2012

Partners' Conference Transcript

Partners' Conference
May 11, 2012

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McElvaine Investment Management

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11.05.2012

Disclaimer:
Don’t believe everything we say; we may be wrong.
Do your own work.

Tim sometimes rambles and is incoherent. This transcript has been edited to make it easier to read. Some of the language has been changed and, in some cases, clarified.

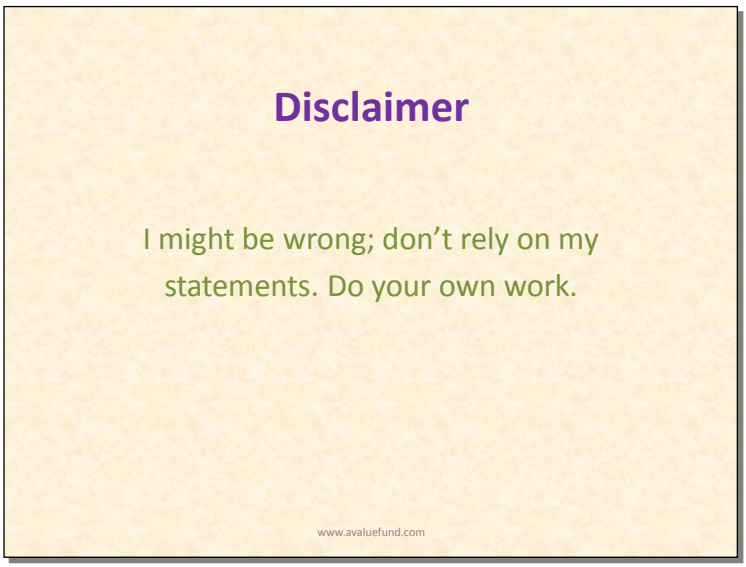
Tim McElvaine: Good morning everyone. We'll get this show on the road so to speak. If you feel the need to get up and leave in the middle of it, I'll presume you're just going to the washroom. So that's okay. Just don't tell everyone around you that you've had enough and you're walking out.

Thank you very much for coming this morning. I appreciate your interest. I appreciate you saying yes when you sent the RSVP and actually showing up. For those who said yes and didn't come, well, they're not here for me to chastise them. But nevertheless, I appreciate that. We had a change of venue this year, as you see. And I'm pleased with how it looked, but I'd be very interested in your feedback a little bit later. We'll send around the customary survey, and please give us your feedback on that.

Just before we start, there's been a lot of changes this year. As you know, we've consolidated the office in Victoria. By the way, there was one person who's been with me longer than either of my wives; my wife Kate is just over here. And that's Kim Nazaroff, and she's now defected and gone to HSBC. But I just wouldn't mind if you'd stand up Kim and we all gave you a thank you. So thank you very much.

[applause]

So I'll kind of whip through our traditional format. First, our normal disclosures. This one's a little bit different this year, but it was a bit cheaper than your type of disclosure Jason (our lawyer). The—and here is my more shortened version that, I might be wrong, don't rely on my statements, do your own work. But I'll try and be blunt with you, but as I said, do your own work afterwards.



So we'll quickly go through our results, what we owned.

Those of you who read the annual report, will know I use the phrase "ICED age" and I'll talk quickly about that. A couple of looking ahead things and then the wrap-up and questions.

Agenda

- Our results
- What we own
- ICED Age
- Looking ahead
- Wrap-up/Questions

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Last year some of the feedback we got was people would like to hear a little bit more from some of the companies we're invested in. So I'm delighted this year that John Wallace, CEO of the Caldwell Partners, joined us together with a Caldwell partner Drew. And we have Duncan Davies, CEO of Interfor and Rob Miller, CEO of PRT, who will talk a little bit about the forest products market. And then my old friend Christopher Risso-Gill, who wrote the book on Peter Cundill and was a director of Peter's firms for many years, will talk a little bit about the book and a little bit about Peter. And we have a couple of books to give away at the end. There will be skill testing questions like, what's the name of our new website? So—and it's right there at the bottom (www.avaluefund.com).

What's new

- Reorg of mgmt company
  - Consolidated office in Victoria
  - Kim, Diann and Balkar
- Simplifying of fund back-office
  - Pinnacle Fund Administration
  - Custodian continues to be RBC Dexia
  - Auditor KPMG

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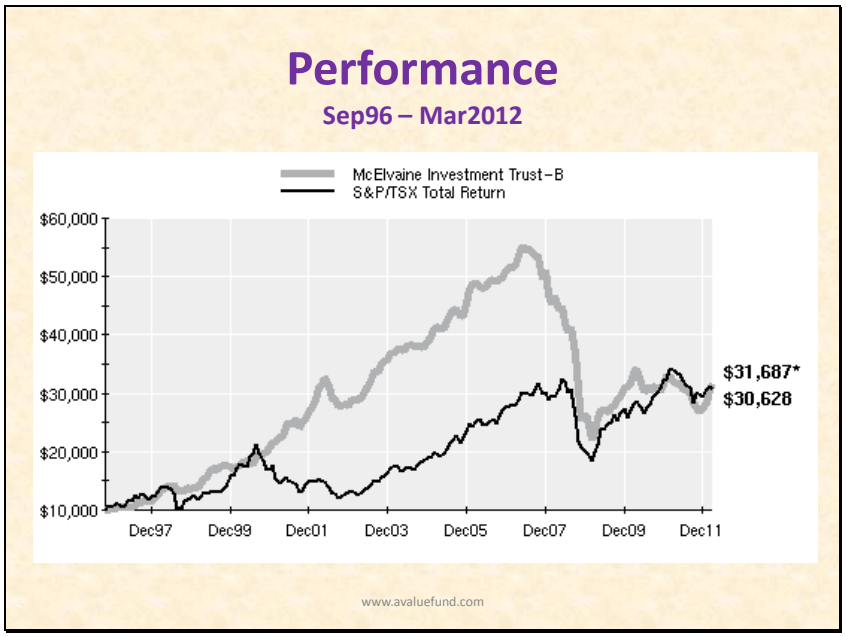
So just if you want a leg up on that, good luck. As I mentioned, we've consolidated the management company into Victoria. This was really driven by the cost side, because Kim and Diann and Balkar, I had really enjoyed working with them. So we've now officially closed the office here in Vancouver. We have an office at Yates and Douglas, if you're over in Victoria, and our numbers have been changed. But everything's on our website.

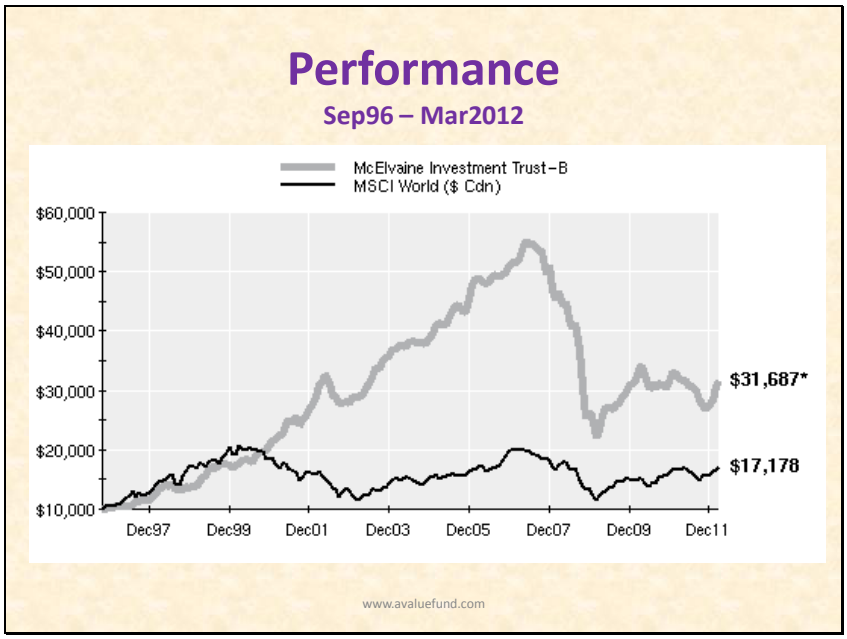
Part of this process—an important part of this process also, was changing who did the fund administration. We had used RBC Dexia, which did a fabulous job for us, but you could never figure out who was actually doing the work there. It was very complex to talk to them. Our saviour came in the name of David and Keith from Pinnacle, and there's Keith. I don't know where David is. Oh, he's right there as well. So if you're a fund manager or aspiring fund manager, please give Pinnacle a call. They've been great to work with. Very responsive and I'm looking forward to a long relationship with them. So thank you guys.

Our custodian, meaning the person who actually holds the assets, continues to be RBC Dexia. Our auditor continues to be KPMG. So as far as the substance of the fund, it hasn't changed. Just who does some of the wrapping, as I said, is now Pinnacle.

The performance, as you've known in the past, we had a wonderful first 11 years. Very difficult last three years, and now we're clawing our way back:



We're the upper one. This is compared to the TSX. As you know, we're much more global than the TSX. So this is against the MSCI, where we fare a little bit better. The problem still of course is those three difficult years, and as I said, I firmly believe we're putting them behind us. I like what we own. We've moved ahead, and slowly we'll make our way back up there.



Last year we were down a little bit. The first six months—or the first three months of this year, as you know, we more than offset it. So from a year when we last met, we're probably up modestly from when I last spoke to you. But it's been a little bit of a volatile ride. The big gainers, as you saw in the annual report, driven primarily by our TimberWest bonds, which we had bought through a rights issue in the depth of early 2009, it worked out to be a great instrument for us. And it helped us in 2010, and it helped us again in 2011. It was finally taken out. But that's one example, and Geoff Scott, wherever you are, Geoff knows this as well as anyone. Quite often these value things, they bump along and then say half the time there ends up being a takeover.

Returns from Investments

for year to December 31, 2011
(Tim's estimates and unaudited)

TimberWest bonds	2.4%
Rainmaker Entertainment	1.3%
Sun-Gro Horticulture	1.1%
Pola Orbis	1.1%
Indigo	-1.6%
Sun Rype Products	-1.7%
RHJ International	-4.1%
Monex Group	-4.6%
Other securities	-2.8%
Return from securities	-8.9%
Impact of currency hedging	-3.2%
Return from investments	**-12.1%**

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So TimberWest bond, we were getting a coupon. So that was good. But the stock hadn't been any great high flyer off the bottom of 2009, but then there was the

takeover. Rainmaker, where I'm chairman, I can talk about that or not talk about that. I'll leave that for the Q and A side. It contributed last year. It's probably been a negative so far this year. Sun-Gro was another takeover. Pola Orbis we talked about last year, was a Japanese security that we bought around the Japanese earthquake, and it treated us well. Indigo position has been significantly reduced.

So if you stopped at Sun Rype, we were probably about flat on the year. The one—the two securities that really beat us up last year were RHJ and Monex, and I'll talk a little bit more about each of those. And I think they're quite cheap, and to be quite honest, they were behind part of our strong first quarter. So they've just been extremely volatile. And then currency hedging, really our real loss was a little bit more in RHJ and Monex because the currency hedge was against them. But that's really is a net neutral. You give up, you take away. In the first quarter, again, currency hedging was very positive. But that's—I wouldn't really pay a lot of attention from an economic point of view.

Our management fees 1%, our operating expenses, most of which the management company pays for. So our MER tends to be lower than others. And because we have a performance fee shortfall, obviously I'm not taking any performance fees. Unlike some of my colleagues in the business, I haven't come back to you and said, I want to redo the agreement, and I don't intend to. But I fully expect that we'll work through the performance fee deficit over time.

Investment Returns vs. Your Returns

for year to December 31, 201
(Tim's estimates and unaudited)

Returns from investments	-12.1%
Operating expenses and related taxes	-0.2%
Return pre-management and pre-incentive fee	-12.3%
Management fee	-1.0%
Incentive fee	0%
Taxes on fees	-0.1%
Net return to you	**-13.4%**

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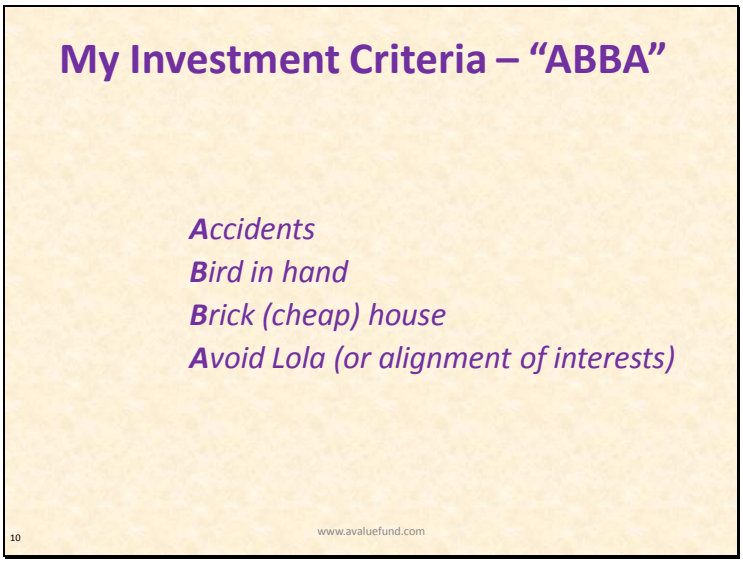
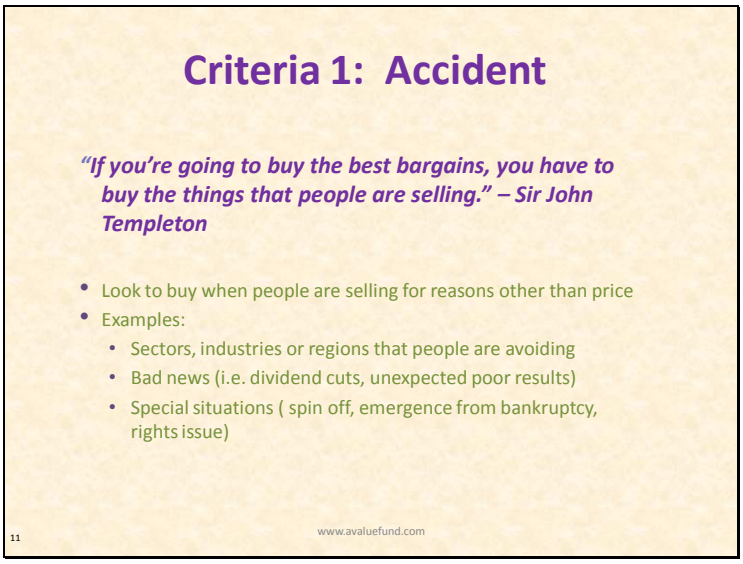
A lot of you know this already, so I won't spend a lot of time on the ABBA criteria.



So accident, bird in hand, brick house, avoid Lola or alignment of interest. So really whipping quickly through it. The accident, as Templeton said, and we were talking about John Templeton last night, Christopher, because he did—he would come by to the odd Cundill conference. To buy the best bargains, you need to buy what other people are selling. So—and I don't mean this in a derogatory sense, but I kind of view myself as a Mother Theresa of Canadian securities particularly. You know, the unloved, the unwanted, the distressed, are all welcome to come into our house. And we care for them, and then they go back out when they're feeling a little bit stronger.



So, we definitely look for areas where people don't want to be. Bird in hand, meaning what's it worth today, and somewhat related to that is the bird in the bush, the idea of what's it going to be worth in a couple of years.

Criteria 2: Bird in hand

"Protect the downside. Worry about the margin of safety." – Peter Cundill

- Want margin of safety based on purchase price
- Also consider what the stock may be worth in 3 years (bird in the bush)
- Examples of things considered when valuing a company:
  - Replacement value
  - Liquidation value
  - Private market value
  - Sum of the parts value

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The brick house, and this really came out because I was looking for real estate a couple of years ago, and the broker kept saying to me, "It's got good bones. It's got good bones." So I said, "What the heck do you mean by 'it's got good bones?'" And he said, "Well, the foundation's good." As I look at this thing with the eaves trough hanging off and, you know, door hanging by one hinge. And I thought, "You know, that's really what we look at." The outside always looks lousy. Like, the grass won't be cut, you know, the shutters will be hanging off.

Criteria 3: Brick house (but cheap)

"To finish first, you must first finish." – Rick Mears (4 time Indy 500 winner)

- In the Three Little Pigs story, the brick house survives the wolf
- There will always be wolves in business and our job is to look for cheap brick houses
- Things considered include:
  - Balance sheet strength
  - Free cash flow generation and capital requirements
  - Market share, competitive positioning, relative cost of production

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The screens will be ripped. The house will need a paint job, but the foundation is good. It has good bones, so to speak.

So that's kind of—Interfor has good bones, right Duncan? Sometimes people think the shutters need a little bit of work, but that's what we look for. And then the alignment of interests, I use the joke, as you guys have heard so many times, about Lola. The Kinks song about the guy working up a romantic evening with

someone who ended up being a male and not a female. So in investing, kind of going into it, we try and figure out if we're dealing with a Lola or are we dealing with a whatever, and position ourselves accordingly.

We've had some stocks where we've been a little bit more activist, and John Wallace can touch on that as he goes through. But that's not our preference whatsoever. I've come to the opinion that I'd rather find people who are working in the right direction, who have the right type of compensation set up and invest with them, rather than getting involved and hoping that you can change them, because that's a toughie.

Jon Muller from CIBC, as I mentioned this morning, had a great comment yesterday in his email, so I copied it from him. And this really summarizes everything, and I know you're back there somewhere Lawrence. But, you know, didn't we always talk about this? It says, "My revenue forecast says, such and such. Did you make any assumptions? I made a lot of them. Then we don't believe your forecast."

So a lot of people can produce wonderful models in Excel, but they're based on lots of assumptions. I try not to do that. If I can't figure it out relatively basically, then we're not particularly interested.

So just closing the loop on some stuff from last year:

Ideas from Last Year's Conference

- Pola Orbis – sold
- Gold – did not own any
- Ichigo/Sony - sold
- Monex Group

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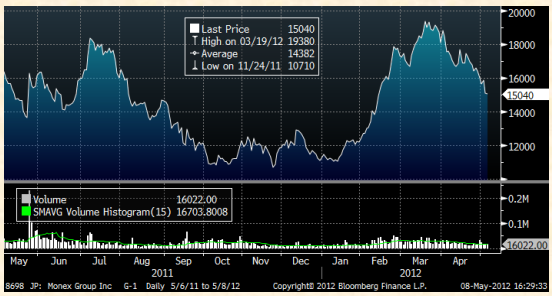
Pola Orbis, as I said, we made a little bit of money. We sold it. Gold, we didn't own anything then, and we haven't owned any gold or mining or oil and gas stocks in Canada for a long time, just because that's not my predisposition. And it's not something I felt comfortable with. So we didn't own any gold a year ago. We don't own any now, and it's mostly a demand/supply argument. I won't revisit that. The transcript's on the website if someone feels that they really want to know what I said on it last year.

Ichigo and Sony. Ichigo, great company. Sony, not so great company. Both of which we sold to put the funds primarily into the US. And Monex Group—has not treated us particularly well, so I'll talk about it for a second. So this is the chart since last year, and funny enough, it's back to about where it was 12 months ago. But boy, quite a ride:

Ideas from Last Year's Conference

- Monex Group



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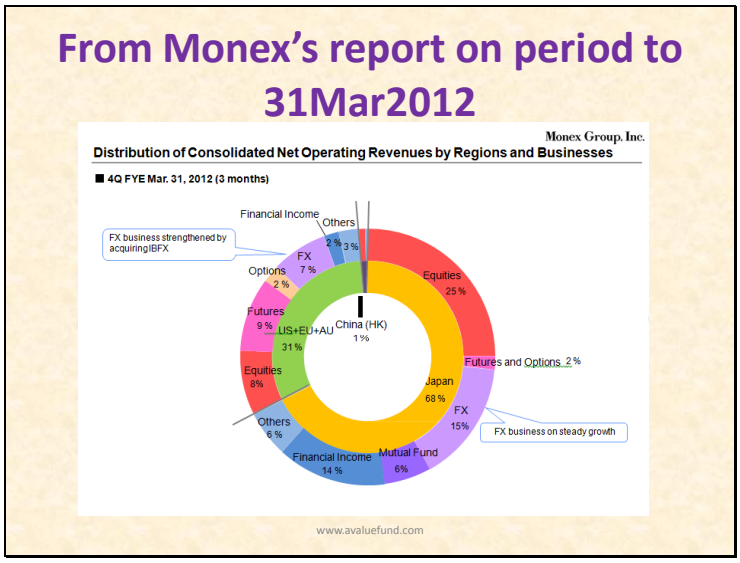
So as you can see, it started off about 16,000. Went down as low as 10,700, then raced up as high as 19,000 and now has ended back at about 15,000.

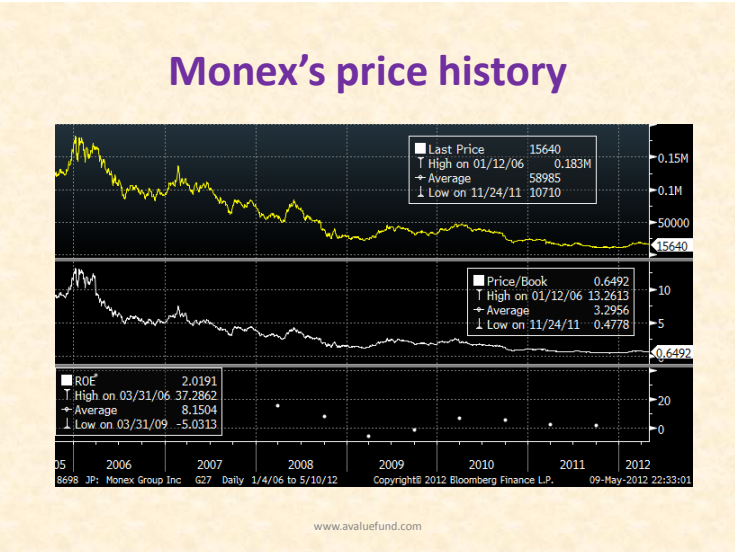
Now this stock has a market cap, oh, certainly north of $500 million. So you're not talking about a penny stock here. But it shows the amount of variation and sentiment in a market. Monex is an online broker based in Japan. And what's been moving the stock around has nothing to do with solvency because it's quite well financed. It's entirely over people's expectation over trading volumes in the Japanese market.

So I'll talk to this for a second. This somewhat complicated graph just shows you where their business is:



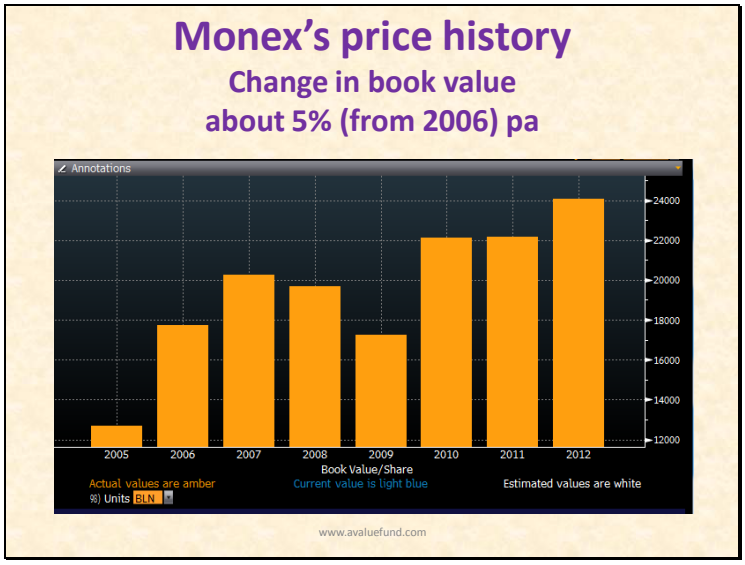
You can see the first part, the yellow part, is how much of their business is in Japan. The green part is how much of their business is in primarily the US. They bought a company called TradeStation last year in the US. And then you can see the equity components. The interesting thing is they're becoming much, much more significant on the foreign exchange side as far as driving their profitability.

Over time, this is the price chart again, but what I did a little bit differently here, and it's a financial company, so that's why I do this. The second white line is the price to book ratio.



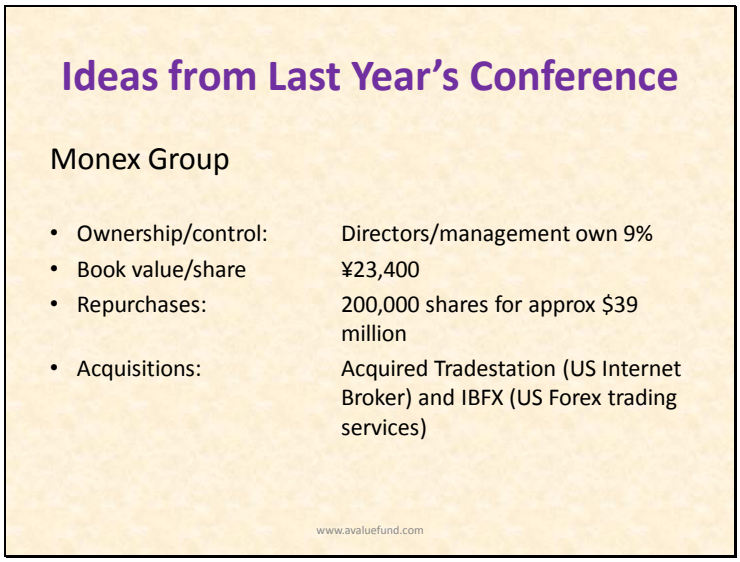
Back in happier periods it traded at 10X book value, which isn't a price I think is particularly realistic. And in November of last year, it traded at below half of book. So this is the same security, going between 10X book value and 1/2 of book value. That gives you an idea of how sentiment can drive a security.

At the very bottom is its return on equity, which has been somewhat volatile. Do I think that they could earn 15 or 20% return on equity? Yeah. So it's not a business that is in Japan that'll never earn more than 1% return on equity. It's just a highly cyclical Japanese business, based on trading volumes. And it's—and we have a position, as I said, it's been somewhat volatile. This is how its book value has changed over the last couple of years:



So on average, it's increased by about 5% per annum. So you're not dealing with a stock that's not growing.

And finally, the ownership, Oki, who is an ex-Goldman Sachs guy, is primarily most of that 9%.



He has somewhat of a western board. They purchased stock last year. They paid a dividend. They acquired TradeStation. They acquired IBFX in the US. So there's an awful lot going on in Monex. So from my point of view, when I look at it and I say, is the bird in hand today stronger or weaker than it was a year ago? Modestly stronger. I'd say their Japanese business market share, they continue to be—fluctuate between 3 and 4 in Japan. So that's modestly weaker. TradeStation, they paid a lot for it. So that's maybe a modest negative. Their FX business, very, very strong and very, very important business, both domestically and internationally. So I'd say that's been an increase.

So today, book value is about 24,000. Stock this morning was about 15,000, 14,000 and change. What do I think it's worth? Well, I would not be surprised to see book value grow over time and it trade at a multiple of book again. So we'll see.

What we own today. Canada continues to be the largest component, and our Canadian positions are as follows, and I'll talk to a couple of them.

What we own

- Canada 51%
- Japan 13%
- Europe 10%
- US 7%
- Cash 19%

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Glacier continues to be an overweight position.

Canadian positions

- Glacier Media 14%
- EGI 6%
- Caldwell 4%
- Ten Peaks 4%
- Sun-Rype 4%
- Interfor 4%
- 8 other holdings 15%

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Any questions you have on Glacier, Geoff Scott's here of course, who's a board member. So he can defer them much more than I do. I was contemplating doing a slide on Glacier, but I decided I've talked about it enough in the past. The whole Glacier story can summed up in what type of multiple you think you should put on a community paper business three years out.

The cash flow is extremely positive. This year, give or take a little bit, they'll probably do around $40 million in free cash flow after capex, after tax, on a company whose market cap is $170 million Geoff, something like that, give or take a little bit? Now, they have a little bit of debt, so that's a gross number.

If you think the business is worth three times, then it's probably about where it should be. If you think the community paper business is worth six or seven times, this is what I would call operating income, not EBITDA, then the stock's cheap. If you think it's worth more than that, then the stock's very cheap. The community paper business has continued to grow slowly. It hasn't been subject to

any Internet digitalization as of yet. Glacier has been very smart in their acquisitions. The most recent one being from the National Post, which included a significant amount of real estate.

So now that they've got a number of clusters, they've swapped in the past with David Black, who's another large community newspaper owner, to try and clean up those clusters. And I think it's a cheap stock run by people I like and run out of a building that I worry about getting tetanus every time I go to it. And, you know, your building comes close Rob, but it's not quite—that's PRT's building. His claim to fame is, you need to get a key to the bathroom, to go across the hall to go into it. So that's another good sign. So if you're worried about tetanus, if you need a bathroom key, these are all positives as far as how management runs its overhead. Sorry Duncan. And John, you're stuck with your building, so I won't tease you on that one. He's—I'll let—maybe John will talk about that.

Some of our other positions, Interfor I'll let Duncan talk about. Sun Rype is down a lot from what it used to be as far as position size. Ten Peaks and Caldwell, John will talk about. So I'll touch quickly on EGI and Ten Peaks. EGI we've owned for a couple of years.

They released some results yesterday that were very strong. Basically they're a non-standard auto insurer. So what's that mean? It means the person that has one or two citations, who's having a difficult time getting insurance from the Intact of the world. We first invested in it when it was as private company a number of years ago. And quite liked the management, quite liked the board, and it's varied in position size over the last five or six years, depending completely on price.

The share price today is about nine. Our cost is about—just under eight. Book value, which is pretty clean, is about thirteen. Management owned 13%, and they've done a number of acquisitions so far the last year.

Canadian positions - EGI

- Share price — $ 9.25
- Our cost — $ 7.79
- Book value — $13.14
- Ownership/control: — Directors/management own 13%
- Repurchases: — $0 to date although on Mar 30th received permission for issuer bid
- Acquisitions: — Just acquired BC Specialty Insurance Operation
  In 2011, formed a European non-life Insurance business with EGI owning 51% and two owner/operators owning the balance

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So this is the stock price:

Canadian positions - EGI

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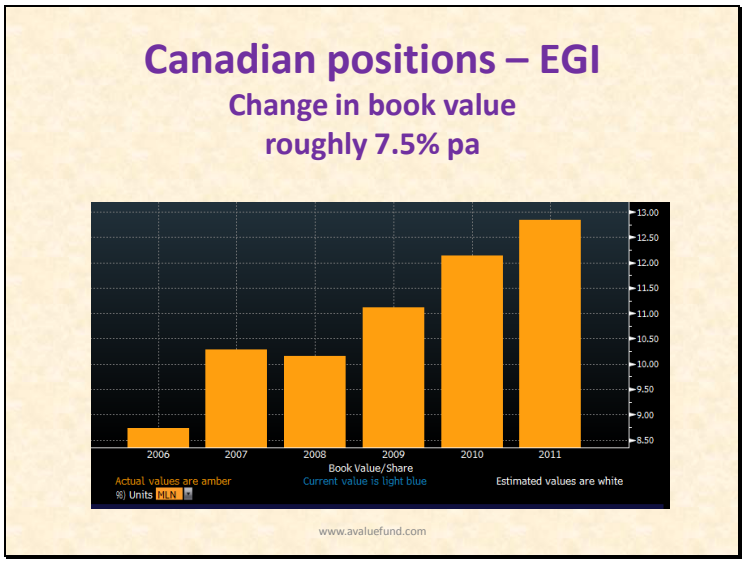
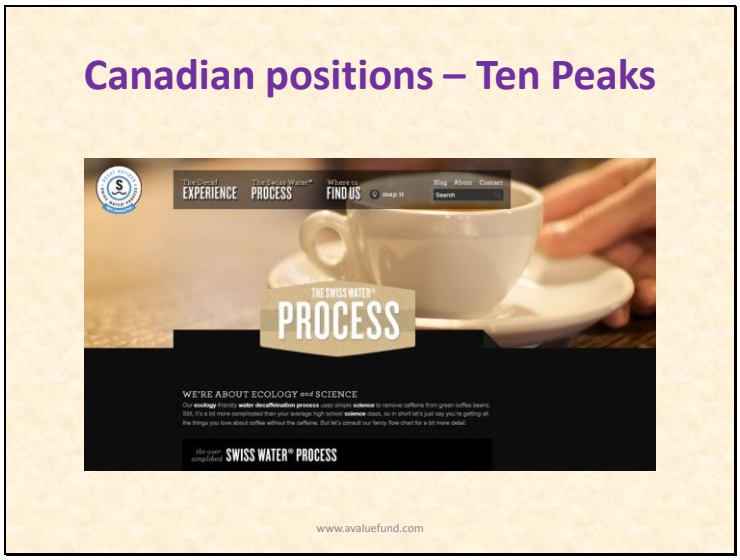
So using the Monex idea, because once again, it's a financial stock, this is—the middle line is a price book ratio. And you can see here, it's traded between half of book and about one and a half times book. Today book value, they just released, as I said, some good results last night, so book is—we'll probably end this year about $14. And as I said, the stock is about nine and three quarters. One of their competitors, Jevco, was just taken over for 1.38X book. Now it's a little bit larger insurance company, so how that translates into EGI, well, we'll see. And once again, this is how their book's grown over time. It's grown by about 7.5% per annum.



The other company we have a position in, relatively recent, is Ten Peaks, which, if you guys buy decaffeinated coffee and you see that logo in the upper left-hand corner, which is the Swiss Water logo, that means it's decaffeinated by Ten Peaks.



If you buy a coffee, a decaf coffee from Tim Horton's, it's decaffeinated by Ten Peaks. If you buy a Nabob coffee, it's decaffeinated by Ten Peaks. In fact Ten—Swiss Water used to be owned by Kraft. Was sold to a private equity firm, who then did the public a favour of course by taking it public. And whenever a private equity firm takes a company public, if you get the prospectus, I don't care what you do with it, just don't buy it. Because this is what happened to the stock.

They brought it public at $10, Tricor did. It was an excellent sale, and it fell to about two and change where we started buying the stock. The share price is about two and three quarters, which is about where our cost is. The book, which doesn't really matter in this case, is a little bit more. The dividend yield is about 9%. I have some cautiousness over whether or not they should continue with the

dividend. The board feels otherwise, so be it. It's not particularly well owned by directors. It's not repurchasing shares. They've not done any particularly interesting acquisitions. We are having discussions with the board. We'll see how it goes.

Canadian positions – Ten Peaks

- Share price $ 2.74
- Our cost $ 2.85
- Book value $ 3.38
- Dividend yield 9% (25 cents pa)
- Ownership/control: Directors/management own 2%
- Repurchases: $0 to date
- Acquisitions: None

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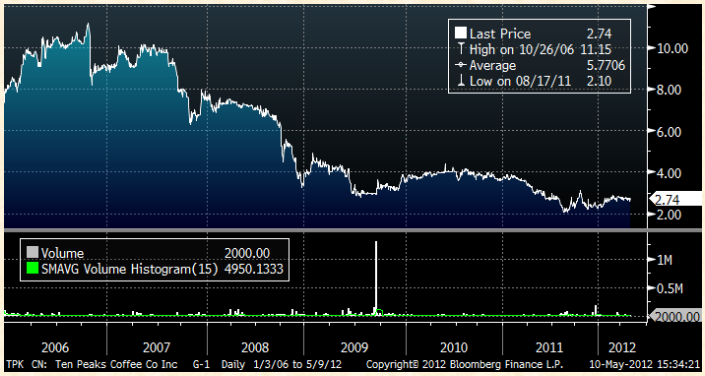
Canadian positions – Ten Peaks



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Basically it falls deeply into the category of unloved, and I don't think it should frankly be a public company. I don't know if Murray—if you're here Murray, but hey, he's another shareholder of Ten Peaks. So we'll see where this one goes.

The US positions:

US positions

- Howard Hughes Corp 4%
- H&R Block 3%
- AV Homes 1%

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We owned probably six or seven US companies, all—well, most of which we acquired in September. One of which was taken over. It was PCBC, Pacific Capital Bancorp. It was a bank that went insolvent, and the guy named Gerald Ford, not the former president, but a bank investor, came in and injected a huge amount of money in it. And part of the condition to this—his own money, part of the condition was, he had to then do a rights issue that the public could participate in. So this is the exact type of thing we look at. Experienced management coming in, recapitalizing a bank that's had all of its loans written down. And so we bought some stock when it came down in September, and surprisingly, or not unsurprisingly, it got taken over about six months later. They had about 25% market share in the Santa Barbara area. So that's why it was of interest.

We had a position in TD Ameritrade, which we've sold, mostly because it appreciated. And we're left with really three US positions: Howard Hughes, H&R Block and AV Homes. I'll talk quickly about Howard Hughes Corp.

US positions – Howard Hughes

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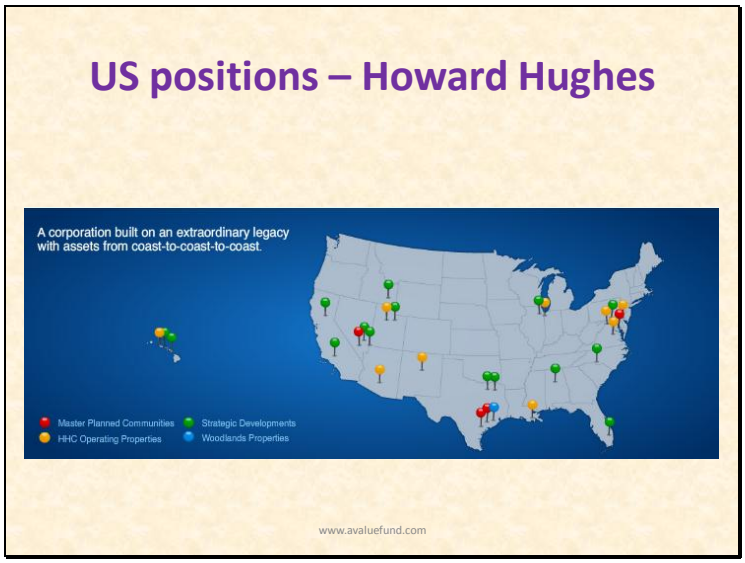
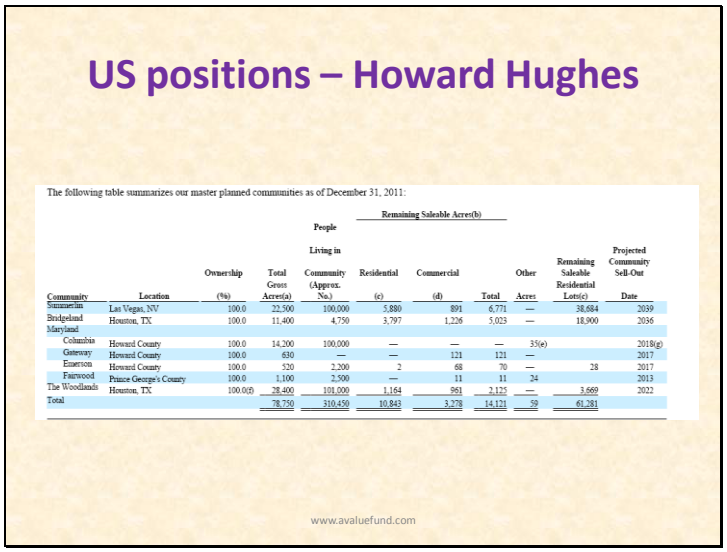
It is, as you'd expect, related to Howard Hughes, but only the extent that it holds a lot of the Las Vegas property that he accumulated. What it was, was it was stuck inside GGP, General Growth Properties. General Growth Properties went bankrupt. They did a restructuring plan. Part of this plan was they spun out Howard Hughes, and that's how we came to acquire it.

What Howard Hughes is, it's a large company — a couple of billion market cap.



They have really three pieces of business. What they call Master Planned Communities, which is really residential development. But it's not residential development in that they own three or four lots. Their residential development, and there's a little bit of a screen here, is made up of really four different communities, two of which, Summerland in Las Vegas and Woodlands in Houston, are significant.



The following table summarizes our master planned communities as of December 31, 2011:

Community	Location	Ownership (%)	Total Gross Acres(a)	People Living in Community (Approx. No.)	Remaining Saleable Acres(b) Residential (c)	Commercial (d)	Total	Other Acres	Remaining Saleable Residential Lots(c)	Projected Community Sell-Out Date
Summerlin	Las Vegas, NV	100.0	22,500	100,000	5,880	891	6,771	—	38,684	2039
Stripplaind	Houston, TX	100.0	11,400	4,750	3,797	1,226	5,023	—	18,900	2036
Maryland										
Columbia	Howard County	100.0	14,200	100,000	—	—	—	35(e)		2018(g)
Gateway	Howard County	100.0	630	—	—	121	121	—		2017
Emerson	Howard County	100.0	520	2,200	2	68	70	—	28	2017
Fairwood	Prince George's County	100.0	1,100	2,500	—	11	11	24		2013
The Woodlands	Houston, TX	100.0(f)	28,400	101,000	1,164	961	2,125	—	3,669	2022
Total			78,750	310,450	10,843	3,278	14,121	59	61,281	

US positions – Howard Hughes

Name of Center	Location	Encum-brances (a)	Initial Cost (b) Land	Initial Cost (b) Buildings and Improve-ments	to Acquisition (c) Land	to Acquisition (c) Buildings and Improve-ments	Close of Period (d) Land	Close of Period (d) Buildings and Improve-ments	Close of Period (d) Total	Accumulated Depreciation (e)	Date of Construction	Date Acquired/ Completed
			(In thousands)		(In thousands)		(In thousands)					
Master Planned Communities												
Summerlin	Las Vegas, NV	$ 50,672	$ 990,179	$ —	$ (94,165)	$ 676	$ 896,014	$ 676	$ 896,690	$ 147		2004
Bridgeland	Houston, TX	20,604	257,222	—	134,562	1,556	391,784	1,556	393,340	735		2004
Maryland	Howard County, MD	—	457,552	—	(390,893)	123	66,659	123	66,782	20		2004
The Woodlands	Houston, TX	185,757	264,889	—	(19,272)	—	245,617	—	245,617	—		2011
Total Master Planned Communities		257,033	1,969,842	—	(369,768)	2,355	1,600,074	2,355	1,602,429	902		

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The Summerland properties, Vegas is quite dead now, as you can imagine as far as real estate activity goes. Houston is quite the opposite. It's very, very active. And you can see there, the Houston properties will start to run out of space in the early 2020s, while the Vegas properties may continue well into 2030 or perhaps beyond.

Secondly, they have, and this is the carrying value of the properties. Secondly, they have what they call their income producing properties, which include Ward Centers and South Street Seaport, both of which are huge development potential.

US positions – Howard Hughes

Property	Location	Existing Gross Leasable Area	Size (Acres)	Net Book Value December 31, 2011 (Millions)	Year Ended December 31, 2011: Average Annual Tenant Sales per Square Foot(a)	Mall and Other Rental NOI (000)(b)	Average Sum of Rent and Recoverable Common Area Costs per Square Foot(c)	Occupancy Cost(d)	NOI Margin(e)	Acquisition Year
Ward Centers	Honolulu, HI	1,004,781(f)	60	$ 348.8	$ 542	$ 21,481	$ 62	11.4%	54.1%	2002
South Street Seaport	New York, NY	301,086(g)	11	5.9	530	5,650	68	12.8%	32.5%	2004
Landmark Mall	Alexandria, VA	440,325(h)	22	23.8	276	737	35	12.7%	15.0%	2004
Park West	Peoria, AZ	249,168	48	79.6	291	576	23	7.9%	18.1%	2006
Rio West	Gallup, NM	333,077(g)(i)	50	11.0	169	1,319	20	11.8%	39.0%	1981(j)
Riverwalk Marketplace	New Orleans, LA	193,874(g)	11	12.0	252	418	37	14.7%	6.7%	2004
Cottonwood Square	Salt Lake City, UT (k)	77,079(l)	21	5.1	n.a.	380	n.a.	n.a.	64.0%	2002
20/25 Waterway Avenue	The Woodlands, TX	49,972	1	12.2	385	1,310	44	11.4%	68.3%	2011
Waterway Garage Retail	The Woodlands, TX (m)	21,260(n)	—	9.4	n.a.	7	n.a.	n.a.	10.2%	2011
Total		2,670,622	224	$ 507.8		$ 31,878				

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For example, South Street Seaport, and this is the type of thing that when you see an investment like this, it's always nice. You can see there they carry South Street Seaport, which is in Lower Manhattan, for $5.9 million.

Bill Ackman, who's the chair of Howard Hughes, feels it's worth $100 million plus. We've taken a look at the property and we believe in the $100 million plus,

plus level. But they carry it for $5.9 million. Ward Centers is a huge mixed office development just outside of Honolulu, Hawaii, just across from the beach. Once again, huge redevelopment potential, and they've started on that process in fact earlier this year.

The final component is a number of properties that they call strategic.

US positions – Howard Hughes

The following table summarizes our strategic development projects as of December 31, 2011:

Asset	Location	GLA	Size (Acres)	Net Book Value, December 31, 2011 ($ billions)	Acquisition Year
Ala Moana Condo Project	Honolulu, HI	—	—	$ 22.9	2002
Bridges at Mint Hill	Charlotte, NC	—	162	12.6	2007
Columbia Parcel D	Columbia, MD	—	4	3.0	—
3 Waterway Square	Houston, TX	232,774(a)	0.825	0.2	2012
Alameda Plaza	Pocatello, ID	190,341	22	2.3	2002
AllenTowne	Allen, TX	—	238	25.4	2006
Century Plaza	Birmingham, AL	169,072	63	4.5	1997
Circle T Ranch and Power Center	Dallas/Ft. Worth, TX	—	279	18.0	2005
Cottonwood Mall	Holladay, UT	6,600	54	19.6	2002
Elk Grove Promenade	Elk Grove, CA	—	100	5.5	2003
Fashion Show Air Rights	Las Vegas, NV	—	—	—	2004
Kendall Town Center	Kendall, FL	—	75	17.5	2004
Lakemoor (Volo) Land	Lakemoor, IL	—	40	0.3	1995
Maui Ranch Land	Maui, HI	—	10	—	2002
Nouvelle at Natick	Natick, MA	—	—	0.1	2007
Redlands Promenade	Redlands, CA	—	10	2.8	2004
The Shops at Summerlin Centre	Las Vegas, NV	—	106	35.8	2004
Village at Redlands	Redlands, CA	—	5	6.8	2004
West Windsor	West Windsor, NJ	—	658	20.7	2004
Total		598,787	1,827	$ 198.0	

(a) 3 Waterway Square development was announced in October 2011. After the announcement, the building size was increased to 232,774 square feet from 192,000 square feet due to strong market demand. Construction is expected to begin during the first quarter 2012.

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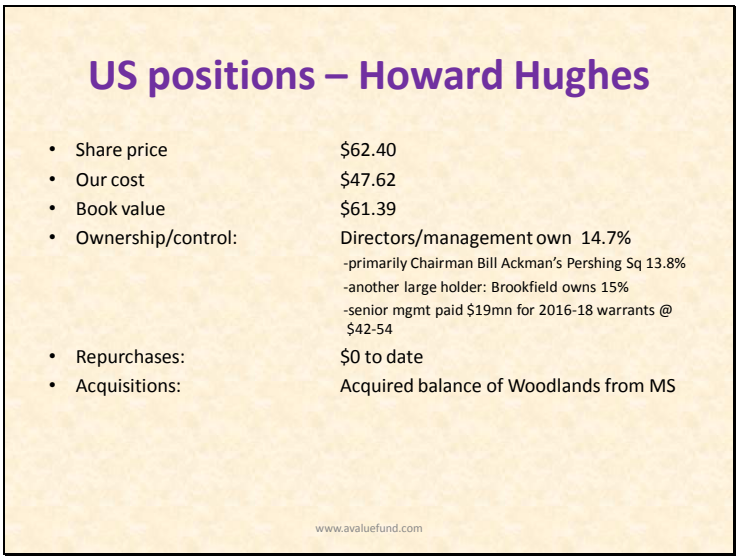
There's something they could do with them in the future. For example, they own 15 acres of air rights over the Fashion Mall in downtown Vegas. There are a couple of restrictions on it, but the bottom line is, I think—it's somewhere on this chart, the carrying value is de minimis. Maybe it's the next one. Fashion Show air rights, there it is. They carry it at zero.

So what is 15 acres of air rights worth in downtown Vegas? And if you know where the Fashion Mall is, it's a great location. I don't know, but it's worth more than zero. The Ala Moana condo project is a development just outside of Honolulu. Very close to Ward Centers, right beside a shopping mall. They carry it for $22 million. They just signed an agreement with a developer to redevelop that site, build a condo, and it's going to be $100 million plus deal.

So once again, the carrying values have always been conservative. There's the stock price:

Very short history because it was a spin-off, and here's some particulars. Stock's about $62. Our cost is about $40. Book is about $61, which as I said is understated. Ownership and control, Bill Ackman, who's the same guy who's running after CP right now. His Pershing Square owns about 14%, and he's chairman. Brookfield owns about 15%.

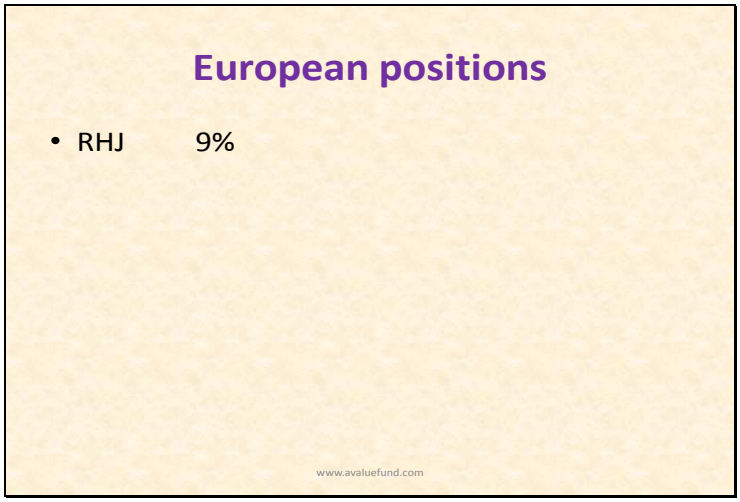


And this is an interesting one. I see a lot of proxy statements over time, but in this case, senior management didn't ask for stock options. Management paid $19 million to buy a 4, 6 or 7 year, depending what the starting date you use is, warrant on Howard Hughes' Corp stock. So they paid $19 million to buy warrants. They didn't receive stock options at no cost that were struck at the money.

So extraordinary difference. Very much a signal of what management thinks and how they see themselves fitting in. Repurchases, they haven't done any to date,

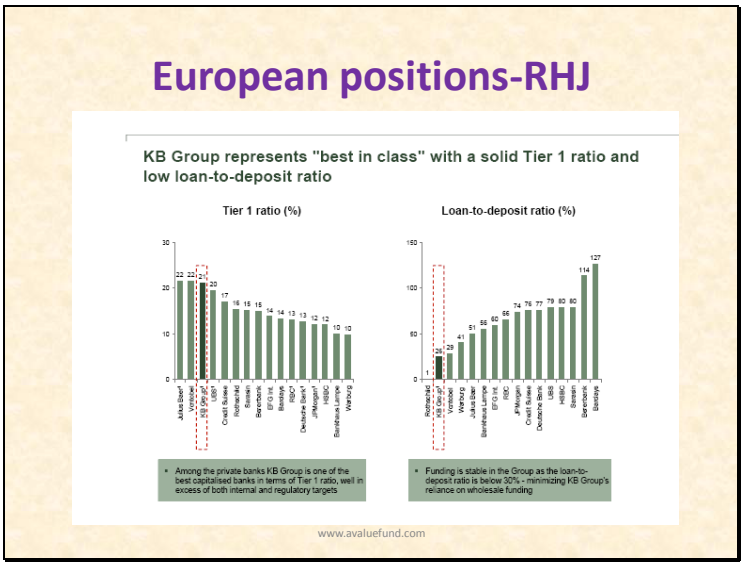
and they bought part of the Woodlands properties back from Morgan Stanley last year.

RHJ, if you recall from the beginning, there were two securities that have hurt us last year. One was Monex, which we've talked a little bit about. The other one is RHJ.

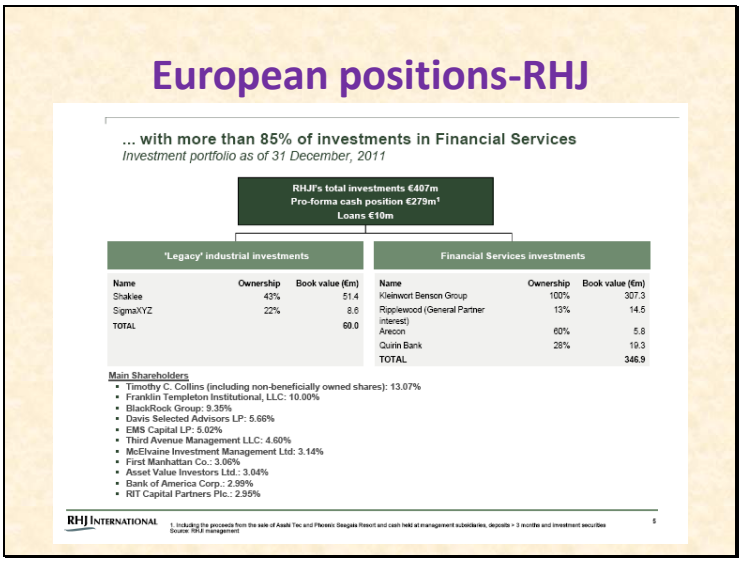


What RHJ is, is primarily Kleinwort Benson. They—it has a very checkered history, but the bottom line is, they bought the private bank, Kleinwort Benson about a year and a half ago from Commerzbank, who was in some distress.

So you're saying a bank, a private bank in Europe, my goodness, what are you up to Tim? Well, KB has a very, very conservative balance sheet. This is some of their tier one and loan to deposit ratios, and you can see their tier one capital is very high. That means how much capital they hold for every asset. And their loan to deposit ratio is very low. They're a very liquid bank, very conservative, very high equity, and that's one part of RHJ.



The other part is what they call their legacy businesses and their cash, and this is how it makes out.



I'll show you a different screen in a second that'll add it all up.

European positions-RHJ

- Share €3.92
- Our Cost €5.39
- Ownership/control: Directors/management own 13%
- Repurchases: 2,500,000 shares for approximately $14.25 million
- Acquisitions: In exclusive negotiations to acquire a private banking business from Deutsche Bank

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Our cost is about 5 Euros. The stock now is about 4 Euros. It got as low as 2.90 last year. Directors and officers, which are primarily Tim Collins, an ex-Onex guy. They repurchased stock last year and currently they're looking at buying another private bank from Deutsche Bank.

As you can see, my columning kind of got messed up a little bit, so let me walk you through this.

European positions-RHJ

- NAV breakout

Private Banking	€347mn	€4.03
Surplus assets	€349mn	€4.06
Held for sale	€ 60mn	
Net cash/loans	€289mn	
Total	€696mn	€8.09

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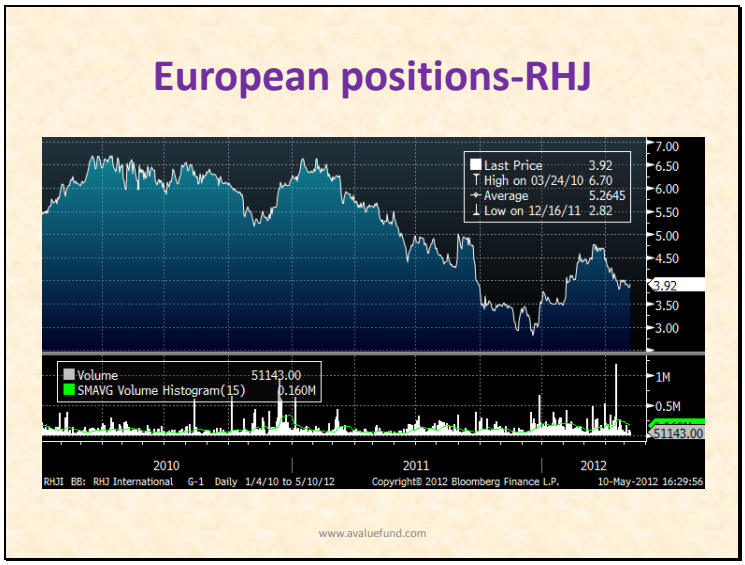
The private bank business is carried for 347 million Euros, which is about 4 Euros a share. Recall I said the stock was trading at 3.90. So is the private banking book worth—is the private banking business worth what they're carrying it at? I think so, but let's just leave that aside for a second. So it's worth 4 Euros. Their cash and assets for sale, which is primarily a distribution business based in California, amount to another 4 Euros.

So you come to eight, and we're not here adding any premium for changing Kleinwort Benson. They've acquired KBC. They manage now about 9 billion Euro in assets versus a couple of billion Euro in assets when they started. We're not adding any premium to that, but we're just saying, just based at book, RHJ is worth 8 Euros, give or take a little bit. Half of that being in cash.

So this is the price chart:



We started buying in 2010, and it went straight down after that. At one point traded at 2.90. So 2.90, it's run by experienced—and I say as a positive Jamie (an investment banker in audience) these are guys who understand return on capital. They understand the cost of capital, what to pay, shares, etc. So at one point last year it was trading at 2.90 with cash of 4 Euros a share and another 4 Euros a share in the private banking business. Today it's at 3.90, slowly making its way back up. I met with a guy last week who's a little bit of an activist, and we had some discussions over what he may or may not want to say. And I don't know what he's going to do. But I think it's a cheap stock, and I think it's a stock that's worth more than it was a year ago and has been extremely volatile.

So last year when it traded at 2.90 or it closed the year at 3 and change and was responsible for taking 4 or 5% off our NAV and performance, as much as you don't like the volatility, I can't lose any sleep over that. Because I think the stock, especially at 3 Euros and change, is very inexpensive, run by people I trust. So we'll see. This is a company that, in a different time, the private bank would sell at a multiple to book and they may distribute the cash. We'll see what happens with their negotiations with Deutsche Bank.

Japanese positions, we talked about Monex:

Japanese positions

- Monex 7%
- Shinsei Bank 4%
- Other 2%

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I touched on Shinsei Bank last year and we have one other one. So I won't really go into it. So that's a little bit quick rundown on the portfolio.

I'm a bit cognisant of time, so I'll quickly run through a number of other slides I have here. And I coin this phrase, "ICED age" just because I thought it was a fun way of putting some of the problems that we face today as we look ahead. The "I" stands for Iran. The "C" stands for China. The "E" stands for Europe and "D" stands for Debt generally.

ICED AGE

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So we'll touch on each of these, but I don't have any particular conclusions. But I just thought it might be interesting.

Kahamenei softened his comments of late. You saw some moving on Israel. So maybe we have the potential for some type of a settlement from the meeting they're having May 23rd.

I for Iran

- Recent somewhat positive developments
  - Netanyahu forms coalition with Mofax
  - Mofax more of moderate believing in pursuing a "responsible peace process."
  - Interesting cabinet now has 3 former defense ministers

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I for Iran

- But we are not of the woods yet
- **Bomb potential of Iran's research reactor-grade uranium stockpile**
- Approximate amount of uranium hexafluoride (UF6) enriched to research reactor grade (approximately 20 percent U-235) on hand as of mid-February 2012:
  109 kg m
- Number of first generation IR-1 centrifuges being fed with UF6 at the Natanz pilot plant as of the last reported visit by IAEA inspectors:
  328 n
- Average monthly production rate of this 20 percent enriched UF6 at Natanz:
  4.4 kg o
- Number of first generation IR-1 centrifuges being fed with this UF6 at the Fordow fuel enrichment plant as of the last reported visit by IAEA inspectors:
  696 p
- Combined average monthly production rate of this 20 percent enriched UF6 at both plants, assuming the 696 operating centrifuges at Fordow perform with the same level of efficiency as those operating at the Natanz pilot plant:
  13.7 kg q
- Amount of this 20 percent enriched UF6 theoretically needed to produce a bomb's worth of weapon-grade uranium metal:
  140 kg r
- Number of SWUs needed to accomplish the enrichment of this material to weapon-grade:
  292 s
- Number of months theoretically needed for the 696 IR-1 centrifuges at Fordow to accomplish the above:
  6.5 t

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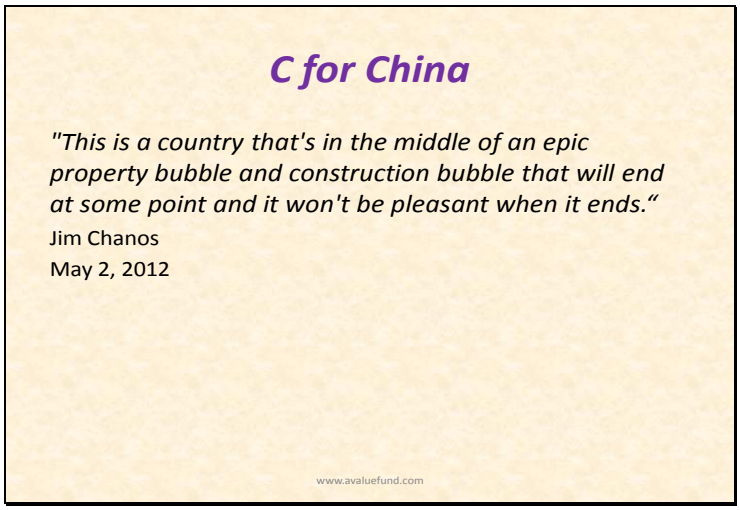
But the bottom line is, we're six months away apparently from the Iranians able to get weapon grade uranium. And that's an issue for the world. I don't know how it'll resolve itself, but that's the "I" in things to worry about, ICED age. You can put Middle East generally behind that.

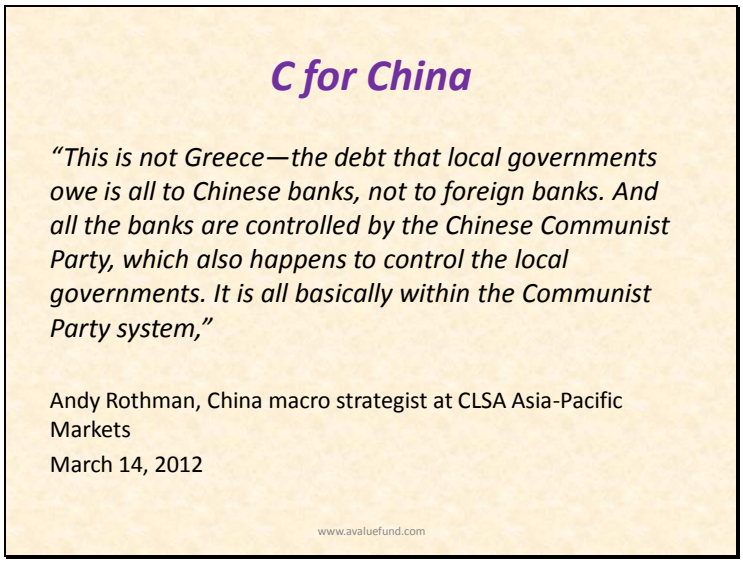
C for China.

Well, my bet, 20 years from now, is that China won't dwarf the US, but we'll be about the same as we are today. Maybe the US will have picked up a little bit of ground. So as much as I like to believe the China story, that's—I'm not in the camp that they're taking over the world. We did see this story before. That was Japan taking over the world. And I'm sure by the time we go 20 years out, there'll be someone else who's going to be taking over the world. So we'll see.

First of all, Jim Chanos, who's been a bear on the country, stated this is a country that's in the middle of an epic property bubble and construction bubble that will end at some point and it won't be pleasant when it ends.



Some people are arguing whether or not it's ending today. I'll leave that aside. The other side of the argument, which is equally thought provoking, is this is not Greece. The government that—or the debt that local government owe is all to Chinese banks, not to the foreign banks. And that's an important issue.



If you think about Europe last year, European banks tended to be very active in the wholesale market. What this means is their loans were significantly higher than their deposits. They weren't able to fund their lending from their deposit taking network. It wasn't enough to generate enough money to fund all of the loans they were making.

So to the amount of about $1.3 trillion, they were short cash. So they borrowed primarily US dollar, primarily wholesale, which means intra bank. So if every day you're $1.3 trillion short of what you need and you're dependent on people showing up that day and giving you the money, that's a very volatile situation. Of course it became very volatile in the fall of last year.

Interestingly enough, the US is the other way around. Their deposits exceed their loans by over $1 trillion. So they're very, very liquid. So almost the complete opposite of Europe.

China is not dependent on the wholesale market, like Europe was, and that is a very enormous positive. But at the end of the day, it's an investment led economy, with consumer spending only about a third of their total GDP. If you said, what do I think about it? Opaque financial systems, no matter how they're funded, are never fun things when they begin to come apart. And you can use Japan as the example, which was primarily funded internally as well.

C for China

But

Consumer spending

US	*71% of GDP*
India	*60%*
Germany	*58%*
China	*34%*

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So I would be cautious, and I certainly think we're seeing that a little bit on the lumber side as far as a real slowdown on lumber demand. You can maybe talk a little bit more about that later Duncan.

So E for Europe.

E for Europe
Just this week's news

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Well, what am I going to say about Europe that you guys don't already know? So I just thought, it's been—we're four days into a week—well, five days now. I'll just quickly clip through the headlines for us.

So what did we have that happened this week? Well, of course we had Greece. We started on with Greece, and here's how the seats change:

The inside is where the seats were before the election, and the outside is where the seats were post-election. Now the one caveat I'd add to this, and this comes from a person who has no political acumen whatsoever.So we ended this election with a very strong message from the Greek people, and frankly, somewhat scary some of the people that were voted for.

So presumably there'll be another election. They're talking about June 17th. Now I have a lot of kids. Lyam, who was helping, thank you Liebs. He's the youngest of six, so my oldest ones are in university. And Liebs, you do this too. How many times do they say something like, "I don't care if you throw that out." Or, "I don't care—I don't want that anyways." And then two hours later they'll creep over to the garbage and pull out the toy that they had thrown away.

So basically, you had some Greek people say, “Well, we don’t care about the Euro.” If you have teenage girls; I can see my daughters rolling their eyes. “We don’t care. Go—forget yourselves.” And then they go away and they think about it and they say, “Yikes. If this really happened that way, it might not be quite what we expected.” So I would think in the second range of voting, you may see a little bit of a pull away from the extremes. That would be my guess. I’m not willing to bet any money on it. Well, sure, I’d bet a buck on it, but I’m not going to invest any money on that basis.

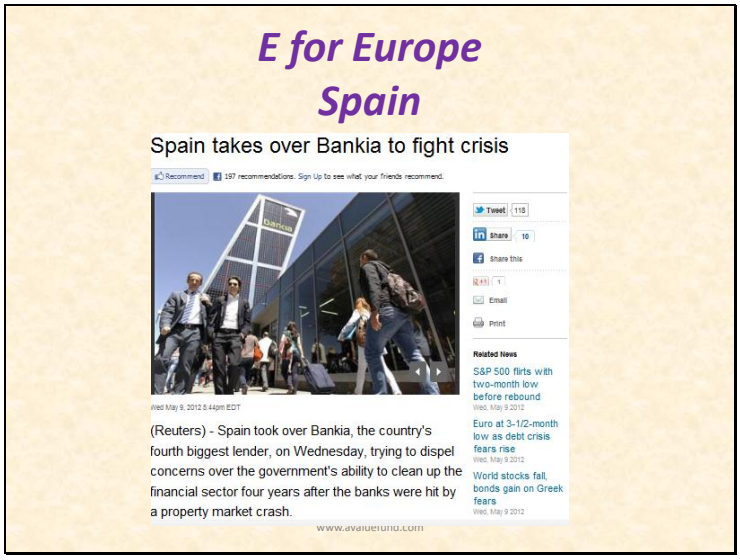
I don’t think the Euro is sustainable. But I don’t think it’s falling apart in the next two months. I was talking with someone, interestingly enough yesterday, and he was saying, “You know, there was this country--,” I’m not pretending it’s the same at all. He said, “There was this country where the south was relatively poor, relatively casual in their approach to production and very high indebted. And there was a north that was very productive, had all the money, very much focused on making money, moving forward. And they got into a big fight, and then they settled it and they all came together.” And I said, “Oh, what country is that?” And he said, “It’s called the United States.” So I thought, well, that’s interesting, not that I expect the 17 Euro countries to form a United States of Europe. But if they’re going to stick together, a Euro type bond will be needed and that’s Germany’s call.

So France, I don’t know. Everything I read is that, surveys, for example, people thought 43% to 27% I think was the number, that Sarkozy had better judgement. That he was more trusted to make the right decision. But the French being French, they voted for Hollande, so we’ll see where that goes.

He’s being a little bit boxed in by everything that’s going on in Greece right now, because at one side, he doesn’t want to—he wants to be with Germany in telling Greece to clean up their act.

So he has to figure out how to balance this interesting fence he's on at the moment, and we'll see.

Spain, well, Spain's Spain.

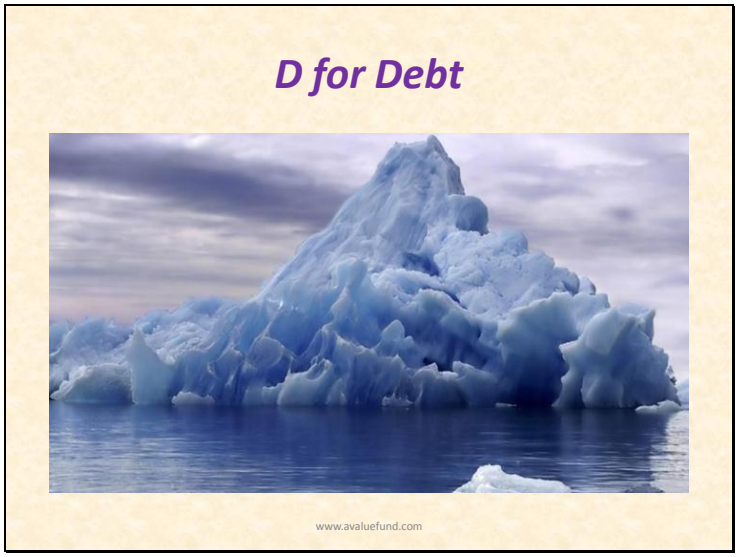


Much different situation from Greece. Greece basically was somewhat fraudulent in their approach to fiscal matters. Spain, much more careful, they just got into a very tough real estate boom that went bust. Same with Ireland. So I wouldn't—when people say Spain and Greece, both in difficult situations. Got there from a much, much different point.

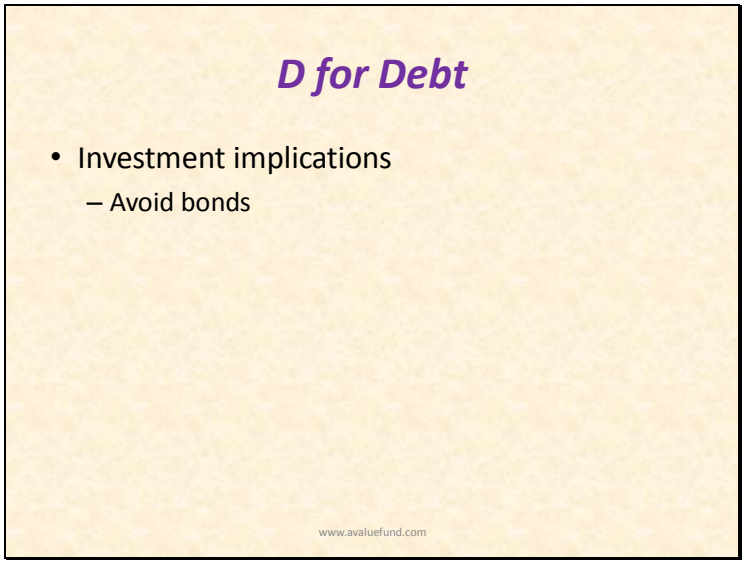
And finally, you can't leave out Italy, and good old Italy. You can always count on them for something. The Italian football clubs face match-fixing probe. More than 20 Italian football teams.

So when everything else is going around, you can count on them to have done something. And so there's Italy. So my comments on Europe, from an investment point of view, are quite simple. We have one big position in RHJ. Very much interested in Spain and Italy, but I'm not in any rush.

D for debt.



I'm not going to go into the whole debt thing, because you guys probably know it much better than I. The implications to me are, if you buy the long bond today, you're much braver than I when I found out that we were having our sixth child.

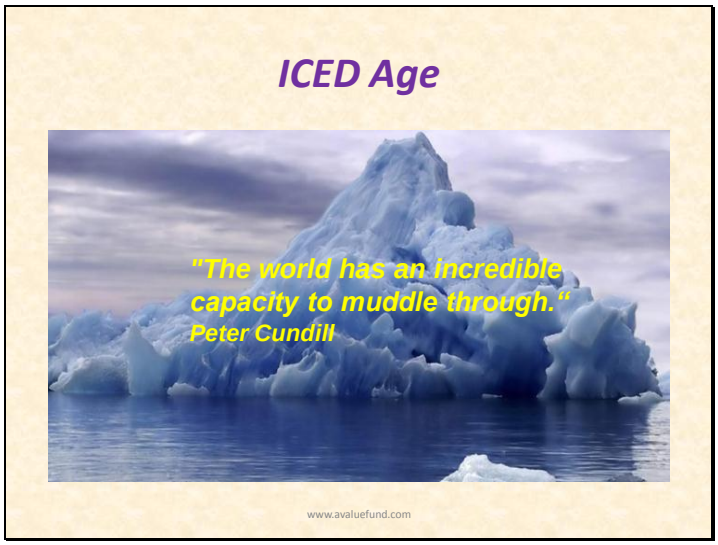


So it takes a certain amount of bravo to buy a ten-year bond at under 2%. If nothing else, the fact that inflation is more than 2%, in fact as far as I'm concerned, seems everything I want to buy has gone up in price. Everything I own seems to go down in price. But—so to me that seems like inflation. But at any rate, it's higher than the price of the long bond, and secondly, there's no risk

premium at all for what is—especially given the financial situation of the US. Ought to have some type of premium to it.

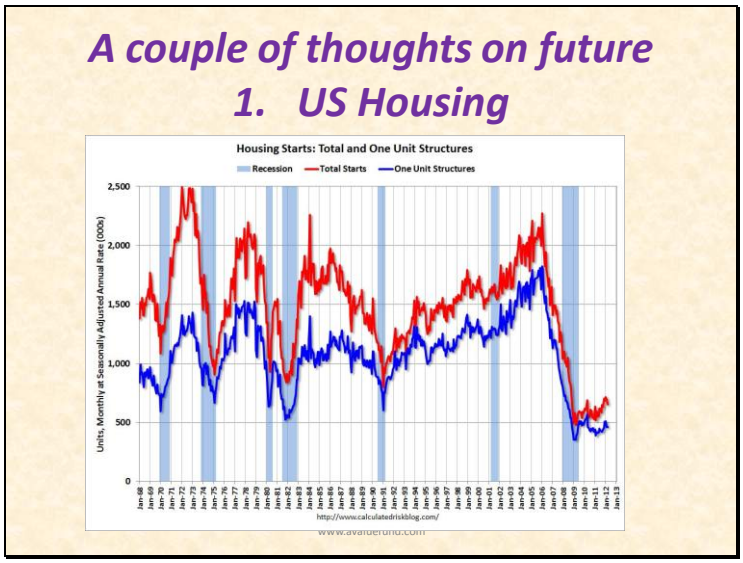
So someone said the other day, I think it was the guy from Oakmark, that a government bond, rather than offering a risk free return, it was offering a return free risk. Something like that? So—and in talking on inflation, I'm not fat, I'm suffering from inflation.

So that's where I'm primarily seeing inflation these days. So a guy I worked with many years ago, kind of summarized all of this macro stuff for me, and you'll recall this Christopher. I think you had this quote in—was it in your book? I'm not sure. The world has an incredible capacity to muddle through.

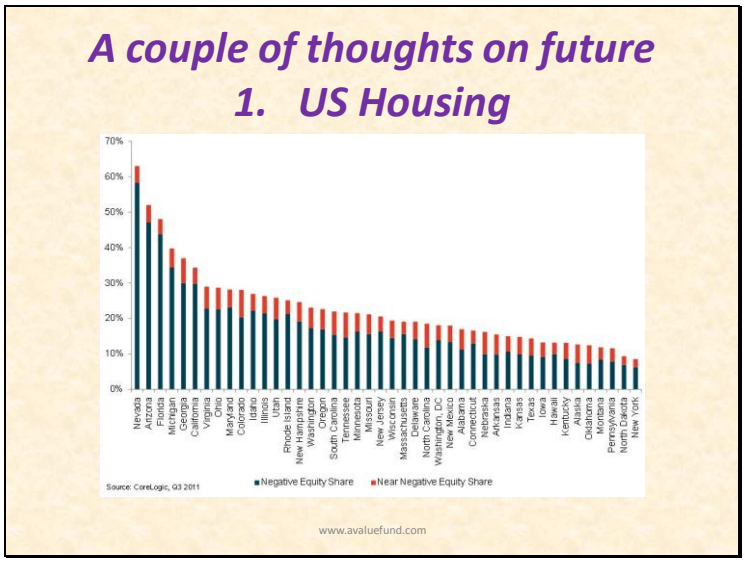


How many times Margaret, did Peter say to us, we'll muddle through. So I'm in that, the muddle through camp.

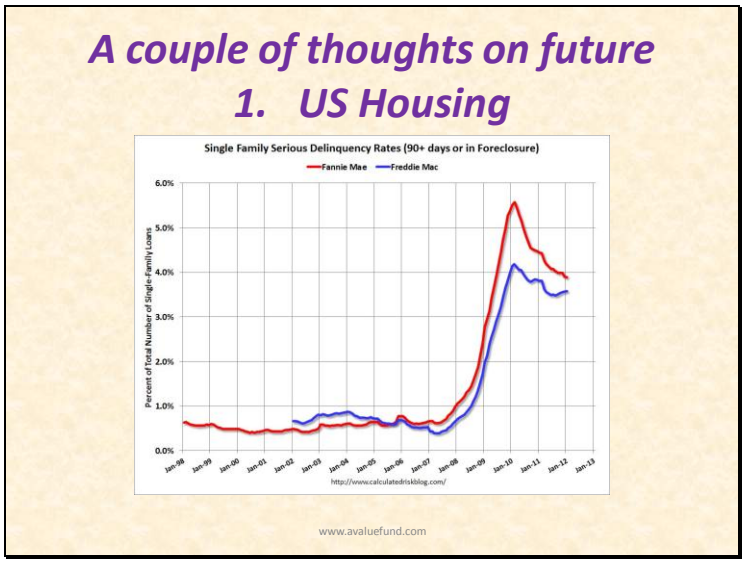
A couple of thoughts and then I'll be quiet. Housing, everyone's seen this chart:



It's housing starts. And I know Rob and Duncan may touch on it briefly. New home, nominal house prices. And here, how much people are underwater, starting with Nevada, worse, going all the way over to New York.

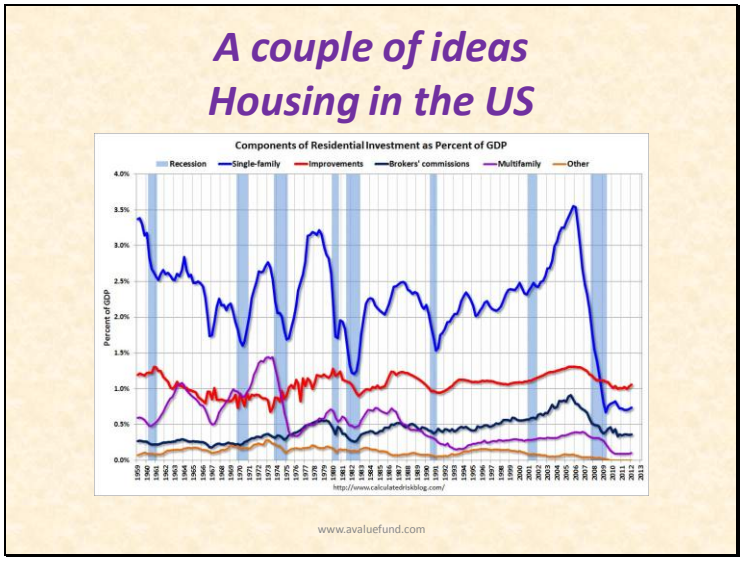


So that's kind of the negative stuff everyone knows. So here, if you look at single family, serious delinquency rates.



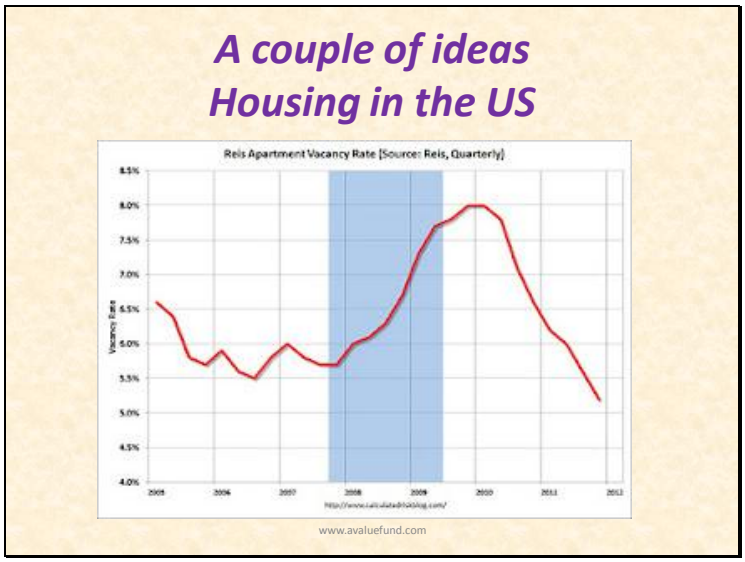
Ninety day plus or days in foreclosure. Now this—we might see a little bit of a pick up in this because the robo-signing stuff slowed down foreclosures a little bit. So you look at this chart and you can lament how high foreclosures are. Well, what I would take away from it is, the peak was reached. And in fact, we've had a number of months where foreclosure rate has been declining. That doesn't mean there isn't a lot of inventory out there. But the foreclosure and the delinquency rate is declining.

Here is housing as a percentage of GDP.



So when people talk about no growth in the US, when housing goes from 3.5% of GDP to under 1% of GDP, that's a pretty tough headwind. Flipping around the other side, any activity on the housing side, has a significant impact, especially in the US. More so than many other economies on the GDP numbers. When you say,

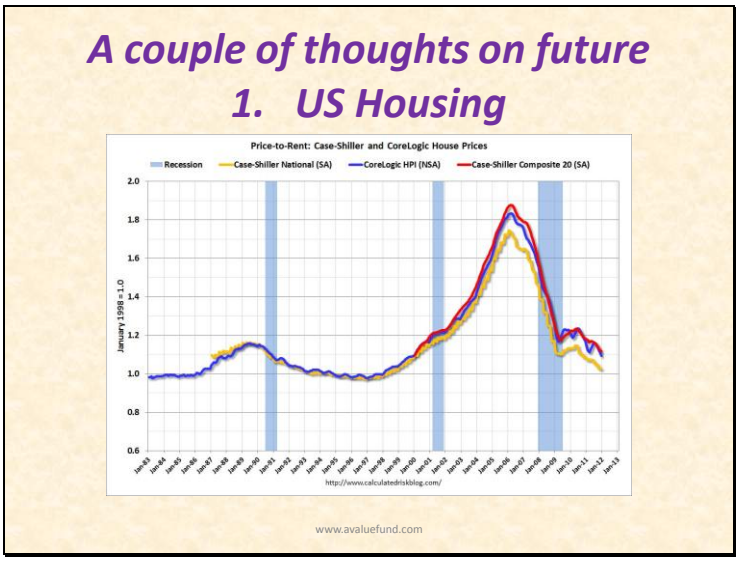
well, what's going on there? First of all, you'll notice that the vacancy rate is declining significantly.



And part of the reason for this: if you want to borrow $500 million bucks or $200 million bucks and you're J&J, borrowing will be the cheapest that it's ever been in the last 30 years.

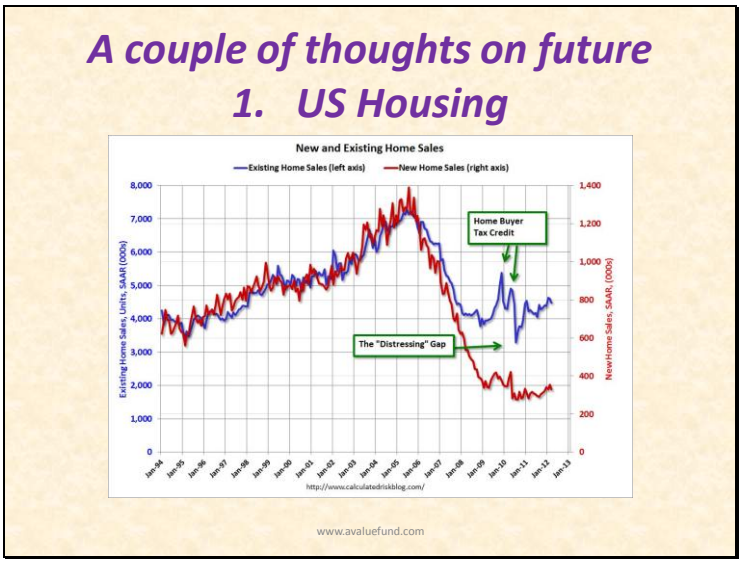
If you want to borrow $100,000 and you lost your job and you now have a new job, or you took some sick leave and now you're back, or you had been bankrupt in the last five years, you just can't get—borrowing, you just can't get it. You won't be insured by, I think it's called the FHA, which means your mortgage isn't insurable, which means the banks won't lend to you. You can put up 20%, you just can't get the loan. That's an extraordinary situation.

So what's that done? It's forced these people essentially, a significant number of people, into the rental market. So you see the vacancy rate coming down. You're beginning to see rent rise, which comes into this last chart, which is a combination of housing prices come down and vacancy coming down and apartment rent going up. This rent to own ratio is actually flipping back the other way. And you can see, while not below where it was in 1983, it's rapidly moving in that direction.



And in fact I was looking—I was in the US last week and was flipping through a number of these surveys talking about rent increases. They're—by region, some of which are very significant, in the 6 to 8% area. So if you're the Federal Reserve and you say, "There's no inflation," but someone's housing is going up by between 6 and 8%, that's real inflation to me. That's a lot of money.

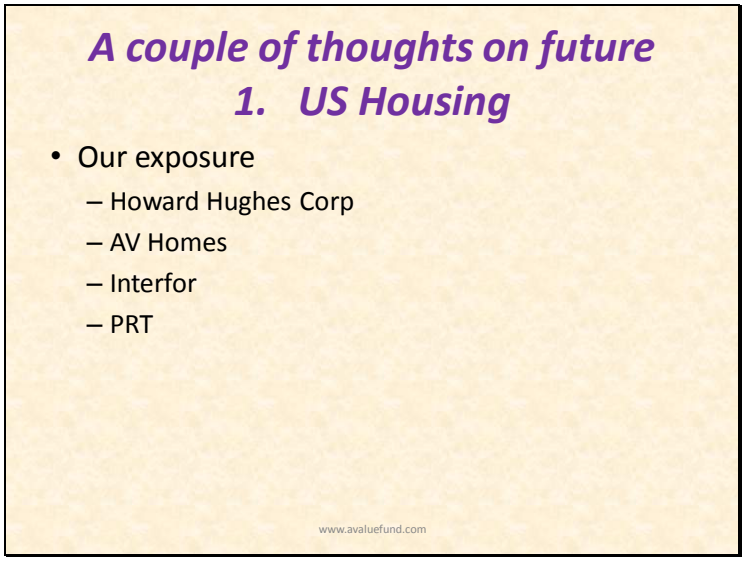
And here is—this gets back to what we were talking about before. You can see the new house is the red line. There is not very much activity. It's being pushed out by the blue line, which is existing homes, foreclosure, this shadow inventory everyone keeps talking about. This is another way of saying, the new home inventory is relatively negligible.



So I don't know if the bottom's been reached in the housing market. What I do know is that the economics are now saying, in some regions, the housing prices are too low. Areas like Houston, there's very, very strong demand. Areas like Las Vegas, there isn't so much demand. In general, that's getting closer to a normal

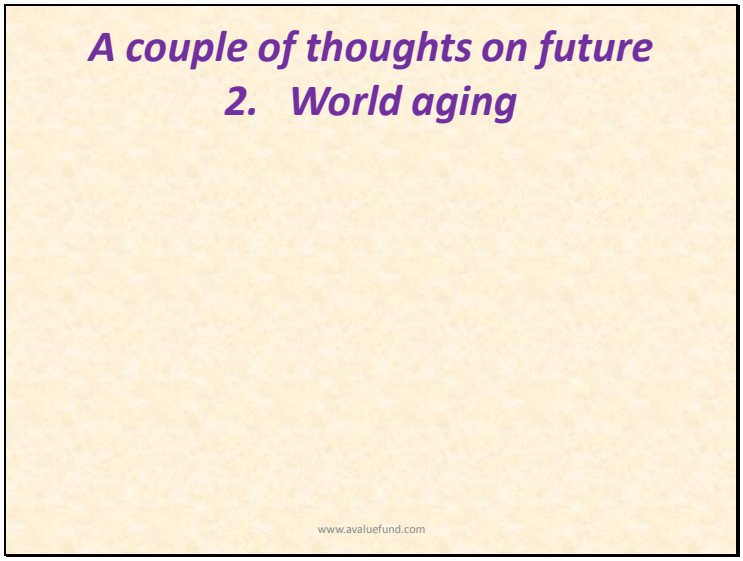
housing market, but we're probably still a couple of years away with shadow inventory.

So where are we in housing?



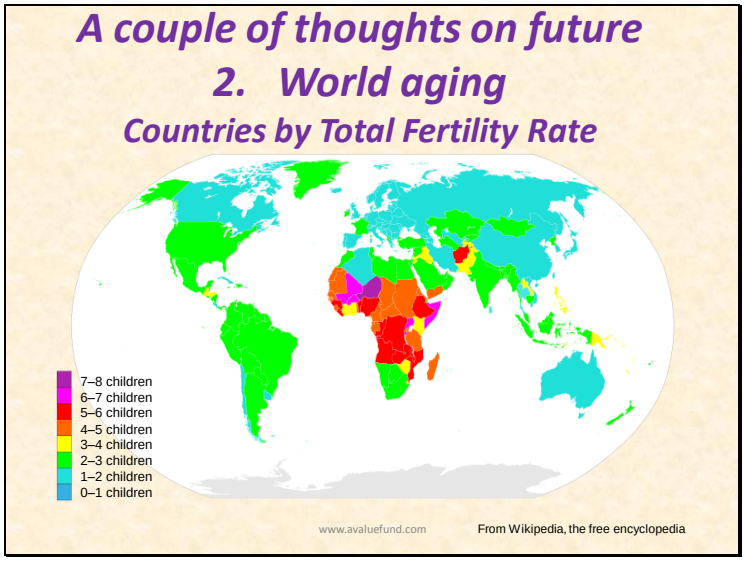
Well, we have Howard Hughes. We have AV Homes, which owns a planned community in Florida. We have Interfor and PRT. All of these companies aren't dependent on a housing recovery to make money, but if there is a housing recovery, we have an embedded call option, so to speak.

World aging.



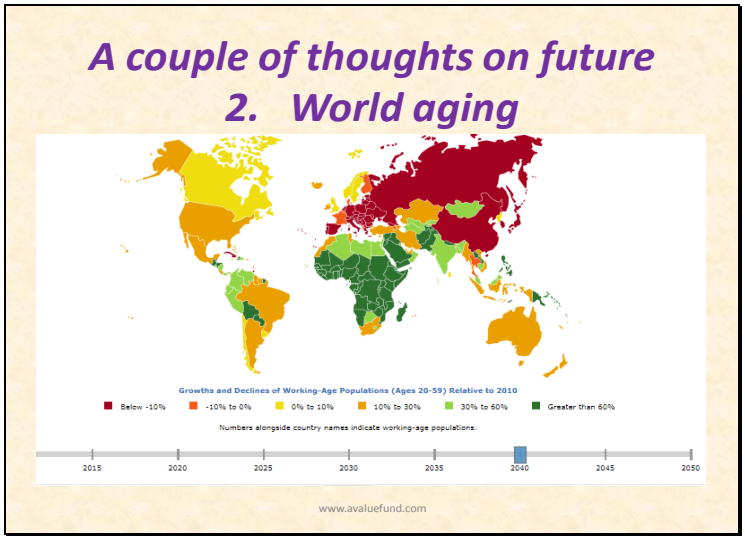
I'll really rip through this one, because I just thought, you know, if we come back here five years from now, I'd expect US housing to be better. And this gets to my comment on China. The total fertility rate, meaning how much populations are recreating themselves, in China particularly, is very, very low. And here you can

see, by the colour of the line, somewhere between zero and one. Zero and two is all of the blue areas, which means they're not sustaining themselves as far as population goes.



So the only way you can continue to grow in that model, is through immigration. If we look at the US, they are sustaining themselves, primarily driven by a higher fertility rate with the Hispanics, notwithstanding people such as you and me, Kate. Those of you like—where's Rob and Marina? They're expecting—your second? So that puts you—two point one is a replacement rate. So we need you to go over three. So yeah, get to work. We'll check in. You're due August first? So we'll give you till the spring. Then we're checking in on you.

So anyone you know who has two point one or less kids, get them up by one. Yeah, Bryant, you have one. So you have two to go as well. So what this results in is, this is how much the population will age over the next—or how many people in the working group, how it will change over the next, say 30 years.



You can see Canada is faring relatively poorly. China, Japan, Russia, are all—and most of Europe, are all faring very, very poorly. This means they have a real aging issue. The US, surprisingly, is doing relatively well. Canada, we're not doing so well, but the advantage we have, and both my parents are immigrants. Kate's dad was an immigrant. I'm a big believer in immigration, notwithstanding I thought this slightly negative article yesterday in the Globe and Mail on it.

Canada, our best export or our best import, is people want to live here. And so the best thing we can do as a country to make sure we don't run into aging difficulties or make it a place that's accepting of immigration. But I won't get into that any more than I have.

The final thing I want to do, and then I'll be quiet, and this all pertains back to China, by the way, is talk a little bit about this concept of 3D printing, and you might say, what is that?

A Couple of Thoughts on Future: 3D Printing

And I'll run this short video clip. You can see it, and then I'll be quiet and conclude. Beginning as an intro—as an advertisement, so I'll try to skip over that. But nevertheless, please cover your eyes when that part comes up.

Video: It is actually a reality today, that you can download products from the web, product data I should say, from the web. Perhaps tweak it and personalize it to your own preference or your own taste, and have that information sent to a desktop machine that will fabricate it for you on the spot. We can actually build for you very rapidly a physical object. And the reason we can do this is through an emerging technology called additive manufacturing, or 3D printing.

This is a 3D printer. They have been around for almost 30 years now, which is quite amazing to think of, but they're only just starting to filter into the public arena. Typically you would take data, like the data of a pen here, which would be a geometric representation of that product in 3D. And we would pass that data with material into a machine, and a process that would happen in the machine would mean layer by layer, that product would be built. And we could take out the physical product ready to use, or perhaps to assemble into something else.

But if these machines have been around for almost 30 years, why don't we know about them? Because typically, they've been too inefficient, inaccessible, not—they've not been fast enough, they've been quite expensive. But today, it is becoming a reality that they are now becoming accessible. Many barriers are breaking down, that means that it's—you guys will soon be able to access one of these machines, if not this minute. And it will change and disrupt the landscape of manufacturing, and most certainly our lives, our businesses and the life of our children.

So how does it work? It typically reads CAD data, which is product design data created on professional product design programs. And here you can see an

engineer; it could be an architect or a professional product designer, create a product in 3D. And this data gets sent to a machine that slices the data into two-dimensional representation of that product all the way through. Almost like slicing it like salami. And that data, layer by layer, passed to the machine, starting at the base of the product and depositing material, layer upon layer, infusing the new layer of material to the old layer in an additive process.

And this material that's deposited either starts as a liquid form or a material, powder form. And the bonding process can happen by either melting and depositing, or depositing then melting. In this case, we can see a laser centring machine, developed by EOS, is actually using a laser to fuse the new layer of material to the old layer. And over time, quite rapidly actually, in a number of hours, we can build a physical product, ready to take out of the machine and use.

This is quite an extraordinary idea, but it is reality today. So all these products that you can see on the screen, were made in the same way. They were all 3D printed. And you can see they're ranging from shoes, rings that were made out of stainless steel, phone covers out of plastic, all the way through to spinal implants, for example, that were created out of medical grade titanium, and engine parts. Well, you'll notice about all of these products, is they're very, very intricate. The design is quite extraordinary. Because we're taking this data in 3D form, slicing it up before it gets passed to the machine, we can actually create structures that are more intricate than any other manufacturing technology. In fact, impossible to build in any other way.

And you can create parts with moving components, hinges, parts within parts. So in some cases we can abolish totally the need for manual labour. It sounds great. It is great.

Tim McElvaine: And that's where I'll stop there. You can go on TED website, this is a think tank that they have periodically. But if you stop and think about that for a second and how that—it's basically manufacturing—gets a digital disruption. That—to me, I think it's a big deal. It can happen at the most simplistic level, which is, say you wanted a hearing aid. You can go in and they can custom make a hearing aid for you. Or it can begin to go to more extremes. There's a company in the States who's looking at, instead of planting carbon or plastic or titanium powder, one on the other, they're actually putting cells on one or the other. So they think they can do something like, if you needed a kidney or a liver, they're working on creating that.

Of course, you know, prosthetics it's a great machine for. And then you get into all the manufacturing usage. So if you say the last revolution, so to speak, as far as manufacturing going, was basically Henry Ford's, you get lots of people and you get a long assembly line. And that's what China won at. This type of technology has the ability of pulling manufacturing back to relatively small factories, with really no labour content, that can give you exactly what you want, relatively quickly. Very, very disruptive I think, to the whole manufacturing process. It won't be applicable to everything. But there was an example, they don't see it

here, there was an example where—The Economist had an article on it, and they were talking about doing—creating a hammer.

So you say, all right, it would be a steel hammer. No, the hammer had a steel tip and a wooden bottom part to it. All of it created through 3D printing. So as I said, it'll be an interesting technology to watch. Whether or not it applies to, as I said, biotechnology, or whether or not it applies to strict manufacturing or just the consumer side. You like a pair of shoes and you can print them off on the Internet. I just thought it was interesting to watch, and it plays directly—between this and the comments I said on population growth, played directly into my comments on China.

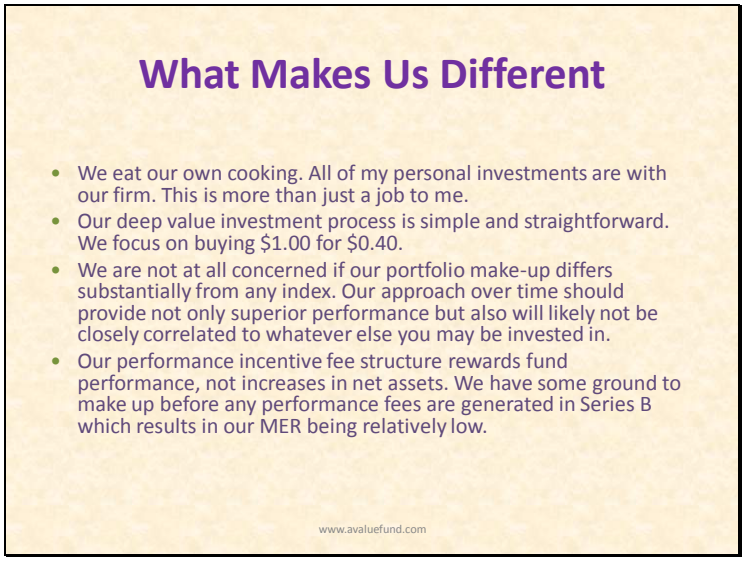
There was a picture I saw in a presentation by the guy who runs Wood Materials, whatever that consulting firm is. And it was a picture of a forklift, lifting up a significant amount of lumber. Now in the US or in Canada, you would have had a larger forklift, because the forklift was clearly too small. How they compensated in China, was they actually had six people standing on the back of the forklift to act as a counterbalance, because labour is cheaper than getting a new forklift. Technology such as this, I think will significantly change that advantage over time.

So I've gone a little bit over; we'll quickly do some questions. So just concluding our performance, our portfolio, nothing like the index.

We went through last year how we've made some changes. I won't repeat that all over again. You'll see our position size, with the exception of Glacier, is much smaller than it used to be. And you look at things like Monex, RHJ, the investments themselves are quite financially strong.

As I always say, as you see in the annual report, very much eat our own cooking. Every night I attempt to go to bed beside a unit holder, Kate, and if we're not doing so well, I might be on the couch that night. Other times I might be

welcome in the bedroom. So we'll see. Thankfully there'll be no more kids, so you can't use that a gauge of how well I'm doing. But I seem to have digressed somewhat from my speech.



At any rate, I eat my own cooking. I don't have a diversified portfolio. All of my money's in the Trust. Very much deep value process. We're looking to go where people don't necessarily want to. Either undiscovered, unloved or special situations. That would be the three real categories. And finally, a performance free structure where we have the shortfall on—you know, favours performance, and our MER is relatively low.

And with that, we'll take a couple of minutes quickly for questions. And then if there are more questions, we can talk about them a little bit later. I don't know how to get this thing up Kevin, so—in spite of being chairman of Rainmaker, I have no technology attributes whatsoever. So does anybody have any questions or anything they'd like to ask? Yeah Ian?

Ian: [Indiscernible] views on natural gas.

Tim McElvaine: Yeah, well, you know, natural gas—certainly it's an area we're looking at. Part of the difficulty with natural gas is trying to figure out exactly how to play it. So first, natural gas, as you may know, is hovering around $2 bucks. It looks like the storage will be full, meaning completely full, by the time the fall comes around. So if there's any continuing warmth in weather, you could get a real situation where people are just dumping gas completely.

You can buy the producers, which is something that we have done in the past. You can look at the service side. I haven't entirely figured it out. I think natural gas is too low at $2. I don't think it's going back to $8, but somewhere between $4 or $5 seems to make sense, based especially on its price relative to oil. I don't believe the bull arguments that say basically, natural gas is going to become a primary use in electricity generation in the US. That's too slow a process. So

whenever I see someone talking about that, you know, I put a grain of salt in that. I do think it's very important for someone like a chemical manufacturer.

And finally, natural gas is an extremely regional market. If you go to Japan, I'm not sure exactly what the pricing would be, but I think it's somewhere into the $20s. So—versus in the US where it's $2. And then you come compare places in the US versus places in Canada. Very regional in how they price it. So if we could find an interesting way to do it, we would. We're looking around. We don't own anything at the moment. Yeah?

Male: Are there any US retailers that use Swiss Water?

Tim McElvaine: One of the things they're doing is, they hired a guy last year in Minneapolis to just do that. Swiss Water has, depending on how you measure it, very high market share of the decaffeinated business here in Canada. Very high market share in Australia. Extremely low, de minimis, in the US. So that's one of their challenges over the next little while. They hired a guy, I think it was about a year ago, and so this is the first full year that he's been in progress. If you see, they released their results a day or two ago. And their specialty coffee business, which is basically what we're referring to, their US business, has been growing strongly. So we'll see. Well, with that—well, I'll take one from you Brian, and then we'll turn it over to John, wherever John went. But at any rate, yeah, go ahead Brian.

Brian: [Indiscernible] Steel Partners?

Tim McElvaine: Yeah, Steel Partners. We had a position in a company called Steel Partners, which we don't own anymore. Not because it was particularly a bad stock. It was just as things became difficult in the fall, there were bigger things to buy that we weren't paying any more for. So if you can upscale to a Cadillac from a Pinto, and you get it at roughly the same price, you may as well.

So that's what we kind of did. We bought things like Howard Hughes, TD Ameritrade, H&R Block, PCBC, by selling—obviously using cash, by selling Sony in Japan. By selling Steel Partners, ADPT in the US. So with that, I think I've rambled a little bit. As I said, I very much appreciate your support. I very much appreciate you coming here this morning with your time.

Our first speaker today, and last year some of the feedback we got was that you wanted to hear from some of our investee companies. Our first speaker is a guy named John Wallace, who runs The Caldwell Partners. For those of you, like Margaret, who you remember Doug Caldwell from many years ago, we first invested in Caldwell Partners, probably at about $1.20 or so, give or take a little bit. And what it is, is a search firm, and it was in some decline. After many years of talking with Doug over difficulties in corporate governance, we and two others, Michael Bregman and John Clark, launched a lawsuit against Doug, which got a little bit messy, to say the least.

But within every winter there comes a sprout in the spring, and John was the sprout that came out of all of that. And we bought some more stock, about $0.60. Our average cost now is about $0.80, versus a stock price of $0.70. And I thought you'd find John interesting because he'll talk about the transformation. About the transformation in Caldwell over the last couple of years, that's why I call it caterpillar to butterfly. Thank you.

[applause]

Presentation by John Wallace, President and CEO, The Caldwell Partners International

Tim McElvaine: Thanks John. As a value investor, as I alluded to before, you're always looking for kind of embedded call options. Where is my down side protected? And the upside can be very good. So in the case of Caldwell, especially pre-John's involvement, we had a position, we were working through some difficult circumstances. We didn't buy any stock, any more stock. As that settled out, as the share price came down, as I got to know John, we were presented with the situation where the stock was, I think $0.55 or $0.60, a large block became available. And John showed you the cash, working capital, is a little bit more on top of that.

So we were able to basically pay nothing for the business and create this embedded call option. So John talked a little bit about some of the changes he made. It was a very difficult business. Caldwell was—I think I'm quite confident in saying this, was going under until John came around. And he identified the people, the key levers, which as he talked about, was the amount of the average search and—meaning do fewer, higher paying search. And then trying to get that person to do ten plus searches, and try and get experienced people.

So you've changed enormously Caldwell. I called you the maestro of the matchmakers, so to speak, and I'm delighted you could make it out here today.

We move right into the next session and then after that we can do a washroom break. If you're really dying, you can go. I'm not going to make you sit there. Interfor is a company that's not—as I was joking in a different context earlier, it's not your father's company, so to speak. The Interfor I used to own, or the Primex that we owned many years ago in the trust, is much, much different than the company Duncan's created today.

So our cost is not that much different from where the stock is today. We purchased it relatively recently, and I thought it would be interesting, especially when you've heard John talk about transition, that Duncan can talk a little about Interfor and the transitions he's gone through. So why don't you talk quickly Duncan and then I'll introduce Rob, and Rob can talk and then the two of you can take questions. But I call Duncan the lord of Lumber. So if I can turn it over to the Lord of Lumber.

Presentation by Duncan Davies, President and CEO, International Forest Products Limited

Tim McElvaine: Duncan talked about the looming fibre shortage, as it's called, and I didn't go into the math of that because I think it's been talked about a lot here in BC. But that's something that is a huge push behind a huge wind at Duncan's back.

PRT and Rob Miller will present. We've purchased his shares at the lowly price around $1.40 in the midst of 2009, and we sold a little bit as they've come up. But Rob's being faced with a business that basically almost stopped at one point and had to re-transition it significantly, and was helped a little bit by mother nature. But I'll let you talk a little bit about that. But how I best describe him is the man who made seedlings sexy, so I'll hand it over to him.

Presented by Rob Miller, President and CEO, PRT Growing Services Ltd.

Tim McElvaine: Well, thank you very much Duncan and Rob, and I'll likewise give you a copy of Christopher's book on Peter. I very much appreciate what you're doing for all of us as owners and very much appreciate you coming here today. So, if we could give them some applause then I want to give you a couple of instructions.

[Applause]

Tim McElvaine: Okay, so this is the plan. First I'm going to let you go in a second, so you can use the washroom and everything. Then the buffet is set up, so you're free to help yourselves. And then Christopher, probably about 12:30, give or take a little bit, you can eat quickly, maybe we can do a little bit, maybe quarter to one, we'll turn it over to Christopher.

But just before I pause for a little bit I know in life I have a lot to be thankful for. I am thankful for the relationships I have with all of you who came here today. A good friend of Kate and mine, although we live over in Victoria, he runs a wonderful church here in downtown Vancouver, and I just wondered if he could say thanks for all of us and grace for the food and then we'll break for lunch. So, thank you so Pastor Dave, the church by the way is Coastal Church it's just down on West Georgia and non-denominational and a wonderful place to go on a Saturday evening or Sunday morning or Wednesday evening. Why don't you give your website so people can look it up Pastor Dave, and then give a blessing and we'll take break.

Pastor Dave: Our website is coastalchurch.org. So you can easily go there. But let's take a moment to thank, we have a lot to be thankful in our country and thankful for friends and for opportunities. God we pause, we're grateful for our nation. We sing that song, God keep our land glorious and free and it's our anthem and we make it our prayer as well this afternoon, that you would keep our land glorious and free. We're grateful to be in an amazing country, help us to be good stewards of all that you've given to us, and not just for our generation, but for the next generation. We're thankful for Tim for his team and for what they're doing, we pray you guide and direct them, and guide and direct each on of us. Thank you for

our food, we ask you to bless it and conversation on our table, in Jesus' name, Amen.

Tim McElvaine: Thank you very much.

Tim McElvaine: Excuse me. If I could pull your attention back for a second here. I hope you had a good meal, and it seems to be a lot of enjoyable conversation, which is nice to see that, people getting along. Just before we start, there is one, like we did this morning, there's one person I'd like to acknowledge who's been an important part of my life for many years, and she just stood up and she's trying to run away. Diann Fong, I'm talking about you. So, Diann has now gone off to work for a competitor as we moved the office to Victoria. I'm delighted that she joined us today, and thank you, Di, for everything you did for us over the years. So, if we can have a round of applause for her, I'd appreciate it.

I have the pleasure of introducing our guest now who will talk about my mentor, my boss, my former partner for many years. I first met Peter Cundill in Bermuda when I was working there and showed up in typical Bermudian dress with, you know, shorts, the long socks, tie, etc., and Peter had his McGill notebook and looked just like you would have expected. And that is now a lifetime ago.

So one of the things that I was most pleased about with Christopher's book, and I think I'll steal this phrase from you, Geoff, was it's very much like a fireside chat. Opening it up and reading it reminds me a lot of experiences many years ago.

So, I thought it would be very interesting for all of us to hear from the man who put the words on a piece of paper. And like any artist or author, he's very difficult to get to do something like this because he's in very high demand for his writing skills. But we're delighted he came over to join us here, so without any further ado may I introduce you to Christopher Risso-Gill.

Presentation of Christopher Risso-Gill, the author of "There's Always Something to Do" about Peter Cundill.

Tim McElvaine: So, just recapping, today we started talking about a little bit of what we were up to. So you heard me talk about Monex, a Japanese company trading at about half of book; RHJI, which was trading below cash and has substantial value in the private banking business as well. And those two were painful for performance last year, and I am quite comfortable with the valuation and quite comfortable they'll provide, and they have already, some help this year.

You heard from Duncan Davies and Rob Miller and John Wallace talking about some of the investments we own, and the theme through all of them is we had a margin of safety. We had protection on the downside, the bird in the hand, and we were creating kind of a call option on things getting better. And I think in all three cases, thanks primarily to Rob and to John and to Duncan, the businesses have been transformed and have a very optimistic future.

But most of all, I appreciate you coming today and spending some of your precious time with us, as the most precious commodity we, of course, have, and thank you very much for your trust and thank you very much for coming today, and I look forward to seeing you I guess next year if not before. Thank you.