The McElvaine Investment Trust

www.avaluefund.com

Annual Report
2013

The McElvaine Investment Trust (“the Trust”)

The McElvaine Investment Trust is a RRSP eligible fund. The Trust was formed on September 27, 1996 with the following philosophy:

1. Highly satisfactory longer-term performance can be achieved by focusing on companies selling below net asset value.
2. The purpose of an investment vehicle is to make money not to own stocks. This is an important distinction because it means the Trust will only invest when presented with an attractive situation.
3. As there are few good ideas, there are times when concentration may be helpful.

There are 4 different series of the Trust. You may refer to the current offering memorandum for a detailed discussion of each Series, but very simply:

Series A:	Was established in March 2009 and pays a 1% service fee.
Series B:	The majority of our investors, including Tim, currently own these units.
Series F:	Was established in January 2008 to allow investors with advisors to hold their units in fee for service accounts.
Series X:	Formerly called Series A units. These units may no longer be purchased.

To my Partners:

Thank you for your trust and for being my partner. I realize some people find my letters quirky but rest assured I have only one objective. My sole focus is to increase the value of our investments on a per unit basis.

I started The McElvaine Investment Trust in 1996. You and I have seen a lot of different environments together. Our investments in the Trust have ranged from Japan to Victoria. Regardless of location, the focus is always the same. Is there a margin of safety at the price we are paying? The reason a margin of safety is so important is unexpected things happen.

For example, three years ago I said gold was high at $1,800 and the Japanese Nikkei Stock Market Index was low at 8,000. There was no margin of safety in the former and lots in the latter. I had a number of people including a speaker at our conference question my sanity. Price matters. Today gold is below $1,300 and the Nikkei is almost 15,000.

The environment we live in has changed significantly in the last 17 or so years since I started the Trust. Wonderful advancements have taken place in technology and medicine. Not so great things have happened in the financial industry. The basic human emotions still dominate: fear, greed, envy, impatience, and ego.

It is a little bit of an unusual time in the markets as we are finding few bargains. As a result, at the end of March, our cash is approximately 26% of net assets. Having said this, we don't invest in the market but rather deal in discounted merchandise. In other words, we shop in the bargain basement not the fashion aisle.

About nine months ago, I formed an advisory committee. The committee is made up of 3 successful and experienced investors. In addition, all three have served on many public company boards including as Chair. Two of the three are investors in The Trust; the third has a significant investment in one of our larger holdings. Each of them own 5% of McElvaine Investment Management. The purpose of this committee is to add a level of accountability for me. Peter Cundill had a similar structure when he operated Cundill Value Fund. This advisory board does not make any investment decisions but rather is both a sounding board for me and also keeps my feet to the fire. I am blessed and thank all three for their friendship, "brutal" honesty and insight.

There is a lot of "financial porn" on TV and the internet. Everyone has an opinion. I realize this creates a lot of confusion. To me, the basic principles don't change. Be honest in your dealings, surround yourself with good people, align your incentives with your partners and buy cheap. I know I got all of these key things right.

March 31, 2014

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Performance Summary as of 31Dec13

The McElvaine Investment Trust[7]
Series B

Year (Period)	Pre-fee Return (1)(2) Series B Units	Net Return (1)(3) Series B Units	Index (4)	Average Cash Balance (5)
2013	20.2%	19.1%	13.0%	31%
2012	19.4%	18.3%	7.2%	18%
2011	-12.3%	-13.4%	-8.7%	10%
2010	2.8%	1.8%	17.6%	6%
2009	19.1%	18.1%	35.1%	17%
2008	-47.8%	-48.8%	-33.0%	6%
2007	1.0%	0.6%	9.8%	9%
2006	15.1%	11.9%	17.3%	11%
2005	22.9%	17.2%	24.1%	13%
2004	11.3%	8.6%	14.5%	23%
2003	36.5%	28.2%	26.7%	14%
2002	5.4%	5.0%	-12.4%	5%
2001	37.2%	28.0%	-12.6%	2%
2000	24.6%	19.2%	7.4%	9%
1999	38.8%	29.5%	31.6%	26%
1998	21.3%	16.6%	-1.6%	27%
1997	16.8%	12.8%	15.0%	59%
17 Year Compound	11.3%	8.1%	7.4%	
$100 invested Jan97 is now		$377	$334	

Notes:

(1) The “Pre-fee Return” and “Net Return” information includes distributions reinvested in additional units.

(2) “Pre-fee Return” is our estimate of the increase in the asset value of the Trust during the period after the deduction of all expenses, other than the management fee and performance incentive fee, and applicable GST. The Pre-fee Return gives you the best indication of how the Trust’s investments have performed. However, the “Net Return” is a better indicator of the returns actually earned by investors.

(3) “Net Return” is our estimate of the increase in the net asset value of the Series B units during the period. The Net Return for each series of units will differ since the fee and expense structure for each series units differs.

(4) As the Trust invests primarily in Canadian securities, we have compared its performance to that of the S&P/TSX Composite Total Return Index. This index tracks changes in the share price of the largest companies (by market capitalization) listed on the Toronto Stock Exchange (and includes the return from reinvested dividends). These companies represent a broad range of industries. The Trust may often invest in small-cap and mid-cap companies that are not included in the S&P/TSX Composite Total Return Index, and therefore, other indices may also be appropriate comparisons for the Trust.

(5) “Average Cash Balance” is our estimate of the average of the month-end cash and short-term bond balances held by the Trust. We have included this to allow you to assess how the Trust was invested in order to generate the returns shown. For example, the 1997 Pre-fee Return of 16.8% was earned while the portfolio was on average only 41% invested.

(6) This Performance Table excludes the three months from 27Sep96 to 31Dec96 (start-up period). During this period, the Trust returned 3.1%

(7) 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, our estimates.

My Commitment to Reporting

In the pages that follow I have tried to present the material I believe is important for you to assess the job I did. In other words, I have tried to put myself in your shoes and thought about what I would need to see to understand the performance of my investment. I hope I have done this in a fashion that neither trumpets my successes nor hides my warts.

You will find this report includes:

1. A general discussion of the issues affecting the Trust.
2. A specific discussion of the Trust including:
   i. a review of pre-fee returns to show you how the portfolio performed.
   ii. a reconciliation of pre-fee returns to your return to allow you to understand the expenses you paid and thus how the fund return became your return.
3. A list of the Trust's largest investments as at the end of the year.

This report will not include a detailed discussion of our holdings. I have no intention of trying to sell you on each holding of ours. I do assume on these matters you trust my judgment and will hold me accountable each year for the collective performance of these individual decisions.

Finally, I work for you. If you believe there are items or issues I have not discussed but you would like to see covered, please let me know

Having said all of this, our lawyers and accountants say we need a disclaimer so here it is:

Warning Label
First and foremost, I caution you that all figures are my estimates. Secondly, I want to stress that all figures in the body of my report are unaudited. Audited Financial Statements have been sent separately to all partners. Finally, some of my comments could be considered predictions. While my statements are made with the best of intentions, history has shown I am often quite wrong.

Our Return for 2013 – Series B Units

The Trust's return for the 12 months ending 31Dec2013 after all fees and expenses was +19.1%. By comparison, the S&P/TSX Composite Total Return Index (including dividends) for this same period was +13.0%.

Investment Returns versus Your Returns

To illustrate our performance, below I have broken out the details as a percentage of our 2013 opening Series B net asset value per unit. I should caution you that these figures are my estimates and are unaudited:

Returns from investments	20.7%
Operating expenses and related taxes	-0.5%
Return pre-management and pre-incentive fee	20.2%
Management fee	-1.0%
Incentive fee	0%
Taxes on fees	-0.1%
Net return to you	19.1%

Breaking down our returns from investments further, I estimate the impact (realized and unrealized) from various investments as follows:

Canada related	4.9%
US related	10.8%
Japan related:	5.5%
Europe related:	-0.5%
Return from investments	20.7%

The Year in Retrospect

2013 was a year of harvesting. Admittedly I harvested a little too quickly but that is the curse of a value investor: in a little early, out a little early. In spite of this, the Trust did not have a tax distribution in 2013 as realized capital gains were offset primarily by a realized capital loss on Rainmaker common shares. As a partner myself, I understand after tax returns matter.

Our investments in the US drove our performance. Breaking out performance by company:

Howard Hughes Corp	3.3%
ING US (VOYA)	2.6%
H&R Block	2.0%
Other US	2.9%
Return from US Investments	10.8%

As discussed in the past, concerns over the outlook for US housing in the fall of 2011 gave us the opportunity to invest in a number of housing related companies at discounts to their intrinsic value. We sold a number of these holdings over the last year or so including PRT and Interfor. The last of these were Howard Hughes Corp and H&R Block. Howard Hughes Corporation was a spinout consisting of master planned communities primarily in Las Vegas and Texas as well as a collection of development assets. We acquired our position for about $48 and sold the last of our shares around $120. H&R Block was depressed due to concern over its exposure to a mortgage origination business was operated through a subsidiary. Our average purchase price was a little over $13. We received approximately $1.20 in dividends and sold our position for about $27. The appreciation in these securities primarily occurred as people began to feel better about the future for US housing. I realize many feel the US' recovery is just beginning. I have no idea. Our focus is simply the price.

Earlier in 2013, we had the opportunity to acquire shares of ING US (renamed VOYA). This was a somewhat distressed sale of ING Groep's US insurance operations. We acquired the shares at a significant discount to book value and at a single digit PE. With new management in place, margins are widening and return on equity is improving.

Nearly all of Japan's performance was due to our holding in Monex Group. We have significantly reduced our position over the last year or so. Similar to my comments on US housing, I realize many believe the move in Japan is just beginning. Given the index is almost double where it was when we were investing, I will leave future predictions to others. The future market outlook is simply not the hook on which I choose to hang an investment decision.

Gains on our holding in Bank of Ireland offset somewhat the poor performance of RHJ International. We have since sold our Bank of Ireland position but continue to hold RHJ International. At long last and after many delays, RHJ recently concluded its acquisition of the former Deutsche Bank private bank BHF. RHJ has been a long time holding and definitely a disappointment. Higher than expected costs and a much delayed timetable has eroded somewhat our estimate of net asset value. Having said this, at EUR3.70, I feel comfortable with the investment.

Our Canadian performance came from the following companies:

EGI Financial	3.8%
Legumex Walker	2.4%
Village Farms	1.5%
Glacier Media	-1.9%
Blackberry	-1.3%
Rainmaker (incl convertible debenture interest)	-1.1%
Other Canada	1.5%
Return from Canadian Investments	4.9%

After a many year wait, EGI Financial performed strongly as improved underwriting and a refocusing of its business lead to a reappraisal in the market. We almost have doubled our money on EGI over a 7 year period. While this was a double digit return, it was a long wait.

On the topic of waits both Rainmaker and Glacier Media did not make our life any easier in 2013 as both negatively impacted our performance. Rainmaker made significant management changes in late 2012 with the addition of Craig Graham as Chairman and CEO and the hiring of Michael Hefferon as President. We disposed of a portion of our common shares and subscribed for a position in the convertible debentures. On a fully diluted basis, our ownership position of Rainmaker has been significantly reduced however the position does remain an important holding in the Trust.

The Trust's expenses consisted primarily of custodial, legal, audit and other operating expenses which amounted to about 0.50% of net assets. In addition, our management fee was 1% of net assets bringing the total MER, with taxes, to something around 1.6%.

There was no performance fee paid on the B units. There continues to be a performance fee shortfall for the B units that will have to be made up prior to any performance fees being paid.

Where We Are Now

Below are some details on our portfolio at 31Dec13. Audited financial statements, including a statement of Investment Portfolio, has been separately mailed to you.

Canadian holdings	46% of net assets
US holdings	12%
European holdings	10%
Japanese holdings	5%
Cash and Net Working Capital	27%

As you know, my primary focus is always on the specific company and country allocation is somewhat of an afterthought. Looking at the portfolio as I do, you will see our largest positions at 31Dec2013 were as follows:

RHJ International	9% of net assets
Rainmaker common shares and debentures	7%
Glacier Media	7%
EGI Financial	6%
Monex Group	5%
10 Other Canadian Holdings	18%
6 Other Foreign Holdings	26%
Cash and Net Working Capital	27%

Conclusion
Similar to last year, I will chat a little further about what we are doing at our conference on May 8th in Vancouver. I hope to see you there. We will post a transcript of this meeting on our website. As always, I thank you for your trust and support.

McElvaine Investment Management Ltd.

ABBA Primer
or
What we look for when investing

ABBA is my snappy acronym for what we look for when making an investment.

A – Accident

If you're going to buy the best bargains you have to buy the things that other people are selling. ~Sir John Templeton

We deal in nightmares not dreams. We are looking for people who are selling for reasons other than price. Examples include:

- Sector, industry or a region people are avoiding
- Bad news such as dividend cut, downgrade, unexpected poor results
- Special situation such as a spinoff, emergence from bankruptcy or rights issue

B – Bird in Hand

Protect the downside. Worry about the margin of safety. ~Peter Cundill

We want to have a margin of safety based on our purchase price. We also consider what the stock may be worth in 3 years. Things we consider include:

- Replacement value
- Liquidation value
- Private market value
- Sum of the parts value

B – Brick House

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

In the story of the Three Little Pigs, the pig with the brick house survives the wolf. There will always be wolves in business and our job is to look for cheap brick houses. Things we consider include:

- Balance sheet strength
- Free cashflow generation and capital requirements
- Market share, competitive positioning, relative cost of production

A – Alignment of interests

If you've been playing poker for half an hour and you still don't know who the patsy is, you're the patsy. ~Warren Buffett

In the 1970s, the Kinks had a hit with the song Lola. It was a story about a young man who meets a woman named Lola in a bar. After a fun filled evening of drinking, dancing and snuggling, our hero is surprised to discover Lola is in fact a man not a woman. Similar to this story, we prefer to understand, prior to the "final act", the motivation and interests of the Board and management. Things we consider include:

- Stock ownership of directors and management and Insider buying
- Management compensation program
- Independence of Board

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