliance related

Given all the press this year about compliance, I thought I ought to clarify several items with you:

1. *When you buy a stock how do you decide which fund gets what investments?*
My basic approach is to buy Canadian names first in the Trust as it is RRSP eligible. If I find there is sufficient volume and an attractive price, the LP may participate at that time or it may buy at a later date. The result is, even for similar positions, the Trust and the LP may have a different cost. In the case of non-Canadian ideas, the LP usually invests first.
2. *How is trading and allocation done for the funds?*
If both accounts are attempting to buy/sell the same stock at the same time, any “fill” will be split evenly between the two. This results in each fund being treated equally. For example, if we buy 10,000 shares of Nikko, the Trust and the LP may each get 5,000. I realize this seems obvious but funny enough it does differ from the standard practice of the mutual fund industry. Most of these firms prefer to split fills pro-rata meaning the amount of a trade a fund gets depends on its relative size. In the example above, as the LP is slightly larger, under pro-rata allocation it would receive almost 6,000 shares to the Trust’s 4,000. To me this would be like handing out pieces of a cake depending on one’s weight. Anyone who has children knows this would not fly! I believe our approach to allocation, while unconventional, is the fairest.
3. *What is soft-dollar and do you use it?*
Soft-dollar is the use of trade commissions to pay for research services. For example, broker xyz will pay for a fund managers subscription to abc magazine in exchange for commissions. While the debate on this topic can be complex, the bottom line is we do not use soft-dollars.
4. *Do you cross-trade or trade between the Trust and the LP?*
There were no trades in 2002 (or any earlier year) between the Trust and the LP.
5. *Do you invest in shares directly and what is your personal trading policy?*
This is discussed in the next section. The bottom line is that last year we (meaning my direct family), with the exception of a small Sun-Rype purchase, only invested in the Trust or the LP.
6. *Are there conflicts involved as we own Sun-Rype and you are a director?*
Yes there are a number of conflicts. This issue was covered in the 2001 annual report and I have included it under Appendix B.

Relationships

Part of the reason I am a little late with these year's annual report is I wanted to let you know about a change in my relationships. In late March, I told Peter I planned to step down as Chief Investment Officer of the Cundill Group. I enjoy working with Peter and his organization. I believe I have completed what I had intended to accomplish when I became CIO of Cundill some 3 years ago.

In total, I have worked with Peter for over 12 years. During this period our relationship has changed many times. We are once again in one of these metamorphoses!

On motivation and my funds, as mentioned in last year's report, there is greed and ego. In our investments, our family is not diversified! Ignoring our interest in McElvaine Investment Mgmt and Cundill, our "investments" consist primarily of the Trust and the LP. In fact, these holdings represent just under 90% of our "portfolio". The most significant holding outside of the funds we have is my holding in Sun-Rype. As mentioned last year, as a Sun-Rype director, I felt it important that I own shares directly.

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

Administratively, 2002 was a busy year. As you know Kim Nazaroff thankfully joined me at the beginning of 2002 as Operations Manager. Let's just say I think I managed to keep her busy!

Later in the year, Cheryl Burgess joined us as our administrative assistant. Her to-do list grows each day.

You received and approved a number of amendments to our agreements which allowed us to restructure our backoffice and administrative operations. As you know, Royal Trust, Kim and Cheryl now perform all unitholder, operational, and administrative duties.

Late in the year, we changed law firms. I very much enjoyed our relationship with Doug Johnson of Owen Bird and he was instrumental in getting us going many years ago. Neil de Gelder and Jason Brooks of Borden Ladner Gervais are our new counsel and (sadly) to date we have managed to ensure they will not starve.

Photos of you

A year or so ago, I suggested you send us a photo of yourself for our files. This was enjoyable for us as we got to see many of you having fun. We also appreciated the notes many of you wrote. While I understand it is kind of creepy to be asked for a photo, we are not trying to stalk you. You are our partners and we enjoy learning about you.

As we have many new partners, once again we would love to get photos (new ones for the new partners, updates for the older partners). There will be extra points for those who send in a photo of you using/holding/consuming a product of one of our current or past holdings. To refresh your memory, this list includes: Mattel (Hot Wheels, Fisher-Price, Barbie, Polly Pocket), Humpty Dumpty (chips), Sun-Rype (juice, Fruit-to-go bars), Torstar (Toronto Star, Harlequin), Kirin (beer), CINAR (Arthur, Caillou, Zoboomafoo), Glacier Ventures (Western Producer newspaper). Prior holdings include: Molson (beer), Scotts (Kentucky Fried Chicken, Tim Horton's), Mike's Restaurants (pizza). Certainly, given the age of many of you, by asking you to use some these products I realize I may be putting our business at risk!

We did find several of you did not send in any pictures. We have either glued a photo of our choice on your file or randomly labeled you either modest or ugly (by the way for those of you who asked about our photos: I am ugly and Kim is modest). Please help us avoid using this label on your file and send in a photo!

Acknowledgements

Kim and Cheryl continue to make my life easier. I realize many of you actually speak more to Kim than you do to me. Let's just say I am linguistically challenged so thankfully she is around.

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
March 30, 2003

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

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".

Appendix C

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

Appendix D
Excerpt from 2001 Annual Report

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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