The McElvaine Investment Trust

Semi-Annual Report

June 30, 2017

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 The McElvaine Investment Trust:

- *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: value investing; and manage one fund:*
  The McElvaine Investment Trust.

The McElvaine Investment Trust

To my Partners:

As I was finalizing this report, we received good news. Polaris Materials, a relatively recent investment of the Trust, has received a takeover offer at a large premium to the stock price. This transaction impacts the Trust in two ways:

- Our performance to the end of August will be somewhere around +11% or so YTD; and
- Our cash levels are now over 35% of net assets giving us both downside protection and the ability to take advantage of future investment opportunities.

The report which follows discusses our portfolio as of June 30, 2017. Due to the Polaris transaction, the percentages will have changed somewhat but the figures are consistent with the Trust's June 30th financial statements (which are included for Partners).

We are well positioned in what is an uncertain economic and political environment. I am confident in our stocks and optimistic about our returns. I will talk a bit about the portfolio below and why I am excited but first want to cover off a couple of other items.

<u>Toronto Partners' Update</u>
On Wednesday September 27th at the Royal York in Toronto, we will be doing a "Partners' Update". The event will start at 4pm with cocktails and hors d'oeuvres. Around 5pm, I will do a short presentation which will discuss the current environment and the Trust's investments. Everything should wrap up by 6pm or so. We will send out formal invites next week and I am looking forward to seeing you.

<u>Open for business</u>
There is a lot of competition for your investment dollars. I do appreciate your patience and support. If you would like to add to your investment in the Trust, or know of someone who would be interested in investing, please let us know.

<u>Performance</u>
The McElvaine Investment Trust's June 30, 2017 net asset value for the Series B units was $20.13. This represents a gain for the first 6 months of 2017, net of all fees and expenses, of 0.8%. During this period, the S&P/TSX Total Return Index rose by 0.7%.

Friendly disclaimer

Our lawyers asked me to remind you our report contains estimates and opinions and is not intended to be investment advice, a forecast of future events, or a guarantee of future returns.

Our approach

Our approach is centered on four items. We 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.

You may recall I have affectionately termed our approach "ABBA" representing A-Accident, B-Bird in hand, B-Brick house (as opposed to straw hut) and A-Alignment of interests.

You will note our "ABBA" process does not involve macro forecasting or economic predictions beyond assuming reversion to the mean at some point. Investing is a messy business and our protection is in the price we pay.

Outline of our reporting

As discussed in the Annual Report, I don't 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 an industry, country or region which investors dislike or is suffering from a negative event or news. Our recent successful investment in PrairieSky is an example of an industry (oil & gas) which fell from favour (in early 2016) leading to an opportunity for us to invest in one of the industry's leading companies. Over our history, we have had good returns in the large unpopular companies category but patience was definitely required.

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 dislocation such as a spinoff. For simplicity, I have defined a secondary issue as a company with a market value below $1bn, although some of our investments have been much smaller companies.

3. Special situations and workouts - I include in this area everything from liquidations to distressed debt. This category will be unlikely to contain equity investments unless they have a limited life. (eg. Liquidations, risk arbitrage etc…)

Review of the first half of 2017

Large unpopular companies:

This category's performance was roughly flat during the first six months of 2017 as gains in Blackberry and Leucadia National were largely offset by weakness in VOYA Financial and Seacor Holdings. Seacor's weakness was somewhat structural as in June Seacor distributed to us Seacor Marine shares. I will discuss this a little more below.

Bargain secondary companies:

The largest contributors to this category's six month performance were Village Farms and Wow! Unlimited Media (exclamation mark is part of their name) while Glacier Media was a detractor.

Where We Are Now

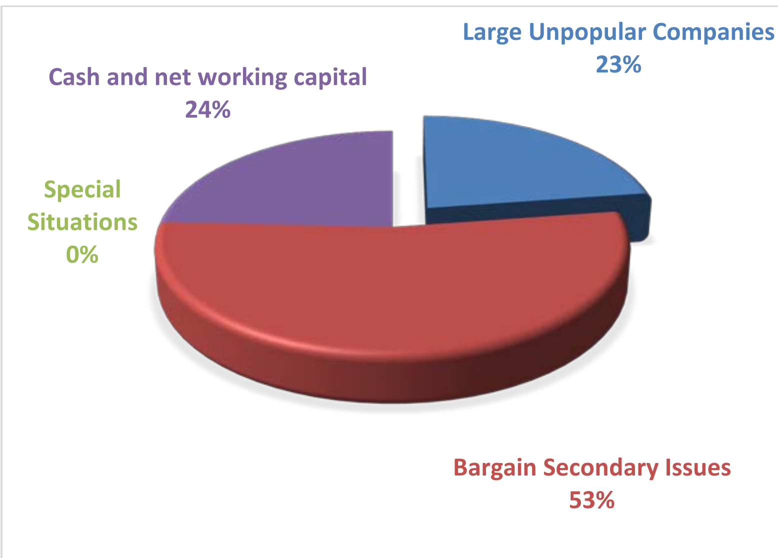
My review of the portfolio will discuss the Trust as of June 30, 2017. Unaudited financial statements for the first 6 months of 2017 have been included (for Partners) with this report.

Two items of the Trust's portfolio give me reason for optimism:

- Our stocks are inexpensive with several of our investments having near term catalysts in place to realize this value; and
- The balance sheets of our investee companies are generally in good shape.

This is particularly true in the bargain secondary portfolio. I realize the general market is relatively expensive and there are many uncertainties. This is reflected in our cash position which represents just under 25% of our net assets at June 30th. Additionally, in August we purchased a modest amount of portfolio insurance in the fashion of "put options". The recent sale of our position in Polaris will raise cash to over 35% of net assets giving us both downside protection and the ability to take advantage of investment opportunities.

Below are some details on our portfolio at June 30th 2017. Following the Ben Graham categories referred to above, our portfolio looked roughly as follows:



Large Unpopular Companies	22.6%
Leucadia	7.1%
Blackberry	4.5%
Voya Financial	4.2%
Three other holdings	6.8%

Large unpopular companies (as of June 30th 2017):

While I did not break out the geography of our holdings, the majority of our large unpopular company investments are US listed. For the most part, we were sellers of our holdings in this category. The percentage of the Trust invested in large unpopular companies fell from approximately 30% at yearend to 23% at June 30th. We sold our position in PrairieSky as it reached our target price, trimmed our holdings in VOYA Financial on appreciation and exited our Seacor Holdings position after the spin-off of Seacor Marine.

Our largest position in this category continues to be Leucadia National. Leucadia is somewhat of a mishmash of companies with the largest components of its net worth represented by its ownership of Jefferies (an investment broker and bank) and National Beef. Results continue to improve in both of these businesses and the stock has appreciated strongly since our investment. In August, we trimmed our position.

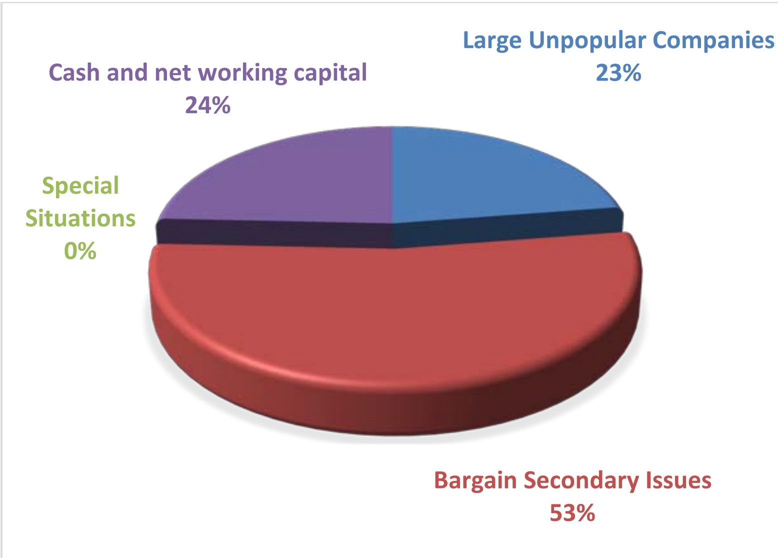
Retail stocks have been a source of sorrow for investors. It is a troubled area with three key negatives:

- too much physical space;
- changing distribution and shopping patterns due to the internet; and
- reduced barriers of entry as new competitors are able to offer their products with no need for physical space.

Over the last year we have established a small position in two retail related companies: Ralph Lauren and Coty. Both of these companies are really brands rather than traditional retailers and while not immune to the retail woes, I think this puts them in a better position to deal with the industry headwinds. Ralph Lauren has suffered from over-exposure to the department store channel, executive turnover and a somewhat tarnished brand. Coty's issues are similar in that it needs to update its brands and reconfigure its distribution channels. Results of late have been weak for both companies. As mentioned, our current positions are small as I evaluate how these companies are dealing the industry's challenges.

To give you a little bit more colour on some of our holdings, I have created "investment snapshots". These snapshots are not meant to summarize all of our work but rather just give you a quick investment overview of some of the key aspects of the companies. I have included four snapshots following this report including ones on Leucadia and Coty. I would be interested in hearing from you on whether you find these "snapshots" of interest and if "investment snapshots" are something I should continue to include in future reports.

Bargain Secondary Issues (as of June 30th 2017):



Bargain Secondary Issues	53.1%
Wow! Unlimited Media	9.7%
Glacier Media	8.5%
Carmanah Technology	7.2%
Village Farms	5.0%
Maxim Power	4.7%
Seven other holdings	18.0%

Most of our investments in bargain secondary issues are Canadian listed although several have significant non-Canadian operations. Our largest holding, Wow! Unlimited Media ("Wow"), continued to transform itself after a series of transactions which occurred in December. More recently Bell Media and Wow announced a transaction where Wow will acquire a specialty TV channel from Bell in exchange for Wow shares. On closing, Bell Media will own approximately 12% of Wow. An additional aspect of the transaction is Wow will receive access for its programming on Bell's CraveTV and Snackable TV platforms. Combined with recent animation contract wins including a Netflix order for Season 2 of Castlemania, Wow is a much different and stronger company than a year ago and I am excited about its prospects. I have included an "Investment Snapshot" on Wow.

As mentioned, in June Seacor Holdings "dividended out" Seacor Marine to its shareholders. Essentially for every share we owned of Seacor Holdings, we received approximately 1.007 shares of Seacor Marine. Seacor Marine combines an unloved sector (offshore marine services in the Gulf of Mexico, North Sea, Asia and the Middle East) with a strong balance sheet and an owner focused board. We bought additional shares post the spinoff.

Carmanah Technologies has been active of late. In early August, Carmanah announced it had concluded the disposition of its Go Power division for a higher than expected price. This completes the process Carmanah started last fall to narrow its business focus. In a similar vein, Carmanah recently announced it had acquired one of its competitors in the marine aids business. Finally, Carmanah just announced its intention to do a substantial issuer bid which will see Carmanah tender for 6 million shares or approximately 24% of its own common stock at a price of $5. I am pleased with Carmanah's series of transactions and believe 2017 has been an important and transformative year for Carmanah.

You may recall I discussed Maxim Power in our Annual Report. As expected, Maxim concluded the sale of its non-Canadian power generating assets and now has in excess of $125mn of net cash. This represents over $2.25 per share of net cash which is roughly 80%+ of the current stock price. I continue to believe Maxim's other assets have significant value. Our return on this investment will depend on how the board deals with the cash and its other investments. As mentioned previously, I trust Maxim's largest shareholders who collectively own over 42% of the shares and are members of the board.

Outlook:

Our frog logo has been absent of late however it does symbolize what we do. We buy discarded merchandise which we believe is worth more than we are paying. Sometimes TLC is required while other times just patience. Our hope is the frog becomes a prince. As a value investor, the key is ensuring if we are wrong and the frog is just a frog, we at least get a nice meal from the legs!

As I mentioned in the beginning, we have cash reserves, put options and more importantly a portfolio of companies with good balance sheets trading at attractive prices. I like how we are positioned.

As always, many thanks for your confidence and friendship.

Warm regards,

Tim McElvaine
August 31, 2017

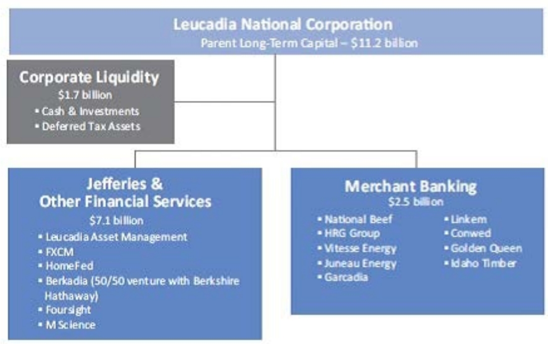
Holding Snapshots

The McElvaine Investment Trust

Holding snapshot – large unpopular company

Leucadia National Corporation

Leucadia National Corporation is a holding company for a number of businesses with the largest component being the investment bank Jefferies representing approx. ½ of tangible capital. It is a little complicated and there are many moving parts. The key issues in my mind were staying power, valuation and incentives. Leucadia was often viewed as a baby Berkshire having been run for over 30 years by Ian Cumming and Joe Steinberg. As they reduced their involvement with Leucadia, performance faltered leading to investor concerns over Leucadia's future performance. The current management team is headed by Richard Handler who had been CEO of Jefferies since 2001.



A-Accident

In 2015 concerns increased over Leucadia's businesses primarily Jefferies. As an investment bank, Jefferies' balance sheet was levered. Questions rose over the amount of leverage and the liquidity and pricing of its investments. We acquired our shares in the fall of 2015 and early 2016. Our average cost is roughly US$17

B-Bird in hand

At the time we were investing, tangible book value (which I believe substantially understated the value of Leucadia) exceeded the share price we were paying. The shares have appreciated somewhat on the back of a better outlook for Jefferies and improved performance of National Beef

B-Brick house

<u>Balance sheet strength</u> - parent company debt is reasonable and well structured (largest portion due 2023)

<u>Free Cashflow generation</u> - recent dispositions have increased liquidity to parent company

<u>Competitive positioning</u> - depends on underlying business

A-Alignment of interests

Insiders own just over 10% of Leucada representing about 37mn shares. (worth US$900mn at current prices) incl 10mn shares owned by CEO. CEO compensation plan rewards appreciation however has low hurdle.

Holdings are subject to change and we will not notify you if our view changes. A discussion of any security is not a recommendation to buy or sell. All holdings are subject to risk. Our work and assumptions may be incorrect. Do your own work and do not rely on ours.

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Holding snapshot – large unpopular company

COTY

BEAUTY, LIBERATED

Coty is a leading global beauty company operating in three segments: Luxury (fragrances & skincare), Consumer beauty (makeup, retail hair coloring, nails and fragrances) and Professional Beauty (primarily salon market with leading position in nails and hair). Coty's largest shareholder is JAB Holdings, a German Holdco managed by former Reckitt Benckiser executives. JAB is known for its successful investment in Reckitt, its ownership of coffee companies (Keurig, Krispy Kreme, JDE and Peet's), its recent sale of Jimmy Choo as well as partnering with Berkshire Hathaway in attempt to acquire Avon in 2012.

A-Accident

In late 2016, Coty acquired 41 brands from P&G primarily paying with Coty shares. This left shares in the hands of "weak holders". Integration issues and weak sales resulted in selling pressure on the shares. We initially acquired a small position in late 2016 at approximately $18.25 per share.

B-Bird in hand

Private market value exceeds current price based on multiples for similar businesses. Our three year view assumes margin expansion and sales stabilization combined with an improving balance sheet due to free cash flows and brand portfolio refocusing.

B-Brick house

Balance sheet strength - less than ideal as significant debt although well structured

Free Cashflow generation - ample free cashflow although brand investment will be required

Competitive positioning - #1 in luxury fragrance, #2 salon hair, #2 mass make-up. L'Oreal key competitor

A-Alignment of interests

JAB owns 37%; Board members and executives own 16%. JAB and Coty executives have been recent purchasers of shares. Mgmt compensation program targets profit, revenues and net working capital with minimum profit threshold which needs to be met or no awards paid.

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Holding snapshot – bargain secondary company

UNLIMITED MEDIA

Wow! Unlimited Media is a kids and youth animation business focused on digital platforms and content. It consists of two divisions: Frederator Studios and Rainmaker Entertainment. Frederator is a leading YouTube multichannel network with over 40 million subscribers and close to 3,000 partner channels with in excess of 600 million monthly views. Rainmaker is a Vancouver based animation studio. Wow! is led by Michael Hirsh who was a co-founder of Nelvana (sold to Corus for $540mn in 2000) and was the principal behind Cookie Jar (sold to DHX for $111mn in 2012). Michael has been joined by Fred Seibert (founder Frederator Studios, former President Hanna Barbera) and Bob Ezrin (music producer: Pink Floyd, Alice Cooper, KISS). Collectively this group is the largest shareholder of Wow!. Wow! is in the process of acquiring a Category B Speciality TV license which will result in Bell Media owing 12% of Wow!

A-Accident

In December 2016, our debentures in Rainmaker were exchanged for cash and shares in Wow! Unlimited Media (valued at $1.80) and I left the board. In June 2017, Bell Media agreed to sell to Wow! a speciality TV station and access to its digital platforms in return for 12% of Wow! (3.4mn shares at $2 per share).

B-Bird in hand

Sum of the Parts analysis would suggest a value of around the current price. Our three year view has a wide range of outcomes. The experience of management and the board leads us to feel comfortable that our downside is limited while our upside could be substantial.

B-Brick house

Balance sheet strength - cash of $7mn with no long term debt.

Free Cashflow generation - modest currently however operating model has content funded by others.

Competitive positioning - positioning has improved but still small player. Current contracts with Mattel, Amazon, Netflix, Weinsteins

A-Alignment of interests

Majority of Board independent with history in entertainment industry although all friends of Michael Hirsh. Collectively Board owns in excess of 40% of the shares. Experienced mgmt team. Option issuance has been large which is a negative. New Management comp program unknown until proxy filing presumably in early fall.

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Holding snapshot – bargain secondary company

carmanah®

Carmanah combines solar cells, LED lights and batteries to design, develop and distribute infrastructure lighting products. Manufacturing is outsourced. Recently Carmanah completed an asset sale process which refocused them on their Signals and Illumination segments. The Signals business primarily consists of lighting for Marine Navigation aids, Obstruction lighting (offshore wind, cellular towers) and other products such as solar powered crosswalks. The Illumination division products includes solar powered lighting for pathways, parking lots and streets. Carmanah has acquired several competitors and is a leading global firm in Marine Navigation and Offshore Wind lighting.

A-Accident

In 2013, a new Board and management took control of Carmanah. A rights issue soon followed backstopped by insiders. Our position was acquired through the rights issue with an average cost of around $1.30 per share

B-Bird in hand

Private market value exceeds current share price with this value expected to grow over time. Dominant position in Marine unscores valuation however future value could exceed expectations depending on success of illumination division's new products.

B-Brick house

<u>Balance sheet strength</u> - small amount debt after issuer bid .

<u>Free Cashflow generation</u> - manufacturing outsourced business is cash generative.

<u>Competitive positioning</u> - largest firm in navigation aid and offshore wind. Tailwind as falling costs are leading to increased adoption of solar related infrastructure lighting

A-Alignment of interests

Independent Board which collectively owns more than 35% of outstanding shares. Few details on particulars of compensation program. Insiders and company have been buyers of shares.

Just announced substantial issuer bid for approx 24% of shares @$5

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