THE DEEP VALUE INVESTOR

Tim McElvaine

Founder & president
McElvaine Investment Management Ltd.

Many managers talk about running against the herd, but Tim McElvaine really does purchase ugly operations that could have upside. His philosophy follows four rules that he calls ABBA. The initial A is for "accident," a dislocation that's causing people to sell. The first B is for "bird in hand," meaning the company is intrinsically worth more than what he's paying. The second B stands for "brick house," which means it has to have a good financial foundation. The last A is for "alignment of interest," meaning executives own their own company stock. Like a lot of value funds, his McElvaine Investment Trust has struggled lately, but it has significantly outperformed its benchmark since 2000.

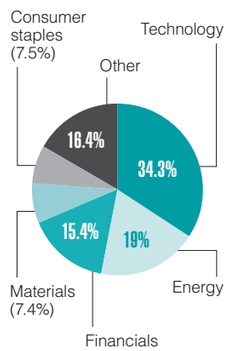
McELVAINE INVESTMENT TRUST

$29.4 MILLION
Assets under management

TOP 5 HOLDINGS

1. Glacier Media 13.6%
2. Carmanah Technologies 10.7%
3. Maxim Power 6.1%
4. Seacor Holdings 5.6%
5. Leucadia National Corp. 5.4%

SECTOR ALLOCATION



6.8 PER CENT
Annualized return since inception (1996)

Carmanah Technologies' new CEO is turning the solar company around (left); BlackBerry (top right) has lots of cash and IP to sell; Glacier Media (right) is a lean publisher

iStock; Sean Gallup/Getty; Carmanah Technologies

McELVAINE'S PICKS

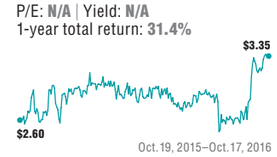
1 | CARMANAH TECHNOLOGIES GROUP (TSX: CMH)

P/E: 20.1 | Yield: N/A
1-year total return: -32.8%

This Victoria-based company makes solar-powered LED lights used in parking lots and on highways, offshore rigs and buoys. The business ran into operational issues—management was more focused on growing the top line than the bottom, says McElvaine—but CEO John Simmons, appointed in 2013, is turning things around. The company has raised more capital and now has a strong balance sheet, he says. McElvaine likes Carmanah because it sells its wares abroad and has room to grow—it's developing more powerful lights and products with data-relaying sensors. It could also benefit from increased infrastructure spending, he says. McElvaine attributes the stock's 20% decline year-to-date to the equity raise and Carmanah's size. He expects a recovery once "the market digests what's happened."

2 | MAXIM POWER CORP. (TSX: MXG)

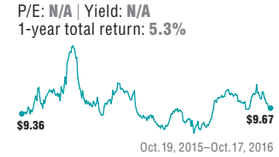
P/E: N/A | Yield: N/A
1-year total return: 31.4%



This Calgary-based independent power producer may be best known as an investment of Brett Wilson of *Dragons' Den* fame. He, along with CEO Bruce Chernoff, owns 43% of the company. They bought into it two years ago, after the business encountered problems, including running afoul of the U.S. Federal Energy Regulatory Commission—it was accused of fraud and fined $8 million—and low electricity prices in Alberta. Over the past six months, though, Maxim has divested a French subsidiary and put five natural gas plants in the U.S. up for sale that McElvaine thinks are worth $3.50 a share—roughly what the stock is trading at today. Maxim could either continue operating its Canadian businesses or sell everything off. Either way, McElvaine says he will still make money.

3 | BLACKBERRY LTD. (TSX: BB)

P/E: N/A | Yield: N/A
1-year total return: 5.3%



There are two questions BlackBerry watchers have on their minds: Will the company become a software powerhouse, or will it sell its business and disappear? The answer doesn't matter to McElvaine; he thinks the stock price will rise in either scenario. Indeed, he likes the company because it's in flux, with no one knowing the exact outcome. But now that the firm is out of the hardware business, something will happen, he says. He thinks its intellectual property has value, and the business also has a lot of cash, the ability to claim tax losses and a rational board of directors. "The sum of the parts is more than what the stock price is worth," McElvaine says. Whether it turns out to be a good business depends on whether it can improve its software trade, but he thinks someone will buy it in a few years. And that's fine with him.

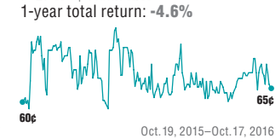
4 | DUNDEE CORP. (TSX: DC.A)

P/E: N/A | Yield: N/A
1-year total return: -17.3%

It's been a difficult few years for Dundee Corp., a Toronto holding company with financial and resource operations. "A lot of things have gone wrong," says McElvaine. Dundee has been dragged down mostly by its energy assets. It owns oil and gas properties in Ontario and an oil development business in Chad, United Hydrocarbon International, that hasn't done a whole lot. In 2014, David Goodman (son of Ned, the company's founder and longtime CEO) took over, promising to focus on building Dundee's private wealth management side. The company also plans to sell underperforming assets; McElvaine thinks Dundee Securities will soon be gone. Where the firm will end up is unclear, but it's trading at a big discount and has a number of opportunities it can pursue. "It's in transition," he says.

5 | GLACIER MEDIA INC. (TSX: GVC)

P/E: 4.0 | Yield: N/A
1-year total return: -4.6%



Who says print is dead? Not the team at Glacier Media, which continues publishing a clutch of community newspapers and trade publications, mostly in Western Canada. That's not to say it hasn't struggled. Its trade division was hurt by the oil downturn, while the community side has seen advertising spending diminish. However, McElvaine, who sits on Glacier's board, says the company is focused on operational management. It recently reduced its debt by about $60 million, partly funded by a $13.2-million equity raise, and it has cut costs and streamlined operations. The company recently purchased some environmental publications and has hired salespeople and other staff to improve the product, says McElvaine. "They are doing things to make sure their products are relevant to their customers."