QUARTERLY REPORT

ELEVATION CAPITAL VALUE FUND

30 June 2015

ELEVATION CAPITAL®

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Quarterly Report – Period Ending 30 June 2015

PERFORMANCE

Performance	Q2 2015	FYTD**	CYTD***	2 Years Annualised	3 Years Annualised	5 Years Annualised	Since Inception Cumulative
Value Fund NZ$ (Net)	10.36%	10.36%	14.69%	11.65%	14.18%	8.69%	62.66%
Value Fund US$* (Net)	-0.47%	-0.47%	-0.77%	4.48%	7.80%	8.39%	93.23%

* USD performance numbers are calculated using spot FX rates (at month end) and are provided for informational purposes only. The Fund does not have a USD unit price at this time.
** Financial year to date (FYTD) for year beginning - 1 April 2015
*** Calendar year to date (CYTD) for year beginning - 1 January 2015

All performance returns detailed above are calculated using exit price to exit price, net of taxes and ongoing fees, but excluding entry costs and any individual taxes. The returns include reinvestment of all distributions (if any). The performance quoted represents past performance, which does not guarantee future results. The investment return and principal value of an investment in the Fund will fluctuate, so that an investor's units in the Fund, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted.

TOP TEN HOLDINGS

Company	Domicile	% of Portfolio	Company	Domicile	% of Portfolio
DIAGEO		4.08%	pental		3.23%
viacom		3.74%	adidas GROUP		3.22%
gsk GlaxoSmithKline		3.57%	Mondelēz International		3.14%
DeLaRue		3.27%	Chesapeake ENERGY		3.14%
COACH		3.26%	TOD'S		3.08%

COMMENTARY

Q2 2015

When asked what the stock market was going to do, JP Morgan once famously responded – "It will fluctuate". It turns out Mr. Morgan was exactly right. What's more, his response is just as applicable to the market today as it was then. Given the uncharted waters of rock bottom interest rates and associated high asset prices, any bold statements on the direction of equity markets must be taken with a grain of salt. The best one can do is to take a bottom-up approach, investing in quality assets with enduring moats.

In the current market environment of buoyant optimism and elevated multiples (particularly in NZ), our focus has remained on capital preservation and we have accordingly been holding a significant cash balance (21% as at 30 June). With this continued cautious approach, the second quarter of 2015 yielded a return of 10.36%. This was helped by Kirkcaldie & Stains, Mondelez International, depreciation of the NZ Dollar (down 9.8% vs USD) and hindered by a decline in European Stocks which make up 33.71% of the portfolio.

During the quarter, Elevation Capital Management Limited (on behalf of clients - including the Value Fund) filed a Notice of Substantial Holding on the ASX disclosing a +8% position in Pental Limited. Pental is a company we wrote about in Q2 & Q3 2014. It is a leading producer of household products including well-known brands in New Zealand, such as Janola and Sunlight Liquid. The Company is currently embarking on a program of investment in order to increase efficiency/reduce costs and broaden its product portfolio through the release of additional products under the existing brands. We are pleased with the direction management have taken the Company thus far. We were also pleased to see that one of our long-held positions, Tiffany & Co. raised its dividend by 5%. This represents the 14th dividend increase in the past 13 years, reflecting the sort of distributable earnings growth we like to see from the businesses we invest in.

We initiated several new positions this quarter, including SGS SA and The Swatch Group SA. SGS is the largest testing, inspection and certification ("TIC") company in the world, domiciled in Switzerland. We believe the TIC industry to be very attractive and expect it to benefit from powerful structural and long-term growth trends. New regulations and the increasing awareness of customers to the importance of (and protection of) global brands will be significant drivers of growth for the TIC industry in the future. Additionally, growth in global trade, migration of production to less developed markets, greater supply chain complexity, outsourcing, privatisation and increasing innovation/higher technological complexity will add to the momentum behind the industry.

Growing public and consumer concerns about safety, quality and performance are prompting companies to invest more heavily in this area to assure their clients about the quality of their goods and services (think of companies like Fonterra in this regard). In addition, beyond compliance with regulation, companies now believe that proactive management offers a way to create value and provide corporate stability. With widespread use of the internet and the rise of social networking, the protection of global brands has become more complex and important. Companies are therefore increasingly seeking to manage asset integrity and product quality throughout the supply and distribution chain. We see these trends continuing and becoming stronger. Additionally, the economic cost of SGS's services is small in the overall cost of goods sold equation for many multinational companies, but it is extremely important. This means a large proportion of the business's revenue is recurring, leading to steady and predictable cash flows.

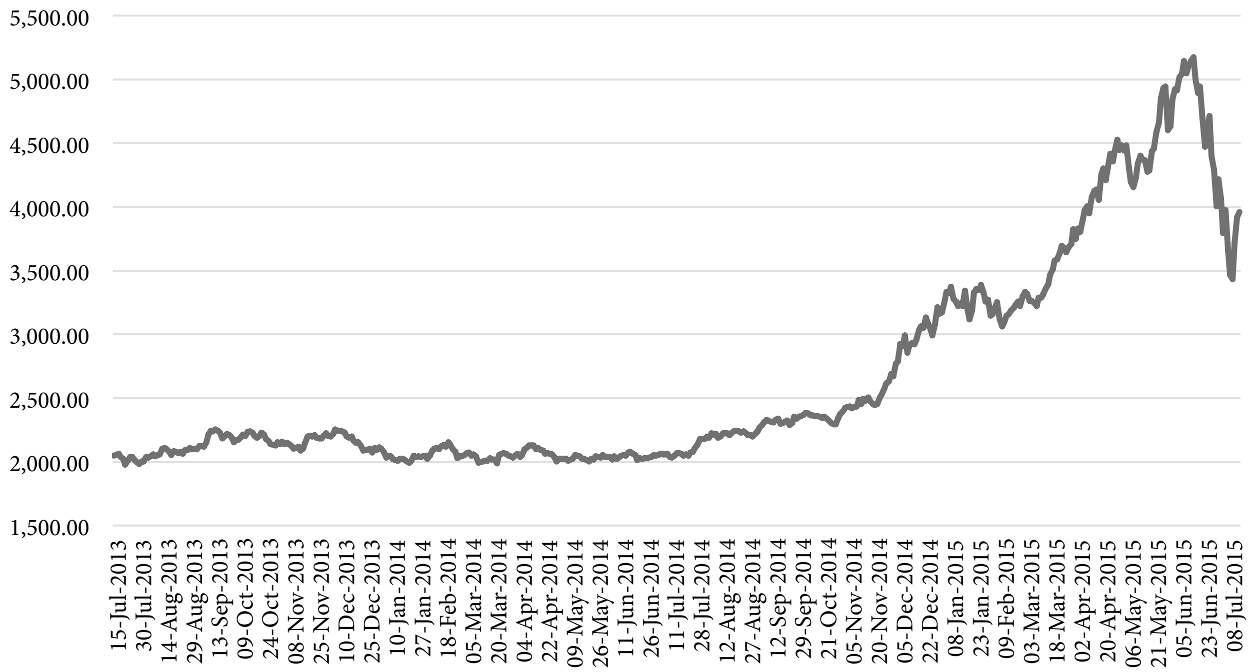
Swatch Group shares have traded down ~ 29% over the past year, having been impacted by the prospect of competition from smart watches (particularly the Apple Watch), as well as the slowing of Chinese demand for luxury goods and the unpegging of the Swiss Franc from the Euro. We view these issues to be more than factored into the price at current levels, with shares trading at well below historical and peer group average EV/EBITDA, EV/EBIT and P/E multiples. Swatch has a number of characteristics which we believe make it a sound long-term investment proposition, including its unparalleled stable of enduring brands, the vast majority of which benefit from the advantages in the watch industry offered by the 'Swiss Made' tag. It is also vertically integrated, leading to Swatch having industry leading gross margins and we believe there is potential to expand EBITDA and operating margins further.

The largest factor in both equity and fixed income markets globally right now is the ever present prospect of an increase in base interest rates. The US Federal Reserve is poised to lift rates later this year, with a Wall Street Journal poll of economists now showing that 73% of economists now believe the Federal Reserve will increase rates in September. When the same poll was conducted in March, only 38% of economists believed September would be the month rates were raised. In developed markets, we continue to see the recovery of Europe – albeit a slow, drawn-out recovery. The easing of monetary policy by the ECB has obviously been a tail wind for European equities but we continue to find interesting value in European markets. Once again, the recurring theme of Greece's survival – or not – as a member of the Eurozone and the Euro currency union was centre stage throughout the quarter. At the time of writing, it appears that an agreement has been reached between Greece and its creditors for the third bail-out package.

In China, the stock market has seen a remarkable increase over the past year and, in the past two weeks, a substantial correction. Despite the recent correction, the one year return on the index is still > 86%. In a recent article in The Economist titled 'The Bubble Question', the puzzling relationship between Chinese economic growth and the growth in its stock market was considered. From 2010 to 2014, China was one of the fastest growing economies on earth, while its benchmark index, the Shanghai Composite, was consistently among the worst performers in world equity markets. This relationship has been flipped since mid-2014, with growth in the Chinese economy beginning to slow, while the Shanghai composite index has catapulted.

There are clear signs that this is a bubble. For instance, the level of outstanding margin loans to investors in China is up 300% over the past year and, in a recent study it was found that two thirds of new investors in the Chinese stock market last year did not complete high school (with the implication being that they do not necessarily understand the products they are investing in). On the other side, the forward P/E of Shanghai Composite Index companies has increased from 7x to 15x which is the ten year average. In this context, the increase could simply be seen as mean reversion, a concept which is surprisingly underappreciated in finance.

Shanghai Composite Index - (July 2013 to Present)



Bond markets have also shown signs of "overheating" during the first quarter of 2015. Not surprisingly more recently, bond prices have pulled back and yields have risen, with the German 10-year Bund's yield climbing above 1% for the first time since September 2014. Similarly, US Treasury auctions have seen 10-year notes selling at the highest yields since September of last year. Locally, we noted the eighth consecutive decline in dairy auction prices. This is a timely reminder that it is prudent to diversify away from New Zealand and NZ dollar denominated assets. In our view, too many people remain leveraged to the ongoing success of the NZ economy which itself remains inadequately diversified with over reliance on the dairy trade and housing (complacency is particularly high in Auckland in our view). The 25 basis point reduction of the OCR is a sign that not all is well in the New Zealand economy. As has often been the case over the past two years, the Reserve Bank of New Zealand finds itself between a rock and a hard place, with inflated property prices in Auckland posing a risk on one side, offset by a less optimistic picture for the rest of the economy on the other, particularly given recent and continuing declines in business sentiment.

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Portfolio Review – Q2 2015

Below we have detailed the five largest contributors/detractors from Fund performance during Q2 2015:

Contributors Q2 2015		Detractors Q2 2015	
Kirkcaldie & Stains Ltd	New Zealand	Chesapeake Energy Corp	US
Mondelez International Inc	US	Coach Inc	US
Penn West Petroleum Ltd	Canada	GlaxoSmithKline Plc	UK
Encana Corp	Canada	Coca-Cola Amatil Ltd	Australia
Post Holdings Inc	US	adidas AG	Germany

During Q2 2015 we undertook the following portfolio movements:

Reduced	Increased	Exited	New
BP Plc	Anglo American Plc	BHP Billiton Ltd	Johnson & Johnson
	Arcos Dorados Holding Inc	Encana Corp	Natura Cosmeticos SA
	Chesapeake Energy Corp	Hess Corp	Procter & Gamble Co
	Coach Inc	Penn West Petroleum Ltd	SGS SA
	Coca-Cola Amatil Ltd	South32 Ltd	The Swatch Group SA
	De La Rue Plc	Staples Inc	
	Diageo Plc	Total SA	
	GlaxoSmithKline Plc		
	Pental Ltd		
	Philip Morris International Inc		
	STW Communications Group Ltd		
	Viacom, Inc		

We exited the following positions during Q2 2015:

Company Name	Holding Period	Annualised Returns[1]
BHP Billiton Ltd	0.2yr	+16%
Encana Corp	4.2yrs	Loss[2]
Hess Corp	0.1yr	+169%
Penn West Petroleum Ltd	6.3yrs	Loss[3]
Staples Inc	3.4yrs	+20%
Total SA	3.9yrs	+8%

[1] In the holding's local currency including dividends
[2] Encana Corp was exited at a loss which amounted to ~0.26% of Net Asset Value (as at 30 June 2015)
[3] Penn West Petroleum Ltd was exited at a loss which amounted to ~1.70% of Net Asset Value (as at 30 June 2015)

In Closing

We continue to shift the portfolio to truly global businesses which own brands with pricing power or companies that provide services which are a necessity to global businesses or governments. Our portfolio demonstrates a clear shift away from commodity and manufacturing businesses that are in a battle for market share or to find markets for their products. Virtually every economy in the world today is trying to export some product and simple economics tells us a seller (exporter) must find a buyer (importer) and that occurs via the equilibrium price. This race to export has led to widespread deflationary pressures - our own dairy industry has fallen victim to this rather dramatically, driven by changes in global supply. Global dairy prices have fallen >40% since February. A recent Bloomberg article titled 'The US is Producing a Record Amount of Milk and Dumping the Rest' illustrates how easily this can happen (with specific reference to the NZ dairy industry), as US milk producers have achieved record production levels and the surplus supply flows on to international markets. Businesses which sell undifferentiated, commoditised goods or services are therefore at the mercy of global markets as they are price takers, rather than price makers.

We do not see deflationary trends changing in the foreseeable future. Remember, deflation has been at work in Japan since 1990 and the global economy since 2009/2010. This is why we seek to invest in brands that have pricing power or services that are integral to global business irrespective of deflationary forces which maybe impacting their client. In this deflationary context, we also need to be mindful of macroeconomic trends including, importantly, savings rates. Wealthier households account for 15% of consumers on a global basis and they save approximately 20% of their income on average. The other 85% of households actually have a dissaving rate. So, when focusing on households we have to be in the luxury or aspiring luxury categories or we have to be in the everyday necessities categories across a multitude of brands. At some stage this dissaving amongst such a large segment of the population will change and that is going to create some real difficulties for a number of economies, hence we continue to maintain a conservative positioning within the Fund as global uncertainties remain high and increasingly difficult to predict when you also factor in technological impacts.

Respectfully submitted,

Christopher Swasbrook
Managing Director
Elevation Capital Management Limited

FUND PORTFOLIO HOLDINGS

Asset	Domicile*	% of Portfolio	# of Shares	Year First Purchased
Diageo Plc	UK	3.63	15,500	2014
Viacom, Inc	US	3.46	6,600	2014
Glaxosmithkline Plc	UK	3.36	20,000	2013
De La Rue Plc	UK	3.34	50,000	2015
Coach Inc	US	3.29	11,750	2015
Pental Ltd	Australia	3.15	1,125,000	2014
adidas AG	Germany	3.10	5,000	2014
Mondelēz International	US	2.99	9,000	2012
Chesapeake Energy Corp	US	2.98	33,000	2012
Tod's Spa	Italy	2.88	3,750	2014
Procter & Gamble Co	US	2.85	4,500	2015
Heineken Holdings NV	Netherlands	2.84	5,000	2010
Nestlé SA - Reg	Switzerland	2.63	4,500	2011
Remy Cointreau	France	2.62	4,500	2014
Post Holdings Inc	US	2.62	6,000	2013
Arcos Dorados Holdings Inc-ADR	US	2.54	60,000	2014
Scholastic Corp	US	2.50	7,000	2013
The Swatch Group	Switzerland	2.36	750	2014
Coca-Cola Amatil Ltd	Australia	2.27	40,000	2014
Molson Coors Brewing Co - B	Canada	2.26	4,000	2011
Kirkcaldie and Stains Ltd	NZ	2.19	181,546	2008
Anglo American Plc	UK	2.04	17,500	2011
Philip Morris International	US	1.94	3,000	2015
Guinness Anchor Bhd	Malaysia	1.94	63,500	2013
Vivendi	France	1.94	9,500	2011
Imperial Tobacco Group Plc	UK	1.76	4,500	2011
Time Inc	US	1.67	9,000	2014
eBay Inc	US	1.34	2,750	2014
BP Plc - ADR	UK	1.21	3,750	2010
STW Communications Group Ltd	Australia	1.16	300,000	2015
Tiffany & Co	US	1.11	1,500	2012
Skyline Enterprises	NZ	1.07	15,000	2009
LAACO Ltd-Units of Ltd Partners	US	0.77	60	2009
SGS SA	US	0.66	45	2015
Johnson & Johnson	US	0.39	500	2015
Natura Cosmeticos SA	Brazil	0.07	1,000	2015
Discovery Communications Inc	US	0.03	100	2015
Cash		21.02		

Total Number of Holdings = 37, Total Number of Countries = 13

** Domicile = Primary Listing*

RISK DISCLOSURE STATEMENT

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