ELEVATION CAPITAL | VALUE FUND

FOURTH QUARTER 2009 REPORT
& JANUARY 2010 UPDATE

“Independent Thinking - Disciplined Investing”

7 February 2010

Dear Fellow Investors,

The Value Fund returned +0.90% (Net) for the Fourth Quarter of 2009, and +7.20% (Net) for the 2009 calendar year. From the lowest unit price, which was as at 31 March 2009, the Fund has returned +9.05% (Net).

January 2010 saw the Fund return +0.31% as our conservative positioning and the recent weakness in the New Zealand dollar assisted our performance.

The Fund now holds positions in 44 companies across 12 countries as at the end of January. This is an increase from 39 companies held at the end of the September Quarter. Industry and geographical breakdowns are detailed on page 4 of this report.

We have on hand a list of companies that are of interest to us – but we continue to wait for what we believe is an appropriate “margin of safety” before we undertake additional acquisitions.

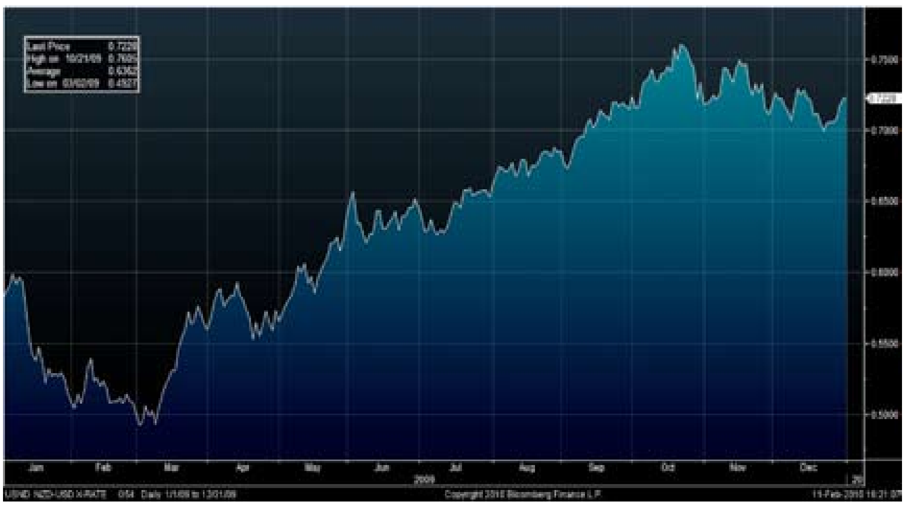
Our cash holdings as at the 31 December 2009 totalled 38.90%. We continue to view cash as a “strategic asset” for the following reasons:

(i) it provides us with the ability to capitalise on opportunities when they present themselves – this is nearly always during times of market duress when many others are recklessly selling with little regard to underlying value;

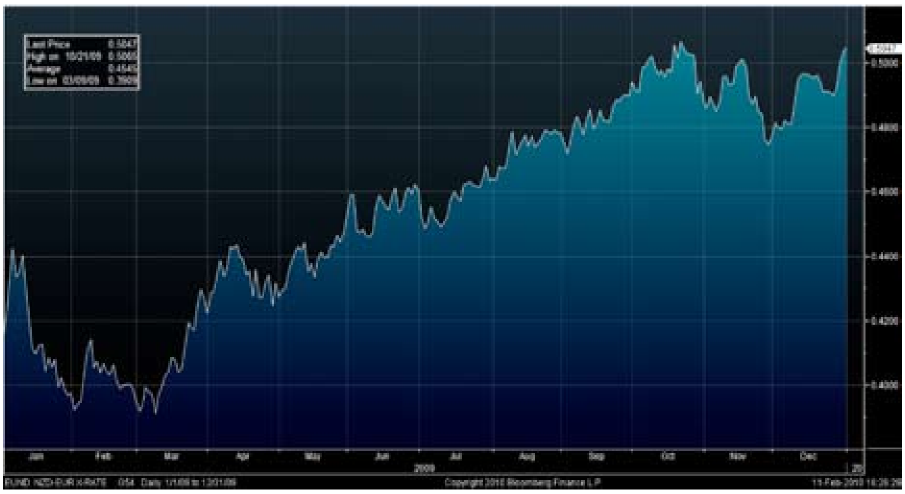
(ii) it allows us to better manage the temporary nature of our capital base.

It should be noted that as a result of these factors it is reasonable to expect the Value Fund to hold higher cash weightings than other Fund Managers over long periods of time. This should result in the unit price holding up better than the broader stock market indices during bouts of market weakness. We do not believe this will be at the expense of long term performance.

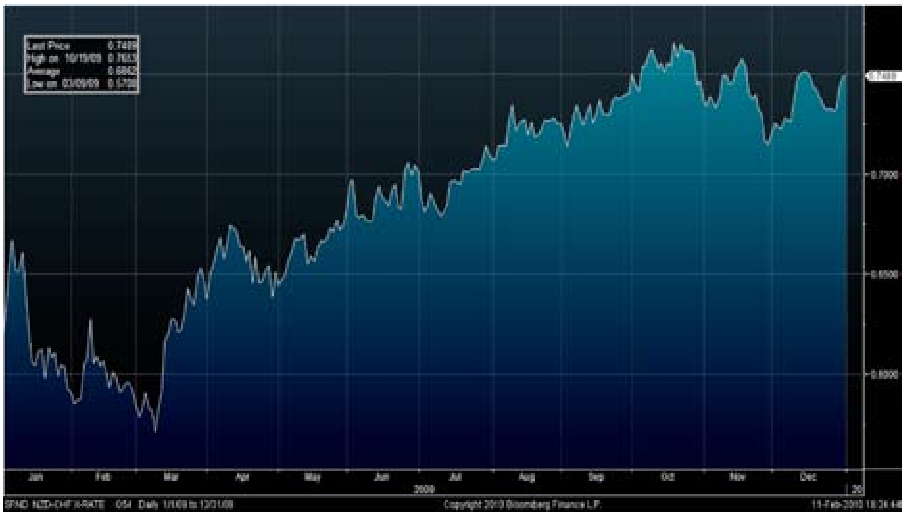
It is also important for investors to understand that the Fund remains un-hedged with regards to currency on all its offshore investments. So our performance was generated despite significant currency headwinds in 2009. Below are charts which illustrate the strength of the New Zealand Dollar from 1 January 2009 – 31 December 2009:



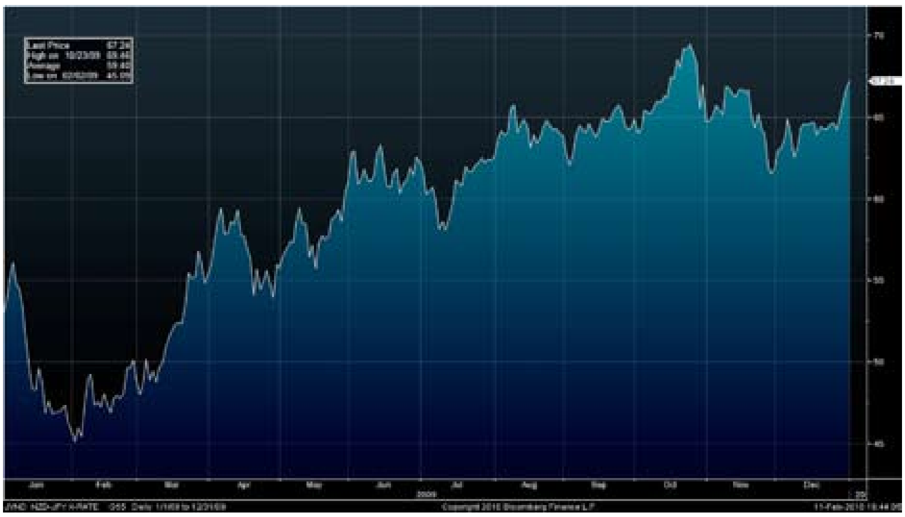
NZD – US Dollar



NZD - Euro



NZD – Swiss Franc



NZD – Japanese Yen

We have once again detailed the entire Value Fund portfolio for your review.

(This is also available as a downloadable PDF as at year end on our website).

We have also provided key portfolio metrics detailing the portfolio by market capitalisation, price-to-book ratios, average dividend yields, average debt-to-equity across the portfolio and median / weighted market capitalisation of the stocks we own.

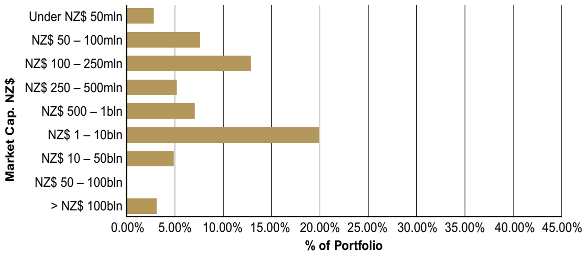
We hope that you find this information useful and it illustrates to you that we value transparency highly.

Elevation Capital Value Fund Portfolio – 31 December 2009

Company:	Code/Market:	% of Portfolio:
Boswell JG Co	BWEL US	2.27
Japan Petroleum Exploration	1662 JP	2.26
Guinness Peat Group Plc	GPG	2.23
Australian Agricultural Co	AAC AU	2.19
Guyenne ET Gascogne SA	GG FP	2.13
Vealls Limited - Capital Share	VELCP AU	2.09
Jardine Strategic Hldgs Ltd	JS SP	2.05
Societe des Bains de Mer	BAIN FP	2.00
San Juan Basin Royalty Tr	SJT US	1.84
Gaumont SA	GAM FP	1.83
Kirkcaldie and Stains Ltd	KRK	1.82
CNP - CIE Natl A Portefeuille	NAT BB	1.82
K-Swiss Inc - Cl A	KSWS US	1.81
Northland Port Corporation	NTH	1.78
ConocoPhillips	COP US	1.74
Laaco Ltd - Units of Ltd Prtns	LAACZ US	1.70
Millennium and Copthorne Hotels Ltd	MCK	1.65
Colonial Motor Company Ltd	CMO	1.62
Turners & Growers Ltd	TUR	1.62
National Can Industries Ltd	NCI AU	1.61
Maryborough Sugar Factory	MSF AU	1.53
Royal Dutch Shell Plc-A Shs	RDSA LN	1.52
Rural Equities Limited	REL	1.47
Guocoleisure Ltd	GLL	1.45
Thwaites (Daniel) PLC	THW PZ	1.36
MMC Contrarian Ltd	MMA AU	1.30
Shaftesbury Plc	SHB LN	1.29
CDL Investments New Zealand Ltd	CDI	1.28
Pargesa Holding SA-BR	PARG SW	1.28
Wesco Financial Corp	WSC US	1.27
Amalgamated Holdings Limited	AHD AU	1.27
Schweizerisch Nationalba - Reg	SNBN SW	1.25
Wharf Holdings Ltd	4 HK	1.20
Aruze Corp	6425 JP	1.12
Skyline Enterprises	SLE	1.11
Ariadne Australia Limited	ARA AU	1.02
Swiss Helvetia Fund	SWZ US	1.00
Penn West Energy Trust	PWE US	0.99
Alexander & Baldwin Inc	ALEX US	0.97
Leucadia National Corp	LUK US	0.81
Repsol YPF SA - Sponsored ADR	REP US	0.71
Jardine Matherson Holdings Ltd	JM SP	0.64
Investor AB-A Shs	INVEA SS	0.63
Oyster Bay Marlborough Vineyard	OBV	0.62

Key Portfolio Metrics - 31 December 2009

Portfolio by Market Capitalisation

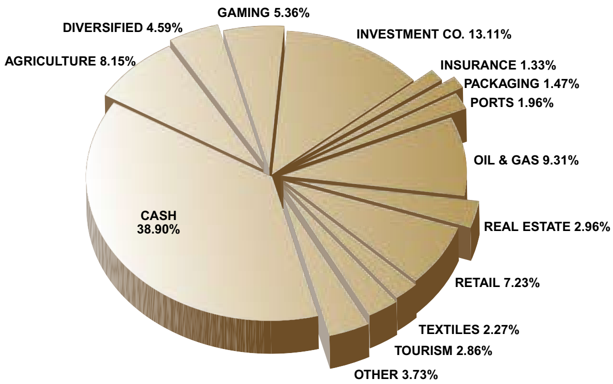


Portfolio Characteristics

Portfolio Turnover[1]	8.82%
Weighted Market Cap.[2]	NZ$ 1.097 bln
Median Market Cap.[2]	NZ$ 679.967 mln
Price-to-Book[2]	0.80x
Dividend Yield[2]	3.01%
Total Debt-to-Equity[2]	0.29x

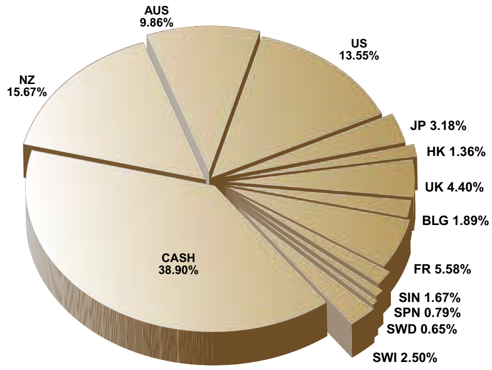
[1]Based on trading activity for the period 1 January 2009 – 31 December 2009
[2]Source: Thomson Portfolio Analytics; based on listed equities only – excludes all unlisted equity investments held by the fund & Schweizerische NationalBank in Switzerland.

Portfolio Composition - Industry



Total number of securities: 43

Portfolio Composition - Market



Total number of securities: 43

Where do we see new opportunities currently?

At the time of writing, the major global indices have weakened on the back of sovereign debt fears in Europe – specifically in, Greece, Portugal and Spain. We have no greater insights into the fiscal position of these countries than most and do not propose to pass comment other than to suggest as a result of many investors fleeing these markets the contrarian in us believes there may exist some interesting opportunities in the Spanish market (in particular) for those prepared to "dig deep" as a large number of listed companies have extensive operations in South America. We suspect that we may be able to purchase stakes in these businesses at significantly lower multiples than we would pay were we to directly invest in South America, especially given how "en vogue" it is to invest directly into emerging markets currently based on how many times one hears about "emerging markets" on CNBC, CNN, etc.

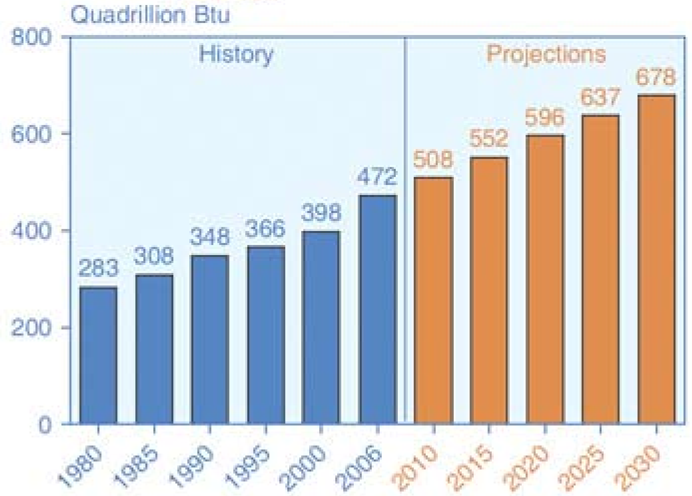
We currently have one holding directly in Spain - Repsol the global oil and gas company and indirectly in Spanish hypermarkets via French company Guyenne et Gascogne.

Additionally, the Oil and Gas sector is where we would definitely like to increase our exposure further as oil will continue to rebound in an economic recovery as demand rises in addition to providing a hedge against inflation.

We have a number of investments in the Oil and Gas sector which currently total 9.31% of the Fund. These include: Conoco Phillips, JAPEX, PennWest Energy Trust, Repsol, Royal Dutch Shell, San Juan Basin Royalty Trust, and a stake in Total via our investment in the Swiss holding company – Pargesa (which is the largest shareholder in Total).

According to the Energy Information Administration, the world's demand for energy has been increasing for decades and will continue to rise into the foreseeable future.

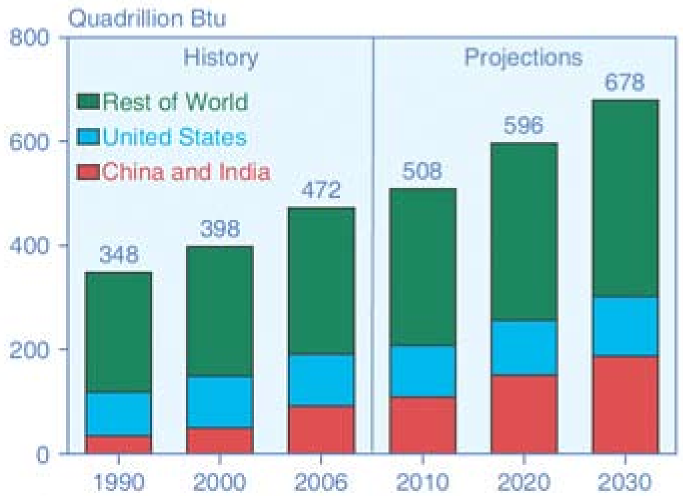
Figure 10. World Marketed Energy Consumption, 1980-2030



Sources: **History:** Energy Information Administration (EIA), *International Energy Annual 2006* (June-December 2008), web site www.eia.doe.gov/iea. **Projections:** EIA, World Energy Projections Plus (2009).

Given these numbers, it should come as no surprise that China and India will have huge energy demand into the future. Note the expansion on the red bar in the graph below:

Figure 12. Marketed Energy Use by Region, 1990-2030



Sources: **History:** Energy Information Administration (EIA), *International Energy Annual 2006* (June-December 2008), web site www.eia.doe.gov/iea. **Projections:** EIA, World Energy Projections Plus (2009).

According to the World Institute for the Analysis of Global Security: "From now to 2020, world oil consumption will rise by about 60%. Transportation will be the fastest growing oil-consuming sector. By 2025, the number of cars will increase to well over 1.25 billion from approximately 700 million today. Global consumption of gasoline could double."

(Chart Source: Wealth Daily)

As an example of how we think about the investments we make we would like to provide you with some additional information on JAPEX - Japan Petroleum Exploration Co., Limited. Based on our analysis, is the cheapest oil and gas company we currently own within the portfolio. The lion's share of JAPEX's producing assets are located in Japan. It is best described as an upstream oil and natural gas company engaged in Exploration and Production (E&P). The Company also has number of E&P projects outside Japan - namely:

Sakhalin 1

JAPEX holds a stake in Sakhalin1 via SODECO which holds 30% of Sakhalin. This is a very large oil and gas project off the coast of Russia. Shareholders of SODECO = METI 50%; JAPEX 14%; Itochu 18%; Marubeni 12%; and others 6%.

Oil Sands - Canada

JAPEX also has the right to develop over 1bln bbl of recoverable oil sand resources. Potential upside from these resources is significant at higher oil prices.

Other - Overseas

JAPEX recently acquired a 25% stake in the Indonesian Kangean project. It is also involved in trying to gain access to Iraqi and Libyan oil.

Japex is very cheap based on the key industry metric of Enterprise Value (EV) per Barrel of Reserves when adjusted for its equity holdings. JAPEX EV: bbl reserves = US$ 8.90 per bbl.

But the real attraction to JAPEX at present is - as at 31 March 2009, the Company owned 11.33% of the stock of INPEX Corporation the largest oil and gas company in Japan. (There has been no change in this holding over the course of 2009.) The JAPEX Group's balance of investment securities at the end of FY2009 was ¥241,945 million. Of this amount, shares of INPEX Corporation accounted for ¥182,520 million. Investment securities amount to 48.35% of JAPEX's total assets and roughly +90% of its market capitalization as at 31 December 2009. **Therefore, we are essentially getting all of JAPEX's E&P assets for free at current levels.**

It seems reasonable to us to expect some kind of consolidation between JAPEX and INPEX in time. It is also disclosed in JAPEX's 2009 Annual Report that INPEX took a 4.99% stake of JAPEX in 2009 which bodes well for the thesis of some kind of consolidation of the two entities.

The potential benefits of integration to both INPEX and JAPEX:

- INPEX buys back 11.3% of itself tax efficiently as it could become treasury stock and then cancelled in a tax efficient manner;
- Access to a large scale oil sands project in Canada;
- A domestic gas business that generates stable cashflow and has pricing upside;
- A gas distribution channel for imported LNG;
- Several E&P projects in areas not overlapping – e.g. Phillippines and Libya;

There is a precedent for a merger / share transfer with INPEX merging / taking over Teikoku Oil in 2008 in a stock swap. One of the big selling points for this merger was the limited overlap between the two companies – this is the same for JAPEX & INPEX.

Recap of 2008 / 2009 and what did we take away from it that is useful going forward?

In a little more than 12 months, we have moved from the possibility of another 1930's style depression to a global recovery. Over the same time equity markets (and financial markets broadly) went from near collapse to a seemingly robust recovery. Deflationary cries have now switched to inflationary fears as the US dollar weakened and gold hit an all time high.

There is little doubt that much has changed (and will change as a result of regulation) in the financial markets. However, there are now three key ingredients which affect the psyche of markets on a daily basis – "greed, fear and the speed at which information disseminates".

This cartoon from The New Yorker, 12 October 2009 best sums up the third factor in our view:

STOCKS TUMBLE AS MARKET REACTS TO MAN LOSING HIS HAT AT BROADWAY AND FORTY-SECOND STREET

In reflecting back not just on 2008 / 2009 period but over the entire decade, it is hard to believe that in the last ten years we witnessed the bursting of two bubbles, the worst single act of terrorism ever in the developed world, the demise of two global investment banks (Bear Stearns and Lehman Brothers) and the United States' shift from the largest creditor nation to the largest debtor nation.

These events make one realise that what once seemed inconceivable can happen over very short periods of time – it should also make one realise that spending a large amount of time trying to forecast the future is largely a waste of time. In our view, one's time is best spent focused on purchasing fractional interests in enterprise at discounted valuations or special situations / opportunities where there is a favourable balance in terms of risk and reward.

In Fourth Quarter 2008 and First Quarter 2009 the macro environment dominated and this overwhelmed bottom-up analysis of individual stocks. The ensuing global panic saw all asset classes correlate and companies that were well financed with solid franchises sold down with those that were weak and lacking in financial strength.

As Warren Buffett famously said in a 1979 Forbes article (also available on our website) – "You Pay a Very High Price in the Stockmarket for a Cheery Consensus".

As investors it is important to capitalise on periods like this as we did in the Value Fund. It is also important to have investors that understand our investment philosophy and strategies as avoiding "crowd behaviour" is one of the critical ingredients to long term investment success.

Therefore we would like to table the following for your consideration as investors (and for potential investors):

(i) The Importance of "Aligning Interests" – to obtain both proper Board and Executive behaviour (irrespective of a fund management company or a publicly listed corporation) it is critical to align directors and managements' interests with unitholders / shareholders. The bottom line is that owners make better decisions than hired hands. The directors and I remain significant investors in our Funds (I personally continue to contribute on a regular basis as does the Management Company). We do not believe we can send a clearer signal to our existing investors (or potential investors) that we consider alignment of interest one of the key ingredients to Elevation Capital's long term success or any Corporation's long term success. *(It is also my personal belief that directors of publicly listed companies should be paid in cash and use a fixed percentage of those proceeds to purchase shares in the open market and these shares should be retained for the director's tenure on the Board. It is my belief that such a requirement / standard would result in improved operating and capital allocation decisions that I believe has been sorely lacking from corporate board rooms not just in New Zealand but globally. This is a topic I will be raising with a number of our investee companies in 2010.)*

(ii) The Importance of Cash – Open-ended funds like the Value Fund always face the prospect of investor redemptions at inopportune times. We must always be prepared, and going forward as we raise new capital we plan to continue to hold cash as a "strategic asset" in the portfolio. This will potentially help us avoid having to be a forced seller at times where security prices are significantly depressed as they were in late 2008 / early 2009. More importantly, it will also allow us to take advantage of the "weakness of others" during times of duress in markets which seems to feature on a far more regular basis at present than in the past.

(iii) The Importance of Position Size vs. Liquidity – While one can have high conviction on an investment, when fund capital is not permanent (ie redemption rights exist despite break fees as a deterrent) position size becomes increasingly important, especially when invested in small capitalisation and potentially limited liquidity companies. Most investors (irrespective of experience or the amount invested) do not like unit price volatility. This coupled with a lack of liquidity during times of market duress means we must always be conscious of position sizes. This is why we have a 2.5% maximum position size within the Value Fund as part of our key investment restrictions to which the Manager <u>must</u> adhere.

(iv) The Importance of Understanding Risk – It is important investors understand our definition of risk. <u>We define risk as the likelihood of permanent capital loss.</u> To some risk may mean underperforming a broad market benchmark over short time periods; to others it may mean volatility in the unit price month-to-month; to some it is the fact we are invested in securities that are categorised as small capitalisation (as shown on page 4) and are not well covered by major broking houses and to others it is that our portfolio turnover within these positions is substantially lower than their own or others within the industry. **For us at Elevation Capital our only focus is that we don't lose money in the end - that is, we avoid permanent capital loss.**

(v) The Importance of the Right Investor – It is our job to ensure that investors understand our investment philosophy, understand our investments and do not invest too great a percentage of their portfolio with us. One of the most important distinctions with our Fund/s is that our investor base understands that a stock at 70% discount to intrinsic value can go to 60% of intrinsic value simply due to short term "noise" or on small volumes. They understand such movements do not reflect a permanent diminution in value and are generally useless measurements for prudent management of capital.

(vi) The Importance of History and Learning from Others – We must continue to read extensively and become a “learning machine”. There are two key factors here: (i) “history does not repeat it rhymes;[1]” and (ii) “we need to learn from the mistakes of others as we can’t live long enough to make them all ourselves.”[2] We have recently upgraded our website and added significantly more information on our Fund/s but also enlarged our recommended reading list for those that are also interested in this regard.

Closing Comments:

It is extremely difficult as an investor today in terms of finding a Fund Manager or Investment Advisor that you feel you can trust with your savings – especially with the negative headlines about lack of disclosure on where your money is invested and how returns have been generated, undisclosed commissions / fees and more recently (at an advisor level) disappearing monies.

We would like to assure our investors (and potential investors) that when you invest with Elevation Capital your money is held in a unit trust governed by The New Zealand Guardian Trust Company and the Unit Trusts Act 1960. The directors and myself invest into this unit trust and pay the same fees / expenses as other investors. We operate a transparent structure where we clearly disclose on a regular basis which companies the Fund owns a fractional interest in.

Most importantly our fees are clearly disclosed and we provide audited summary financials for our Fund/s on our website and annually to our investors.

We believe this model is the only way to manage capital for the long term and we believe it provides the transparency we would expect if our roles were reversed.

Thank you for your continued interest and support.

Yours sincerely,

Christopher Swasbrook
Managing Director
Elevation Capital Management Limited

1. Niall Fergusson
2. Eleanor Roosevelt

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.