08 July, 2009

Dear Fellow Investors,

The Elevation Capital Value Fund delivered a net return of +3.89% for the Second Quarter 2009 versus the +1.53% of its benchmark (NZ CPI +5.00%).

Over the course of the second quarter we continued to add to our portfolio – with the number of holdings increasing from 29 to 36. We also continued to add to existing positions as opportunities permitted. Additionally, the Fund remains in a robust position with 48.16% Cash, reflecting our view that sound long term investments do not need to be rushed and that a slow but steady approach to building out the portfolio will best serve investors over the months / years ahead.

Economic Outlook / Inflation the Cash Killer:

The future is always uncertain, but we do hold the view that the stimulus provided to the global economy is both significant and unprecedented. We feel it is also reasonable to expect that the monetary authorities will continue to offer stimulus until they see the global economy return to growth. The key issue for investors is what may be the unintended consequences of this significant stimulus over the longer term?

In our opinion, the only reasonable conclusion one can draw is there are risks of inflation, as it is highly unlikely that the monetary authorities will eventually raise interest rates as quickly as they should with unemployment rates at +10% in most developed economies – (Spain continues to lead the developed world with nearly one in five unemployed*.)

We have provided a simple working example of how a moderate 3.00% inflation rate affects one's purchasing power over a 20 year period:

Year 1	NZ$ 1.00 = NZ$ 0.97c
Year 10	NZ$ 1.00 = NZ$ 0.74c
Year 20	NZ$ 1.00 = NZ$ 0.55c

Since we launched the Elevation Capital Value Fund in December 2008 we have sought investment exposures that we believe offer our investors some protection should the "inflation genie" exit the bottle.

While it may not seem apparent on an initial review, our portfolio is laden with asset rich companies. These companies typically have large or strategic land holdings / resources which are unencumbered with significant amounts of debt. History has shown that this has been one of the best strategies to protect oneself against inflation over time. We also hold within the portfolio royalty like businesses that it is reasonable to expect have pricing power that will enable them to preserve shareholder value / returns in an environment of higher inflation.

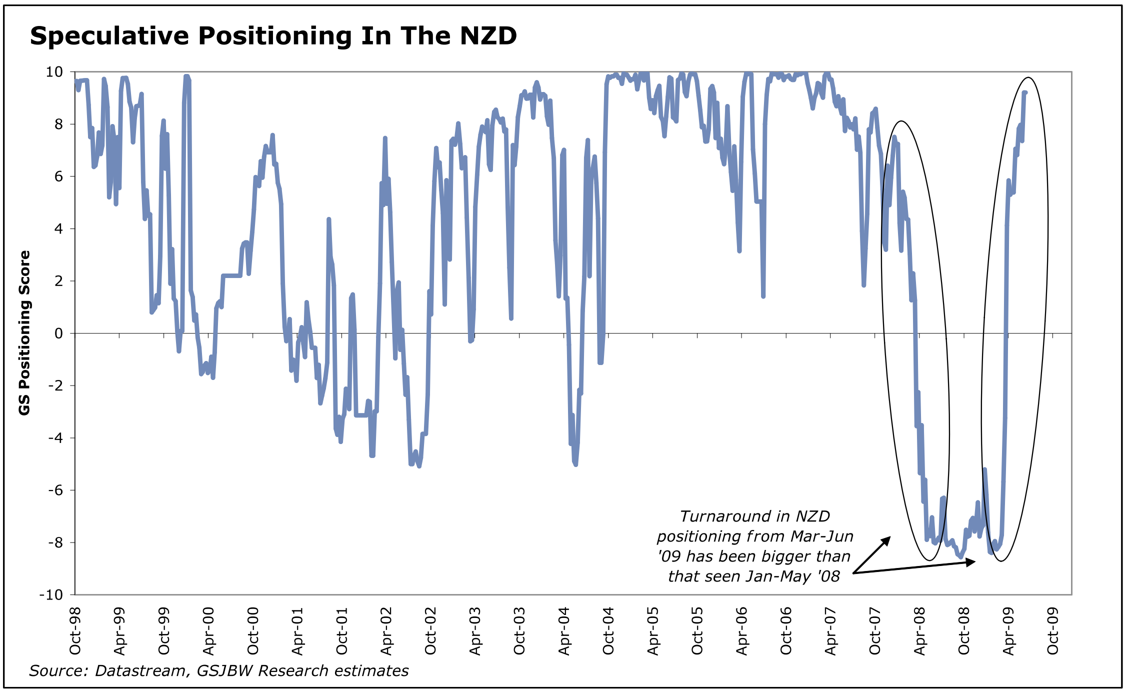
More recently, there are some signs of stabilization in the global economic picture. In the United States, the banking system has already seen 32 institutions repay US$70bln. There is now US$ 369bln outstanding on the TARP (Troubled Asset Relief Program) of which US$ 80bln went to the automakers. The irony of the TARP according to the Wall Street Journal is that the US taxpayer is set to lose more on the automakers than on the rest of its TARP investments, including AIG.

In Europe, Jose Manuel Gonzalez-Paramo, a member of the ECB board best described European attitudes to the suggestion of green shoots – *"We are no longer in free-fall, but we are still falling. This is what I understand by green shoots. They are a good sign, they can flower, strengthen and become trees if accompanied by the right policy."*

In Asia, the news is clearly more positive led by China and this is reflected in both equity and commodity market performance year-to-date. According to Morgan Stanley yesterday, turnover on the A-shares index hit a 21 month high at around US$44.0bln. Separately, the South China Morning Post reported that the Zhejiang Wanma IPO was 750x oversubscribed on the public tranche and 189x on the institutional tranche;

Unfortunately, in New Zealand the green shoots of recovery have been stifled by a currency that remains stubbornly high as foreign investors *mistakenly* lump us together with the other major "hard" commodity currencies – the Australian & Canadian dollars.

Speculative positioning in the NZD has seen a sizeable turnaround in a very short period of time – as illustrated by the chart below published recently by Goldman Sachs JBWere.



Source: Datastream, GSJBW Research estimates

The NZ Dollar appreciated from 0.5595 at the end of the first quarter to 0.6457 at the end of the second quarter a +15.41% appreciation and one of the largest quarterly rises since the dollar floated in 1985. (This also impacted the Fund during the second quarter as we remain unhedged on all foreign currency exposures.)

But more concerning for the New Zealand economy is the green shoots that began to appear are from the housing sector. If the recent increase in housing turnover gains further traction it could trigger an early rebound in house prices and a much stronger pick up in household spending. Many will ask what is wrong with this scenario? *[Especially if you are a real estate agent or a retailer!]* The key concern would be the New Zealand dollar will continue to strengthen on the back of a stronger outlook for the domestic economy led solely by consumption and therefore weighing on exports. The combination of a strong domestic economy and weaker net exports would likely result in a wider current account deficit adding, to New Zealand's already high external vulnerability. This is an unsustainable future for New Zealand and ultimately foreign investors will reassess the terms on which they lend to New Zealand – the end outcome will be an economy which is smaller and living standards lower over the medium term**.

New Zealand's continued love affair with property may actually be its downfall if we are not careful. It is my personal view that there needs to be significant changes to the tax, depreciation and LAQC legislation to discourage continued unproductive investment in the real estate sector which only contributes to an unsustainably high current account deficit and a lack of asset diversification in most New Zealander's portfolios.

The "Madoff Scandal" should serve as a reminder that there are no shortcuts in investing:

On 29 June 2009, Bernard Madoff was sentenced to 150 years in prison for conducting the largest Ponzi scheme in modern history. A Ponzi scheme is simply defined as the fraudulent enterprise of paying off existing investors with money collected from new ones – in the case of Mr. Madoff this amounted to a scheme in excess of US$ 50bln conducted over several decades.

However, there are many forms of financial fraud. Some argue that finance companies in New Zealand were essentially a Ponzi scheme which bilked New Zealand investors of billions of dollars. What Mr. Madoff and finance companies in New Zealand illustrate is that humans have an inherent weakness when it comes to investing, to chase return and ask too few questions. The cartoon below from the "New Yorker" (27 November, 1978 edition) highlights the core weakness for most people when they invest – they chase return with little consideration for the downside:

"Did I hear someone say fourteen per cent?"

The famous (and legitimate) Wall Street investor / financier Bernard Baruch (1870 – 1965) once said *"the only people who always buy at the bottom and sell at the top are liars"*. Experienced investors understand that securities prices fluctuate in the short term, but a portfolio of well financed sound businesses should deliver satisfactory returns over the long term. They also understand that there is no free lunch in investing - taking shortcuts or pursuing returns without supposed risk exposes gullible investors to frauds and permanent capital loss.

As you can see from our portfolio detailed below – the Elevation Capital Value Fund is invested in real businesses with tangible and productive assets that generate satisfactory dividend streams for their owners. Over time it is reasonable to expect these businesses will continue to build their intrinsic value and pay dividends to investors.

We would also like to remind investors (and other readers) that Elevation Capital Management Limited and its Funds have several sources of independent verification. Our Funds are independently audited by KPMG, they have an independent trustee – New Zealand Guardian Trust (NZGT), they are independently administered (priced) and our assets are held by independent custodians (ASB Nominees in the case of the Value Fund).

Elevation Capital Value Fund Portfolio as at 30 June 2009:

Company:	Code/Market:	% of Portfolio:
Japan Petroleum Exploration Co	1662 JP	1.29%
Wharf Holdings Ltd	4 HK	1.97%
Aruze Corp	6425 JP	1.33%
Australian Agriculture Co	AAC AU	1.53%
Amalgamated Holdings Ltd	AHD AU	1.42%
Alexander and Baldwin Inc	ALEX US	1.36%
Ariadne Australia Ltd	ARA AU	1.58%
CDL Investments NZ Ltd	CDI	1.58%
Colonial Motor Company Ltd	CMO	1.46%
ConocoPhillips	COP US	1.57%
Gaumont SA	GAM FP	1.55%
Guoco Leisure Ltd	GLL	1.66%
Guinness Peat Group Plc	GPG	1.54%
Investor AB	INVEA SS	1.03%
Jardine Matheson Holdings Ltd	JM SP	1.10%
Kirkcaldie & Stains Ltd	KRK	1.53%
K-Swiss Inc	KSWS US	1.28%
Leucadia National Corp	LUK US	1.47%
Millenium and Copthorne Hotels	MCK	1.72%
CNP	NAT BB	1.74%
National Can Industries Ltd	NCI AU	1.50%
Northland Port Corp	NTH	1.60%
Pargesa Holding SA	PARG SW	1.67%
Penn West Energy Trust	PWE US	1.33%
Royal Dutch Shell	RDSA LN	1.60%
Repsol YPF SA	REP US	1.30%
Shaftesbury Plc	SHB LN	1.44%
Shaftesbury Plc - Rights	SHBNP LN	0.31%
Swiss Helvetia Fund	SWZ US	1.69%
Turners & Growers Ltd	TUR	1.81%
Vealls Ltd	VELCP AU	1.10%
Wesco Financial Corp	WSC US	1.48%
JG Boswell Company	BWEL US	1.24%
LAACO Ltd	LAACZ US	1.16%
New Zealand Rural Property Trust	NZRPT	1.30%
Skyline Enterprises	SLE	1.62%

Portfolio - Price: Book = 0.6369

Portfolio - Dividend Yield = 4.62%

(Elevation Capital & Bloomberg estimates as at 8 July 2009)

The Fund's largest investment by sector is in Investment Holding Companies (14.51% of the Portfolio):

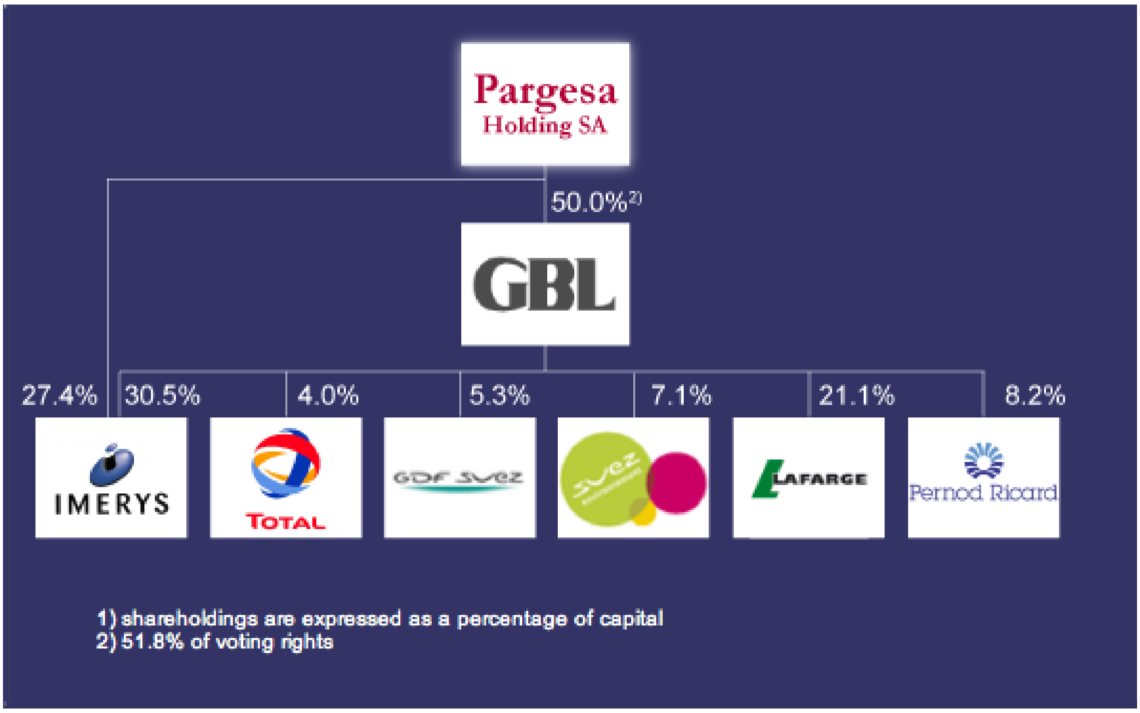
This is quite simply because of the discount on a Sum-of-the-Parts (SOTP) basis, strong cash positions to take advantage of the current environment, historical track records of the management teams and alignment of interest with major shareholders – all of these points (and more) were mentioned in detail in our 1st Quarter 2009 Report.

Leucadia National Corporation is a US holding company run by Ian Cumming and Joe Steinberg. Leucadia has interests which span: mining, energy, financial services, gaming, medical products, plastics, telecommunications, wineries, and timber. The management of Leucadia have successfully compounded shareholder capital at ~18% per annum since they took control in 1978. The senior executives of Leucadia are often compared to or mentioned in the same context as Warren Buffett. In fact, in the early 2000's Leucadia and Berkshire formed "Berkadia LLC" to purchase the assets of a bankrupt firm – The Finova Group Inc. Cumming and Steinberg are renowned value investors and have a history of securing favourable terms for Leucadia and its shareholders in very inventive ways. For example, at the time of their financial investment in Fortescue Metals in Australia in 2007, in lieu of a fixed or floating interest rate coupon on a US$ 100mln 13 year subordinated note, they were able to secure a coupon / royalty equal to 4% of revenues (net of government royalties) over the term of the note. The net present value of Leucadia's entire coupon / royalty is US$ 509mln. The coupon is estimated at US$ 61mln in FY09 and US$ 80mln in FY10 ***. Liquidation may also enable Leucadia to utilize significant tax assets for the benefit of all shareholders. Historically, Leucadia has traded at a significant premium to Book Value which would have precluded the Fund from holding the stock, but in the first quarter of 2009 after the company reported significant mark-to-market losses on its publicly listed investments, we were provided with the opportunity to purchase the stock at what we believe to be extremely attractive levels.

Investor AB is a Nordic industrial holding company founded in 1916 and spun out of Stockholm's Enskilda Bank - SEB (controlled by the Wallenberg family since 1856) in the early 1970's. Investor AB has a strong track record of taking substantial stakes in Scandinavian / European based companies. Investor AB currently holds key stakes in SEB (Banking), Ericsson (Telecoms), ABB & Atlas Copco (Industrial), SAAB (Defence), Electrolux & Husqvarna and Astra Zeneca (Pharmaceuticals). Investor has no net debt and is trading at a significant discount to its readily ascertainable Net Asset Value. The management have a strong track record of value creation and may look to re-purchase shares should the discount persist / remain at excessive levels over time. Once again, the Wallenberg Family and Foundation are heavily invested alongside ourselves controlling 22.8% of the issued capital.

Pargesa Holding SA is a Swiss based holding company controlled by the Frere and Desmarais families via a combined 54.1% stake in the Company. Baron Albert Frere, the patriarch of the Frere family, is the wealthiest man in Belgium and a self made billionaire. His business career started at the age of 17 when he took over the reins of the family's scrap metal and nail business on the death of his father. He built this business up and started investing in Belgian steel factories until he practically controlled the steel industry in the region. He then sold his steel empire to the Belgian state and used the proceeds to build Compagnie Nationale a Portefeuille (CNP) which is his top level holding company and through it Pargesa, along with his business partner Paul Desmarais Sr. (*Note: the Value Fund also has an investment in CNP.*) Paul Desmarais Sr is one of the wealthiest men in Canada and started his career at a Montreal accounting firm then taking the reins of his family's bus service, Sudbury Bus Lines in 1951. He then proceeded to take over other regional bus companies and grew the business before diversifying by taking over Trans-Canada Corporation Fund and Power Corporation of Canada. Over time both men have proven to be astute allocators of capital who have created significant amounts of wealth for themselves and shareholders by buying and selling businesses.

Pargesa currently holds key stakes in following European companies (as at 31 December 2008):



(Source: www.pargesa.com)

In the case of Pargesa (and CNP) we have been able to purchase our holdings at attractive discounts to readily ascertainable Net Asset Values. These valuations attribute nil value to the control positions that both companies hold in a number of significant enterprises, nor place any value on the ability of management to continue to add additional value through mergers or acquisitions or collapsing one or more of the current holding company structures.

LAACO Limited is a California limited partnership formed in December 1986. The partnership's principal business activities include the acquisition, development and ownership of self storage facilities. As at 31 December 2008, the partnership had direct and indirect equity interests in 43 self storage facilities under the "Storage West" registered trade name in Southern California, Arizona and Nevada. Four additional self storage facilities are in various stages of development.

In addition, the Partnership has interests in other real estate. The Partnership also owns land and buildings that are leased to two wholly owned subsidiaries of the partnership – The Los Angeles Athletic Club (a membership club consisting of sports facilities, food and beverage operations and a 72 room hotel) and the California Yacht Club (a membership club consisting of sports facilities, food and beverage operations and a 350-slip marina.) *[Note: the California Yacht Club is only a lease and it expires in 2022 – the county rent is 25% of revenues.]* The Partnership also has interests in three parking facilities located adjacent to, or near, the Los Angeles Athletic Club (LAAC) Building.

The Company dates back to the 1880's with the formation of the Los Angeles Athletic Club. The Company incorporated in 1905 as the Los Angeles Athletic Club. At the time it was revolutionary, because it was the only club not equity owned by its members. It was built on club memberships which they used to buy real estate and they then developed new clubs – (e.g. The Riviera Country Club.) *[LAACO sold the Riviera Country Club at the top of the market in the 1980's to the Japanese and then declared a dividend that was larger than the stock price preceding the sale!]* The Company was club focused until the 1960's then they began to look at other investments as they wanted to diversify geographically. They diversified for 15 – 20 years – farming in Sacremento, mining interests, shopping centres – but it was the storage business that stuck. They bought their first storage facilities in Las Vegas in 1978. In the 1980's they focused on Orange County because it was a growing community so it worked very well for storage.

We have been able to purchase our stake in LAACO at a significant discount to what larger listed peer companies trade at in the US and we have wonderful partners in the Hathaway family who are the controlling shareholders in LAACO and who have been involved with the company since its founding.

Oil & Gas exposures (7.08% of the Portfolio):

As mentioned earlier, investors need to consider the unintended consequences of government / monetary authority intervention / stimulus over the past 12 months. While the topic of inflationists vs. deflationists is now appearing almost daily in international newspapers and business channels we have sought out investments that we believe offer long-term value, growth prospects and inflation protection within the oil and gas sector. In all cases we believe we have received the future growth options embedded in the companies for "free" and we have purchased at a discount to the proven oil and gas reserves.

You will notice many familiar names within our oil and gas exposures in the portfolio – **ConocoPhillips, Repsol** and **Royal Dutch Shell** are but three investments we currently have within the sector. These are household names across the globe and are truly diversified integrated producers. It is our belief that the large capitalization integrated oil and gas producers are amongst the cheapest in the sector globally. These stocks to us seem priced to fail in their exploration activities, factor in terminal declines in production, and falling returns to shareholders in the years ahead. This is a far too pessimistic outlook as it is reasonable to expect that the global economy will return to growth at some point and in turn supply constraints which drove the oil price to well over US$ 100 per barrel in 2008 will again return to the forefront of the oil markets pricing assumptions.
Additionally, we do not believe that over the long term the prevailing situation where it is cheaper to buy a litre of a scarce and non-renewable resource like petrol than it is to buy a litre of milk can continue indefinitely.

Closing:

We do not run complicated models, which rely in large parts on specific predictions about the future to value stocks. We use a simple / common sense approach to see how cheap a company / business currently is relative to its potential liquidation value and / or whether we feel it has assets that will be likely to grow in value over the long term. We look to purchase these businesses at a discount to reasonable assumptions of value and seek to obtain a significant portion of the operating business for free in many cases – this provides our "Margin of Safety".

Many potential investors / fiduciaries ask us with great regularity how we can invest globally from New Zealand? Some seem to think it is impossible and others wonder if we have a "magic formula". Both parties are in fact wrong. As Louis Pasteur said, *"Luck favours the prepared mind".*

For investors like ourselves, we can only uncover stocks by reading extensively, studying those who have excelled over years, dissecting our own failures, discussing new ideas with those that we can trust, and investing in themes / sectors which we understand and have invested in successfully in the past - but most importantly we invest alongside our clients in our Funds.

Thank you for your support and continued interest.

Yours sincerely,

Christopher Swasbrook
Managing Director
Elevation Capital Management Limited

** The Times – 25 April 2009 – More than four million Spanish people are out of work. According to the country's National Statistics Institute a record high figure of 17.4 per cent were unemployed in the first quarter of the year. Unemployment leapt from 13.9 per cent in the fourth quarter of 2008, the biggest quarterly jump since 1976. Joblessness in Spain has almost doubled in a year. The Bank of Spain had previously forecast that unemployment would not surpass 17.1 per cent for the year. Alarmingly, 1,068,400 families have every member out of work.*

*** Mr. Paul Silk at Medley Global Advisors provided material for the NZ economic commentary.*

**** ABN Amro Morgans - Fortescue Metals Group report dated 2 June 2009*

Risk Disclosure Statement:

The information contained in this report has been prepared solely for informational purposes. It is not an offer to buy or sell or a solicitation of an offer to buy or sell units in the Elevation Capital Value Fund or to participate in any trading strategy. If any offer of units in the Elevation Capital Value Fund is made, it shall be pursuant to a definitive Investment Statement and Prospectus prepared by or on behalf of the Elevation Capital Value Fund which will supersede this information in its entirety.

Any decision to invest in the Elevation Capital Value Fund should be made only after reviewing the definitive Investment Statement and Prospectus (available at **www.elevationcapital.co.nz** or by contacting Elevation Capital Management Limited, PO Box 911145, Victoria Street West, Auckland 1142, New Zealand), conducting such investigations as the investor deems necessary and consulting the investor's own investment, legal and tax advisors in order to make an independent determination of the suitability and consequences of an investment in the Fund.

All performance data, portfolio composition data and risk targets contained in this report are subject to revision by the Manager and are provided solely as a guide to current expectations. There can be no assurance that the Fund will achieve any targets or that there will be any return on or of capital.

Historical returns are not predictive of future results.

International investments involve special risks, including currency fluctuations, lower liquidity, different accounting methods, economic and political systems. These risks are typically greater in emerging markets. The Fund may invest a significant portion of its assets in the stocks of small and medium-sized companies, which tend to be more volatile and less liquid than those of large companies, may have underperformed the stocks of larger companies during some periods and tend to have a shorter history of operations than larger companies.

Value stocks may underperform other asset types during a given period.