ELEVATION CAPITAL® VALUE FUND

Quarterly Report – Period Ending 31 December 2014

PERFORMANCE

Performance	Q4 2014	FYTD**	CYTD***	2 Years Annualised	3 Years Annualised	5 Years Annualised	Since Inception Cumulative
Value Fund NZ$ (Net)	-3.02%	3.34%	2.17%	12.45%	8.93%	5.76%	41.83%
Value Fund US$* (Net)	-2.75%	-6.92%	-2.98%	9.46%	9.00%	7.32%	94.72%

* 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 2014
*** Calendar year to date (CYTD) for year beginning - 1 January 2014

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
STAPLES		3.86%	VIACOM		3.39%
MOLSON Coors		3.71%	RÉMY COINTREAU		3.32%
DIAGEO		3.69%	pental		3.30%
TOD'S		3.51%	adidas GROUP		3.30%
Nestlé		3.48%	Chesapeake ENERGY		3.25%

COMMENTARY

Market Review – Q4 2014

The fourth quarter of 2014 witnessed increased volatility in international equity and commodity markets, with the biggest headline being the continued decline in oil prices.

The latter half of 2014 saw a seismic shift in the energy sector, which began in Q3 and accelerated during Q4. The price of oil has now fallen more than 55% since June 2014, surprising market participants and leading to a sell off of oil producer stocks. Fortuitously, the Elevation Capital Value Fund reduced its oil and gas exposure from 18.4% at the end of Q4 2013 to 11.7% by the end of Q3 2014 and increased our investments in consumer staples and consumer discretionary stocks with our aggregate holdings climbing from 48.5% to 59.9% over the past 12 months.

The Value Fund declined -3.02% in NZ$ terms and -2.75% in US$ terms during Q4 2014. Unfortunately (in hindsight) we did not exit all our oil and gas investments and these were the core detractors from performance – in particular, resource rich Canadian oil and gas companies.

The shift in oil prices is rooted in geopolitical relationships between countries, but over-arching the complexities of geo-politics is the simplicity of supply and demand. While demand has remained lackluster, the supply of global proven oil reserves has increased strongly over the past decade. This increase in supply has not been met by a matching increase in demand and the result has been a fall in prices.

Interestingly, the change in the supply side of the equation was bought about by the discovery of oil and oil derivatives in the US over the past decade. Shale oil discoveries have significantly increased the oil output (and potential future output) of the United States. According to the Energy Information Administration, proven oil reserves in the United States were 30.5 billion barrels in 2012. This represents a 60% increase in proven reserves since 2008. Even more striking is the fact that the US Department of the Interior estimates that the undiscovered, technically recoverable oil in the United States may be as much 134 billion barrels. The development of these oilfields, which was previously thought to be impossible, has been enabled through technology advancement, which allows the oil to be drawn to the surface.

The major catalyst for falling oil prices over the past half year has been the OPEC announcement that it would not cut production (decrease its supply). Middle Eastern oil producers felt that the best outcome from their perspective was to drive prices down to a level at which US producers (who have higher production costs per barrel) would be unprofitable. This was a move orchestrated by Saudi Arabia and it went against the wishes of some of the smaller members of OPEC who are likely to experience significant difficulties as a result of lower oil revenues. The big losers from a reduction in oil prices are Russia, Nigeria and Venezuela (among others).

Lower oil prices are not all bad, however. To the contrary, we believe that lower oil prices will increase disposable income, benefitting a number of consumer products companies, including those we hold in the Value Fund. Additionally, lower oil prices will decrease costs for these consumer products companies (it will cost less for delivery and manufacture for example), increasing margins and therefore earnings. We would also point out that this process is yet to fully play out, as a large proportion of the oil which is currently on the market has been hedged. On an ongoing basis, the amount of oil on the market hedged at historical prices will decrease and the truly low prices being observed in current spot prices (~$45 per barrel at time of writing) will filter through to pumps and therefore distributors and consumers.

As always we are wary of the vagaries of the market and conscious of the self-correcting nature of markets. Howard Marks, Co-Chairman of Oaktree Capital and a well-known investor recently spoke on this subject suggesting that it was often hard for people to grasp the simplicity of markets. He made the following three points suggesting the current situation may not last forever:

- A decline in the price of gasoline induces people to drive more, increasing the demand for oil;
- A decline in the price of oil negatively impacts the economics of drilling, reducing additions to supply;
- A decline in the price of oil causes producers to cut production and leave oil in the ground to be sold later at higher prices.

Portfolio Review – Q4 2014

Below we have detailed the five largest contributors/detractors from Fund performance during Q4 2014:

Contributors Q4 2014		Detractors Q4 2014	
Staples Inc	US	Penn West Petroleum Ltd	Canada
Post Holdings Inc	US	Encana Corp	Canada
Time Inc	US	Chesapeake Energy Corp	US
Petrobras SA	Brazil	Kirkcaldie & Stains Ltd	NZ
Scholastic Corp	US	Total SA	France

During Q4 2014 we undertook the following portfolio movements:

Reduced	Increased	Exited	New
Kirkcaldie & Stains Ltd	Anglo American Plc	Acurity Health Group Ltd	eBay Inc
Staples Inc	adidas AG	Advanced Info Service Pcl	Outfront Media Inc
Molson Coors	Arcos Dorados Holdings Inc	Japan Tobacco Inc	Time Inc
	Chesapeake Energy Corp	Kirin Holdings Co Ltd	Viacom, Inc
	Coca-Cola Amatil Ltd	Laurent-Perrier SA	
	Diageo Plc	Leucadia National Corp	
	GlaxoSmithKline Plc	Monmouth RE Investment Corp	
	Guinness Anchor Bhd	Novartis AG	
	Heineken Holding NV	Paris Orleans SA	
	Monster Worldwide, Inc	Petrobras SA	
	Nestle SA	Vealls Ltd	
	Guinness Anchor Bhd		
	Post Holdings Inc		
	Penn West Petroleum Ltd		
	Remy Cointreau		
	Tod's SpA		

All of the positions we exited during the quarter were profitable[1]. Detailed below is a brief overview of the results:

Company Name	Holding Period	Annualised Returns[1]
Acurity Health Group Ltd	0.5yrs	+85%
Advanced Info Service Pcl	0.6yrs	+15%
Japan Tobacco Inc	3.0yrs	+28%
Kirin Holdings Co Ltd	3.9yrs	+20%
Laurent-Perrier SA	3.8yrs	+1%
Leucadia National Corp	2.8yrs	+7%
Monmouth RE Investment Corp	0.2yrs	+18%
Novartis AG	2.5yrs	+31%
Paris Orleans SA	0.8yrs	+2%
Petrobras SA	3.0yrs	+1%
Vealls Ltd	6.0yrs	+18%

[1] In the holding's local currency including dividends

New Position Acquired During Q4 2014

Viacom

Viacom is a Hollywood institution. It owns one of the most prestigious film production labels in the world (Paramount), as well as some of the most enduring brands in television such as MTV, Comedy Central and Nickelodeon. Viacom became a stand-alone business in 1971 when it was spun-off by CBS in order to comply with US regulations at the time. Since then, it has grown to be a global mass media business with content reaching approximately 700 million subscribers in 165 countries. It is the fifth largest broadcasting and cable-company in the world by revenue.
We initiated a position in Viacom during Q4 with the view that it offers unparalleled value in the market when measured against its peers. Based on our estimates of intrinsic value it offers as much as 38% upside at its current valuation. It may also benefit from M&A activity through spinning off individual businesses, becoming an acquisition target (see recent transactions between DIRECTV and AT&T, TWC, Comcast and Time Warner Cable) or through a "re-merger" with CBS. Viacom has also focused on increasing exposure to emerging markets, where emerging middle classes are increasingly hungry for television content. It can do this with minimal cost and few of the risks ordinarily associated with expansion into emerging markets. In the meantime, we are paid a ~2% dividend to wait and management have returned capital to shareholders via consistent share buybacks (an average of ~5.3% of shares outstanding per annum since 2006).

You can learn more about Viacom Inc. by visiting: www.elevationcapital.co.nz/vf-investments

In Closing

We caution our investors to try to avoid becoming consumed by near-term index / market comparisons. Clearly such a statement will be viewed as self serving since over the last calendar year we have underperformed global markets, weighed down by a preference for out-of-favour sectors / companies, an increasing exposure to global companies domiciled in Europe given attractive valuation metrics and a large cash balance. There is no doubt you were better off in an index fund over the past 12 months. Active managers (including ourselves) are the proverbial "bums on the street" at present. 2014 was the worst year for active managers since 1997 – particularly conservative investors like ourselves who do not take outsized concentrated positions, do not use leverage and always maintain a larger than average cash balance. However, we believe our investors (including ourselves) can sleep soundly at night knowing that the global portfolio we are managing on their behalf is invested in companies that on the whole continue to make financial / business progress, are well financed and continue to increase their underlying intrinsic value.

As we highlighted in our last quarterly report, we have spent much of the year documenting clearly our underlying investments for our clients both in the Value Fund and the Separate Accounts we manage. We encourage you to visit the Fund Investments page on our website (www.elevationcapital.co.nz/vf-investments) to learn more about some of the companies you own a fractional interest in. We also continue to upgrade the portfolio when opportunities present themselves – examples include companies like Adidas, Diageo, Remy Cointreau, Tod's, and most recently Viacom. We have made a concerted effort to move away from "cigar butts" – companies that are good for one more puff but not much else, to more enduring franchises. That is not to say the extra "puff" cannot be profitable as our returns in long-standing equity holding Vealls (which we sold last quarter) highlights (18% per annum return over 6 years). However, these should be viewed increasingly as special situations and not the norm going forward.

As Charlie Munger who has had the most impact on Warren Buffett moving towards higher quality franchises once said:

"We've really made the money out of high quality businesses. In some cases, we bought the whole business. And in some cases, we just bought a big block of stock. But when you analyse what happened, the big money's been made in the high quality businesses. And most of the other people who've made a lot of money have done so in high quality businesses. Over the long term, it's hard for a stock to earn a much better return than the business which underlies it earns. If the business earns 6% on capital over 40 years and you hold it for that 40 years, you're not going to make much different than a 6% return—even if you originally buy it at a huge discount. Conversely, if a business earns 18% on capital over 20 or 30 years, even if you pay an expensive looking price, you'll end up with a fine result. So the trick is getting into better businesses."

While we were clearly chagrined to see our investments in oil and gas companies decline during the quarter, we welcomed the increased volatility and the pullback for the opportunity it provided to put some of our cash to work. We are hoping for further volatility in the months ahead as we have a large watch-list of companies and volatility may afford us an opportunity to buy fractional interests in these businesses at attractive prices. *(Positively from a performance perspective and negatively from an ability to deploy cash, the beginning of 2015 has also seen a significant bounce in a number of our underlying holdings which has seen the Fund's NAV increase over +5% in January 2015.)*

One other matter we would like to address is that of Elevation Capital Management Limited's on-going domicile. Several people have asked one of our directors if we are relocating to New York (or other jurisdictions) given our global investment focus? This is simply not the case and in fact would be completely counter productive to our investment process as well as remove a key attribute potential foreign investors find interesting about our firm. However, it is not unreasonable to expect us to travel more to visit companies / countries but also to enable us to engage in discussions with potential investors as we look to diversify our client base both in numbers and in geographies (on a Separate Accounts basis). Clearly, this is all extremely positive as we look to grow our assets under management beyond the current ~NZ$ 250mln and continually seek to improve our investment processes and performance on an annual basis.

Thank you once again for your continued support and interest in the Fund and the trust you place in our firm.

Respectfully submitted,

Christopher Swasbrook
Managing Director
Elevation Capital Management Limited

ELEVATION CAPITAL® **VALUE FUND**

FUND PORTFOLIO HOLDINGS

Asset	Domicile*	% of Portfolio	# of Shares	Year First Purchased
Staples Inc	US	3.86	22,500	2011
Molson Coors Brewing Co - B	Canada	3.71	5,250	2011
Diageo Plc	UK	3.69	13,500	2014
Tod's Spa	Italy	3.51	4,250	2014
Nestlé SA - Reg	Switzerland	3.48	5,000	2011
Viacom, Inc - A & B Shares	US	3.39	4,750	2014
Remy Cointreau	France	3.32	5,250	2014
Pental Ltd	Australia	3.30	834,673	2014
Adidas AG	Germany	3.30	5,000	2014
Chesapeake Energy Corp	US	3.25	17,500	2012
Mondelēz International	US	3.10	9,000	2012
Monster Worldwide Inc	US	3.07	70,000	2012
Glaxosmithkline Plc	UK	3.05	15,000	2013
Heineken Holdings NV	Netherlands	2.98	5,000	2010
Arcos Dorados Holdings Inc-ADR	US	2.86	56,000	2014
Coca-Cola Amatil Ltd	Australia	2.71	37,500	2014
Scholastic Corp	US	2.42	7,000	2013

Asset	Domicile*	% of Portfolio	# of Shares	Year First Purchased
Post Holdings Inc	US	2.38	6,000	2013
Vivendi	France	2.37	10,000	2011
Time Inc	US	2.33	10,000	2014
Imperial Tobacco Group Plc	UK	2.31	5,500	2011
Kirkcaldie and Stains Ltd	NZ	2.15	181,546	2008
Guinness Anchor Bhd	Malaysia	2.12	63,500	2013
Total SA	France	1.95	4,000	2011
BP Plc - ADR	UK	1.81	5,000	2010
Anglo American Plc	UK	1.78	10,000	2011
Tiffany & Co	US	1.52	1,500	2012
Skyline Enterprises	NZ	1.33	15,000	2009
Encana Corp	Canada	1.32	10,000	2011
Penn West Petroleum Ltd	Canada	1.09	55,000	2009
LAACO Ltd-Units of Ltd Partners	US	0.78	60	2009
Others		0.14		
Cash		19.62		

*Total Number of Holdings = 34**, Total Number of Countries = 12*

** Domicile = Primary Listing*

*** VIA.US and VIAB.US are considered as one holding*

RISK DISCLOSURE STATEMENT

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The information herein is intended solely to provide certain background information about the Elevation Capital Value Fund. The discussions above represent our views at the time of this commentary and are subject to change without notice. One of our responsibilities is to communicate in an open and direct manner. Insofar as some of our opinions and comments in our reports and commentaries are based on current expectations, they are considered "forward looking statements," which may or may not be accurate over the long term. While we believe we have a reasonable basis for our comments and we have confidence in our opinions, actual results may differ materially from those we anticipate. You can identify forward-looking statements by words such as "believe," "expect," "may," "anticipate," and other similar expressions. We cannot, however, assure future results and disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events, or otherwise. The above views may not be relied upon as investment advice or as an indication of trading intent on behalf of any Elevation Capital Fund or Portfolio. Security examples featured are samples for presentation purposes and are intended to illustrate our investment philosophy and its application. It should not be assumed that most recommendations made in future will be profitable or will equal the performance of the securities.

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