McElvaine Value Fund
2021 Annual Report

PHILOSOPHY

McElvaine Value Fund

(Formerly The McElvaine Investment Trust)

McElvaine Value Fund is a prospectus issued RRSP/RESP/TFSA eligible mutual fund which 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 intrinsic 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 Annual 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):

The Annual Report does not contain Annual Financial Statements of McElvaine Value Fund nor the Management Report on Fund Performance ("MFRP"). You can get a copy of the annual financial statements and MRFP at your request, and at no cost by calling 250-708-8345, by writing us at PO Box 42010 Victoria BC V8R 6T4 or by visiting our website under the Documents section at www.avaluefund.com and SEDAR at www.sedar.com.

This commentary is provided for general informational purposes only and does not constitute financial or investment advice nor does it constitute an offer or solicitation to buy or sell any securities referred to.

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.

Cover Photo by Micheile Henderson on Unsplash

Russians by Sting
(Excerpt)

We share the same biology
Regardless of ideology
What might save us me and you
Is that the Russians love their children too

Our thoughts and prayers are with
our friends in Ukraine and Russia.

McElvaine Value Fund

Annual Performance Summary as of 31Dec21 (5) (6)

Full Calendar Year (5)	Net Return Series B Units (1)(2)(3)	Fundata Cdn Focused Small/ Mid Cap Index	S&P/TSX Total Return Index	Average Cash Balance (4)
1997	12.8%	n/a	15.0%	59%
1998	16.6%	n/a	-1.6%	27%
1999	29.5%	n/a	31.6%	26%
2000	19.2%	4.0%	7.4%	9%
2001	28.0%	3.4%	-12.6%	2%
2002	5.0%	-7.4%	-12.4%	5%
2003	28.2%	30.7%	26.7%	14%
2004	8.6%	8.9%	14.5%	23%
2005	17.2%	10.3%	24.1%	13%
2006	11.9%	16.0%	17.3%	11%
2007	0.6%	-2.7%	9.8%	9%
2008	-48.8%	-40.9%	-33.0%	6%
2009	18.1%	51.4%	35.1%	17%
2010	1.8%	29.0%	17.6%	6%
2011	-13.4%	-14.1%	-8.7%	10%
2012	18.3%	4.1%	7.2%	18%
2013	19.1%	16.6%	13.0%	31%
2014	6.0%	1.9%	10.6%	26%
2015	-9.8%	-3.5%	-8.3%	18%
2016	4.1%	27.2%	21.1%	18%
2017	25.0%	7.2%	9.1%	26%
2018	-17.2%	-14.4%	-8.9%	20%
2019	8.2%	17.4%	22.9%	17%
2020	6.3%	12.9%	5.6%	17%
2021	40.6%	18.7%	25.1%	17%

1. *A discussion of the returns of the Fund can be found in the Management Report on Fund Performance.*
2. *The performance shown above includes results prior to December 23, 2019 when the Fund was not a reporting issuer. Had the Fund been subject to the additional regulatory requirements applicable to a reporting issuer during such periods, the expenses of the Series B units of the Fund would likely have been higher. Moreover, prior to becoming a reporting issuer the Fund 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 Fund's non-compliance with NI 81-102 may have impacted the Fund's performance for the period prior to the Fund becoming a reporting issuer. The financial statements for the period when the Fund 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 Fund. We have included this to allow you to assess how the Fund was invested in order to generate the returns shown.*
5. *The Fund'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.*
6. *We have included the S&P/TMX Total Return Index as we believe investors consider a broad Canadian Index Fund as an alternative to investing with us. We have included the Fundata Canadian Small/Mid Cap Equity Index as our fund is classified as a Small/Mid Cap Equity Fund. Our portfolio is significantly different from these indices due to our limited number of holdings, our cash levels and our investments outside of Canada. Return figures for the Fundata Index prior to 2000 are not available.*

To My Partners:

I have broken my comments into 3 sections:

1. General Comments
2. Our 2021 Return
3. Portfolio Update – what we own and why

General Comments:

As you are aware, our fund is a value fund. Our approach is focused on reacting to the prices given to us rather than on making predictions. The future is always uncertain so any prediction, as Warren Buffett states, says more about the forecaster than the future. In this vein and given markets of late, I thought I might chat for a little bit about uncertainty, volatility, and risk.

Without a doubt, today there is a lot of uncertainty. The perceived “road to normalization” has suddenly gotten very complicated. This is further aggravated by the amount of debt in the system. Three months ago, the glass was regarded as being half full while now it is half empty. This change in perception has led to volatility.

Volatility is a bit like background music in a bar. If your raison d’etre is dancing, each song matters. On the other hand, if you are enjoying a delicious meal and good company, you can ignore the music unless a great tune comes on and you decide to dance. (I realize the mental image of me doing The Floss is neither inspiring nor confidence boosting). In other words, volatility in itself is not a risk. It may in fact lead to an opportunity. This opportunity is created by the price of the security.

So, what is risk? Some measure risk by volatility. I do not think this makes sense as volatility is noise. Risk to me is the permanent loss of capital.

While I realize making bold predictions about the future makes great marketing copy, I do not have a knowing 3rd eye. As value investors, we operate more like beachcombers always looking to see if the tide (or volatility) has brought in something interesting.

This leads back to my initial comment on the importance of price. We control our risk by being careful on the price we pay. We mitigate uncertainty by ensuring our holdings have: (1) staying power (or what I call a brick house) and (2) owner/operators acting in our best interest (alignment of interest). This does not guarantee an outcome, but I do think it does reduce the chances we will suffer permanent capital loss.

In my May 2020 video (see our website for video called “Arithmetic not Optimism”), I discussed “Anti-fragility”. I think this is an important concept to think about when investing. Nassim Taleb in his excellent book *Anti-fragile* says the following (with my highlighting):

> *Some things benefit from shocks; they thrive and grow when exposed to volatility, randomness, disorder, and stressors and love adventure, risk, and uncertainty. Yet, in spite of the ubiquity of the phenomenon, there is no word for the exact opposite of fragile. Let us call it antifragile. Antifragility is beyond resilience or robustness.* ***The resilient resists shocks and stays the same; the antifragile gets better.***

In practice, I believe a financially strong company with aligned thoughtful owner/operators can be anti-fragile by finding opportunity in disorder. I think each of our top positions have shown themselves to be antifragile however a bit more extreme example of this concept in action was our investments in Tourmaline Oil and PrairieSky Royalty. Both took advantage of the dislocation of 2020/2021 and emerged stronger and more valuable. The result was an appreciation in their intrinsic value which in turn reduced our risk.

In today's environment, I remain cautious. While I hope our Fund will not be overly volatile, this is not something I can control. What I can say is I am proceeding carefully and am confident in our future.

Our Returns:

For the 12 months to December 31, 2021, the Series B units rose by 40.6%. Cash represented approximately 17% of net assets during this period.

Percentage Return (net of fees)	One Year	Three Years	Five Years	Ten Years
McElvaine Value Fund–Series B	40.6%	17.4%	10.9%	8.9%
Fundata Focused Canadian Small/Mid cap Index	18.7%	16.3%	7.6%	8.2%
S&P/TSX Total Return Index	25.1%	17.5%	10.0%	9.1%

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.

I do not really think about the portfolio in terms of geography but more by the nature of the investments. The "bible" of value investing is the book "The Intelligent Investor" written in the 1930s by Benjamin Graham. Taking a little bit of liberty with Ben Graham's ideas, I have broken our investing into 3 categories. I define the categories as follows:

1. Large unpopular companies – Generally speaking, for a larger company to come across our path, it must be unpopular. Unpopular may mean it is located in a country or region which investors dislike or is suffering from a negative event or news.
2. Bargain secondary issues – While a larger company may be a bargain, it is usually due to unpopularity. A secondary company may become cheap for a number of reasons including unpopularity but also because of neglect, a constraint or a dislocation such as a spinoff. For simplicity, I have defined a secondary issue as a company with a market value below Cdn $1bn at the time of initial purchase although some of our investments have been much smaller companies.
3. Special situations and workouts–I include in this area situations such as restructurings, liquidations, unlisted investments and distressed debt.

Following this format, I roughly estimate the contribution of each segment to our 2021 return as follows:

Large unpopular companies	21.7%
Bargain secondary companies	14.0%
Special situations and workouts	7.0%
Interest, foreign exchange and everything else (net)	-0.2%
Return from investments	**42.5%**

Fund operating expenses for the period	-0.8%
Estimated Pre-management & Incentive Fee Return for period	**41.7%**

Management Fee including GST	-1.1%
Incentive Fees including GST	0.0%
Return for period	**40.6%**

Large Unpopular companies:

On average we had approximately 34% of the Fund's assets invested in this category during 2021. Tourmaline Oil and Jefferies Financial were the largest contributors to our performance while CK Hutchison was a small detractor. During the period, our significant investment activities included trimming our positions in Tourmaline Oil and Jefferies Financial. We sold our shares of Howard Hughes Corp and Whitecap Resources (which were received on Whitecap's takeover of TORC Oil & Gas in early 2021). We established a new position in Pershing Square Tontine Holdings.

Bargain Secondary companies:

Bargain secondary companies averaged approximately 33% of the Fund's assets during the year. Maxim Power and Wow! Media were the largest contributors to our performance while Jaguar Mining was the largest detractor. During the period, significant investment activities included exiting our positions in WOW! Media, Dorel Industries, TORC Oil (due to takeover), Jaguar Mining and The Caldwell Partners. We established a new position in Unisync Corp. In addition, we added to our holdings of Glacier Media and Knight Therapeutics and trimmed our position in Maxim Power.

Special Situations and workouts:

Exco Resources and Wintaai Holdings were the largest contributors to our performance while Cambria TAIL ETF was a detractor. During the year, we exited our position in Cambria TAIL ETF and trimmed our position in Exco Resources. This category represented approximately 16% of the Fund's net assets during the period.

Interest, Foreign Exchange and everything else:

There was no interest earned during the period and foreign exchange losses reduced performance by approximately 0.2%. Cash and near cash items represented approximately 17% of the Fund's net assets during the period.

Other items:

The Fund's expenses consisted primarily of custodial, legal, audit and other operating expenses which amounted to about 0.8% of net assets. Our management fee was 1% (plus GST) of net assets bringing the total MER for Series B with taxes to about 1.91%. 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.

To keep the discussion relatively simple, I have only discussed the Series B units as this represents about 75% of our assets. McElvaine Value Fund's audited Financial Statements and Management Report on Fund Performance can be found under the Documents section of our website (www.avaluefund.com) where additional information on the Fund and its Series can be found.

Portfolio Update

As of mid-March 2022, our portfolio looked roughly as follows:

Maxim Power Corp	14%
Wintaai Holdings	13%
Jefferies Financial	8%
Tourmaline Oil	7%
Knight Therapeutics	7%
Pershing Square Tontine Holdings	7%
CK Hutchison Holdings	7%
PrairieSky Royalty	6%
Glacier Media	6%
Remaining 6 holdings	14%
Cash and near cash items	11%

Audited financial statements including a statement of Investment Portfolio, can be found on our website.

Traditionally we have tended to hold closer to 20 positions rather than the current 15. In addition, on the surface our cash level looks lower than usual. This is a little misleading in my mind as we have 2 positions I view more as hedges/workouts. I view our “effective” cash as in the low 20% area giving us significant capacity should new ideas appear.

While I will not discuss each holding, I can say almost all our holdings had significant (which I define as greater than $100k) insider purchases in the last 15 months. I like investing with people who eat their own cooking.

On our website, you will find articles I have written for The Globe and Mail on Pershing Square Tontine Holdings and CK Hutchison Holdings. The following pages discuss our top 5 positions.

TOURMALINE

Business	In spite of its name, Tourmaline is one of Canada’s largest producers of natural gas. Tourmaline is involved in the Western Canadian Sedimentary Basin.
Category	Unpopular Large Company
Bird in hand	I believe we invested in Tourmaline at a discount to the sum of its producing and infrastructure assets net of debt. In addition, Tourmaline had substantial unbooked reserves. After deducting the 2021 and early 2022 special dividends, I estimate our average cost is approximately $11.25 per share.
Brick house	Tourmaline’s net debt level is close to zero after considering its ownership of Topaz Energy. Topaz was created in late 2019 to hold infrastructure and royalty assets. Tourmaline due to its scale and infrastructure is considered one of the lowest cost producers of Canadian natural gas.
Alignment	Directors, primarily Mike Rose (Chairman, President and CEO) own over 18 million shares worth some C$1 billion. During 2021 and into 2022, Tourmaline has returned capital to shareholders primarily via special dividends.

Knight

Business	A Montreal based specialty pharmaceutical company focused on acquiring or in-licensing and commercializing pharmaceutical products for Canada and Latin America. Knight owns Biotoscana Investments S.A., a pan-Latin American specialty pharmaceutical company.
Category	Bargain Secondary Company
Bird in hand	I believe the sum of the parts of Knight's businesses exceed its share price. In addition, I expect its Biotoscana business to produce significant cashflow over time. I estimate our average cost is approximately $6.50 per share.
Brick house	Knight has net cash and considerable financial assets. The largest risks are related to its operations in South America. Knight does not develop pharmaceuticals and is not exposed to the risks of clinical trials.
Alignment	Jonathan Goodman, Chairman, is the largest shareholder controlling approximately 22.5 million shares valued at about $125 million. I estimate Mr. Goodman and other insiders purchased over $4 million in shares over the last 15 months. In addition, Knight has repurchased and cancelled approximately 12% of its shares during the same period. My Nov2020 interview with Mr Goodman and Knight's very capable President Samira Sakhia is posted on our website.

Jefferies

Business	A US financial services company engaged in investment banking and capital markets activities. In addition, Jefferies has a large merchant banking portfolio which it is in the process of liquidating.
Category	Large Unpopular Company
Bird in hand	Jefferies is inexpensive based on the value of the investment bank plus the merchant banking portfolio. The merchant banking portfolio is in the process of liquidation with the proceeds primarily being returned to shareholders. After deducting the 2019 special distribution, I estimate our average cost is approximately US$15 per share.
Brick house	A financial firm always has risks. JEF's balance sheet is reasonable, and its mgmt. team is very experienced.
Alignment	Joe Steinberg, Rich Handler and Brian Friedman (Chairman, CEO and President respectively) and other directors collectively own about C$2 billion of Jefferies' shares which represents about 18% of the company. While the compensation plan is focused in the right direction, the payouts are a little rich. Having said this, JEF is very clear on its goals and has aggressively returned capital to shareholders in the last couple of years via a dividend, share repurchases and a spin-off. Over the last 5 years JEF has reduced its share count by over 25%.

Wintaai Holdings Ltd.

Business	Wintaai is a Canadian Insurance holding company whose primary asset is Louisiana-based Stonetrust Commercial Insurance. Stonetrust provides workers' compensation insurance primarily to small and mid-sized firms in ten states. AM Best rates Stonetrust's Financial Strength as B++ . Wintaai is a private company.
Category	Special Situation
Bird in hand	We value Wintaai at 1.1x adjusted book value. This is in line with private placements to 3rd parties. My thesis is over time book value will appreciate due to both positive investment returns and underwriting profits. I estimate our average cost is approximately $18.50 per share.
Brick house	Based on its equity, Stonetrust writes significantly less insurance than it could. In addition, reserving in Stonetrust has proven to be conservative as claims have been settled for less than the actuary's estimates.
Alignment	Francis Chou and related entities are by far the largest owner of Wintaai with a stake worth more than $100 million. I have known Mr. Chou a long time and am delighted we are investors in Wintaai.

MAXIM Power Corp

Business	Maxim operates a 204 MW Simple Cycle Gas Turbine power generation facility in Alberta. Maxim is in the process of installing a heat recovery unit which will boast capacity to 300MW. This will significantly improve the facility's efficiency and profitability while also reducing its CO2 emissions and ultimately carbon tax paid.
Category	Bargain Secondary Company
Bird in hand	Maxim's upside is based on reasonable assumptions for its new generating facility and optionality in its wind development projects. Maxim's downside is protected by the value of its facility. I estimate our average cost is approximately $2.60 per share.
Brick house	Completion of its current project is a key risk. During 2021, Maxim produced significant cashflow and is expected to end 2022 with a strong balance sheet despite its large capex program.
Alignment	Insiders own more than 80% of Maxim on a fully diluted basis (valued at over $200 million) with Bruce Chernoff and Brett Wilson accounting for most of this. As CEO and Board Chair, Mr Chernoff's compensation was zero; he has no stock options or deferred comp. In addition, Messrs. Chernoff and Wilson were paid zero as directors. During 2021, directors purchased approximately $5 million of common shares.

Wrapping up this note:

The best way to keep in the loop with us is via email. If you do not receive emails from us, please let us know and we will add you to our list.

As you read through this report and think about your investment with us, I hope you conclude our approach is straight forward, disciplined, and understandable. While we are not an ESG fund, I am careful where we invest and call us “a value fund with values”. Finally, our interests are aligned as our fee structure rewards performance and not simply asset growth.

We are now issued via prospectus. A key reason for doing this was to allow investors to purchase and hold their investment in the Fund wherever they like. If you would like to transfer your units to an account where you have other investments, please let us know. If you are interested in making or adding to an investment, you are now able to do so directly via your financial advisor or with DIY brokers. The Fund is RRSP, RRIF, RESP and TFSA eligible. Please contact us if you have any questions or problems.

Most importantly, thank you for your trust and friendship. I appreciate it.

Warm regards,

Tim McElvaine

March 18, 2022

HOW WE INVEST

Our investment approach is centered on four items (affectionally called “ABBA”). We prefer to invest when we have:

A. a competitive advantage when making the investment (such as a seller who does not care about the price they are getting). We call this the accident or “A”;

B. observable investment value which exceeds the share price at the time of purchase (no financial spreadsheet gymnastics involved). We call this a bird in hand or “B”;

B. a financial position ideally combined with strategic position which provides staying power. We call this the brick house or “B”; and

A. a board of directors and management team which is owner-focused with “skin in the game”. We call this alignment of interests or “A”.

Our process does not rely on macro forecasting or economic predictions.

WHY INVEST WITH US

Our approach is focused, and our interests are aligned. Many firms and ETFs invest automatically with little regard for value. 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.

If you have any questions or would be interested in an Investor Package, please call or email us at info@avaluefund.com

Required Annual Disclosure to unitholders per 10.1(3) of NI 81-102

How to redeem units of McElvaine Value Fund (formerly called The McElvaine Investment Trust)

As a unitholder of McElvaine Value Fund (the "Fund"), you are entitled to redeem your units provided certain legal requirements are met and you follow the procedures established by McElvaine Investment Management Ltd. (the "Manager"), the manager of the Fund, and at least annually the Manager is required to provide all unitholders with a statement describing these requirements and procedures. This information is set out below.

Units of the Fund can be redeemed on a monthly basis on the last business day of each month or any other business day the Manager may designate (each a "Redemption Date"). To redeem your units you should submit a redemption order to the Manager through your authorized dealer. If the Manager receives your redemption order by 1:00 p.m. (Pacific time) on a Redemption Date, the Manager will process your order at the unit price calculated on that Redemption Date. Otherwise, the Manager will process your order at the unit price calculated on the next Redemption Date.

Under applicable securities legislation, the Fund is not permitted to pay any redemption proceeds unless (i) it has received a completed and signed redemption order from you, or (ii) you make a redemption order by telephone or electronic means (where you have made prior arrangements to provide instructions by telephone or electronic means, and the redemption order is made in compliance with those arrangements).

When you redeem units of the Fund, your money will be sent to you within two business days of the applicable Redemption Date if (i) the Fund has received the instructions necessary to complete the transaction, and (ii) any payment for buying the same units that you are redeeming has cleared. If the Manager does not receive all documentation that it needs to process your redemption order within 10 business days after the Redemption Date, on that 10th business day (or, if that 10th business day is not a date on which the Manager accepts purchase orders for units of the Fund, on the next such date) the Manager will purchase an equivalent number of units of the Fund as have been redeemed, and the Manager will apply the redemption proceeds to the payment of the purchase price of such units. If the purchase price of such units is less than the redemption proceeds, the Fund will keep the difference. If, however, the unit price has increased since the Redemption Date such that the redemption proceeds are less than the purchase price of such units, your dealer will be required to pay the Fund the amount of the deficiency and will be entitled to collect this amount plus expenses and interest from you.

For further information about your redemption rights, please refer to the Fund's current simplified prospectus, which is available on the SEDAR website at www.sedar.com or on the Fund's website at www.avaluefund.com, or contact your dealer.

OUR GOALS ARE:

Investment Returns

Our focus is generating superior returns for our investors.

Do No Harm

We have families too and while the Fund is not a SRI or ESG Fund, we do want to be careful where we invest your and our money.

Peace of Mind

We don't want you to worry about what we are doing. We will be transparent, accessible and invested alongside you.

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