

McElvaine Value Fund 2023 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.

McElvaine Value Fund is sold via prospectus. 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

McElvaine Value Fund

Annual Performance Summary ^{(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%
2022	5.6%	-10.5%	-5.8%	13%
2023	3.0%	8.2%	11.8%	8%

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 2023 Return
3. Portfolio Update – what we own and why

General Comments

Our performance in 2023 was disappointing on an absolute and a relative basis; our three- and five-year returns are satisfactory. I will discuss performance a little bit later in this report. Having said this, I am pleased with our holdings and look forward to future returns.

You may recall last year I discussed investing and focusing on situations where you have a competitive advantage. If you are interested, I have saved last year's report on our website under the "What we own and Why" section. This section also contains our webinars including a recording of our Feb2024 presentation.

In a tongue-in-cheek way, I often describe the market price of a stock as Mr Spock plus/minus Homer Simpson. What I mean is the current share price is essentially its "true value" plus/minus the emotional state of the marginal owner. By marginal owner I simply mean the next person to buy or sell a share. For reference, I googled a listing of emotional states and suggest if you are a value investor, you may want to buy when the marginal seller is experiencing fear, disgust, sadness, contempt, indifference, or sadness. Conversely, for a value investor the best time to sell is when the buyer is optimistic and happy. In either of these extremes, the other party is not focused on price. That is the key.

Intrinsic value to me is not an exact figure but a range ideally supported on the downside and open ended on the upside. Determining this range need not be a complicated process and in fact, I find a relatively straightforward estimate of value is preferred. Some investors construct complex spreadsheet models. The danger here is while the output is precision-like, the inputs are very subjective.

As Fran Lebowitz said: "In real life, I assure you, there is no such thing as algebra". In other words, business by its nature will be volatile. Any estimate of a company's intrinsic value ought to take this into account. In value investing there is always a monster under the bed, and it seems to me, a complex model is too fragile a limb to stand on. With these models, a small change in assumptions will substantially change the output. For the investor, this may result in fear rather than confidence in the face of business volatility. This is like, as Dave Barry puts it, taking a sleeping pill and a laxative in the same night. The outcome is likely to be unwanted and unpleasant activity.

Ultimately, a company's intrinsic value will be strongly influenced by the environment and the incentives. By environment, I mean the Company's operating, financial, competitive and industry characteristics. These items govern volatility, velocity, and efficiency. On the other hand, insider incentives determine direction. Incentives include both financial and non-financial factors.

This is a poor analogy, but I will press forward with it. When our kids were little, they loved 5-pin bowling. Sometimes there were guardrails on the lanes to keep their (well, honestly my) balls out of the gutter. In many cases, bowling was somewhat of a hazardous outing as the bowling ball usually went forward but one needed to be prepared for the occasional backward throw or multi-lane voyage. This is like a business. Rarely do things progress in a straight line towards the goal. Incentives act as guardrails. When the unexpected happens, the guardrails (or incentives) push the business back on course.

As I wrap up this section, I will address our structure and incentives. As an investor, you have a lot of alternatives for your money. Some of these alternatives include funds with a lower fee and expense structure than our fund. Whether these funds are actively managed mutual funds, ETFs or index funds, I encourage you to also consider alignment. Who has "skin in the game" with you? With us, you are my partner. I think this implies a higher standard of care than say a "client" and more importantly, recognizes we are in this together. If MVF does well, we both do well. If MVF does poorly, I can assure you no other investor suffers greater "financial pain" than us (Kate and me). Our interests are aligned.



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Our Returns

For the 12 months to December 31, 2023, the Series B units rose by 3.0%. Cash represented approximately 8% of net assets during this period. (over our 27-year history, cash has averaged about 17% of net assets)

Percentage Return (net of fees)	One Year	Three Years	Five Years	Ten Years	27 Years
McElvaine Value Fund-Series B (after fees & expenses)	3.0%	15.2%	12.0%	6.1%	7.4%
Fundata Focused Canadian Small/Mid cap Index	8.2%	4.8%	8.8%	5.8%	n/a
S&P/TSX Total Return Index	11.8%	9.6%	11.3%	7.6%	7.5%

\$100 invested (with dividends reinvested) on 30Sept96, was worth \$703 on 31Dec23.

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 (The Fundata Index is not available for the 27-year period). 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 – A secondary company may become cheap for a number of reasons including unpopularity but also because of neglect. 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 estimate the contribution of each segment to our 2023 Series B unit return as follows:

Large unpopular companies	5.5%
Bargain secondary companies	-3.2%
Special situations and workouts	2.2%
Interest, foreign exchange and everything else (net)	0.7%
Return from investments	5.2%

Fund operating expenses for the period	-1.1%
Estimated Pre-management & Incentive Fee Return for period	4.1%

Management Fee plus taxes	-1.1%
Incentive Fees including GST	0.0%
Net return to Series B unitholders for period	3.0%

Large Unpopular Companies:

ONEX Corporation and PrairieSky Royalty were the largest contributors to this segment's performance while CK Hutchison Holdings was a small detractor.

Bargain Secondary Companies:

Maxim Power and American Coastal Insurance performed well. Unfortunately, their contribution was more than offset by the performance of Glacier Media, Dynamic Technologies and Exco Resources.

Special Situations and Workouts:

Wintaai Holdings and a small market hedge position were the contributors to performance. There were no significant detractors to performance.

Interest, Foreign Exchange and Everything Else:

Higher rates resulted in our cash holdings being a contributor to fund performance.

Other Items:

The Fund's expenses consisted of custodial, legal, audit and other operating expenses which amounted to about 1.1% of net assets. This is relatively high for two reasons:

1. We outsource our back office to top tier providers. Our custodian is RBC IS, our auditor KPMG, our lawyers BLG and unitholder recordkeeping/fund valuations are done by SS&C.

2. We are relatively small.

The level of expense does bother me, and I am looking at solutions. I do expect these expenses to decline in 2024 as a % of our net assets.

For the Series B units, our management fee was 1% of net assets bringing the total MER with taxes to about 2.16%. 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 two-thirds 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 there is additional information on the Fund and its Series.

Portfolio Update

As of early March 2024, our portfolio looked roughly as follows:

Large Unpopular	35%
PrairieSky	10%
ONEX	6%
CK Hutchison	6%
Bausch + Lomb	5%
Warner Bros Discovery	4%
Jardine Matheson	2%
Fairfax India	2%
Small Caps	39%
Maxim Power	19%
American Costal Insurance	6%
Exco Resources	6%
Remaining 6 cos	8%
Private Companies & Other	17%
Wintaai Holdings	14%
Hedge-like instruments + other	3%
Cash	9%

Audited financial statements including a statement of Investment Portfolio can be found on our website. In addition, I discussed the portfolio during a webinar in February 2024. I have posted a recording of this webinar on our website.

Large Unpopular Companies

Beyond trimming several holdings, 2023 was a relatively quiet year for this segment. Early in 2023, we exited our position in Jefferies Financial to fund additional ONEX share purchases. Recently we established smaller positions in 2 investments: Fairfax India (fall 2023) and Jardine Matheson (early 2024). The thesis on both is similar: large discount to NAV, little financial risk, some political risk, insider buying & share repurchases, and large ownership by insiders. Both are relatively small positions at the moment.

There are a lot of comments in the media about China. When thinking about our investments, I consider both extremes: Chinese operations are worth zero and Chinese operations return to growth. CK Hutchison and Jardine Matheson have exposure to China. I believe, even with no value for their Chinese businesses, the net asset value of each today exceeds their share price.

Small Caps (Bargain Secondary Companies)

As reported last year, in the fall of 2022 Maxim Power's facility was damaged by a fire. The good news is the facility came back online in the fall of 2023. While the future design of the Alberta Power market is in flux, Maxim has a strong balance sheet. Insiders are thoughtful and the business I expect has produced significant cash since resuming operations.

We established a position in American Coastal Insurance. AmCoastal is the leading insurer of inland garden style condominiums in Florida. Following my ABBA criteria:

- A- A bit of a phoenix from the ashes story but simply put, its parent company failed and AmCoastal emerged or rather was extracted from the carcass by its founder. The stock was both underfollowed and somewhat complicated, which I believe gave us the opportunity to invest.
- B- Private market value I believe is higher than the share price. Future value will depend on its underwriting performance.
- B- AmCoastal is exposed to Florida hurricanes. In spite of this, Amcoastal has been profitable every year since inception in 2007. This was achieved by: 1) their exclusive relationship with AmRisc – a dominant insurance broker (technically a MGA) founded by Dan in a prior “life”, 2) AmCoastal's careful selection of exposures, 3) low retention and aggressive use of reinsurance. In other words, AmCoastal is focused on minimizing its loss to any one event.
- A- Similar to other holdings of ours, AmCoastal is founder led (Dan Reid) and insiders own 49% of the shares (US\$200mn+ of shares). Further, Dan receives no salary or bonus as CEO and is simply paid as a director. He is an owner not a manager.

As alluded to earlier, the share prices (in aggregate) of the balance of our smaller company investments performed poorly. While in some cases this was justified, as we enter 2024, the carrying value of these holdings is significantly lower than their value. This bodes well for the future.

Special Situations (Private cos, SPAC Warrants and Other)

Wintaai once again knocked it out of the park. Thanks Francis! In late February, Wintaai shareholders approved the acquisition of a new line of business. Bottom line: the future for Wintaai looks very bright.

Are our holdings cheap?

I often get asked this question and of course, I am biased. Before I address this, I should remind you about our legal disclaimer which essentially says I might be wrong and if I change my mind, I am unlikely to let you know.

Having gotten this out of the way, you will find below a table highlighting several of our holdings. I have only included those positions where I feel we currently have a full position. You will note the table has 3 key columns:

1. **Price** – This indicates the size of the discount to where I estimate the company’s intrinsic value may be in say 3-5 years. When we invest, I look down first. This table really reflects the second step which is where the value is going.
2. **Staying power** – My concept of a brick house is the “environment” which I discussed earlier in this letter. I think of this as consisting of financial risk and business risk (which includes operations, industry, and external factors). Low financial risk is important; as Rick Mears said: “To finish first, you must first finish”. Further, a strong balance sheet may turn adversity into opportunity; this is the anti-fragile aspect of investing I discussed in our 2021 Annual Report. Business risk is a fact of life and can lead to both setbacks and opportunities.
3. **Alignment** – I try to evaluate if we (outside investors) are partners or patsies.

Reiterating my disclaimer, this table is not a recommendation on any one of these however we own all of them. (what is the point of discussing an investment you don’t own!).

	Bird in Hand/Price			Brick House/Protection						Alignment/People		
	% of NAV in 3+ years			Financial Risk			Business Risk					
	<50%	50-75%	>75%	Low	Med	High	Low	Med	High	High	Med	Low
Maxim Power	X			X				X		X		
Wintaai Holdings	X			X				X		X		
PrairieSky		X		X				X			X	
CK Hutchison	X			X				X		X		
EXCO Resources	X				X				X	X		

A couple of comments:

1. You will note Exco’s financial risk is somewhat higher than I would like. Exco is controlled by Fairfax Financial and in Fairfax’s 2023 Annual Report, Prem comments on Exco’s “strong balance sheet”. Maybe I am being overly harsh in my assessment. An

- interesting aside is at December 31, 2023, Fairfax carried Exco on its balance sheet at US\$18.24 per share; we value the shares, as required, at market which was US\$7.50.
2. Our cost on PrairieSky is \$7.97/share. As the share price on December 31 was \$23.20, it is not as cheap as it was. Having said this, especially given their unique fee simple/royalty model, I do not think it is expensive.

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.

In this report I have used the word “I”. I would be remiss not to acknowledge and thank Kate, Lorne and Matthew. Kate helps me with admin as well happens to be my beautiful wife. Lorne and Matthew, who recently joined us, work on investment research.

We are 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 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 you.

Warm regards,



Tim McElvaine

March 27, 2024

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.

About McElvaine Value Fund

OUR GOALS

Investment Returns

We look for 50 cent dollars; we believe this results in above average returns with less risk of loss.

Do No Harm

We have families too and while the Fund is not a SRI or ESG Fund, we are 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 invested alongside you, transparent, and accessible.

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 (HOW WE ARE DIFFERENT)



We Focus on Bargains

Our value investing approach is focused on finding bargains.



We Have a Focused Portfolio

We only invest in our best ideas. How many stocks does your fund own?



We Are a Value Fund with Values

We are not an ESG fund but we do care where we invest. See our website



We are Not Index Huggers

Many funds have portfolios similar to the indices. Our fund is quite different.



We Are Transparent

We discuss what we own, what worked (and didn't) and fees paid.



We Have Clear Safe-Guards

All the Fund's assets are held by RBC. We have been audited since 1996 by KPMG



Performance Not Asset Growth

We earn the most when the Fund does well. Our focus is on return not on asset growth



We Are Accessible

You have a question or comment, please reach out. We are your partners.



We Are Not a Black Box

Our approach is understandable & straightforward. It is focused on creating a margin of safety.



We Are Investors Too

We are invested alongside you. We both want our savings to be safe and grow.



We Are Experienced & Focused

Tim has run the Fund since 1996. Not revolving managers juggling many funds.

FUND INFORMATION

Fund Code:	Series-A	MIT108
	Series-B	MIT552
	Series-F	MIT808

Inception:	September 30, 1996
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Portfolio Manager:	Tim McElvaine
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Offered Via:	Prospectus
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CONTACT US

McElvaine Investment Management Ltd.

Address:	214-2186 Oak Bay Avenue Victoria, British Columbia V8R 1G3
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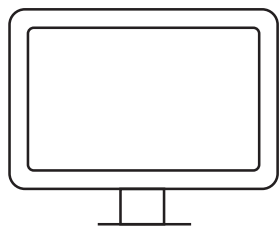
Telephone:	(250) 708-8345
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Website:	www.avaluefund.com
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Email:	info@avaluefund.com
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HOW TO INVEST WITH US

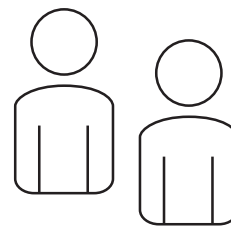
Invest inside or outside of a registered account
(RRSP, TFSA, RESP, RRIF eligible).
Our minimum investment is \$1,000.



1. Through a Direct Broker

For an investor who manages their own portfolios, it is easy to invest in our fund. Details are below:

- RBC Direct - Fund code: MIT808
- TD Direct - Fund code: MIT808 (phone in to place order)
- Qtrade - Fund code: MIT808 or MIT552
- Questrade - Fund code: MIT808 or MIT552
- Scotia iTrade - Fund code: MIT552
- CI Direct - Fund code: MIT808
- National Bank Direct



2. With a Financial Advisor

Financial advisors use our fund for diversification and to obtain exposure to our unique portfolio.

- RBC Dominion Securities
- iA Private Wealth
- iA Investia
- Richardson Wealth
- Aviso Wealth
- National Bank Financial
- Scotia Wealth
- Aligned Capital

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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