

The McElvaine Investment Trust
and
The McElvaine Limited Partnership

Annual Report
2003

The McElvaine Investment Trust (“the Trust”)

The McElvaine Investment Trust is a RRSP eligible fund and is considered Canadian content for RRSPs. As such, it must have a minimum of 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 McElvaine 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. 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	Average Canadian Fund Return ⁵	T-bill Rate ⁶	Average Cash Balance ⁷
Dec03	26.7%	36.5%	28.2%	20.6%	2.9%	14%
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%
7 Year compound	6.5%	25.3%	19.6%	6.3%		
\$100 invested Jan97 is now	\$155		\$350	\$153		

The McElvaine Limited Partnership⁹

Year to	Morgan Stanley World Index Return ²	LP Pre-fee Return ³	LP Net Return ⁴	Median Global Fund Return ⁵	Deposit Rate ⁶	Average Cash Balance ⁷
Dec03	9.4%	33.3%	27.0%	12.8%	1.1%	11%
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%
\$100 invested Jul00 is now	\$69		\$162	\$72		

Notes:

- As the Trust invests primarily in Canadian securities, we have compared its performance to that of the S&P/TSX Composite Total Return Index (formerly the TSX 300 Total Return Index). This index tracks changes in the share price of 300 of the largest companies (by market capitalization) listed on the Toronto Stock Exchange (and includes the return from reinvested dividends). These companies represent a broad range of industries.
- The investment objective of the Partnership does not restrict the countries in which it may invest. Accordingly, we have compared its performance to the Morgan Stanley Capital International World Index. This index is designed to measure the performance of equity markets in countries that are considered to have “developed” equity markets. **You should understand that the Partnership’s portfolio may differ substantially from the investments reflected in this index.**
- “Pre-fee Return” is the increase in the asset value during the period after the deduction of all expenses, other than the management fee and performance incentive fee, and applicable GST, and for the Trust includes distributions reinvested in additional units. The Pre-fee Return gives you the best indication of how the funds’ investments have performed. However, the “Net Return” is a better indicator of the returns actually earned by investors.
- “Net Return” is the increase in the net asset value of the Trust or the LP during the period, and for the Trust includes distributions reinvested in additional units.
- We have compared the Trust’s performance to the average return of Canadian equity funds, and have compared the LP’s performance to the average return of Global equity funds, as published on the globefund.com website operated by The Globe and Mail and Bell Globemedia. Copyright 2003 Bell Globemedia Interactive Inc., its affiliates and/or licensors.
- “T-bill Rate” is the average of the monthly 90-day treasury bill rates during the year. “Deposit Rate” refers to the average 30-day deposit rate paid by a Canadian Bank. We have included these rates because they are used to determine whether the Portfolio Adviser receives a performance incentive fee.
- “Average Cash Balance” is the average of the month-end cash and short-term bond balances. For example, the 1997 pre-fee return for the Trust of 16.8% was earned while the portfolio was on average only 41% invested.
- The performance table for the Trust excludes the 3 months from 27Sept96 to 31Dec96 (startup period). During this period, the Trust returned 3.1%.
- The predecessor to the LP, Peter Cundill LP, was formed in 1979 and had a 21-year compound rate of return of 13.5%.
- It is important that you understand that performance is yesterday’s news and you should be careful about using it as a guide to tomorrow. The figures above are unaudited and in many circumstances, simply our estimates.**

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. The Statement of Net Assets and Schedule of Investments 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 Schedules of Investments 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:

In this market, investing with me is like hiring Barry Manilow to sing at a biker rally. Nevertheless, I do very much appreciate your support and thank you for your confidence. I do want to mention that if the market continues to advance strongly, I would expect us to lag due to our large cash balances and incentive fee structure. In other words, our performance will not be exciting. If you want a movie analogy to describe what I am up to, I think “Driving Miss Daisy” might be more relevant than say “Dancing with Wolves”. Finally, as discussed in the following pages, our performance in 2003 was satisfactory on an absolute basis. On a relative basis, 2002 was a much better year but I suspect we all preferred 2003!

As mentioned in the past, I believe it is important you see the “whole field” and as such this report discusses both the Trust and 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 briefly about the recent changes in the funds and in my relationships.

After my report, you will find:

1. The McElvaine Investment Trust Statement of Net Assets and Schedule of Investments.
2. The McElvaine Limited Partnership Statement of Net Assets and Schedule of Investments.
3. The 2000 Annual Report’s “From the Toad Stool”.
4. A discussion on Sun-Rype and conflicts excerpted from the 2001 Annual Report.
5. A copy of my letter to potential partners from our “marketing” package.
6. Compliance discussion.
7. A copy of my Dec2003 “We are here” describing some recent changes.

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 that all figures are my estimates. Secondly, I want to stress that all figures in the body of my report are unaudited. Audited Financial Statements will be sent separately to all partners. 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 31Dec2003 after all fees and expenses was +28.2%. By comparison, the S&P/TSX Composite Total Return Index (including dividends) for this same period was +26.7% while the median Canadian equity fund rose by 20.6%.

For the LP, our return for the 12 months ending 31Dec2003 after all fees and expenses was +27.0%. By comparison, the Morgan Stanley Capital International World Index total return (in Canadian dollars and including dividends) for this same period was +9.4% and TSX total return (including dividends) for this same period was +26.7%. The median Global equity fund rose by 12.8%.

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	36.8%	33.6%
Operating expenses	-0.3%	-0.2%
Taxes paid	0%	-0.1%
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Return pre-management and pre-incentive fee	36.5%	33.3%
Management fee	-0.4%	-0.4%
Incentive fee	-7.4%	-5.5%
GST (tax) on fees	-0.5%	-0.4%
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Net return to you	28.2%	27.0%

A couple of comments:

1. Operating expenses for both funds primarily consist of audit, legal and custodial fees. For the Trust, trustee fees are also included.
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 2003, the T-bill rate monthly average was 2.9%.
4. The incentive fee on the LP is 20% of the fund return over the average monthly Royal Bank of Canada deposit rate. For 2002, this rate was 1.1%.
5. As mentioned last year, both the Trust and the LP had a shortfall that had to be made up prior to any incentive fee in 2003. This was deducted in the incentive fee calculation.
6. No incentive fee was earned on our unrealized gain on CINAR (nor will one be earned on the realized gain). This was part of my undertaking to you in my letter of September 2002.
7. The incentive fees were reduced by my estimate of the after-tax benefit to me of the fees I received from being a director of Sun-Rype.

8. The bottom line is no matter how you cut it, the incentive fees you paid us were large in 2003. In spite of this, I suspect this result is preferable to our no fee 2002 performance!
9. One benefit of a large incentive fee is that it did reduce the funds' taxable income. As a consequence, the Trust had no taxable distribution in 2003 in spite of its performance. The LP did have a small amount of net taxable income but it was significantly less than its performance.
10. While on the subject of tax, I estimate the unrealized gain per unit of each fund as follows:

	<i>Trust</i>	<i>LP</i>
At 31Dec03	\$4.35	\$7.99
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 2004; 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

CINAR	6.1%
Japanese Broker shares	5.5%
Newfoundland Capital	4.1%
Rainmaker Entertainment	3.8%
Alderwoods	2.5%
Mattel	-1.4%
Humpty Dumpty Snack Foods	-0.7%
Net return from everything else	16.9%

Returns from investments	36.8%

The McElvaine Limited Partnership

CINAR	5.4%
Nikko Cordial	4.1%
Mitsubishi Securities	3.4%
Rainmaker Entertainment	3.3%
Sun-Rype Products	3.1%
Mattel	-1.8%
Humpty Dumpty Snack Foods	-1.0%
Net return from everything else	17.2%

Returns from investments	33.6%

A couple of observations:

1. Absence of losers was probably the best way to describe our performance. You may recall that both CINAR and Alderwoods hurt our performance in 2002 while in 2003, they were kind to us.

2. Japan continued to help us in 2003. I estimate the total impact on our performance from Japan in 2003 was +7.1% in the Trust and +10.9% in the LP. We benefited from what I call the 3 Bs: brokers, broadcasters and beer stocks. My basic approach in Japan has been to stick with companies that have a presence and produce cash flow. I have tried to avoid the “corporate governance is improving” bet as I am positive I would be the patsy on that trade!
3. The CINAR chapter has ended for us. The deal to sell CINAR has closed and I would expect we will have received our cash by the time you read this. Both funds did make a significant amount of money on CINAR but it is not a process I would willingly go through again! As an aside, we do retain a “litigation certificate” that allows us to participate in any recoveries from litigation CINAR is pursuing. This is carried at zero in the portfolio but could have significant value.
4. Rainmaker once again was one of our best performers. While Rainmaker is definitely subject to film activity in Vancouver, Bob Scarabelli (CEO) is a very strong operator and Hugh McKinnon (Chairman) a shareowner advocate. They make a good team and I am thankful to them both.

Investments- Both funds

I decided the easiest way to discuss the portfolios was to do it collectively. At the end of February 2004 and adjusting for the pending CINAR sale, our holdings were as follows:

The McElvaine Investment Trust

Newfoundland Capital Corporation	8.7%	of net assets
Sun-Rype Products	8.6%	
Glacier Ventures International	5.5%	
Mattel Inc.	5.3%	
Rainmaker Entertainment	4.7%	
All other holdings including net working capital	67.2%	

The McElvaine Limited Partnership

Sun-Rype Products	14.1%	of net assets
HHG plc	6.9%	
Humpty Dumpty Snack Foods	5.4%	
Mattel Inc.	5.0%	
Rainmaker Entertainment	4.8%	
All other holdings including net working capital	63.8%	

First, my usual caveats: I caution you that 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 constraint. Finally, even in the case of similar security positions, the portfolios may differ slightly due to cash inflows and outflows.

A couple of additional pieces of information:

1. Adjusting for the pending sale of CINAR, I estimate net working capital at the end of February would be:

The McElvaine Investment Trust	26%	of net assets
The McElvaine Limited Partnership	27%	
2. Our individual Japanese positions are not large enough to rank as a top 5 position. Collectively these positions represent:

The McElvaine Investment Trust (5 positions)	10%	of net assets
The McElvaine Limited Partnership (7 positions)	24%	

You will also note that our portfolio is not quite as concentrated as in prior years. Last year for example the top 5 positions made up 48% (60% for the LP) of the Trust's net assets versus 33% (36% for the LP) at Feb04. This is partially due to the sale of CINAR and partially due to a lack of new ideas. I continue to believe if I find good ideas, I ought to ensure they are meaningful investments for us.

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. Recently Lawrence Bates resigned as President of Sun-Rype and I would like to thank him for significantly improving Sun-Rype's financial and competitive position.

Summing up, this is not a market that offers a lot of new ideas to a "margin of safety focused" investor. In addition, over the past year, I believe the underlying intrinsic value of our holdings in aggregate increased but I suspect their share prices increased more. The result is our margin of safety has narrowed. Having said this, I continue to be comfortable with all of our investments.

From the Toad Stool

One of our new investors commented that the portfolio does not seem to change a lot. I think he was wondering what the heck I do to earn my fee! It is a fair comment but I suspect you are more interested in returns than activity. Of course, the “activity” part of investing is fun and it gets the blood rushing. I think this “rush” results in many fund managers trading much more than is necessary. As mentioned last year, I try to emulate Homer Simpson’s activity level. Certainly to date I have matched his donut consumption and some may suggest his competence level.

When I do buy, I try to ensure the position is meaningful to us. Unfortunately, as we are usually investing in the midst of some type of crisis, our stocks most often go down before they go up. The outcome is our unit price probably falls. Kind of the financial equivalent of “you got to be cruel to be kind”! So next time you see your investment with us going down in value, you can console yourself with the knowledge I am actually hard at work! Makes you look forward to my next vacation doesn’t it?

On a different topic, I do want to caution you on income trusts. In many cases these are equity instruments trading as first mortgage bonds. As I mentioned last year, 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. Leverage in the structure just makes the peaks higher and valleys lower.

I realize many of these trusts are sold with the view that any debt financing ought to be considered permanent capital. I have found that the only thing I can be sure of with debt is that it will need to be repaid at the most inopportune moment. I don’t mean to rain on anyone’s parade and I could fairly be criticized for missing the entire income trust rally. In both the Trust and the LP we have purchased in the past, and will eagerly buy again in the future, income trusts. When we do, our focus will be on what we might lose, not on what our yield may be.

Recent events

In our December 2003 “We are here”, we wrote you about the changes in the Trust and in my relationships. Part of our letter is reprinted under Appendix E. I will briefly touch on a couple of these matters below:

1. Closure of the Trust effective 27Feb04:
As a partner in either the Trust or the LP, you and your immediately family will not be affected. In other words, you may continue to invest in the Trust or the LP as you wish.
2. Resignation from Cundill
Effective 31March04, I will cease to manage Cundill Value Fund and cease to be an officer and employee of Cundill Investment Research. Peter and I are still working through some of the details. The bottom line is that I have enormous respect for Peter and am delighted he will continue to be an investor in the LP and the Trust as well as a minority owner of McElvaine Investment Management Ltd.

Personal investments

As I mention each year, in our investments, our family is not diversified! Ignoring our interest in McElvaine Investment Management Ltd., 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. Whenever we make an additional investment, RRSPs aside, 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

We had many administrative challenges in 2003. Thankfully I had the Wayne Gretzky of administration with me in Kim Nazaroff. She wonderfully stickhandled my incompetence, your demands and our systems. Mid year, Diann Fong joined us and I could not be more delighted with our admin team.

Acknowledgements

Kim and Diann really make my life easier. My thanks to both of them.

Peter Cundill, Lisa Pankratz and everyone at Cundill Investment Research have always treated me very well. I appreciate their tolerance and thank them for their 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 6, 2004

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 over 1,580,000 shares of Sun-Rype Products or about 14.8% 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 we have tried to provide all the information you require to make an informed decision. It is not an exciting package to read and we 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 Limited Partnership (the "Partnership").

This package deals with our "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 Partnership are not products and you are not our customers. We are not trying to "sell" you anything. Our service is "spotty" at best. On the other hand, we do not have a marketing department and a PR agency does not review our correspondence. We will be honest with you and will try to provide the information necessary for you to assess whether we are keeping up our side of the bargain.
3. As a partner, we 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. We would hate for you to spend your time worrying about what I am up to.
4. We suggest the Trust or the Partnership be only a part of your investment portfolio. We 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, we 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 Trust and the Partnership are not managed by a committee; they are managed by me. Our money is invested in the Trust and in the Partnership 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 *Risk Factors* section. It is important you understand what the fund is about before you invest.

We appreciate your interest.

Tim

Appendix D
Excerpted (and updated) from 2002 Annual Report

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 2003 (or any earlier year) between the Trust and the LP.
5. *Do you invest in shares directly and what is your personal trading policy?*
Last year we (meaning my direct family) 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.

Appendix E
Excerpted from December 2003 We are here

There are a number of matters I want to touch on:

1. Cundill relationship

As you know, I have been reducing my Cundill responsibilities for some time now. While I stepped down last year as CIO, I had continued (and have since September 1998) to be the lead manager of Cundill Value Fund. In November, I notified Peter of my intention, as of 31Mar04, to resign from Cundill and therefore I will no longer manage any Cundill or Mackenzie funds. Since joining Peter some 13 years ago, the Cundill business has grown rather large and somewhere along the way, I suspect, it outgrew me! In spite of this, Peter, Lisa and Mackenzie always treated me well and I very much appreciate their kindness and tolerance. I am also pleased to say Peter will continue as a minority owner of McElvaine Investment Management Ltd. and as a large investor in the Trust and the LP so happily our relationship is not ending, just changing.

I do want to stress I will continue to manage the Trust and the LP. I enjoy working for you and, god willing, hope to do so for many more years. As mentioned in the past, my money, my relationships and my ego are very much tied up in the Trust and the LP!

2. CINAR

As you may have seen, CINAR has received a takeover bid. Shareholders are to vote on the CINAR bid on 17Feb04. While I am cautious about counting our chickens early, it appears this chapter may soon end. Good riddance! *[Please note that subsequent to writing this "We are here" sheet, the CINAR bid was approved]*

3. Temporary closure of the Trust to new investors

If the CINAR deal closes, our cash balances will rise rather dramatically. It is my intention, pending a successful sale of CINAR, to temporarily close the Trust to new investors. You and your immediate family will continue to be able to invest (and redeem) as usual. In addition, we will also accept new investments from anyone who has received an investor package from us prior to the closure.

I am not sure how long the Trust will remain closed; we will revisit this decision periodically. As much as I enjoy seeing new partners join us, I do strongly believe my first obligation is to you. Our cash, assuming a successful sale of CINAR, will be high and our idea bank low. If one of these things change significantly, I would consider reopening. Until then everyone is better served by the Trust being closed.

4. Increase in LP's minimum initial investment

Even if we close the Trust, the LP will, for the time being, remain open to new investors. I do intend, if we close the trust, to increase the initial minimum investment to \$100,000 effective 31Mar04.

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