



McElvaine Value Fund

**June 30 2021
Interim Report**

McElvaine Value Fund

McElvaine Value Fund 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 Fund will only invest when presented with an attractive situation.
3. As there are few good ideas, there are times when concentration may be helpful.

Further information is available at our website:

www.avaluefund.com

Friendly disclaimer:

Simply put:

- *Our Interim Report contains forward looking information. I will not update this report even if my view changes.*
- *While I believe my comments and facts to be accurate, you should not rely on them without doing your own work.*
- *While I would be delighted if this report encourages you to consider investing in or adding to your investment in McElvaine Value Fund, the Fund is only sold via Prospectus. Further information is available on our website: www.avaluefund.com*

And less simply put (our required disclosure):

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total return including changes in unit value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional changes or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.

We have compared our performance to two indices: the S&P/TMX Total Return Index as we believe this is useful information and the Canadian Small Cap Index as our fund is classified as a Small/Mid Cap Equity Fund. Please keep in mind our portfolio is significantly different from these indices due to our limited number of holdings, our cash levels and our investments outside of Canada.

McElvaine Value Fund

(Formerly called The McElvaine Investment Trust)

To my Partners:

For the first 6 months of 2021, McElvaine Value Fund Series B units rose by 28.2%. By comparison, the S&P/TSX Total Return Index rose by 17.3% and the S&P/TSX Smallcap Index rose by 19.8%.

You will notice I have changed the name of the fund. There is no change in what we do or how we invest, I just thought the new name was simpler. It took me almost 25 years to reach this conclusion. Thankfully, names for our kids were reached in a quicker fashion.

It is an interesting period. Nassim Nicholas Taleb in his book *Antifragile* suggests we should focus on fragility over risk. I have taken this to heart as I look at each of our holdings. Given the “macro” environment appears perhaps more fragile than usual, I want to make sure our portfolio is not. As I discuss further below, I am impressed with the financial strength of each of our top holdings. In fact, I suspect our portfolio in aggregate has never been stronger in terms of operating performance and balance sheet strength.

Regarding Index funds, I have nattered on about this before and I am of course bias. An ETF or index fund is great when the wind is at your back. You are however buying each of the components at their current market price. The more expensive a company is, the more it is represented in the index. This is the opposite of what I do. I prefer to invest more as a company gets cheaper. I guess call us the anti-index fund.

On this note, our portfolio as at June 30th, 2021 looked as follows:

<i>Jefferies Financial Group</i>	<i>11.3% of net assets</i>
<i>Tourmaline Oil Corp</i>	<i>10.8%</i>
<i>Maxim Power Corp</i>	<i>9.6%</i>
<i>Wintaai Holdings Ltd.</i>	<i>7.9%</i>
<i>Knight Therapeutics</i>	<i>4.5%</i>
<i>14 other holdings</i>	<i>38.6%</i>
<i>Cash/near cash items</i>	<i>17.3%</i>

A short update on our largest holdings follows:

- Jefferies Financial – A NYC based investment bank. Jefferies continues to produce stellar operating results earning \$3.43 per share in the first 6 months of 2021. The stock price is \$37. As mentioned in the past, Jefferies has a relatively strong balance sheet and significant extra assets which are being slowly liquidated. Insiders own some 17% of Jefferies (worth about C\$2.1 billion) and Jefferies has been repurchasing its shares.
- Tourmaline Oil – In spite of its name, Tourmaline is Canada’s largest natural gas producer. As mentioned in the past, Tourmaline was of interest to us given it had the management talent and financial capacity to take advantage of what was a weak resource environment. Boy did they ever! Mike Rose and his team completed 4 large acquisitions over the last 6 months and several smaller ones. Given natural gas’ current price, Tourmaline is expected to generate significant free cashflow. Tourmaline is now turning its attention to returning excess capital to shareholders. I expect further word on this in the fall.
- Maxim Power – Maxim operates a 204 MW Simple Cycle Gas Turbine power generation facility in Alberta. In 2020, Maxim completed the process of converting from using coal to using natural gas. In late June, Maxim announced step 2 of this process which is to further convert its facility to Combined Cycle. This will significantly improve the facility’s efficiency and profitability while also reducing its CO2 emissions and ultimately carbon tax paid. Operating cashflow

for the first half of 2021 was roughly \$30mn or about 46 cents per fully diluted share. Maxim's share price is \$2.90. Over the last couple of years, insiders have been significant buyers; Maxim recently received approval to repurchase its shares in the market.

- Wintaai Holdings – Wintaai is a strongly capitalized insurance holding company with Francis Chou as the majority owner. Wintaai is unlisted and we are one of a limited number of private investors. Adjusted book value continued to grow in 2021 due to strong underwriting income and investment returns. As mentioned in the past, we can sleep well as Wintaai has significant cash reserves and I estimate Francis has the majority of his net worth invested.
- Knight Therapeutics – A Montreal based specialty pharmaceutical company. It was a transformative period (again) for Knight. In late April, Knight announced it was acquiring the exclusive rights to manufacture, market and sell Exelon in Canada and Latin America. Exelon is a prescription drug used in the treatment of dementia. You may recall Jonathan and Samira (now Chairman and CEO respectively) presented at our webinar in November. The Exelon transaction is consistent with their comments. Knight continues to have substantial extra assets (cash and investments) on its balance sheet. Both insiders and the company have been recent buyers of shares.

The bottom line is substantial value creation has occurred in our holdings to date in 2021. While the future is of course uncertain, I do think our holdings have an element of “antifragility” and I am pleased with our portfolio.

On another note, as I have discussed previously, the Trust is now available via prospectus. This means it is very easy to invest with us. If you would like to invest via your advisor, the easiest platforms are RBC-DS, National Bank, IA Financial and Aviso Wealth. If you prefer direct investing, we are available via Qtrade, RBC Direct Investing, TD Direct Investing, National Bank Direct, Scotiadirect and Questrade. The Trust is also RRSP/RESP/RRIF/TFSA eligible. Finally, if you hold your units directly with us and

would like to instead have your units with your advisor or with your direct account, please let us know.

I realize I am not a marketing machine. I will be in touch a bit more often come the fall. I expect to have another virtual partners meeting in a couple of months and will send out the particulars in the early fall. I hope to “see” you there.

As always, thanks for your trust and support. More importantly, please stay safe. You are important to me.

Warm regards,

A handwritten signature in black ink, appearing to be 'T. McElvaine', written in a cursive style.

Tim McElvaine
August 31, 2021

McElvaine Value Fund - Performance Summary ⁽⁵⁾

Full Calendar Year ⁽⁵⁾	Net Return Series B Units ⁽¹⁾⁽²⁾⁽³⁾	S&P/TSX Canadian Small Cap Index	S&P/TSX Total Return Index	Average Cash Balance ⁽⁴⁾
1997	12.8%	6.3%	15.0%	59%
1998	16.6%	-18.6%	-1.6%	27%
1999	29.5%	19.1%	31.6%	26%
2000	19.2%	6.3%	7.4%	9%
2001	28.0%	2.5%	-12.6%	2%
2002	5.0%	-1.6%	-12.4%	5%
2003	28.2%	41.6%	26.7%	14%
2004	8.6%	13.2%	14.5%	23%
2005	17.2%	18.8%	24.1%	13%
2006	11.9%	13.6%	17.3%	11%
2007	0.6%	-1.2%	9.8%	9%
2008	-48.8%	-48.6%	-33.0%	6%
2009	18.1%	68.9%	35.1%	17%
2010	1.8%	35.2%	17.6%	6%
2011	-13.4%	-16.2%	-8.7%	10%
2012	18.3%	-0.5%	7.2%	18%
2013	19.1%	4.3%	13.0%	31%
2014	6.0%	-2.8%	10.6%	26%
2015	-9.8%	-16.3%	-8.3%	18%
2016	4.1%	31.9%	21.1%	18%
2017	25.0%	4.0%	9.1%	26%
2018	-17.2%	-20.3%	-8.9%	20%
2019	8.2%	16.1%	22.9%	17%
2020	6.3%	5.6%	12.9%	17%
6 mths - 30Jun21	28.2%	19.8%	17.3%	13%

Notes:

- (1) A discussion of the returns of the Trust can be found in the Management Report on Fund Performance.
- (2) The performance shown above includes results prior to December 23, 2019 when the Trust was not a reporting issuer. Had the Trust been subject to the additional regulatory requirements applicable to a reporting issuer during such periods, the expenses of the Series B units of the Trust would likely have been higher. Moreover, prior to becoming a reporting issuer the Trust was not subject to and did not fully comply with the investment restrictions and practices set out in National Instrument 81-102 Investment Funds ("NI 81-102"). The Trust's non-compliance with NI 81-102 may have impacted the Trust's performance for the period prior to the Trust becoming a reporting issuer. The financial statements for the period when the Trust was not a reporting issuer, are available on the Manager's website at www.avaluefund.com or upon request.
- (3) For Series B only as there were no Series A, D or F outstanding prior to December 31, 2019.
- (4) "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.
- (5) The Trust's inception date was September 27, 1996. The performance summary only includes only full year returns and thus does not reflect the 3 month period in 1996. Please see the Management Report on Fund Performance.

Why Invest with Us?

Our approach is focused and our interests are aligned. Many firms and ETFs invest automatically with little regard for value. Other firms have multiple funds and their fund managers look after several funds. Are these firms interested in asset growth or your investment returns? Do the portfolio managers have their money in the same place as you? When they manage several funds, how do you know you are in the right one?

With McElvaine Value Fund:

- *We are experienced value investors;*
- *We get paid when we perform;*
- *We invest our money alongside yours;*
- *We care how our investees make their money;*
- *We do one thing and only one thing: value investing.*

Further information is on our website: www.avaluefund.com. Of course, you are welcome to call or email us with any questions.

Our Investment Approach

Our approach is centered on four items. We prefer to 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; and
4. A Board and management team that is owner focused with skin in the game.

You may recall I have affectionately termed our approach “ABBA” representing A-Accident (the circumstances which created a discounted price), B-Bird in hand, B-Brick house (as opposed to straw hut) and A-Alignment of interests.

You will note our process does not involve macro forecasting or economic predictions. Investing is a messy business and our protection is in the price we pay.

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