ELEVATION CAPITAL | VALUE FUND

FOURTH QUARTER 2011 INVESTOR REPORT

15 February 2012

Key Performance Data	
Q4 2011 Net Return	+1.71%
CY 2011 Net Return	-5.22%
Return Since Inception	+9.74%
Funds Under Management	NZ$ 15.80 million
Unit Price	NZ$ 1.0974

Top 10 Holdings			
Security	**% of Portfolio**	**Security**	**% of Portfolio**
Vealls Limited	8.29%	Kirkcaldie & Stains	1.93%
Satara Co-operative	2.95%	Staples Inc.	1.83%
Pargesa Holding	2.29%	Colonial Motor Co.	1.64%
Smith & Nephew	2.16%	Encana Corp.	1.50%
Heartland NZ	1.98%	Cisco Systems Inc.	1.35%

"Those who cannot remember the past are condemned to repeat it"
George Santayana (1863 – 1952)

Our introduction this quarter is sourced from Grant's Interest Rate Observer – 27 January 2012 edition (pages 1-2). We feel this commentary provides a useful history lesson and supports our decision more than 18 months ago to spend a lot more time reading economic history but also to ensure that a core part of our research process involves a review of an individual company's history and its executives prior to investment.

A century ago, Congress convened hearings to expose the concentration of financial power among big New York City banks. Under questioning, one of the witnesses, George F. Baker, 72-year-old chairman of the eminently solvent and profitable First National Bank of New York, admitted that too many financial resources were probably controlled by too few private hands. However, he went on. "*In good hands, I do not see that it would do any harm. If it got into bad hands, it would be very bad.*" The interrogating lawyer Samuel Untemeyer, seized on that concession. "*If it got into bad hands,*" he asked hopefully, "*it could wreck the country?*"

"*Yes, but I do not believe it could get into bad hands,*" Baker replied. And presently he added, "*I do not think bad hands could manage it. They could not retain the deposits nor the securities.*"

This was in 1912, two years before the Federal Reserve opened for business, 21 years before the founding of the Federal Deposit Insurance Corp. and 70-odd years before the enunciation of the doctrine that some American banks were too big to fail.

If only many of the world's bankers, central bankers and politicians had revisited history and adopted an air of conservatism, we might find ourselves in a significantly less leveraged world. The unwinding of this leverage continues to afflict global markets and in turn investor sentiments. The process of deleveraging and socialising losses across countries / economic unions and their underlying citizenry is going to take time. As long-term value investors, we welcome such periods of uncertainty and negative headlines. The indiscriminate selling which is always a feature of such periods opens up opportunities for investors like ourselves to deploy (or redeploy) capital at attractive rates of return based on conservative appraisals of intrinsic value.

Elevation Capital Value Fund - Q4 2011 Commentary:

During the quarter we continued to divest/rebalance holdings in New Zealand and Australia for more attractive value (as well as growth) opportunities, particularly in the offshore markets.

We are now invested in a variety of industries, notably energy, diversified financials, consumer services, beverage, tobacco, food and staples retailing. This is a function of our bottom up approach, as we are agnostic to sectors as well as geographies. We are invested in companies of all sizes, the Fund's weighted average market cap is now

+NZ$ 2.0bln and this would place a large percentage of our portfolio of companies in the NZX Top 10 Index. This is reflective of the fact that global businesses are "on sale" as most investors continue to shun equity market investments. On average the fund's holdings have a Price-to-Book ratio of 0.68x and have a dividend yield of +3.00%. On a go forward basis, we expect both the earnings and dividends of our underlying holdings to increase at a higher rate than New Zealand's GDP. It is reasonable to expect this will be positive for the Value Fund and its future distribution outlook taking into account currency movements.

We continue to forecast a distribution of at least NZ$ 0.01cpu for 31 March 2012 for all investors in the Value Fund.

It is also important to highlight that we remain 100% un-hedged on all our underlying investments. Given the appreciation of New Zealand dollar over the last few years this has acted as a headwind to our underlying returns. We continue to view that an un-hedged strategy is sound at this point in time, and believe it is still an attractive time to invest in undervalued, high quality global equities in the US, UK and Europe on this basis.

During the quarter we undertook the following portfolio initiatives:

New Positions: CBOE Holdings (0.26%), Cheung Kong Holdings (0.48%), NYSE Euronext (0.53%), Yahoo! (0.33%), Vivendi (0.85%), Japan Tobacco (0.76%), Petrobras (1.01%), Anglo American (0.60%), Fletcher Building (1.00%), Staples (1.83%), Vodafone (0.23%), Smith & Nephew (2.16%), Leucadia National (1.01%), Transocean (1.01%), Wharf Holdings (0.18%), Hong Kong Land (0.18%), TradeMe (1.00%), Canadian Natural Resources (0.30%), Freeport McMoran (0.03%).

Exited Positions: Descente (Profit), Australian Agriculture (Loss), CDL Investments (Profit), Consolidated Media (Profit), Rural Equities (Profit), Viterra (Profit), Distribuidora Internacional de Alimentación, S.A (Profit), Jardine Strategic (Profit), Shaftesbury (Profit), Tishman Speyer Office (Profit), Amalgamated Holdings (Profit), Investor AB (Profit), Maryborough Sugar (Profit), Syms Corp (Profit), TradeMe (Profit).

Summary of some of our most recent purchases:

Vivendi – accounts for 0.85% of the portfolio as at 31 December 2011. Vivendi is a French telecommunications and media conglomerate which trades at a +40% discount to reasonable sum-of-the-parts estimates. Vivendi owns or has stakes in the following businesses: SFR the second largest wireless operator in France with 21.2mln subscribers, Canal+ which serves 12.6mln pay television customers, Maroc Telecom (including other African subsidiaries) which serves 25.7mln wireless customers. Other assets include: 13mln fixed line and broadband customers worldwide, Universal Music and a 60% shareholding in US listed gaming company - Activision Blizzard. Vivendi trades on a P/E of less than 7.0x and has a dividend yield of 9%.

Smith & Nephew – accounts for 2.16% of the portfolio as at 31 December 2011. Smith & Nephew is a UK-based company with more than 150 years of operations. Orthopaedic devices accounted for +50% of 2011 sales; major orthopaedic offerings include knee and hip implants and tools to set bone factures. The balance of sales comes almost equally from two other units – Endoscopy and Wound Care. The endoscopy unit offers tools to help physicians perform minimally invasive joint surgeries. The wound care division offers dressings and negative pressure wound therapy devices. Major growth areas (in the future) are emerging markets versus the more mature developed markets – a dynamic we believe is favourable to the long-term earnings outlook. Smith & Nephew has a market capitalisation of GBP 5.66bln, net debt of GBP ~136mln and free cash flow generation in excess of GBP 500mln per annum, which provides scope for capital management or bolt on acquisitions. Additionally, its market capitalisation is not cost prohibitive from the point of view of merger and acquisition (M&A) activity.

Leucadia National – accounts for 1.01% of the portfolio as at 31 December 2011. Leucadia is a diversified investment company and is an example of us revisiting a company we know well (including attendance at their annual shareholder meetings in New York). On the back of the sovereign debt crisis, Leucadia's long-term investment track record and its underlying investments in mining, casinos, plastics, timber, oil and gas drilling, vineyards, real estate, and synthetics natural gas projects has been overshadowed by its investment in an investment bank – Jefferies Group. During Q4 2011, the market became extremely concerned about Jefferies exposure to European sovereign debt and the "bears" believed they had another MF Global and/or Lehman Brothers in their sights. They did not, and the CEO of Jefferies executed on a plan to clear risk and then open the books for all to see exactly what Jefferies exposures were to address the "rumours". As a result of this negativity, Leucadia shares were also under pressure and declined from approx. US$ 30.00 per share to as low as US$ 20.19 per share, a clear discount to its underlying book value. This is not something that happens very often to Leucadia and

we took advantage of it. You will note we did not invest in Jefferies directly. For us it was much safer to invest into Leucadia which owns ~30% of Jefferies equity and who have much better insights in Jeffries than we could ever hope to. Our investment philosophy is not one of speculation. First and foremost, we focus on our "margin of safety" and hence our principal focus was on Leucadia - If Jeffries fails, would it be fatal to Leucadia? In our assessment, it was not the case and we believed that the market had overreacted. We acquired our stake in Leucadia at US$ 22.52 per share and it closed the quarter at US$ 22.74 (As at 11 February 2012 the price is US$ 29.18 per share.)

Petrobras – accounts for 1.01% of the portfolio as at 31 December 2011. Petrobras is a Brazil-based integrated energy company controlled by the Brazilian government. The company focuses on the exploration and production for oil and gas in Brazilian offshore fields. The attraction of Petrobras is its sizeable reserves. These currently stand at 12.7bln barrels (84% oil). Petrobras at the time of our purchase was on a P/E of 6.8x and a dividend yield of 5.0%.

Fletcher Building – accounts for 1.00% of the portfolio as at 31 December 2011. We wrote about FBU in our Q3 letter. During Q3, FBU was trading in the range of $8.60 to $7.20. It was our opinion at the time that the stock did not have enough margin-of-safety. Since then, the stock price dropped further to below $6.00 in Q4 as the Company was facing with the possibility of further earnings downgrades, and analysts reduced their earnings forecasts. It was during this period of extreme pessimism that we established our position. FBU at the time of our purchase was on a P/B of 1.11x and a dividend yield of 5.5%.

Staples, Inc. – accounts for 1.83% of the portfolio as at 31 December 2011. Staples is the world's leading office products company with +US$ 25bln in sales and more than 2,000 stores in 25 countries. The company represents an estimated 10% of the global office products market, larger than direct competitors OfficeMax and OfficeDepot combined. Staples is also the #2 online retailer behind Amazon. Staples has a market capitalisation of ~US$ 10bln and is forecast to repurchase US$ 2bln of shares over the next five years, highlighting the strength of its cashflows and market position. Staples, trades on a PE of less than 10x and has a dividend yield of +3%.

One exit worth highlighting:

It is not often a company files for bankruptcy protection and the stock rallies + 10% on the news, but this was the case for **Syms Corp**. Syms was an off-price retailer[1] based in the US. Syms was by no means a glamorous business. In fact it was a dying business (due to competitive pressures) as evidenced by the bankruptcy filing. The real key to owning this stock was the underlying asset value – the real estate portfolio. Syms required some research, but it was research that anyone with several hours of time and an inquisitive mind could have conducted on their own. But most people do not, and most investors avoid companies like Syms because they are too small, have family ownership and / or are in a dying industry. To illustrate this point, one prospective fund investor[2], whom we recommended him to visit Syms' main downtown store in New York when he travelled there so he could understand our investment premise (the underlying real estate potential). Upon returning to New Zealand, this prospective investor told us that Syms was a "dog" and he could not see any merits in such an investment given the retail offering was so tired, etc. Syms generated for the Value Fund an IRR[3] of 96.7% in US$ and 106.6% in NZ$ since we purchased our initial position in May 2011. Investing is more often than not an uncomplicated business. If you cannot clearly summarise an investment idea on one A4 page and require a Masters Degree in Mathematics to understand it, then in our case it is easier to move onto another idea. Syms was an uncomplicated story, with large amounts of value hidden just below the surface, and with an aligned controlling shareholder who was reluctant to see the family wealth (accumulated since the 1950's when her father started the operations) disappear. As investors, we are required to have a sensible approach to the appraisal of corporate net worth and patience, plus a little luck with the timing never hurts!

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[1] Off-price retailers sell clothing and accessories from major-label brands at a significant discount. These companies take advantage of overruns, cancelled orders, and forecasting mistakes made by their counter-parts in the full-price retail sector. When a major designer produces more clothing than it can sell through specialty retailers or department stores, or a store can't move all of the items in a particular line, the excess inventory is sold at a 20%-60% discount to an off-price retailer. The company passes these savings onto consumers, marking up goods by a lower percentage than full-price stores and instead building their operating margins by moving a high volume of inventory quickly, at lower prices.

[2] This prospective investor never invested in our Funds.

[3] IRR - The Internal Rate of Return on an investment or project is the "annualised effective compounded return rate".

Closing Comments:

There is a paradox at present between challenging economic / political environments and the attractiveness of the valuations of many listed companies. Mindful of the risks, our major focus in 2012 remains on the fundamentals of individual businesses rather than macroeconomic conditions which we have little ability to predict. Given the balance sheet strength and international opportunities of our portfolio of companies have in front of them, we feel confident about our portfolios' long term prospects. Additionally, as confidence returns there is the prospect for increasing corporate activity, which bodes well for portfolios with undervalued assets.

As at 31 December 2011, the Elevation Capital Value Fund held +24% of its Net Assets in Cash. This continues to be the best hedge against uncertainty and volatility, and it also affords us opportunity. Within the Elevation Capital Value Fund, we have executed on one new position already in January as a result of missed earnings estimates. This we believe to be classic "short-termism" versus a focus on the "long-term moat" of the underlying business. We have also continued to exit several holdings where we either have not being able to gain the position we initially sought or where after a number of years we have decided to exit and re-direct the capital towards newly researched investment opportunities.

Elevation Capital Management Limited ("ECML") – Update:

Two key announcements for investors or prospective investors:

(i) ECML is in the process of appointing a Director of Fund Distribution and Marketing. This particular person has long-standing contacts within the New Zealand financial services sector and we expect this to assist us in both improving the dissemination of our investment strategy and the funds we offer into the marketplace. We will make a formal announcement once this process is officially completed.

(ii) On 10 February 2012, we were informed by Morningstar New Zealand (the international funds rating company) that Elevation Capital has been nominated as one of the finalists for its "International Equities Manager of the Year – 2011" award. This is a positive endorsement of Elevation Capital's products and underlying investment philosophy which we have developed / evolved over the past five years. The awards will be announced on 1 March 2012.

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

Yours sincerely,

Elevation Capital Management Limited

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