SECOND QUARTER 2010 INVESTOR REPORT

"Independent Thinking - Disciplined Investing"

29 July, 2010

Dear Fellow Unitholders,

After several quarters of strong stock market returns, sentiment based mainly on macroeconomic concerns saw global markets sell off aggressively during the second quarter. Sovereign debt concerns which started in Greece spread east and west. The concerns centre around the debt burden of certain European Union nations and Japan at present, with many asking when the tide will turn on a seemingly profligate US as well. Despite its own particular issues, the New Zealand economy is in an enviable position when one looks solely at Government debt burdens versus the aforementioned Government fiscal positions. However, this did not spare the NZSX from the global sell-off with the NZX 50 declining -9.05% during the quarter. [This compares to the S&P 500 -11.4%, FTSE 100 -13.43%, Nikkei -15.40%, Hang Seng -5.2%, ASX 200 -11.61%]

The Multi Strategy Fund and Value Fund suffered significantly smaller declines, compared to the indices, reflecting the benefits of holding a portfolio of stocks that are asset rich / well financed. Also, positive developments within some portfolio companies with regard to industry consolidation, and our preference for maintaining a cash position within the Fund/s enabled us to purchase securities during the sell-off.

	Second Quarter 2010 Net Return (%)	YTD 2010 Net Return (%)	Second Quarter 2010 Inflows / Outflows (NZ$)	YTD 2010 Inflows / Outflows (NZ$)	Closing Unit Price as at 30 June 2010 (NZ$)
Multi Strategy Fund	-3.55%	-0.25%	-NZ$ 190,752	-NZ$ 223,814	0.7927
Value Fund	-2.98%	+0.05%	+NZ$ 57,776	+ NZ$ 72,398	1.0725

*[*Based on unaudited figures]*

There has been a significant flow of funds into the perceived "safety" of bonds versus "risky" equities. (See table below on US Bond / Equity Fund inflows from Lipper FMI) – while data in NZ is harder to source it is reasonable to assume that investors here also currently prefer bonds over equities). In my opinion, such investors are putting themselves into a position of significant risk if interest rates rise as is reasonable to expect in the next 12 – 24 months. This is also a function of the very short time horizons that investors now seem to hold (as evidenced by heightened volatility in markets). For example, in the US, there seems to be very little concern about bond yields versus long term inflation rates from investors. It seems to me that retail investors by seeking the perceived safety of bonds *enmass* have not given due consideration to the unintended consequences of "group think" which is clearly evident based on fund flows.

	2009	2010*
Bond Fund Inflows:	US 384.3bln	US$ 152.2bln
Equity Fund Inflows:	US$ 5.0bln	US$ 24.0bln

** YTD*
(Source: Lipper FMI)

To provide further illustration of the preference for bonds vs. stocks at present, US 10 year Treasuries currently yield 2.98% as at the close of business 28 July 2010 (US Time). This compares to the current dividend yields on a selection of US / Global Blue Chips: McDonalds ~3.1%, Johnson & Johnson ~3.4%, Heinz ~3.8% and Royal Dutch Shell ~5.9%.

In New Zealand, 10 year Government Bonds currently yield 5.37%. By way of comparison, even a basket of New Zealand retail stocks yield significantly more than this providing investors with +~6.25% **NET** in the case of The Warehouse or Briscoes and Hallenstein Glasson's, offering a **NET** yield of +~7% (based on GSJBW forecasts). What's more, both Briscoes and Hallenstein Glasson have substantial net cash positions which provides a "margin of safety" that is not always present for equity market investors.

I also remain firm in my convictions that the world economy is not about to grind to a halt. I do agree that governments globally (with exceptions in the Asia Pacific region) have too much debt and there is a risk of currency debasement. But if one switches to corporations globally they continue to hold / generate significant cash and are trading at low multiples and attractive dividend yields (which seem sustainable). If one uses history as a guide it shows that -- (i) it is always a good time to invest when no one else wants to – or as Buffett says "*you pay a very high price in the stockmarket for a cheery consensus*" – from where I am sitting there does not seem to be much "cheer" around at present; (ii) well financed, asset rich (both in terms of brands and physical assets) companies have proven themselves adept at outpacing inflation over time and (iii) high quality companies will continue to maintain a competitive advantage which will drive market share growth at the expense of smaller / weaker players. This will translate into earnings / dividend growth and in time higher stock prices.

For those investors willing to depart from the crowd and take a truly longer term view – I believe that this will prove an opportune time to have been an "equity market" investor versus a "bond market" investor.

Our Fund/s continue to hold a unique portfolio of undervalued assets / franchises around the globe. Furthermore, within New Zealand (by far our largest geographical exposure) several investments look set to enter a transformative stage which may result in a re-rating of their valuations in our portfolio. Based on these facts, I (personally) continue to purchase units in our Fund/s as my circumstances permit.

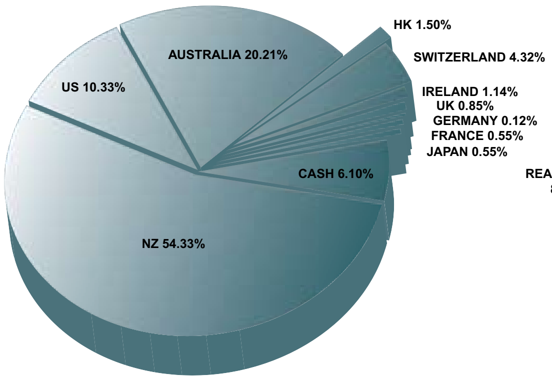
ELEVATION CAPITAL | MULTI STRATEGY FUND

Portfolio – 30 June 2010

Company:	Code/Market:	% of Portfolio:
Canterbury Building Society	CBS	11.40
Briscoe Group Ltd	BGR	10.04
Colonial Motor Company Ltd	CMO	7.92
Southern Cross Building Society	SCBS	6.34
Skyline Enterprises	SLE	5.93
Vealls Limited - Capital Share	VELCP AU	5.46
Satara Co-Operative Group	SAT	5.31
National Can Industries Ltd	NCI AU	4.55
Pargesa Holding SA	PARG SW	4.04
CDL Investments New Zealand Ltd	CDI	3.63
Tishman Speyer Office Fund	TSO AU	3.59
Smith City Group Ltd	SCY	3.11
Boswell JG Co	BWEL US	2.86
Australian Agricultural Co	AAC AU	2.40
Van Eyk Three Pillars Ltd	VTP AU	2.33
Reading International Inc - Class B	RDIB US	1.52
San Miguel Brewery Hong Kong Ltd	236 HK	1.50
Orient Express Hotels Ltd-A	OEH US	1.27
Readymix Plc	RYX ID	1.14
India Equities Fund Ltd	INE AU	0.97
Terra Nova Royalty Corp	TTT US	0.89
RMX Holdings Inc.	RMX US	0.85
ProShares UltraShort Lehman	TBT US	0.71
BP Plc-ADR	BP US	0.66
Syms Corp	SYMS US	0.65
Shimano Inc	7309 JP	0.55
Guyenne ET Gascogne SA	GG FP	0.55
Pfizer Inc	PFE US	0.53
Arden Group Inc - Class A	ARDNA US	0.50
PrimeAg Australia Ltd	PAG AU	0.50
Foster's Group Ltd	FGL AU	0.41
Wakefield Health Ltd	WFD	0.41
Natl Western Life Insurance	NWLI US	0.35
Nestle SA-ADR	NSRGY US	0.28
Celcius NZ Income Fund	CEI	0.23
Royal Dutch Shell Plc-ADR	RDS/A US	0.19
KHD Humboldt Wedag International	KHDHF US	0.12
Reading International Inc - Class A	RDI US	0.11
Convera Corp-Class A	CNVR US	0.09
Just Water Ltd	JWI	0.01
SCBS Options C1.00 2012	SCBSOPT	-
Cash	NZD/USD	6.10

ELEVATION CAPITAL | MULTI STRATEGY FUND

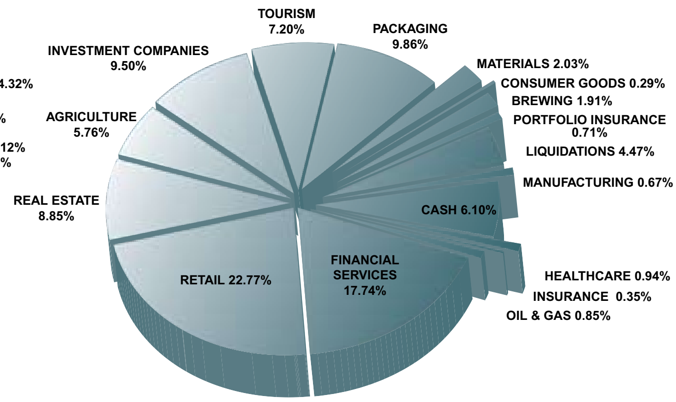
Portfolio By Market - 30 June 2010



Total number of securities: 41

ELEVATION CAPITAL | MULTI STRATEGY FUND

Portfolio By Industry - 30 June 2010



Total number of securities: 41

ELEVATION CAPITAL | MULTI STRATEGY FUND

Portfolio Review:

Within the Multi Strategy Fund, we were a little more active in the second quarter than more recent times with participation in several rights issues / placements and other investment realisations allowing us to redeploy capital into a total of 17 new investments (see portfolio listed above / commentary below) -- many of these we have invested in previously or have been researching over some period of time.

The investment realisations during the quarter are detailed below:

Exited Security	Ave. Entry Price	Ave. Exit Price	Absolute Return* (+/-)	Comments
FXP – ProShares Ultrashort China	US$ 38.72	US$ 47.48	+ 22.62%	A small allocation as part of "Portfolio Insurance" made during Q1 that paid off.
GFL - Global Masters Fund	A$ 0.7222	A$ 0.9035	+20.07%	Successful activism saw us exit for a +20% gain on the stock and +28% when FX gains are taking into account on all capital deployed.
GPG – Guinness Peat Group	NZ$ 0.6473	NZ$ 0.6607	+2.07%	After exiting the stock in the first quarter at ~ NZ$ 0.93cps – we began to once again accumulate a new position. However, what we believe to be an unsatisfactory proposal from management on the returning of capital to shareholders and the subsequent departure of Tony Gibbs saw us exit the position for a very small gain.
HLG – Hallensteins Glassons	NZ$ 3.34	NZ$ 3.55	+6.29%	We tried to establish a new position at lower levels and were unsuccessful – we exited what we bought at a small gain.
NWF – NZ Windfarms	NZ$ 0.2277	NZ$ 0.27	+18.58%	We participated in the rights issue at an attractive discount and exited shortly thereafter.
PRC – Pike River Coal	NZ$ 1.0198	NZ$ 1.0168	-0.29%	We participated in the placement and rights issue at an attractive discount. Shortly thereafter, global markets sold off and resource stocks were hit hard – PRC was no exception we exited quickly for no real cost.
RYM – Ryman Healthcare	NZ$ 1.97	NZ$ 2.0749	+5.32%	We participated in the placement and exited shortly thereafter.
VXX – iPath S&P 500 VIX – Short Term	US$ 26.15	US$ 28.72	+9.86%	A small allocation as part of "Portfolio Insurance" made during Q1 that paid off.
VXZ – iPath S&P 500 VIX – Medium Term	US$ 70.97	US$ 85.28	+20.18%	A small allocation as part of "Portfolio Insurance" made during Q1 that paid off.

*[*Note: Returns are not annualised but do include any dividends received over the holding period. All figures are unaudited.]*

The portfolio expanded within the following strategies / into the following stocks during the quarter:

(i) **Event Driven**: India Equities Fund and Van Eyk Three Pillars are both companies listed on the ASX that have announced plans to liquidate and are therefore best described as arbitrage positions for the Fund. Celsius Income Fund in New Zealand is also an arbitrage position for the Fund. Terra Nova Royalty is splitting into a royalty company listed on the NYSE and a cement manufacturer listed in Germany. We plan to sell the cement company and hold onto the royalty company as we believe it to be undervalued on an intrinsic value basis. Fosters Group in Australia is undertaking a demerger. We bought the stock after the initial announcement as "demergers" have been a lucrative area for the Fund historically (eg. PBL/Crown). Furthermore, with Fosters free from the shackles of a value destructive wine business it is increasingly likely it will both improve its own operational performance (which should be EPS / DPS positive) but may also see it become an attractive acquisition target for global brewers such as -- SAB Miller, Asahi etc.

(ii) **Opportunistic:** We acquired positions in the following stocks for a variety of individual reasons – but mostly because they were offered at attractive valuations for the Fund during the recent sell-off (some of the holdings we have owned before in the Fund): Arden Group (US), BP plc (UK), Guyenne et Gascogne (France), Just Water (NZ), National Western Life Insurance (US), Nestlé (Switzerland), Pfizer (US), PrimeAg (Australia), Royal Dutch Shell (UK), Shimano (Japan), Syms Corp (US), Wakefield Healthcare (NZ).

At the beginning of the quarter CBS Canterbury, Southern Cross Building Society and Marac announced that they had signed a memorandum of understanding to explore a merger to create a NZ owned and NZX listed bank. As many of you are aware, industry consolidation was a primary driver of our initial investments in both CBS Canterbury and Southern Cross Building Society. I recently attended the 135th AGM of CBS Canterbury on 20 July 2010 in Ashburton where the merger timetable was outlined as follows:

- Mid / Late August – Merger terms will be announced;
- Mid / Late November – SGM will be held by CBS Canterbury to vote on the proposal.

Independent appraisal reports can be expected to be released well in advance of the SGM.

According to the Chairman of CBS Canterbury, the merger discussions are proceeding to plan and there remains a willingness on all sides to see a transaction complete as the parties believe this to be in the best interests of all shareholders / depositors and that they have a unique opportunity to create another NZ-owned bank.

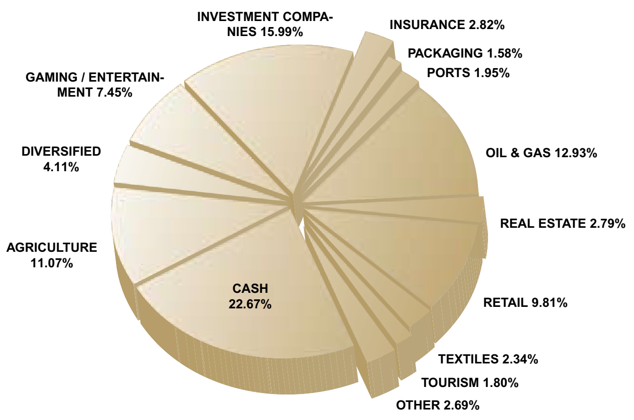
I agree with these thoughts and while it will take time to realise the full potential of our investment we see this as a significant step to closing what I see as a large discount between the current values at which we carry Southern Cross in our books, as well as what the NZAX market suggests CBS is worth versus the merged entity which will attract significantly more investor and broker attention when it is listed on the main board of the stock exchange (NZSX).

Portfolio – 30 June 2010

Company:	Code/Market:	% of Portfolio:
Jardine Strategic Holdings Ltd	JS SP	2.43
Guinness Peat Group Plc	GPG	2.34
K-Swiss Inc - Class A	KSWS US	2.29
Rural Equities Limited	REL	2.28
Guyenne ET Gascogne SA	GG FP	2.21
Australian Agricultural Co	AAC AU	2.13
San Juan Basin Royalty Trust	SJT US	2.13
Vealls Limited - Capital Share	VELCP AU	2.10
Repsol YPF SA - ADR	REP US	2.05
Northland Port Corporation	NTH	1.95
Japan Petroleum Exploration	1662 JP	1.92
Boswell JG Co	BWEL US	1.87
ConocoPhillips	COP US	1.86
Kirkcaldie and Stains Ltd	KRK	1.84
Skyline Enterprises	SLE	1.80
Arden Group Inc - Class A	ARDNA US	1.78
BP Plc- ADR	BP US	1.77
Societe des Bains de Mer	BAIN FP	1.71
LAACO LTD - UNITS OF LTD PRTNS	LAACZ US	1.70
Colonial Motor Company Ltd	CMO	1.70
Gaumont SA	GAM FP	1.69
CDL Investments New Zealand Ltd	CDI	1.69
Clearview Wealth Ltd	CVW AU	1.69
Maryborough Sugar Factory	MSF AU	1.67
Turners & Growers Ltd	TUR	1.67
Groupe Bruxelles Lambert SA	GBLB BB	1.63
Universal Entertainment	6425 JP	1.61
National Can Industries Ltd	NCI AU	1.58
Pargesa Holding SA	PARG SW	1.53
Royal Dutch Shell Plc-A Shares	RDSA LN	1.50
Thwaites (Daniel) PLC	THW PZ	1.50
CNP - CIE Natl A Portefeuille	NAT BB	1.49
Guocoleisure Ltd	GLL	1.46
Oyster Bay Marlborough Vineyard	OBV	1.45
Ariadne Australia Limited	ARA AU	1.36
Genting Malaysia BHD	GENM MK	1.26
Swiss Helvetia Fund	SWZ US	1.24
Schweizerisch Nationalbank	SNBN SW	1.19
Amalgamated Holdings Limited	AHD AU	1.18
Wharf Holdings Ltd	4 HK	1.14
Wesco Financial Corp	WSC US	1.13
Penn West Energy Trust	PWE US	1.11
Shaftesbury Plc	SHB LN	1.10
Jardine Matherson Holdings Ltd	JM SP	1.02
SOFINA	SOF BB	0.90
Alexander & Baldwin Inc	ALEX US	0.87
Leucadia National Corp	LUK US	0.68
Royal Dutch Shell plc - ADR	RDS/A US	0.59
Investor AB - A Shares	INVEA SS	0.55
Cash	NZD	22.67

ELEVATION CAPITAL | VALUE FUND

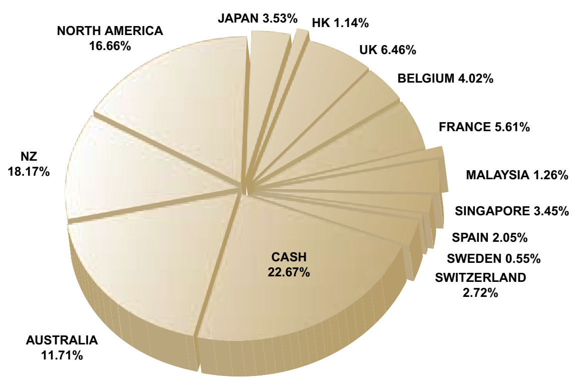
Portfolio By Industry - 30 June 2010



Total number of securities: 49

ELEVATION CAPITAL | VALUE FUND

Portfolio By Market - 30 June 2010



Total number of securities: 49

ELEVATION CAPITAL | VALUE FUND

Portfolio Review:

The Value Fund added five new positions during the second quarter – Arden Group (US), BP plc (UK), Groupe Bruxelles Lambert (Belgium), Genting (Malaysia), Sofina (Belgium).

We also took the opportunity to add to a number of existing positions within the portfolio as markets sold off. As a consequence cash levels declined from 31.20% to 22.67%.

[Please also note the following name changes within the portfolio: MMC Contrarian is now called Clearview Wealth Limited and Aruze Corp is now called Universal Entertainment.]

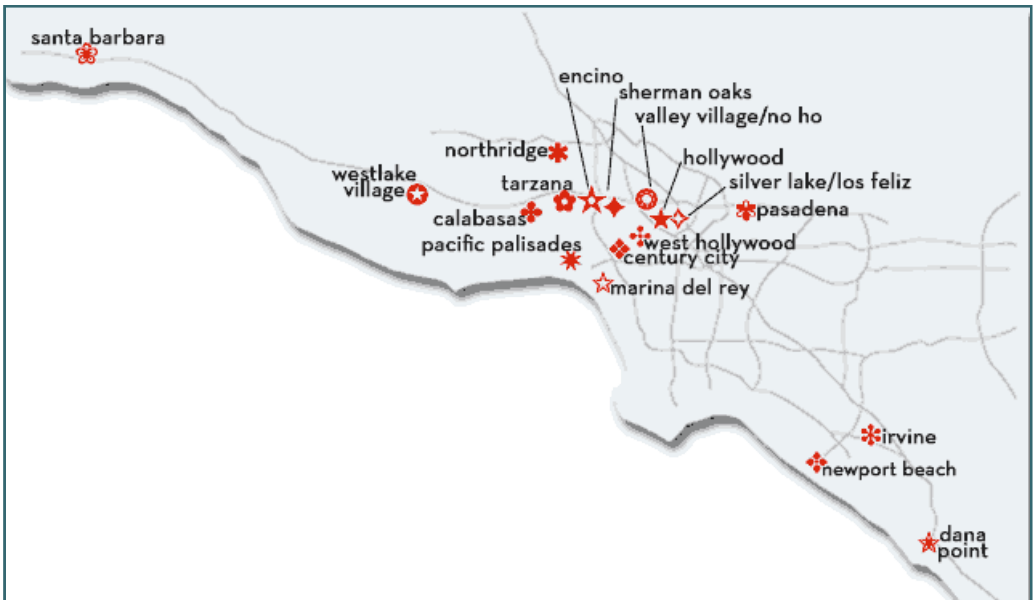
The Value Fund had one investment realisation during the quarter:

Exited Security	Ave. Entry Price	Ave. Exit Price	Absolute Return* (+/-)	Comments
Millenium and Copthorne	NZ$ 0.3827	NZ$ 0.4686	+ 22.45%	We sold our investment after the Company announced that it was a victim of fraud in China. This event in our view will only serve as a distraction to management for some time to come. We like the underlying NZ assets and the management of these assets but the debacle in China serves as a timely reminder as to the perils of even the most astute and well connected investing into that market.

**Note: Returns are not annualised but do include any dividends received over the holding period. All figures are unaudited.]*

Arden Group (ARDNA)

On 7 August 2007, I first wrote to investors in the Multi Strategy Fund about Arden Group the owner / operator of 18 Gelson's supermarkets in the greater Los Angeles area. Gelson's is "the first class cabin" of grocery stores – e.g. you don't unload the trolley at the check-out – they do it for you. Supermarket sites are now very hard to come by, especially in LA. The company owns 3 of their 18 sites. These are in the books at historical cost, together with neighbouring car parks. The leased supermarkets all have 18 year lease terms so there is value in them to another operator like Whole Foods in the future. Bernard Briskin owns ~57% of the Company and he is ~85 years old, with no family in the business (that we are aware of). The Company has a net cash position and a history of paying special dividends.



Gelson's Market Locations

Arden is a conservatively financed / asset rich company and is currently valued at well below sector wide earnings multiples. *How does this happen ?* Quite simply because it is a small capitalisation stock by US standards with a market capitalisation of only ~US$ 300mln. Therefore, it is largely overlooked by brokers / stock market analysts. This affords investors like ourselves the opportunity to uncover attractive long term investments (like Arden Group) which are in plain sight.

Closing Remarks:

While our portfolio businesses across the world continue to grow in intrinsic value, the same cannot be said for New Zealand as an economic unit in my opinion.

In this past week, we have seen Bright Foods from China purchase 51% of Synlait, Olam from Singapore (a major shareholder in local company Open Country Dairy) has bid for NZ Farming Systems Uruguay (a NZ Company essentially selling its farming technology to South America), and more recently it is my understanding that a Japanese company purchased the former NZX listed – Cedenco Foods. While I am not suggesting that any of these companies would be appropriate investments for Elevation Capital's Funds it is disappointing to continually see assets trade away to foreigners. This is occurring because New Zealand does not have a savings base of its own to invest in such entities. <u>We are highly dependent on offshore capital</u>. Our latest international position figures from the RBNZ provide a simplistic yet revealing picture as to our true economic position in my opinion:

	Private Sector		Official Government		Total	
	($m)	(% of GDP)	($m)	(% of GDP)	($m)	(% of GDP)
Mar. 2008	207,835	114.8	18,156	10.0	225,991	124.8
Mar. 2009	235,671	128.0	20,323	11.0	255,994	139.0
Jun. 2009	223,379	121.0	21,077	11.4	244,455	132.4
Sep. 2009	223,332	120.5	23,888	12.9	247,220	133.4
Dec. 2009	220,706	118.8	23,131	12.5	243,836	131.3
Mar. 2010	219,171	117.0	24,397	13.0	243,568	130.0
Last updated 25 June 2010						
Source: Statistics New Zealand						

(www.rbnz.govt.nz)

While the Government sector debt burden is growing it remains at a very low level when compared to other nations around the world at present.

However, the same cannot be said for private sector debt which now totals 117% of GDP. We can see quite clearly the New Zealand economy is in the process of deleveraging with debt levels down from NZ$ 236bln in March 2009 to NZ$ 219bln in March 2010. The key concern remains the fact that this large debt burden has increasingly in the last 5 – 10 years been funded by foreigners. Clearly, this external debt position leaves us vulnerable. It also highlights the need for greater domestic savings in my opinion. We have a scheme in KiwiSaver that could quickly be made compulsory -- Andrew Harmos (Chairman of the NZX and a Director of Elevation Capital Management Limited) has publicly suggested we start as low as 0.5% to "ease" people into it -- I agree that a low level for a period of time so as to establish both habit and prove to people the power of compounding makes sound economic and political sense.

However, such decisions require both economic vision and leadership -- I certainly hope for the sake of my children that this begins to appear sooner rather than later otherwise their business cards will only ever say XYZ (NZ) Limited a division of XYZ Inc. or XYZ plc.

I am equally worried we are losing a generation of investors at exactly the time that they can find great value in equity markets both domestically and internationally. The Government is taking the necessary steps to try and restore investor confidence via regulation but this is only one part of what in my view needs to be a multi faceted approach. Equally important is financial literacy, it is with some irony that in New Zealand the Retirement Commission is in charge of financial literacy. That is not to say they are not doing the best with the resources they have, but if our Government/s were really serious about beginning to address the savings gap that we very clearly have then in my opinion they would look to establish a separate entity with its primary responsibility to develop a program to attempt to deal with this very clear deficiency within our current education process / system over time.

Despite my somewhat gloomy closing remarks, these are the times to sow the seeds of fruitful long term investments.

Thank you for your continued support and interest.

Yours sincerely,

Christopher Swasbrook

Managing Director
Elevation Capital Management Limited

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 units or a solicitation of an offer to buy or sell units in either the Elevation Capital Multi Strategy Fund, the Elevation Capital Value Fund or to participate in any trading strategy. If any offer of units in the Elevation Capital Multi Strategy Fund or 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 Multi Strategy Fund or the Elevation Value Capital Fund which will supersede this information in its entirety.

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/s 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.