

## Tim's "We are here" sheet

30Jun06

### To my Partners:

I know I have promised you an interpretative dance number. As I prepare for this dance, I am thankful I have teenage daughters so I do get exposed to a fairly large amount of music.

I was quite impressed with a recent song by Shakira called "Hips don't lie". Obviously as I investigate companies for investment, I ought to be focused more on the hips than the lips of the management. In other words, maybe our motto going forward should be "read my hips"!

Not that I have any reason to gloat as we are certainly struggling through this year. Nevertheless I do want to discuss a number of things with you:

1. We may not be setting the world on fire but I do eat my own cooking. At 30Jun06, Hakuna Matata Holdings Ltd., my holding company, invested in both the Trust and the LP. In addition, I continue to purchase units of the Trust in my RRSP; in fact, my RRSP is 100% invested in the Trust. The bottom line, as always, is my money is along side your money.
2. I do appreciate all your support. September marks the 10<sup>th</sup> anniversary of the Trust and we are in the process of putting together a "thank you" night in Toronto and Victoria. Please see the attached "save the date" sheet. I hope to have the chance to say thanks in person to you.
3. I continue to expect to present a proposal to you in the fall to have the Trust acquire the LP. As mentioned in the past, this will leave us with one fund. There are a number of technical hoops we have to get through and I just wanted to reiterate that we are working hard at getting this done.
4. Kim is in the final stages of putting the Trust on FundServ. What this means to you is you may now be able to hold your units of the Trust in your account (RRSP or otherwise) at a number of brokerage firms. If you would like more details, please contact Kim.
5. Old Dutch's takeover of Humpty Dumpty was completed in mid-May. As mentioned, I resigned from the board of Humpty at that time.
6. As you know, I do not really get into a long discussion of the portfolio during the year. I can however make the following comments:
  - o For the most part, I try to split any significant new purchases between the Trust and the LP. In other words, the portfolios are becoming more and more similar.
  - o The difference in performance between the Trust and the LP is primarily due to Indigo Books (added significantly to the Trust's performance this year) and the Japanese position. (Japan hurt LP's performance more than the Trust's) Both funds did reduce their exposure to Japan in the first part of the year however Japanese broadcasters do continue to be a significant holding in both funds.

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- Both funds did realize a significant amount of gains from currency hedges in the first part of this year. Having said that, for the past couple of months, both funds have been unhedged although this is not a position I expected to retain long term. In other words, we do have a limited amount of exposure to fluctuations in the Canadian dollar although it is not significant to our portfolio.
- Our largest recent investments in aggregate were:
  - i. Two insurance companies, one Canadian, one US.
  - ii. A convertible debenture as part of a restructuring of a troubled income trust.
  - iii. A loan with the potential for equity conversion in a private company.
- Our portfolios in mid-July look roughly as follows:

	Trust	LP
Canadian holdings	75% of net asset value	57% of net asset value
Japanese holdings	7%	12%
US holdings	4%	8%
Other countries	0%	3%
Net cash, T-bills etc	14%	20%

I realize our performance has been disappointing. Having said that, I continue to like what we own.

### **The McElvaine Investment Trust:**

The 30Jun06 price for the Trust was \$25.76. This represents a gain for the first six months of 2006, net of all fees and expenses, of 6.1%. During this period, the TSX Total Return index rose by 4.2%.

### **The McElvaine Limited Partnership:**

The 30Jun06 price for the LP was \$44.58. This represents a gain for the first six months of 2006, net of all fees and expenses, of 0.4%. By comparison, the Morgan Stanley World Index (in Canadian dollars) rose by 1.7% over the same period while the TSX Total Return Index rose by 4.2%.

### **Conclusion:**

As always, many thanks for all your support and confidence. I appreciate your trust.

All the best,

Tim McElvaine

19Jul06

## Performance Summaries as of 31Dec05

### The McElvaine Investment Trust<sup>8</sup>

Year to	S&P/TSX Composite Index <sup>1</sup>	Trust Pre-fee Return <sup>3</sup>	Trust Net Return <sup>4</sup>	Avg Canadian Fund Return <sup>5</sup>	T-bill Rate <sup>6</sup>	Avg Cash Balance <sup>7</sup>
Dec05	24.1%	22.9%	17.2%	16.6%	2.7%	13%
Dec04	14.5%	11.3%	8.6%	12.1%	2.2%	23%
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%
9 Year compound	9.2%	23.4%	18.0%	8.0%		
\$100 invested Jan97 is now	\$220		\$445	\$200		

### The McElvaine Limited Partnership<sup>9</sup>

Year to	Morgan Stanley World Index <sup>2</sup>	LP Pre-fee Return <sup>3</sup>	LP Net Return <sup>4</sup>	Median Global Fund Return <sup>5</sup>	Deposit Rate <sup>6</sup>	Avg Cash Balance <sup>7</sup>
Dec05	6.6%	17.0%	13.3%	7.2%	1.1%	24%
Dec04	7.3%	16.8%	13.2%	6.0%	1.1%	26%
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	\$79		\$208	\$82		

#### 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.**