

Tim's "We are here" sheet

30Sep06

To my Partners:

First and foremost, thank you for your support. It has been 10 years since I started the Trust and I feel blessed to have your confidence. I appreciate that it took a leap of faith for you to invest with me so once again thank you!

I really enjoyed chatting with a number of you at our "fête" in Toronto. I had a fun time and given the positive response, it is definitely something that we will do again.

Our Victoria fête is coming up on the 25th of November. We will follow the same agenda as Toronto which is supper, a short presentation by me, dessert (notice this is after my presentation) and finally music and dancing. After my embarrassing performance on the dance floor in Toronto, I decided to join the local community centre for dance lessons (the centre put me in the challenged program where I am learning to clap to the music at this point). Colin James and the Little Big Band will be providing entertainment so I intend to be prepared.

On investing, interestingly enough I am finding things to do. I too read stuff on the coming housing crash and other concerns and I do not mean to diminish or doubt these risks. Of course, I am much more focused on the "margin of safety" or the difference between what we are paying and what I think the business is worth when I am investing our money.

We continue to work with KPMG on the takeover of the LP by the Trust. The process was delayed due to difficulties in arranging meetings with Revenue Canada but I am pleased to say we appear to be back on track. The timing is somewhat out of our control but we hope to have a proposal to you in the early part of 2007 with a tentative effective date of March 31, 2007.

The McElvaine Investment Trust:

The 30Sep06 price for the Trust was \$26.22. This represents a gain for the nine months of 2006, net of all fees and expenses, of 8.0%. During this period, the TSX Total Return index rose by 6.2%.

The McElvaine Limited Partnership:

The 30Sep06 price for the LP was \$45.44. This represents a gain for the nine months of 2006, net of all fees and expenses, of 2.3%. By comparison, the Morgan Stanley World Index (in Canadian dollars) rose by 6.9% over the same period while the TSX Total Return Index rose by 6.2%.

Conclusion:

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

All the best,

Tim McElvaine
29Oct06

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Performance Summaries as of 31Dec05

The McElvaine Investment Trust⁸

Year to	S&P/TSX Composite Index ¹	Trust Pre-fee Return ³	Trust Net Return ⁴	Avg Canadian Fund Return ⁵	T-bill Rate ⁶	Avg Cash Balance ⁷
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 Partnership⁹

Year to	Morgan Stanley World Index ²	LP Pre-fee Return ³	LP Net Return ⁴	Median Global Fund Return ⁵	Deposit Rate ⁶	Avg Cash Balance ⁷
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.**