The McElvaine Investment Trust

www.avaluefund.com

Annual Report

2011

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.

There are 4 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, currently own these units.
Series F: Was established in January 2008 to allow investors with advisors to hold their units in fee for service accounts.
Series X: Formerly called Series A units. These units may no longer be purchased.

Performance Summary as of 31Dec11

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)
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%
15 Year Compound	10.2%	7.0%	7.0%	
$100 invested Jan97 is now		$276	$276	

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. The Statement of Net Assets and Schedule of Investments for the Trust.

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. While the enclosed Schedules of Investments list the majority of our holdings, I believe a discussion of each not only has the potential to make me look quite foolish but also would not be in our best interests as partners. 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.

To my Partners:

The future is always uncertain; however uncertainty does not automatically mean risky. Riskiness to me is dependent on the price paid. Nevertheless, in spite of the confidence of various "experts" on BNN and CNBC, no-one can tell us what is around the corner (the saying that comes to mind is "people don't predict because they know but because they are asked"). With this in mind, I will nevertheless make a couple of observations.

I have coined an acronym to summarize the threats of today: ICED. In other words, we live in an ICED age! ICED stands for Iran (and Middle East generally), China, Europe and Debt. I will chat briefly on each of these:

I – Iran (and Middle East generally)

> Transitions are never smooth, especially when there are a number of players with vested interests in the background. Further, I wholeheartedly agree with the view that Iran must not be allowed to develop nuclear weapons. I only hope we achieve this outcome without conflict but it certainly is a risk.

C – China

> The rise of China and the lifting of tens of millions of people out of poverty has been a marvelous thing. China's challenge is to move peacefully and quickly to a free society: one that is governed by the rule of law and the concept of private property. In addition, the move from an export oriented system to a consumption based economy is complicated by an opaque financial and economic system. I share the hope that the Chinese economy will muddle through. World history with real estate booms combined with opaque financial system is not good.

E – Europe

> If austerity was the road to financial freedom, North Korea would be the king of the world. The burden of debt can only be reduced through repayment (which admittedly austerity does offer a partial solution to), economic growth, default (includes "forgiveness"/restructuring), or inflation that exceeds the interest cost. A financial crisis was avoided last year by the injection of liquidity into the banking system by the ECB. This is not the same as solving the problem. It is hard to envision a long term solution that does not involve the exit of one or more of the troubled countries from the Eurozone.

D - Debt

> The biggest change in the investment environment during my career has been the transition of government debt from a riskless asset to a risky asset. This has been combined with a certain amount of price manipulation by the Fed and others on the cost of this "asset". As discussed in the fall, I do believe the US is in a much different, and better, situation than Europe and Japan. This is due to several factors including having its own currency and primarily US$ denominated debt. Further, the US has the capacity to improve its financial situation through population growth, public determination and to some extent, inflation.

My point in discussing ICED age is simply to suggest that one should expected continued volatility in the markets. The path to the solution of any of these issues is likely to be messy with lots of noise. Nevertheless this is a good environment for a value investor. As always, our decisions are not governed by macro trends but are very specific to the investment. I discuss our portfolio in the following section.

Investor Conference

We will be holding our investor conference on May 11th at the Terminal City Club in Vancouver. As usual, I will start with a presentation on what we are up to in the Trust and then I would be delighted to answer any questions you may have. This will be followed by presentations by the CEOs of several of our holdings: The Caldwell Partners, Interfor and PRT. Our luncheon speaker will be Christopher Risso-Gill who wrote Peter Cundill's biography. As you know, I worked closely with Peter for more than a decade and the book reads like a fireside chat with Peter. Please let us know if you will, or will not, be attending.

We are Unique

I believe we are unique in many ways:

1. We eat our own cooking. All of my investments are in our stuff. This is not a job to me.

2. Our process is not confusing. We have been clear that we are looking for "ABBA" stocks (Appendix A has a refresher if you wish) and I am not at all concerned if our portfolio make-up differs substantially from any index. Our approach over time should provide not only superior performance but also will likely not be closely correlated to whatever else you may be invested in.

3. Our fee structure rewards performance. I do well when you do well. We have some ground to make up before any performance fees are generated which results in our MER being relatively low.

Acknowledgements

Our decreased asset base means I have had to reduce costs. I am therefore consolidating our operations in Victoria which means I have had to part ways with Diann, Kim, and Balkar. This was a very difficult decision and I have only myself to blame. Kim, Diann and Balkar have all found new jobs as one would expect given how good they are. I will miss them and always be indebted to them for all their confidence, work and friendship.

I continue to be blessed doing something I enjoy for people I like and respect. Given the number of investment alternatives available in the market place, I consider myself very fortunate to have your trust. Thank you.

Tim McElvaine
April 12, 2012

Our Return for 2011 – Series B Units

The Trust's return for the 12 months ending 31Dec2011 after all fees and expenses was -13.4%. By comparison, the S&P/TSX Composite Total Return Index (including dividends) for this same period was -8.7%. A comparison to the Index can be found in the Performance Summary at the beginning of this report. The Trust's Series B monthly returns are detailed in the following table:

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	4.17%	0.67%	-3.55%	-0.49%	-0.18%	-2.80%	-0.47%	-2.68%	-4.98%	-2.41%	-3.37%	2.20%	-13.37%
2010	0.54%	1.68%	5.46%	2.87%	-7.60%	-5.29%	3.99%	-2.40%	2.03%	-0.62%	-1.59%	3.52%	1.75%
2009	-1.76%	-14.39%	5.50%	11.31%	4.76%	0.10%	-1.01%	3.05%	0.94%	3.36%	1.61%	5.42%	18.07%
2008	-8.34%	-3.68%	3.48%	-5.75%	2.21%	-6.23%	-4.26%	2.23%	-11.08%	-16.59%	-17.84%	4.12%	-48.75%
2007	1.23%	0.11%	0.98%	2.76%	3.01%	-0.71%	-0.02%	-1.18%	-0.91%	-0.37%	-7.29%	3.39%	0.56%
2006	4.74%	2.17%	0.42%	-1.25%	-0.49%	0.52%	1.46%	1.03%	-0.71%	0.58%	0.94%	2.04%	11.90%
2005	1.71%	3.31%	1.14%	-0.26%	-0.23%	3.34%	2.16%	1.68%	0.75%	-2.59%	0.43%	4.72%	17.18%
2004	3.04%	0.56%	1.17%	-0.07%	-0.31%	1.65%	0.79%	-0.67%	-0.13%	0.44%	-1.12%	3.01%	8.59%
2003	3.89%	0.06%	-0.05%	1.60%	2.99%	2.59%	3.54%	4.96%	-0.41%	3.88%	1.46%	0.73%	28.19%
2002	4.63%	4.24%	6.69%	2.04%	3.83%	-4.81%	-6.30%	-1.44%	-3.04%	-0.43%	1.21%	-0.83%	5.02%
2001	3.49%	1.02%	3.57%	0.00%	7.95%	2.99%	-1.35%	3.76%	-5.93%	3.85%	2.09%	4.16%	28.03%
2000	-2.48%	1.88%	1.66%	2.91%	2.12%	-0.69%	-1.91%	5.86%	2.60%	0.33%	1.95%	3.74%	19.16%
1999	2.98%	0.37%	5.68%	5.37%	0.73%	3.00%	6.05%	-0.52%	2.74%	2.00%	-0.20%	-1.75%	29.46%
1998	3.51%	4.33%	8.14%	2.41%	1.91%	-2.02%	3.83%	-7.58%	0.61%	0.84%	3.10%	-2.72%	16.60%
1997	1.55%	0.19%	1.34%	-0.47%	0.00%	0.38%	3.21%	3.75%	1.15%	2.18%	-0.43%	-0.56%	12.88%
1996										0.70%	0.70%	1.72%	3.14%

Investment Returns versus Your Returns

To illustrate our performance, I have expressed the details as a percentage of our 2011 opening Series B net asset value per unit. I should caution you that these figures are my estimates and are unaudited:

Returns from investments	-12.1%
Operating expenses and related taxes	-0.2%
Return pre-management and pre-incentive fee	-12.3%
Management fee	-1.0%
Incentive fee	0%
Taxes on fees	-0.1%
Net return to you	-13.4%

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

TimberWest bonds	2.4%
Rainmaker Entertainment	1.3%
Sun-Gro Horticulture	1.1%
Pola Orbis	1.1%
Glacier Media	-1.4%
Indigo	-1.6%
Sun-Rype Products	-1.7%
RHJ International	-4.1%
Monex Group	-4.6%
Other securities	-1.4%
Return from securities	-8.9%
Impact of currency hedging	-3.2%
Return from investments	-12.1%

The Year in Retrospect

The holdings that hurt us the most in 2011 are actually helping us in 2012. Nevertheless you can see that our largest foreign positions, RHJ and Monex (as well as related currency hedging), accounted for almost all of our losses. I discuss these below; I continue to like both stocks as they are cheap and run by owners. This is a good combination although I suspect you would have preferred I timed our purchases better.

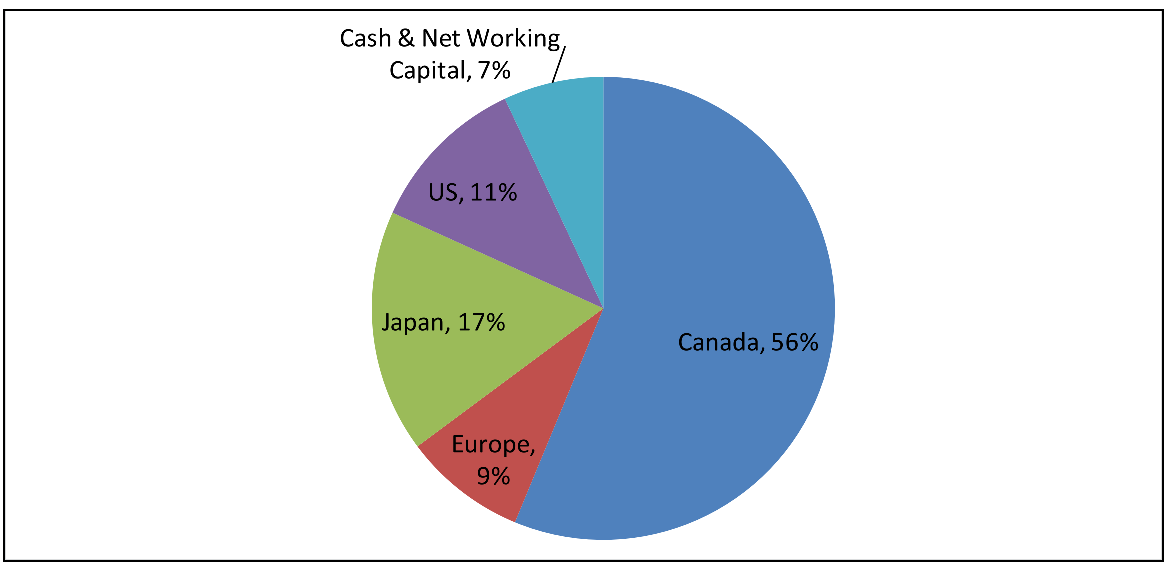
Our gainers included two take-overs: TimberWest and Sun-Gro. We started buying TimberWest units in 2008. This became a big position in TimberWest debentures in early 2009 when they did a rights issue. Our rationale at the time was that the debentures paid a 9% coupon and were convertible into units at $3.50. I figured that in a better environment than 2009, the assets were worth double this as TimberWest had substantial freehold timber properties as well as development lands. About 2 ½ years later (a relatively short timeframe in the scheme of things but a lifetime when you are long), TimberWest received a takeover bid of $6.16. I estimate that with interest included, we more than doubled our money on this position.

The Trust's expenses consisted primarily of custodial, audit and other operating expenses which amounted to about 0.20% of net assets. In addition, our management fee was 1% of net assets bringing the total MER, with taxes, to something around 1.30%. I believe this is significantly below the industry average.

Given our performance of late, there was no performance fee paid on the B units. There is a significant shortfall for the B units that will have to be made up prior to any fees being paid.

Where We Are Now

Our portfolio at 31Dec2011 looked approximately as follows:



As you know, my primary focus is always on the specific company and country allocation is somewhat of an afterthought. Looking at the portfolio as I do, you will see our largest positions at 31Dec2011 were as follows:

Glacier Media Inc.	16%	of net assets
RHJ International	9%	
EGI Financial	8%	
Ichigo Group Holdings	7%	
Sun-Rype Products Ltd.	6%	
10 Other Canadian Holdings	26%	
7 Other Foreign Holdings	21%	
Cash and Net Working Capital	7%	

As I discussed in the fall, a business can build value through expanding its own operations, via acquisitions (and dispositions) and by balance sheet activity. In tough markets, if a business can make smart acquisitions and/or repurchase its own shares at a discount, we as the owners benefit. I believe having the directors/management as owners is especially important as it brings an additional intensity to these capital allocation decisions. Below is the 2011 activity for several of our largest holdings:

Glacier Media:

- Ownership/control: Directors/management own 34%
- Repurchases: 1,275,000 shares for about $3 million
- Acquisitions: Included Canada's largest outdoor agricultural trade show, 50% of InfoMine - a leading digital mining information business, several papers including 12 community papers around Vancouver

EGI Financial

- Ownership/control: Directors/management own 13%
- Repurchases: $0
- Acquisitions: Formed a European non-life Insurance business with EGI owning 51% and two owner/operators owning the balance

RHJ International

- Ownership/control: Directors/management own 13%
- Repurchases: 2,500,000 shares for approximately $14.25 million
- Acquisitions: In exclusive negotiations to acquire a private banking business from Deutsche Bank

Sun-Rype

- Ownership/control: Directors/management own 65%
- Repurchases: $0
- Acquisitions: Acquired a US juice concentrate business

Monex Group

- Ownership/control: Directors/management own 9%
- Repurchases: 200,000 shares for approximately $39 million
- Acquisitions: Acquired Tradestation (US Internet Broker) and IBFX (US Forex trading services)

I am pleased we have invested in companies that have the capacity to expand in difficult times. While acquisitions always have some risk, the large insider ownership in all of these companies ensures their interests are aligned with ours.

Outside of these holdings, our largest area of new purchases was the US. Our buys included:

- Pacific Capital Bancorp, a restructured US financial institution. A couple of years ago, this bank effectively became insolvent. A group lead by a seasoned bank investor injected about $500 million into the bank. In addition, the bank did a rights issue hence a stub is public. The result was we were able to invest in a cleaned up bank with strong regional market share and an experienced financially committed owner all at a cheap price.

- The Howard Hughes Corporation, a spinoff from General Growth Properties. HHC is a collection of planned residential communities and potential development projects. An interesting twist is senior management paid $19 million for 7 year warrants with an effective price around our cost. These aren't stock options with no cost to management! Further, Bill Ackman, recently in the headlines as he is attempting to change the CP board, is Chairman of HHC.

Conclusion

All in all, it was a disappointing year however our losses occurred largely in stocks I think are cheap. The 1st quarter of 2012 has given us improved performance as many of these shares rebounded. Thanks for your support.

In the following pages, you will find the Statement of Net Assets and Schedule of Investments for The McElvaine Investment Trust. Please keep in mind these are not audited financial statements. Audited financial statements have been sent to partners separately.

THE McELVAINE INVESTMENT TRUST

Statement of Net Assets

December 31, 2011, with comparative figures for 2010

	2011	2010
Assets		
Investment portfolio, at fair value	$ 37,585,975	$ 64,064,748
Receivable from forward currency contracts	238,782	185,557
Cash and deposits	3,225,086	1,258,154
Subscriptions receivable	-	508,000
Distributions and interest receivable	52,052	69,371
	41,101,895	66,085,830
Liabilities		
Redemptions payable	536,366	1,409,218
Payable on forward currency contracts	78,598	90,049
Accounts payable and accrued liabilities	90,035	109,503
	704,999	1,608,770
Net assets	$ 40,396,896	$ 64,477,060
Net assets by series:		
Series A	$ 37,193	$ 57,803
Series B	39,605,205	63,218,558
Series F	54,665	105,717
Series X	699,833	1,094,982
	$ 40,396,896	$ 64,477,060
Number of units outstanding:		
Series A	3,290	4,375
Series B	2,803,618	3,872,896
Series F	9,175	15,391
Series X	122,841	165,860
Net assets per unit:		
Series A	$ 11.31	$ 13.21
Series B	14.13	16.32
Series F	5.96	6.87
Series X	5.70	6.60

THE McELVAINE INVESTMENT TRUST

Schedule of Investment Portfolio

December 31, 2011

	Number of shares / par value	Cost	Fair value
Canada - Equities (51.0%)			
Caldwell Partners International Inc.	2,441,500	$ 2,050,665	$ 1,513,730
EGI Financial Holdings Inc.	444,700	3,635,700	3,090,665
Glacier Media Inc.	3,300,000	7,480,674	6,731,999
Orca Exploration Group Inc. Class B	200,000	943,720	580,000
PRT Growing Services Ltd.	250,000	359,002	747,500
Rainmaker Entertainment Inc.	5,451,228	9,868,492	2,316,771
Sun-Rype Products Ltd.	399,500	2,935,792	2,381,020
Ten Peaks Coffee Co., Inc.	625,100	1,782,854	1,406,475
Village Farms International Inc.	1,469,683	2,876,909	1,851,801
Total Canadian equities		$ 31,933,808	$ 20,619,961
United States - Equities (11.2%)			
Avatar Holdings Inc.	50,000	$ 506,215	$ 365,042
H&R Block Inc.	75,000	1,034,433	1,247,098
Pacific Capital Bancorp NA	35,000	911,595	1,003,941
TD Ameritrade Holding Corp.	50,000	701,969	796,269
The Howard Hughes Corp.	25,000	1,177,485	1,125,672
Total United States equities		$ 4,331,697	$ 4,538,022
Foreign - Equities (25.6%)			
Ichigo Group Holdings Co., Ltd.	25,000	$ 2,872,815	$ 3,043,889
Monex Group Inc.	15,000	4,488,938	2,219,392
RHJ International	750,000	5,686,869	3,469,835
Shinsei Bank Ltd.	1,500,000	1,672,073	1,588,116
Total Foreign equities		$ 14,720,695	$ 10,321,232
Miscellaneous securities (5.2%)		$ 2,277,989	$ 2,106,760
Transaction costs		$ (170,067)	$ -
Total investment portfolio at fair value (93.0%)		$ 50,863,359	$ 37,585,975
Net forward foreign currency contracts (0.4%)			160,184
Other assets less liabilities (6.6%)			2,650,737
Net assets			$ 40,396,896

ABBA Primer
or
What we look for when investing

ABBA is my snappy acronym for what we look for when making an investment.

A – Accident

If you're going to buy the best bargains you have to buy the things that other people are selling. ~Sir John Templeton

We deal in nightmares not dreams. We are looking for people who are selling for reasons other than price. Examples include:

- Sector, industry or a region people are avoiding
- Bad news such as dividend cut, downgrade, unexpected poor results
- Special situation such as a spinoff, emergence from bankruptcy or rights issue

B – Bird in Hand

Protect the downside. Worry about the margin of safety. ~Peter Cundill

We want to have a margin of safety based on our purchase price. We also consider what the stock may be worth in 3 years. Things we consider include:

- Replacement value
- Liquidation value
- Private market value
- Sum of the parts value

B – Brick House

To finish first, you must first finish. ~Rick Mears (Indy 500 4 time winner)

In the story of the Three Little Pigs, the pig with the brick house survives the wolf. There will always be wolves in business and our job is to look for cheap brick houses. Things we consider include:

- Balance sheet strength
- Free cashflow generation and capital requirements
- Market share, competitive positioning, relative cost of production

A – Avoid or at least understand Lola

If you've been playing poker for half an hour and you still don't know who the patsy is, you're the patsy. ~Warren Buffett

In the 1970s, the Kinks had a hit with the song Lola. It was a story about a young man who meets a woman named Lola in a bar. After a fun filled evening of drinking, dancing and snuggling, our hero is surprised to discover Lola is in fact a man not a woman. Similar to this story, we prefer to understand, prior to the "final act", the motivation and interests of the Board and management. Things we consider include:

- Stock ownership of directors and management
- Insider buying
- Management compensation program
- Independence of Board

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