



McElvaine Value Fund

To my Partners:

27Aug24

For the 6 months to June 30, 2024, the Series B units decreased by 0.2%. During this period, the S&P/TSX Index rose by 6.1%, while the Fundata Canadian Focused Small/Mid Cap Equity Index rose by 8.0%.

It's been a disappointing year so far, and I apologize. However, I'm not concerned as the year is not over yet and I like what we own. As you know, our portfolio is quite different from the index. We've invested in a collection of "orphans and misfits," often buying when others were selling. This does not mean our investments are broken or poor businesses; they are just out of favour.

Talk is cheap so I will share some details. The figures that follow are my estimates so please take them with a grain of salt. The holdings below, along with our cash position, make up roughly 90% of our fund:

- **Maxim Power:** Maxim has several components, the largest being a 300 MW natural gas fired power plant located in Alberta. I suspect by the end of the year Maxim will have over \$1/share of net cash. Further, I believe, in an "average" year, it would not be unrealistic to expect Maxim to generate \$1 per share in free cash flow. The stock is currently trading at \$3.90.
- **Exco Resources:** Controlled by Fairfax Financial, Exco is a natural gas producer and a "natural hedge" to our Maxim position. Fairfax carries Exco at around US\$20 on its balance sheet; Exco's reserve value exceeds this. The market price is currently US\$7.76.
- **Mandarin Oriental:** Operates 40 luxury hotels and has a strong development pipeline of 28 hotels and 15 residences. Post the sale of its Paris properties, MOIL has net debt of zero. There is a significant non-core asset which will likely be sold in the next year or two. I figure, net of this asset we are paying very little, if anything, for Mandarin's hotel/lifestyle management business and its ownership interests in 12 hotel properties. Jardine Matheson, the controlling shareholder, recently acquired more shares.

Notes:

1. *I have compared our performance to two indices: the S&P/TMX Total Return Index as I believe this is useful information and the Fundata Canadian Focused Small/Mid 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.*
2. *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 charges 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.*
3. *Our Interim Report contains forward looking information. I will not update this report even if my view changes.*
4. *While I believe my comments & facts to be accurate, you should not rely on them without doing your own work.*

- **Wintaai Holdings:** One of our “hidden assets” is our holding in Wintaai, an insurance holding company. Wintaai has a strong balance sheet, and in Francis Chou, a shareholder-focused owner.
- **ONEX Corporation:** The shares have appreciated somewhat but the discount is still large. As a private equity firm, there are risks; insider alignment provides some protection. ONEX is repurchasing its shares.
- **PrairieSky Royalty:** We invested during the 2020 oil crash. PrairieSky is essentially a tollgate on Western Canadian oil/gas production with zero capital requirements. PrairieSky currently pays an annualized dividend of \$1; we paid \$7.95 or so for our shares.
- **Seaport Entertainment:** A collection of NYC and Las Vegas assets which was recently spun off from Howard Hughes Corp. Seaport has net cash and, depending on the course of events, could be worth a multiple of what we paid. Bill Ackman’s Pershing Square is the largest shareholder and will be backstopping an upcoming rights offering.
- **Three Holding Companies:** CK Hutchison, Fairfax India, and Jardine Matheson. These are important businesses with good balance sheets. In addition, we are partnering with owners I trust. At times in the past, each of the holding companies have traded at or above their underlying net asset value. Today, I figure we are buying them at 50 cents or less on the dollar.

The tough thing about our portfolio is I don’t know exactly when the “value” will be realized. Some believe in the importance of a catalyst. My view is that a free catalyst is like a “friend with benefits.” I’ve heard they exist, but I’ve never seen one! Peter Cundill and I often discussed catalysts, and we concluded: if you trust the board/owners, the underlying values are growing, the financial risk is small, and the discount to value is large, then just invest.

Regarding the current environment, I believe Howard Marks has a saying: “There are old investors, and there are bold investors, but there are no old bold investors.” I suggest it might not be the time to be bold, so as usual and erring on the side of caution, I’m focused on finding cheap stocks with aligned owners. This isn’t a market call but rather illustrates my desire to become an “old” investor.

In closing, our unaudited Semi-annual Financial Statements and Management Report of Fund Performance have been posted on our website under the Documents section. If you’d prefer a hard copy, just let me know.

Most importantly, thank you for trusting me with your savings. I appreciate you.

Warm regards,

