The McElvaine Investment Trust
Annual Report
2014

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.

We currently offer 3 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, own these units.
Series F: Was established in January 2008 to allow investors with advisors to hold their units in fee for service accounts.

Further information is available at our website:

www.avaluefund.com

Cover page:
Vancouver at Sunrise
https://impulse2010.files.wordpress.com/2010/03/downtownvancouversunrise.jpg

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To my Partners:

It was disappointing to end the year behind the TSX. I do believe there was substantial business improvement in a number of our holdings during the year with the result that our value to price ratio widened somewhat in 2014. In other words, our stocks got cheaper as the underlying business value change exceeded the change in stock price. Having said this, the proof is in the pudding so to speak so we will see what this year brings us. The bottom line is I am optimistic on 2015.

Our returns for the Series B units are as follows:

	------------------------- Percentage change------------------		
	The McElvaine Investment Trust	S&P/TSX with dividends included	Trust's average cash balance
2014	6.0%	10.6%	26%
3 years to 2014	49.4%	33.9%	25%
1997 to 2014	399%	370%	17%

Our approach is centered on four items. We invest when we have:

1. A competitive advantage when making the investment (such as a seller who does not care about the price they are getting);
2. Observable investment value that exceeds the share price at the time of purchase (no financial spreadsheet gymnastics involved);
3. A financial position ideally combined with strategic position that provides staying power;
4. A Board and management team that is owner focused.

You will note our process does not involve macro forecasting or economic predictions beyond assuming reversion to the mean at some point. Investing is a messy business and our protection ideally is in the price we pay. Whenever I see an elaborate model, I cannot help but be reminded of the following story:

> *During World War II, [Nobel laureate, Ken] Arrow was assigned to a team of statisticians to produce long-range weather forecasts. After a time, Arrow and his team determined that their forecasts were not much better than pulling predictions out of a hat. They wrote their superiors, asking to be relieved of the duty. They received the following reply, and I quote "The Commanding General is well aware that the forecasts are no good. However, he needs them for planning purposes."* *(Minutes of Meeting of the Federal Open Market Committee on September 20, 2005)*

Investments cannot be popular and cheap at the same time. To use a present day example, one needs to look no further than European government bonds. A Bloomberg story in late March suggested some $1.4 trillion of euro sovereign debt carry negative yields. In other words, the best outcome for one of these bond "investors", assuming the bonds are held to maturity, is a loss. This outcome can only be avoided if the bond is sold in the interim to someone else who will then experience an even greater guaranteed loss. I think Hans Christian Anderson covered this type of investing in The Emperor's New Clothes.

I figure investing is a little like doing a house reno. You might carefully plan how everything will go but when you cut into that first wall, all bets are off! In a similar vein, it is unlikely all possible scenarios are taken into account by a forecaster. A story told by a friend comes to mind:

> *Driving below the speed limit through an intersection, John noticed a flash as the traffic camera took a picture of his car license plate. Somewhat incensed as he clearly was not speeding nor running the light, John turned around and drove through the intersection again while his wife filmed his speed and the surrounding traffic. The camera light flashed once again. Determined to ensure he had adequately recorded his innocence, John drove through a third time. About a week later, he eagerly opened the citation letter knowing he had prepared a rock solid defense. Imagine his surprise when he found 3 tickets for not wearing his seatbelt.*

As Warren Buffett has said, you don't find out who is swimming naked until the tide goes out. I put some ETFs into this class of free spirited bathers. ETFs have been sold as a liquid and low cost alternative to funds and stocks. In reality, many are simply instruments of investment demand. Simply put, when there is excess demand for an ETF, the designated broker takes your cash and in effect "manufactures" more units by buying the underlying security and swapping it into the ETF. This generates liquidity and ensures the ETF remains around NAV. The reverse occurs when supply exceeds demand. This is definitely a fair weather concept. Add a little market dislocation and one of the more esoteric ETFs and you have the financial equivalent of a wardrobe malfunction. We have recently hedged part of the portfolio by taking advantage of the current optimism for some of these structures.

This brings me back to my comments on forecasting. I am surprised with how often forecasts are incorrect. In spite of this, there is always someone on the TV or in the paper saying how one should invest given such and such an outlook. This is not our approach.

The flip side of a forecast is valuation. If the price is cheap enough, the future will take care of itself. In other words, our protection is in the price we pay. The downside of this, and paraphrasing the Buckley's cough syrup line, is our stocks look awful, but they are cheap.

I like what we own. In the following section, you will find a discussion of our 2014 results (the princes so to speak) and our current investments (the frogs we have kissed). I am confident in our prospects and in my ability to find sensible investments.

As always, we are open for business and appreciate any additional investment you may make and any referral you are able to provide. Please email us at info@mcelvaine.com if you are interested in receiving an investor package.

Most importantly, many thanks for your trust and support. I realize there are many investing alternatives and I appreciate your confidence.

Warm regards,

March 31, 2015

Performance Summary as of 31Dec14

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)
2014	7.1%	6.0%	10.6%	26%
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%
18 Year Compound		8.0%	7.5%	
$100 invested Jan97 is now		$399	$370	

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 2014 – Series B Units

The Trust's return for the 12 months ending 31Dec2014 after all fees and expenses was +6.0%. By comparison, the S&P/TSX Composite Total Return Index (including dividends) for this same period was +10.6%.

Investment Returns versus Your Returns

To illustrate our performance, below I have broken out the details as a percentage of our 2014 opening Series B net asset value per unit. I should caution you that these figures are my estimates and are unaudited:

Returns from investments	7.5%
Operating expenses and related taxes	-0.4%
Return pre-management and pre-incentive fee	7.1%
Management fee	-1.0%
Incentive fee	0%
Taxes on fees	-0.1%
Net return to you	6.0%

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

Canada related	2.0%
US related	2.9%
Japan related:	-0.6%
Europe related:	3.2%
Return from investments	7.5%

The Year in Retrospect

2014 was a little bit like having one of your kids as a new driver. A car trip starts off slowly and peacefully but by the end everyone is a little shaken up! Our Canadian holdings impacted our performance negatively in the 4th quarter while our investments outside of Canada faired reasonably well.

For the first time in many years, the Trust ended the year with taxable income which was allocated to all investors. While the distribution was relatively small, I appreciated it did cause some confusion and apologize. As a partner myself,
I understand after tax returns matter.

Significant contributors to performance

Breaking out our performance by company:

Carmanah Technologies	2.4%
RHJ International	2.1%
Caldwell Partners	1.9%
Glacier Media	1.9%
VOYA Financial (formerly ING US)	1.7%
Rainmaker Entertainment	1.4%
Legumex Walker	-3.0%
MBAC Fertilizer	-4.2%
Everything else	3.3%
Return from Investments	7.5%

I think our performance could be best described as a lot of nice singles offset by a stupid mistake. Starting with the stupid mistake, I of course am referring to MBAC Fertilizer. While there was definitely asset value and insider participation, this was offset by weak operating results and a poor capital structure. My error was simply owning too much and it hurt our performance in 2014.

Our other large detractor was Legumex Walker which by comparison was a large winner in 2013. Early in 2015, Legumex announced it was exploring strategic alternatives and the stock rebounded quite strongly. I suspect over the next couple of months the end game will become clear.

Our largest gainer was a Victoria-based turnaround Carmanah Technologies. We invested at $1.20 per share when the company was recapitalized in the fall of 2013 by several of the Board members including the CEO John Simmons. The changes have been nothing short of breathtaking as both operations and prospects have vastly improved. Just as I was finishing this report, Carmanah announced it concluded a $28 million offering at $5. The moral of the story for me: when multiple board members and the CEO invest substantial monies, pay attention!

RHJ and Caldwell Partners showed some life in 2014. It has been a long wait for both. In early 2014, RHJ finally received regulatory approval to acquire Deutsche Bank’s private bank BHF. RHJ’s (now called BHF Kleinwort Benson) share and corporate structure was simplified and management is now focused on execution. Caldwell Partners insiders did a large private placement at a discount to the market to themselves in early 2014 and not surprisingly the stock subsequently has performed well. I was not a fan of the maneuver but cannot complain about the outcome.

Both Rainmaker and Glacier have been long time holdings. Both progressed in 2014 however I will be cautious in my comments as I am a director of both companies. Rainmaker’s Craig Graham (Chair and CEO) and Michael Hefferon (President) have significantly improved both operations and sales. In addition, both participated in a recapitalization of Rainmaker. Nevertheless, it is a very tough business. Glacier Media sold a number of assets in 2014 in order to deal with a tax reassessment. Business challenges remain but I have confidence in both Sam Grippo (Chair) and Jon Kennedy (CEO).

I have talked about VOYA Financial in the past. We acquired our position in May 2013 at $21 and in early 2015 disposed of half of our holdings at a little over $43. Once again, the story is experienced and incentivized new management were brought in to turn around an underperforming company.

The Trust's expenses consisted primarily of custodial, legal, audit and other operating expenses which amounted to about 0.40% of net assets. In addition, our management fee was 1% of net assets bringing the total MER, with taxes, to something around 1.5%.

There was no performance fee paid on the B units. There continues to be a performance fee shortfall for the B units which 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 31Dec14. Audited financial statements, including a statement of Investment Portfolio, have been mailed to you. As you know, my primary focus is always on the specific company and country allocation is somewhat of an afterthought. Nevertheless, our portfolio based on the country of the primary listing of the holdings breaks out as follows:

Canadian holdings	56% of net assets
US holdings	12%
European holdings	16%
Cash and Net Working Capital	16%

Our Canadian portfolio has tended to be smaller companies. Our holdings are as follows:

Glacier Media	12% of net assets
Rainmaker common shares and debentures	9%
Carmanah Technologies	5%
Noranda Income Fund	5%
Caldwell Partners	4%
Torstar Corp	4%
Legumex Walker	4%
Dundee Corp	4%
10 Other Canadian Holdings	9%

Significant Canadian dispositions in 2014 included Ten Peaks and Encana. Our Ten Peaks position was acquired in 2009. Their primary business was the decaffeination of coffee beans both under their own brands as well as under contract for Tim Hortons and Kraft (Nabob). Including dividends, we approximately doubled our money over 4 or so years. By contrast, Encana was a disappointment. We sold our position in the fall at an approximately 15% loss.

In the fall, we also acquired several new positions including Noranda Income Fund and Dundee Corp. Noranda Income Fund operates a zinc smelter based in Quebec. The accident or trigger was concern Noranda will significantly reduce its distribution given its current zinc sourcing contract ends in 2017. This caused several large income oriented funds to dispose of their positions hence giving us the price opportunity. I acknowledge the risk to the distribution but am more optimistic over the ongoing value of the facility. Our average cost is $2.25. Dundee Corp is a holding company controlled by the Goodman family. I completely agree there are many issues with Dundee including the valuation of some of its underlying holdings and insider compensation. Positive aspects include their long term track record and the re-emergence of David Goodman as President and CEO. The Dundee bottom line is the net asset value exceeds $20, perhaps substantially, while our cost is about $14.

Our US portfolio has continued to be a source of funds for us and our holdings at 31Dec14 included:

VOYA Financial	7% of net assets
Navient	4%
2 Other US holdings	1%

Our most significant disposition was our position in Howard Hughes Corp. I have discussed this at some length in earlier notes. Our average cost in 2011 was approximately $45 and we sold our last shares at $120.

We established a position in Navient Corp in the spring of 2014 as it was spun out of Sallie Mae. Navient has several businesses all related to the US student loan industry. We acquired the position around $16.50 and disposed of our shares in early 2015 at $20. I grew increasing uncomfortable with the business and balance sheet hence the sale.

Our overseas portfolio increased in 2014 and consists of the following:

RHJ International	9% of net assets
Anglo American plc	3%
Symphony International	3%
2 Other European Holdings	1%

Our main non-American disposition was the sale of our remaining shares in Monex Group. While we roughly doubled our money in Monex over a 4 year period, I was a disappointed we did not do better. Monex was the last of our Japanese holdings. Our experience with Japan was profitable but without a doubt our performance over the last 3 years would have been significantly improved had I not sold our Japanese positions so quickly. This was definitely an “unforced error” on my part. It is interesting but perhaps not surprising how views towards Japan have changed. When we were investing in Japan, even our conference guest speaker had negative things to say. Today, it seems to be in vogue.

Our most significant new foreign investment was Anglo American plc. Anglo is as welcome in many investors’ portfolios as I am at one of my teenage daughters’ parties. Anglo has a number of businesses including diamonds (DeBeers), iron ore, coal, and copper. I agree completely that the outlook for several of these is at best uncertain. Our focus as always is price. We are purchasing long life assets at a large discount. There is a relatively new CEO, Mark Cutifani, who is focused on improving both Anglo’s cost structure and balance sheet. I think this is the 3rd time I have purchased Anglo over the last 20+ years. Similar to today, each time the investment community was very negative and hence the pricing became attractive. Time will tell if we are third time lucky.

On a final note, generally speaking, I am not a big fan of current stock market valuations. This is not a prediction rather a comment caution may be warranted. As such we do have some hedges in place. If these positions expire worthless, the impact will not be significant. If events take an unexpected twist, I will sleep better knowing we have a modest amount of insurance.

Conclusion

I hope my discussion has given you a sense of what I am up to. As mentioned several times, I like what we own. Similar to last year, I will chat a little further about what we are doing at our conference on May 6th 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.

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