

Tim's "We are here" sheet

31Dec03

To my Partners:

I am pleased to say we (and, in spite of their protests, I include Kim and Diann in this), the "Flatulating Fools", managed to finish 2003 without any major mistake. Given how I performed in the second half of 2002, you ought to take this as some achievement! I realize many fund companies like to promote themselves and their investment acumen with fast paced TV commercials. Let's just say, especially given my moniker, it is probably for the best that I stay off the airwaves.

The McElvaine Investment Trust:

The 31Dec03 price for the Trust was \$19.08. This represents a gain for 2003, net of all fees and expenses, of 28.2%. During this period, the TSX Total Return index rose by 26.7%. There was no taxable distribution at 31Dec03.

The McElvaine Limited Partnership:

The 31Dec03 price for the LP was \$34.63. This represents a gain for 2003, net of all fees and expenses, of 27.1%. By comparison, the Morgan Stanley World Index (in Canadian dollars) rose by 9.4% over the same period while the TSX Total Return Index rose by 26.7%. While the Partnership tax return is not yet complete, I expect the LP will have a small amount of taxable income. In other words, I suspect over 95% of this year's return will be tax deferred. While this result is pleasant, we will have to pay the piper one day, just not today.

Other matters:

They are a couple 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 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 Mgmt 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!

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.

Conclusion:

I enjoy managing the Trust and the LP. I like what we own. I should point out that stock prices have moved up and generally there is less of a margin of safety in the market. In the words of Dorothy, "we are not in Kansas anymore"!

As always, all the best and many thanks for your trust and support.

Tim McElvaine
18Jan04

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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%	2.99%	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 compounded	6.5%	25.3%	19.6%	6.3%		

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%

Notes:

1. 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.
2. 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.**
3. “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.
4. “Net Return” is the increase in the net asset value of the Trust during the period, and for the Trust includes distributions reinvested in additional units.
5. We have compared the Trust’s performance to the average return of Canadian equity funds, and have compared the Partnership’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 Interactive Inc. Copyright 2003 Bell Globemedia Interactive Inc., its affiliates and/or licensors.
6. “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 the Royal Bank of Canada. We have included these rates because they are used to determine whether the Portfolio Adviser receives a performance incentive fee.
7. “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.
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. **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. .**