ELEVATION CAPITAL VALUE FUND

FIRST QUARTER 2012 INVESTOR REPORT

3 May 2012

Key Performance Data	
Q1 2012 Net Return	+4.51%
CY 2012 Net Return	+4.51%
Return Since Inception	+14.69%
Funds Under Management	NZ$ 16.43 million
Unit Price	NZ$ 1.1359

Top 10 Holdings			
Security	**% of Portfolio**	**Security**	**% of Portfolio**
Vealls Limited	8.38%	Staples Inc.	1.95%
Satara Co-operative	3.37%	Colonial Motor Co.	1.86%
Guinness Peat Group	2.48%	Kirkcaldie & Stains	1.84%
Pargesa Holding	2.28%	Yahoo!	1.73%
Smith & Nephew	2.07%	Vivendi	1.70%

"A politician is somebody who decides to take the right step only after he has exhausted all other possibilities"

Charles de Montesquie (1689 - 1755)

If one focused solely on the global headlines during Q1 it would be hard to believe the rally that occurred in global markets. However, the politicians in April are now firmly back in the spotlight and anxieties have once again increased across the globe. The key question for investors is this anxiety misplaced?

When one reads the Wall Street Journal ("WSJ") they could be forgiven for holding their heads in the hands in despair. At the time of writing this letter, the US Senate has agreed to commit US$ 34bln to the US Postal Service while delaying reforms that would clearly save US taxpayers money. The US Postal Service is losing US$ 25mln per day as more communication shifts to electronic forms. The Postmaster General has acknowledged in the face of this, that next year the agency will not be able to pay its more than 500,000 employees and its debt will surpass US$ 92bln by 2016. In the face of this the management of the postal service have proposed a plan to close halve their mail processing centers, close some 3,000 post offices across the country, change overnight delivery terms, end Saturday delivery and renegotiate absurd no-layoff labour contracts to shrink its labour force faster.

You would think this would be music to the politician ears? Not a chance, the Senate has agreed to provide US$34bln to a "zombie business" because the Democrats do not want to take on the "Union" and the Republicans don't want local post offices closed on their watch! This is clearly just madness and is best summed up by the WSJ … *"If today's US Senate had been around a century ago, the Pony Express would still be delivering mail."*

The US political system from an outsider's perspective seems to be in desperate need of change / repair. Despite this clear negative however the US continues to afford investors a great many opportunities especially when one considers the favourable demographics which many other developed (and even China) do not have. While politics remains an unquantifiable risk, US companies continue to innovate, expand and offer attractive long-term investment potential based on reasonable appraisals of business net worth/s. However, one needs to be mindful of political environment and demand an increased margin of safety when investigating any potential investment.

We have been a little unfair in just picking on the US, we are actually huge fans of the capitalist model and the country as a whole, but as you can see from the extracts (above) politicians across the globe are garnering headlines and increasing investment risks for international investors. For many, this is simply resulting in a sell decision with little regard to the underlying asset value or the earnings streams of the business. We refer here to the fact that many people sell based solely on the domicile or sector the company operates in rather than on a look-through basis of the underlying assets or earnings streams. Due to this behavior we continue to find new and interesting investment ideas that we may or may not execute on in due course.

Elevation Capital Value Fund – Q1 2012 Commentary:

It was not an overly active quarter in terms of portfolio activity from a buy-side perspective (as you can see below), although we did continue to rationalise the portfolio in terms of smaller holdings and smaller cap stocks in favour of large caps, which continue to offer unusually attractive valuation metrics. This portfolio rationalisation has continued into the second quarter and at the time of writing the Fund now holds less than 85 stocks (versus 99 as at 31 March 2012).

The Funds maintains a healthy cash balance, which continues to afford us the ability to capitalise on opportunities as and when they present themselves.

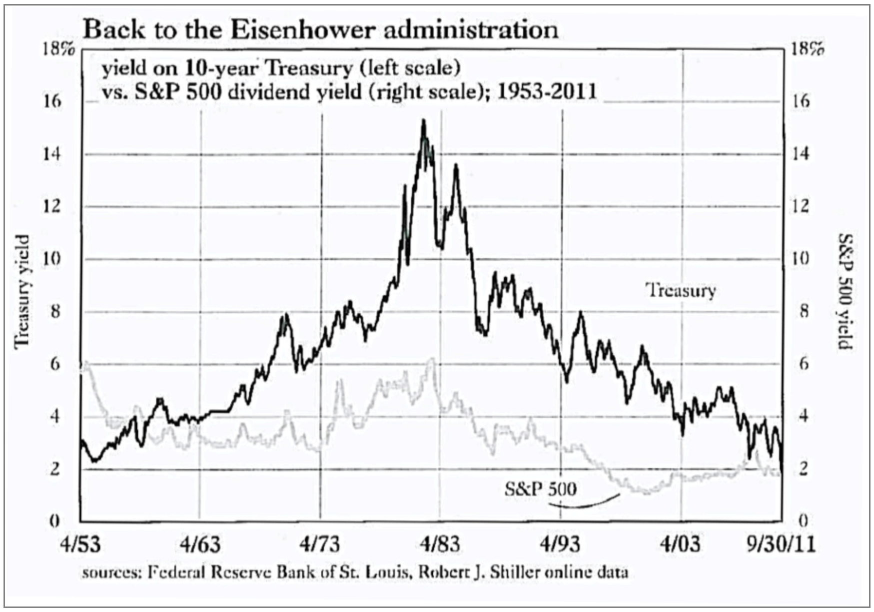
During the last quarter, we also undertook a marketing campaign to financial advisors across New Zealand in-conjunction with Harbour Asset Management Limited and Morningstar. Elevation Capital spoke specifically on global equities in the context of the current low interest rate environment we now find ourselves in. For the benefit of our investors (and any other readers) who were not present at these presentations we have provided a re-cap below which also clearly serves as a record of our thoughts / views and actions at this time.

As an investor at present one is faced with two choices:

(i) ***Lend money and in turn receive a coupon or interest rate for assuming that risk.*** Clearly, at present that is where most people are choosing to deploy funds, despite the fact that in most developed world countries the real return on those funds is actually negative when the effects of inflation are considered.

(ii) Purchase an equity interest in a business, which can not only grow its intrinsic value but also pay the investor an attractive (and growing) dividend.

The chart below highlights the yield on the S&P 500 versus the US 10-year Treasury. There have been very few times in history where the S&P500 has yielded more than the US 10-year Treasury and we are now here. In fact, as the chart below portrays one has to go back to the Eisenhower administration (in the1950's) to find a similar period.



Source: Grant's Interest Rate Observer.

It is not difficult at present to find businesses, which offer not only an attractive dividend yield but also a certain degree of earnings stability, a conservative capital structure and some (by no means stellar) growth prospects at low multiples. The example we highlight below is Molson Coors (a company we spoke about at the time of the Fund/s merger in September 2011). We principally refer here to the yield of Molson Coors at 3% and the US 10 year Treasury yield at less than 2% and ask the question: ***Beer versus Bonds?***

We know which one we will take …..

Molson Coors Dividend Yield

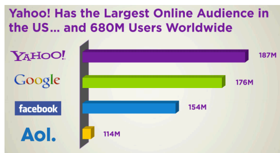
US 10yr Treasury Yield

In terms of stock specific discussion in the presentation, one stock we spoke about was Yahoo! and our appraisal of the business in a value of somewhere between US$ 20 – US$ 25 per share depending on the tax basis. *(Note: the other stock we spoke about was Staples Inc, which was discussed on our Q4 2011 Report).* With regard to Yahoo!, we highlighted that we felt there was compelling risk / reward metrics in the company given how poorly it has been managed in the past and the significant pressure and change that is being bought to bear on the Company now by other external investors which may well see value released for the benefit of all shareholders. We have included our slides below, which breakdown in summary format our principal investment hypothesis:

YAHOO!

Yahoo! Inc. (YHOO:US)

- Premier digital media company
- #1 site in the US
- It reaches half of the global internet population
- Home of twelve #1 properties in the US
- Growing audiences and market share
- Growing international exposure
- China/Japan investments

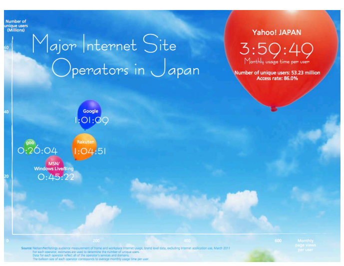


Yahoo! Inc.

- Yahoo! has a 40% stake in Alibaba Group
- Alibaba Group's estimated value is ~$30B
- The 40% stake is worth $9.36 per Yahoo! share (pre-tax)

Yahoo! Inc.

- Yahoo! has a 35% stake in Yahoo! JAPAN
- Yahoo! JAPAN has a $19.4B market cap (7/3/12)
- The 35% stake is worth $5.28 per Yahoo! share (pre-tax)



Yahoo! Inc. – Great SOTP!

Alibaba Group — Stake = $9.36 pre-tax per share

YAHOO! JAPAN — Stake = $5.28 pre-tax per share

Net cash = $1.60 per share

YAHOO! — Stock price = $14.56

This implies that the core Yahoo! business is valued at **NIL**!

Yahoo! Inc. - Catalysts

- Changes in Management
- Changes in Board
- Powerful Activist Investors on Register
- Incentivised Buyers
- Ongoing discussions with potential buyers
- Patent wars among technology firms
- Yahoo's Patent Suit Against Facebook

Yahoo! – Potential Acquirers

Microsoft — Bid $33 per share for Yahoo! In 2008

The Blackstone Group

SILVERLAKE

Alibaba Group

SoftBank

facebook

<u>During the quarter we undertook the following portfolio initiatives:</u>

<u>New Positions*:</u> Monster Worldwide, DELL, Tesco.

<u>Exited Positions:</u> Aeropostale (Profit), Ariake Japan (Profit), Clearview Wealth (Profit), Compagnie Bois Sauvage (Profit), Guyenne et Gascogne (Profit), Mercantile Investment Group (Profit), National Can Industries (Loss), Salvus Strategic (Profit), Swiss Helvetia (Profit), Turners & Growers (Profit).

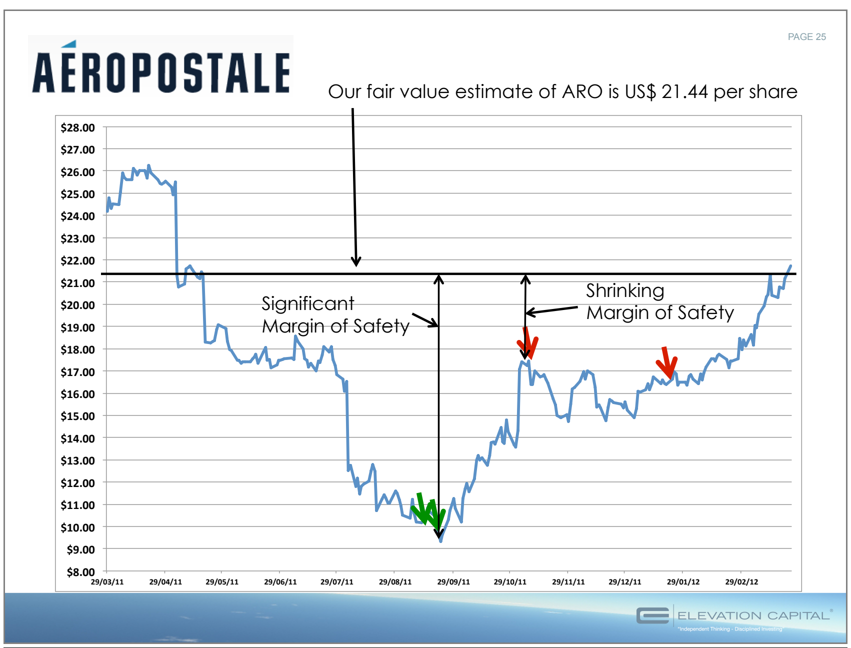
** Note: we have only disclosed positions above 0.25% here as some we may still be accumulating or we may have a small holding to attend Company meetings, etc, as we undertake more due diligence on our investment thesis.*

Its is worth highlighting two of the exits for two separate reasons:

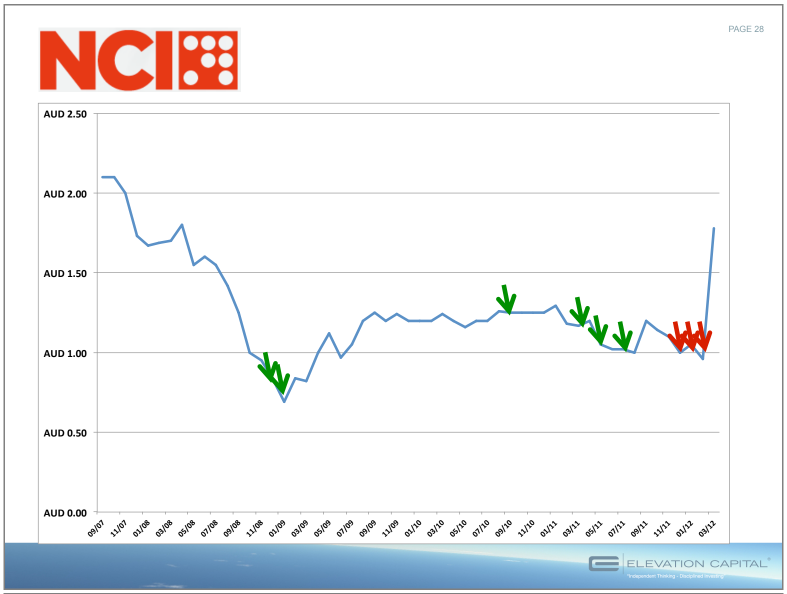
(i) **Aeropostale** – a US retailer which was under pressure from poor quarterly sales performances, but despite the short-term earnings, the Company maintained a conservative balance sheet (net cash) and was buying in stock aggressively. Once again, many others became despondent on the name and felt the Company would never turn itself around. The chart below highlights our entry and exit – while we can always better maximize either our entry or exits we believe this highlights that our ever-evolving investment process is allowing us to "fish in the right ponds".

This process is driven by quantitative factors (the numbers) not by emotions. We believe this approach is resulting in Elevation Capital building a sound investment framework to continue to be able to execute on such investment ideas despite our geographic domicile.

It is equally important to emphasise that it is not reasonable to expect every stock to deliver an IRR as attractive as Aeropostale's was for the Fund given the short holding period, nor should one expect us to be right 100% of the time. However, you should expect a "strike rate" well above average and that is what we are seeking to deliver you as investors. While at the same time minimising the downside risk as best we can when things do not work out as planned.



(ii) **National Can Industries** is an example of minimising the downside risk as mentioned above. Our actual loss on this investment was not significant. However our lost profits, due solely to a lack of patience was much greater. Roughly three days after we completed our exit – the bid came at an 84% premium. While we redeployed the capital into other attractive investments, this is a painful reminder that portfolio turnover is the enemy of the investor.



Closing Comments:

We trust we have provided you with some additional insights into the portfolio at present and our activities. There remains significant latent potential in a number of our longer-term holdings, (eg. Vealls - the Fund's largest holding). We are working actively to realise this potential for the Fund on a number of fronts.

New positions like Yahoo!, Monster Worldwide, DELL, Tesco and more recently within the natural gas sector, (which we will discuss next quarter), offer attractive returns potential over the next few years as well. The Fund maintains a healthy cash balance ~20%, and we remain unhedged on all our foreign holdings, which we also believe offers incremental return potential.

At the time of writing the author was en-route to Omaha, Nebraska for the Berkshire Hathaway Meeting and several other events in around this key event, followed by further company meetings in New York. This is both a research trip and development exercise. We will provide commentary from these events / meetings as and when possible.**

*** Note: The cost of these trips is born by the Manager – Elevation Capital Management Limited. No expenses for such trips are billed to the Funds.*

Once again, thank you for your continued interest and support.

Yours sincerely,

Elevation Capital Management Limited

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