ELEVATION CAPITAL® VALUE FUND

3RD QUARTER 2009 REPORT

"Independent Thinking - Disciplined Investing"

www.elevationcapital.co.nz

7 November, 2009

Dear Fellow Investors,

The Elevation Capital Value Fund delivered a net return of +4.47% for the Third Quarter 2009 versus the +1.94% of its benchmark [NZ CPI + 5.00%].

The third quarter was characterised by low portfolio turnover and the strong New Zealand Dollar continuing to be drag on performance. There were only three new additions to portfolio. This is despite screening over 1,000 stocks and then individually reviewing several hundred. Finding undervalued stocks takes a large amount of time but we have on hand a list of stocks that may qualify for investment at some point in the future. As we have in past months, we continued to add to certain existing positions on an opportunistic basis to take advantage of short term price weakness. At the end of September, our Cash holdings totalled 44.60% of the portfolio. This is the result of (i) new inflows and (ii) our investment philosophy to put "asset quality", "value" and "margin of safety" ahead of chasing short term performance or the desire to quickly invest cash because it is "burning a hole in our pocket".

More recently there have been a number of Initial Public Offerings - "IPO's" - and one can expect this trend to continue well into the New Year, Elevation Capital has not participated to date for three key reasons:

(i) The multiples at which some of the companies are being offered are at a significant premium to listed companies within the same sector that we could readily acquire on-market;

(ii) Investors are being asked to purchase significant intangible assets – something we are not comfortable doing unless there are also sizeable tangible assets to afford us an appropriate "margin of safety";

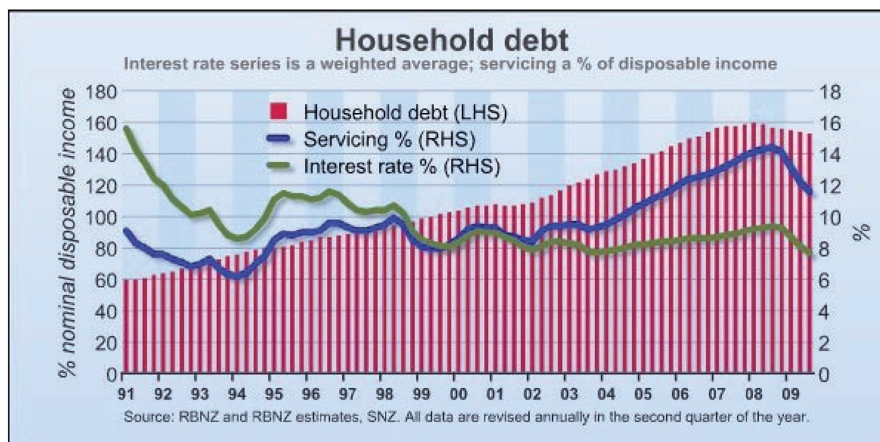
(iii) A large percentage of the IPO proceeds are being used to repay debt held by the banks and cash out the vendors not strengthen the Company.

For the Elevation Capital Value Fund we would much rather be a "receiver" of premium via a merger/takeover or other catalytic event than "pay" premium to vendors in an IPO.

Comments on Current Economic State:

Much attention remains centred domestically on the New Zealand dollar and its rapid appreciation relative to New Zealand's economic fundamentals.

While I have little doubt that New Zealand's best years lie ahead if we begin to execute on a long term plan now, I personally remain concerned that international investors and the majority of our citizens have little understanding of our actual level of our indebtedness and that we have very different resource endowments relative to Australia. The chart below clearly highlights the growth in New Zealanders' debt levels relative to disposable income.



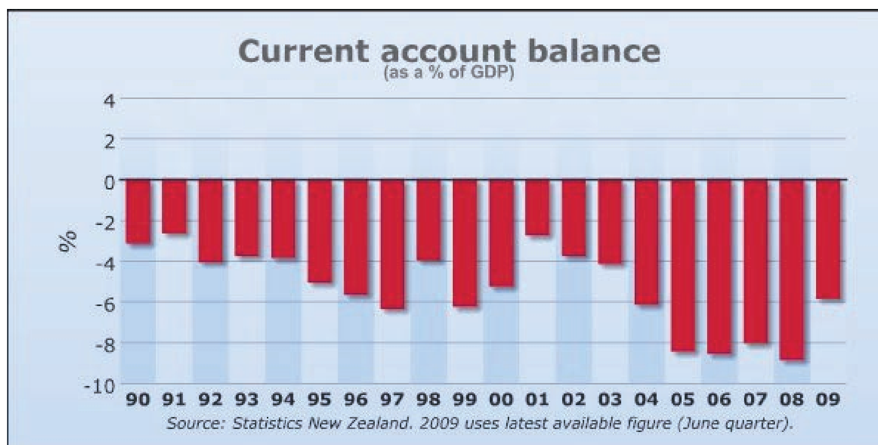
Source: RBNZ

The Treasury has done an admirable job in recent reports of trying to highlight the increasing burden facing the Government with regard to New Zealand superannuation and healthcare/education costs. Prime Minister John Key has made it clear that he is unwilling to adjust national superannuation entitlements during his tenure, therefore he must look elsewhere to put the economy on a long term growth path / savings path that will enable us to compete with our nearest neighbour which is clearly going from strength to strength.

Please note: I am not a supporter of Australia – **I am a very proud New Zealander** – but the facts about our nearest neighbour and competitor are quite daunting:

- Australia did not experience a recession in the technical sense;
- The RBA is now removing stimulus from the economy as the Australian Treasury is now talking about a "period of unprecedented growth";
- Consumer and Business confidence are very strong;
- Ships are queued up at ports waiting to load up on commodities bound for China;
- China is now set to become the largest economy in the world in "just 18 years" – this will continue to drive the Australian economy for the next several decades;
- The North West Shelf of Australia has over 250TCF of recoverable gas reserves. If we assume an A$ 8.00 gas price and monetisation over 25 years the Australian Government will receive A$ 30 – 40bln in tax receipts per annum.
- To put China in perspective over the last 8 years alone – China's GDP has been the same as creating (in 2001 GDP terms) 7 new India's, nearly 3 Italy's, more than 2 France's and even close to 1/3 of the US economy. If this does not convince you that Australia is in a very strong position - I do not know what will. *Source: GSJBW*

Given the growth profile of Australia, and the effect this will have on employment growth, income growth and the fiscal position of the Australian Government - it is my view that New Zealand needs to begin to make some hard decisions with regard to our economic future. It is simply not fiscally sustainable that the country runs a current account deficit of ~8% of GDP indefinitely into the future when GDP growth is struggling to break through 2% - 3% per annum.



Source: RBNZ

(Note: 2009 shows an improvement because of the Australian bank tax rulings which should be classed as a one-off, if indeed they survive appeal.)

We need to build a greater savings base onshore and divert investment flows away from a property sector which for both rural and residential properties seems valued well beyond any normal metrics of valuation and earnings yield, to more productive endeavours / resource projects.

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Such issues to consider here are:

- Should we make KiwiSaver compulsory? Such a move may also assist the RBNZ in slowing consumption (*i.e. lifting contributions from 4% to 5% or higher*) in the years ahead rather than just pulling the interest rate lever which also has the effect of driving the currency higher on our exporters.
- Should we divert resource royalties we receive to the New Zealand Superannuation Fund, KiwiSaver, or other? This would enable us to invest for the future versus consumption in the present - *see Norway vs. the United Kingdom and the North Sea royalties as an example here.*

Mr Key has been in office one year now, he has steered the economy through the global recession and there now seems to be light at the end of this tunnel. In my opinion, the hard long term decisions need to put on the agenda now – shirking what I consider to be this Government's core responsibilities will only consign New Zealand to economic irrelevance and ultimate and somewhat inevitable "ransom" of international lenders if the status quo prevails.

NZX sub-listing committee and my views on improving governance:

Currently, I am a member of the NZX sub-listing committee. The primary role of this committee is to review prospectuses and provide comments back to the NZX on what we believe investors need to see to make an informed decision as to a prospective offering and to ensure that the issuer is making the necessary disclosures in the document. I consider this an important role both as a fiduciary of investor capital (as it is a necessary part of the occupation) but also a capital market participant and a believer in improving the quality of information disclosed to investors.

I have been dismayed recently to see that it seems those who have been on the board of finance companies which have seen investors suffer "permanent capital loss" feel that they can omit such important details from their CV. *I personally question why a company that was seeking outside investor capital would want a director that had any (present or former) association with finance companies given in a large majority of cases they were nothing more than Ponzi schemes but I guess it reflects on what one can only describe as a dire lack of talent*. If we are ever to improve confidence in our capital markets and in turn participation in the equity markets a line in the sand must be drawn.

It is my view and I have conveyed this to the NZX - *"that any director association with a finance company / fund failure that saw investors suffer permanent capital losses while they were a director of the entity should mean that those directors are not eligible for NZX listed company directorships."*

While this stance might seem harsh to some (and outside the powers of the NZX as they operate a disclosure regime), now is the time to re-build confidence in our capital markets.

There is a desperate need to reinvigorate a large percentage of our board rooms in my opinion especially (but not exclusively) in the small and mid capitalisation segment of the market. Simon Botherway is a welcome addition recently to several larger board rooms – the problem is we need several more of his ilk. We need people that understand the board room is not just a place where you turn up 10 – 12 times a year and collect a fee in the process - directors are actually a steward of investor capital. For example, several of Elevation Capital's investments currently need directors that do not consider their personal convenience before assessing the mergers or industry consolidation that is so necessary but may well see them out of a job. These directors need to remember their fiduciary obligation is not too themselves but to the Company and its multiple constituencies.

Unless we begin to acknowledge and address such issues, New Zealand will continue to struggle for international investor attention and in growing meaningful companies to provide investors with attractive long term investment opportunities and alternatives relative to property.

Elevation Capital Value Fund Portfolio – 30 September 2009:

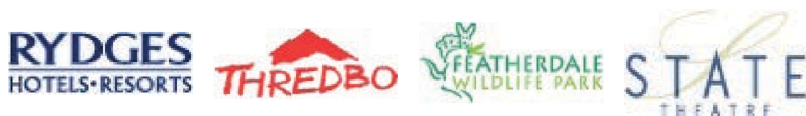
Company:	Code/Market:	% of Portfolio:
Australian Agriculture Co	AAC AU	1.93%
Guinness Peat Group Plc	GPG	1.90%
Guoco Leisure Ltd	GLL	1.89%
Millenium and Copthorne Hotels	MCK	1.87%
Aruze Corp	6425 JP	1.86%
Vealls Ltd	VELCP AU	1.83%
Colonial Motor Company Ltd	CMO	1.77%
ConocoPhillips	COP US	1.70%
Turners & Growers Ltd	TUR	1.68%
CDL Investments NZ Ltd	CDI	1.68%
CNP	NAT BB	1.64%
Pargesa Holding SA	PARG SW	1.63%
Wharf Holdings Ltd	4 HK	1.60%
Japan Petroleum Exploration Co	1662 JP	1.54%
K-Swiss Inc	KSWS US	1.52%
Northland Port Corporation	NTH	1.51%
Kirkcaldie & Stains Ltd	KRK	1.51%
Shaftesbury Plc	SHB LN	1.51%
Schweizerisch Nationalbank	SNBN SW	1.50%
Royal Dutch Shell	RDSA LN	1.46%
JG Boswell Company	BWEL US	1.45%
Thwaites (Daniel) PLC	THW PZ	1.44%
Skyline Enterprises	SLE	1.36%
Swiss Helvetia Fund	SWZ US	1.36%
Gaumont SA	GAM FP	1.34%
Wesco Financial Corp	WSC US	1.33%
Ariadne Australia Ltd	ARA AU	1.28%
National Can Industries Ltd	NCI AU	1.28%
Alexander and Baldwin Inc	ALEX US	1.20%
Penn West Energy Trust	PWE US	1.19%
Societe des Bains de Mer	BAIN FP	1.19%
New Zealand Rural Property Trust	NZRPT	1.18%
Amalgamated Holdings Ltd	AHD AU	1.16%
LAACO Ltd	LAACZ US	1.14%
Leucadia National Corp	LUK US	1.12%
Repsol YPF SA	REP US	1.02%
Jardine Matheson Holdings Ltd	JM SP	0.81%
Investor AB	INVEA SS	0.80%
MMC Contrarian Limited	MMA AU	0.71%

Portfolio Commentary:

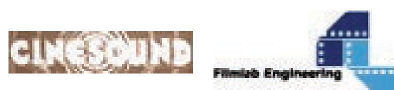
Amalgamated Holdings Limited [AHD] - is listed on the ASX and has operations which cover entertainment, hospitality & leisure and entertainment technology and property.

The Entertainment Division consists of three cinema brands: Greater Union, Birch Carroll & Coyle and Cinestar in Australia.

The Hospitality & Leisure Division brings together several well-known brands: Rydges Hotels & Resorts, Thredbo Alpine Village, Featherdale Wildlife Park and the State Theatre.



The Entertainment Technology Division comprises of Filmlab Engineering and Cinesound Movietone combining to form the backbone of one of the world's finest motion picture laboratories.



AHD has a wonderful collection of assets which we were able to purchase at a discount to Net Asset Value earlier in the year. At the time of completing this report AHD announced an A$ 107mln pro rata 1:5 equity raising at A$ 4.10 per share versus a last sale of A$ 5.97 – [Note: we purchased our investment in AHD below A$ 3.95 per share.] We highlight AHD's capital raising because it is an example in our view of how companies should raise capital and look after their current and long standing shareholders. Having been stockbrokers, we understand the motivations for accelerated placements and on occasion Elevation Capital and its investors has in the past and may well in future benefit from them but we feel strongly that they are disadvantageous to the small shareholders and also signify (in our opinion) a disconnect between the desire for a Board and its Management to secure capital quickly and most shareholders desire to avoid dilution or at least have the choice to avoid substantial dilution.

AHD has everything we seek in a long term investment – the Company is asset rich, it has a strong balance sheet even before the capital raising (but as mentioned above – it is seeking to take advantage of "weak sellers" of assets at present), it has strongly aligned management, the management team have historically been counter cyclical acquirers of assets, the Company has a history of profit growth (since 2005 net profit after tax (NPAT) has compounded at 11.1% and dividends have grown at 14.7% over the same period), and most importantly an understanding that current shareholders are important. The current offer is a 31% discount to the current share price – it implies a PE ratio of 8.6x based on FY09 earnings and a Dividend Yield of 7.8% should the Company continue to pay 32cps, which they have signalled they will. We intend to subscribe for our rights and if the opportunity permits to acquire additional shares in AHD.

MMC Contrarian Limited [MMA] - is listed on the ASX and was founded as a listed investment company in December 2003 to focus on value stocks. In early 2007, MMA internalised its management contract and then in 2008 proceeded to shift its business model under the guidance of Guinness Peat Group plc towards the investment advisory business which was deemed to offer more stable revenues. MMA has a market capitalisation of A$ 67mln and is therefore off the radar screen of most investors. This afforded Elevation Capital Value Fund the opportunity to begin building a position in MMA at ~A$ 0.411c per share. Unfortunately, the day after we began purchasing our stake Guinness Peat Group (GPG) made a takeover bid for the Company at A$ 0.48cps. Subsequently, GPG raised its offer price to A$ 0.50cps which is still a discount to the cash backing of A$ 0.566cps. GPG was not successful in their bid for the Company and we anticipate being able to opportunistically add to our position in due course.

Société des Bains de Mer [BAIN] - is listed on the Paris exchange (Euronext). Société des Bains de Mer et du Cercle des Étrangers à Monaco ("SBM"), trading under the 'Monte-Carlo SBM' brand, has been granted exclusive gaming rights to operate certain landmark assets in the Principality of Monaco.

The key SBM operational assets include:

- 5 casinos – the Monte-Carlo, Café de Paris, Sporting Monte-Carlo (Summer), Sun, and Monte-Carlo Bay casinos;
- 4 palaces and deluxe hotels – Hôtel de Paris (187 rooms incl. 75 suites and one presidential suite), Hôtel Hermitage (280 rooms incl. 52 suites and 8 VIP apartments), Monte-Carlo Bay Hotel & Resort (334 rooms incl. 21 suites), Monte-Carlo Beach Hotel (47 rooms incl. 6 suites);
- 3 spas - including Les Thermes Marins de Monte-Carlo.

The Hotels / Casinos / other buildings / real estate were last revalued in 1989/1990 – even with the current downturn in global property markets it is reasonable to assume the asset values are heavily understated.

To highlight the value of Monaco real estate SBM shareholders were asked to vote at the last AGM on the amendment of a long-term lease for "SCI Belle Epoque" land (owned by SBM) covering an area of 1485 m^2 for the construction of a new commercial building – the cost of extending the lease was €42,500 per m^2 or €63,112,500 payable in four installments (the last in March 2024) + an annual lease payment of €821 per m^2 (€1,219,185 per annum). To put this in perspective SBM holds land and buildings in its balance sheet at €81.86mln and €273.88mln respectively – we conservatively estimate the replacement cost is double these carrying values. It should also be pointed out it is not known exactly how much land SBM owns in the Principality.

SBM holds a "Concession Agreement" with the State that grants gaming rights until 31 March 2027. These rights were initially granted for a period of 50 years from 2 April 1863 and have been renewed several times. If not renewed / extended, SBM must hand over free of charge the Casino de Monte-Carlo (including its terraces and square) to the governmental concession granting authority and sell at market value (determined by independent valuers) the Café de Paris, Sporting Monte-Carlo, Hôtel de Paris, and Hôtel Hermitage to the Principality government.

The Principality of Monaco holds 69.5% of SBM and the House of Grimaldi has ruled Monaco since 1297 so there is limited chance of losing the concession. However, if this were to happen the estimated carrying value of the Casino (including its terraces and square) in 2027 is €4.6mln – which is not significant when compared to the rest of SBM's assets should such an event occur which would also more than likely be a catalyst for liquidation of SBM.

SBM also owns 1.8 million shares (1.5% interest) in Wynn Resorts (Nasdaq: WYNN) valued at ~US$ 27mln as at 31 March 2009 – Wynn Resorts owns two casinos, the Wynn Las Vegas and the Wynn Macau. The current market value of this stake is now ~US$ 80 mln versus a cost of nil as the Company astutely sold 1.2mln shares to realize +US$ 100mln over the last few years on an initial investment of US$ 45mln.

While clearly Monaco has not been immune to the global recession with both gaming revenues and hotel revenues down on pcp – SBM is clearly an asset rich company with a history of delivering consistent profits. Furthermore, it is reasonable to expect that as wealth continues to grow in Asia and the Middle East the "nouveau riche" from these regions will want to visit Europe, spend large amounts of money in places like Monaco, etc and also acquire trophy assets if possible. SBM is loaded with trophy assets – this theory is reinforced by both past and recent history. In the 1950's Aristotle Onassis (of "Jackie Kennedy / Shipping" fame) bought up a sizeable stake in SBM at which point he owned more than the Principality. Prince Ranier bought him out to lift the Principality's stake to where it is (roughly) today. More recently, in mid-2008 the Qatari Diar Real Estate Investment Company (a division of the Qatar Investment Authority – a Sovereign Wealth Fund) bid €72.50 for the 30.4% not owned by the Principality. Needless to say the Directors did not recommend the bid and even took out newspaper advertisements in the French press calling the bid price "insufficient". With the ensuing credit crisis Qatar walked away and this has afforded us the opportunity to acquire a stake in SBM for ~ €48.00 per share at a discount to both the recent bid price and conservative estimates of Net Asset Value. We certainly have not purchased a stake in SBM solely for potential takeover activity – we have purchased a fractional interest because the company is well financed, it is trading at a significant discount to our estimates of Net Asset Value, and importantly it has a long standing history of profitability and in turn paying dividends (with scope to increase returns to shareholders over time).

Vealls Limited [VELCP] - is an ASX listed holding company which owns Cardrona Skifield in New Zealand, forestry and farm assets in France & Australia and currently has net current assets [largely cash] of ~A$ 30.95mln or ~ 36.7% of Net Assets. More importantly, Cardrona is quite simply a "cash cow" as it caters to the beginner and intermediate levels of the skiing / snowboarding market. This segment typically has a high on-mountain spend which results in very attractive margins which more than compensate for the inherent weather risk associated with skifield operation – albeit Cardrona also has extensive snow-making facilities and water reservoirs to deal with "dry-year" risk as well. It should also be noted that Cardrona is at an elevation that results in seemingly reliable snow conditions which means that snow making is really only utilised early in the season which in turn results in significantly better margins relative to other operators at lower altitudes or higher latitudes. The Net Tangible Assets [NTA] of Vealls is A$ 9.34 – this compares to our acquisition cost of ~A$ 4.49 per share to date. Some might suggest that companies like this with family control will always be cheap and should be avoided. We take the opposite view and feel that the patient long term investor in asset rich companies with a history of compounding wealth at above average rates of return are exactly the investments we should be making on our investors behalf.

Closing:

Investing requires discipline and patience. It is very easy to get swept up in the momentum of the crowd – but unfortunately the crowd is nearly always the wrong place to be.

We continue to seek out investments that offer strong underlying asset values, a robust shareholder's equity position that is not bolstered by intangible assets and a history of dividend payments / capital returns which usually points to a sustainable franchise with a reliable moat.

We will not compromise theses values and therefore would much rather miss out on short term market gains versus making decisions that could result in permanent loss of your (and our) capital.

We would also like to reiterate that the Manager continues to bear the cost of the trustee, fund administrator and tax advisors as the Fund remains of a size that it is not fair to impose those costs on the investors. While we are comfortable with this arrangement at present we would welcome any referrals that our existing investors could provide should you feel we are worthy to enable us to achieve critical mass within this Fund.

We remain grateful for your on-going interest, support and confidence in us.

Yours sincerely,

Christopher Swasbrook
Managing Director
Elevation Capital Management Limited

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.