ELEVATION CAPITAL®

THIRD QUARTER 2011 INVESTOR REPORT

"Independent Thinking - Disciplined Investing"

12 November 2011

Key Performance Data					
	Q3 2011 Net Return (%)	FY 2011 Net Return (%)	Since Inception (%)	FUM (NZ$)	Unit Price (NZ$)
ECVF	-7.60%	-10.85%	+7.90%	$ 15.527mln	1.0790
ECGVFoF	-4.82%	-9.53%*	-9.53%*	$ 10.812mln	0.9047

**Fund inception date 30 April 2011.*

ELEVATION CAPITAL VALUE FUND		ELEVATION CAPITAL GLOBAL VALUE FUND of FUNDS	
Security	**% of Portfolio**	**Security**	**% of Portfolio**
Heartland NZ	9.57%	IVA – Global SICAV 1	34%
Vealls Limited	8.46%	Sequoia Fund	32%
Kirkcaldie & Stains	5.16%	Third Avenue Intl Value	28%
Colonial Motor Company	2.99%	Cash	6%
Skyline Enterprises	2.89%	----	----
Satara Co-operative Grp	2.62%	----	----
Pargesa SA	2.61%	----	----
Tishman Speyer Office	2.42%	----	----
Wakefield Healthcare	2.25%	----	----
Cisco Systems	1.33%	----	----

Q3 2011 Commentary:

"The budget should be balanced, the treasury should be refilled, public debt should be reduced, the arrogance of officialdom should be tempered and controlled, and the assistance of foreign lands should be curtailed lest Rome become bankrupt" [Cicero, 55 B.C.]

We have long held the view that history does not repeat but it rhymes, and this is very much the case today with the European debt crisis causing a significant sell-off in global equity markets during the third quarter. The sell-off was severe and indiscriminate. In fact, many stocks that we owned or were interested in acquiring traded back towards the lows of the GFC in 2008/2009 despite the presence of an increased cash balance and/or a stronger balance sheets at an individual company level. On this occasion, we (and the Managers we invest with in the Fund of Funds) were fortunate enough to have sizeable cash holdings, which afforded us (and them) the opportunity to (i) average down or (ii) acquire new positions.

Despite the negative sentiments globally stemming from the European debt crisis we have instead focused on why we believe we are not likely to experience another 2008-2009 collapse:

- US Banks (in particular) now have significantly stronger capital ratios;
- Multi-national corporates are in excellent financial condition;
- Revenue and profit growth is sound and translating into increased dividends and stock buy-backs;
- There is no longer a housing bubble in the US and as a result many cyclical sectors related to housing are at a very low percentage of GDP;
- Household Debt/GDP, while still high, has declined from 95.4% to 85.1% in the US. This has seen the debt service ratio substantially improve. (This is a common theme around the world);
- In the US, the consumer savings rate has increased from 1% to 5%. (This is also a common theme around the world);
- The lower US$ is helping US exports;
- Low wage inflation but improving productivity in the US;
- M&A (globally) is occurring (as evidenced in our portfolio in early November 2011). Additionally, there exists large pools of private equity capital across the globe;
- Investors remain very conservative and largely on the sidelines from equity markets;
- Market valuations are appealing – both in absolute terms and particularly relative to bonds.

[Source – Omega Advisors Inc. / Elevation Capital Management Limited.]

While it is clearly disappointing to everyone looking from the outside at the tardiness and lack of substantive policies offered by Euro-zone governments and the ECB to address the European sovereign-debt issue. It has taken a large toll on global risk assets irrespective of quality. We continue to believe that governments and the ECB (for now) will address the sovereign debt issue in a manner which sees the Euro area survive and eventually grow once again, albeit slowly. The exact timing of this remains difficult to predict and the end result may (i) need to be "monetisation" (printing money), something the Germans remain inflexible on to date, or, (ii) a move towards two Euro's, with the "Southern Euro" being allowed to depreciate so its member states can become competitive again.

Maintaining perspective remains critical despite the various suggestions that capitalism is broken or dead. Below is a chart of the long-term performance of the S&P 500. Since 2000, the market has clearly made little progress, but if one looks back over a longer time period then it seems to us a real stretch to suggest (as the commentary on the chart sarcastically suggests) that market forces and entrepreneurship are failing us as a society. In fact, it reiterates to us that we live in a world that continues to make secular progress amid cyclicality. While it is easy to become distracted in the short term our investment process continues to emphasise an analysis of a company's (and its management's) longer term performance via (a minimum) 7 year earnings, dividend and asset value analysis – we believe this provides a more accurate picture into the earnings cycle/capacity and asset values within a particular business.

Commentary for the Elevation Capital Value Fund:

The quarter saw two key areas of focus from a funds management perspective: (i) the continued acquisition of attractive long-term investments in what has proven to be the most active buying period (based on number of holdings) since Elevation Capital was founded (see list below) and (ii) the merger of the Elevation Capital Multi Strategy Fund and the Elevation Capital Value Fund into one Fund that is more diversified (globally), has improved liquidity, lower costs due to increased scale and is far more understandable and accessible for retail investors based on its size and expected research coverage from the likes of Morningstar and FundSource.

During the quarter (on a merged fund basis) we undertook the following portfolio initiatives:

New Positions: Nil.

Added to Existing Positions: Artio Global (US), Ambertech (AU), Société des Bain der Mer (FR), Société BIC (FR), Berkshire Hathaway (US), Ciments Français (FR), Delta Lloyd (Netherlands), Encana (Canada), Esso Francais (FR), Exxon (US), Total (FR), Gaumont (FR), GAM Holdings (SW), Groupe Bruxelles Lambert (Belgium), GPG plc (NZ), Heineken (Holland), Imation (US), Italcementi (Italy), Kirkcaldie & Stains (NZ), K-Swiss (US), Kirin (Japan), Makita (Japan), National Can (AU), Nestlé (SW), Northland Port (NTH), NZ Windfarms (NWF), NZ Oil & Gas (NZ), NZ Refining (NZ), OPAP (Greece), Pargesa (SW), Premier Foods (UK), Penn West Energy (Canada), ProShares Ultra Short 10yr Treasuries (US), Royal Dutch Shell (UK), Rural Equities (NZ), Sofina (Belgium), Molson Coors (US), Titan Cement (Greece).

Reduced Existing Positions: GPG plc (NZ), Kirkcaldie & Stains (NZ), Skyline Enterprises (NZ), Swiss Helvetia (US), Vealls (AU).

Exited Positions: Nil.

Below we have provided some specific commentaries on several of our holdings and why we prefer several international investments versus a domestic exposure. These short commentaries are designed to provide you with a high level overview and updates on some of the Fund's investments:

Satara
together growing value

- Satara has been a long-standing investment for Elevation Capital with many twists and turns.
- On 24 June 2011, Christopher Swasbrook was elected a Commercial Director of the Company
- On Friday, 11 November 2011, Satara Co-operative Group and Seeka Kiwifruit Industries announced an amalgamation. Since Chris is a director of the Company, we cannot provide any additional commentary outside of the respective NZX and NZAX announcements which can be found at www.nzx.com.
- Satara stakeholders are set to vote 2 December 2011 and, should the transaction complete we will provide further comment and analysis in our Q4 2011 Commentary.
- *(Note: Satara is 2.62% of the Value Fund Portfolio as at 31 October 2011)*

JAPEX Japan Petroleum Exploration Co.,Ltd.

- JAPEX is an international oil and gas company, which also includes domestic Japanese natural gas and LNG distribution assets.

- Market Cap = US$2.25 billion

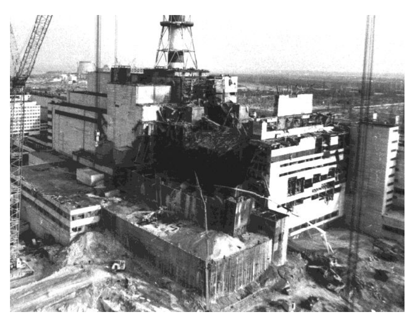
- Trading at 50% of Book Value at our acquisition cost

- Dividend Yield = 1.32%

- We have owned both JAPEX (and sister company INPEX) for several years based on the sizeable discount to both reserves and international peers at which they trade. However, it is actually the Fukushima Earthquake and Tsunami which (in our opinion) has reinforced the long-term investment merits.

- Below are pictures of an LNG distribution plant versus those pictures now associated with nuclear energy on a worldwide basis. It seems obvious to us that both the government and the people of Japan will have a strong preference for one versus the other in the years ahead as they continue to deal with the fall out from Fukushima. JAPEX (and INPEX) are well placed to capitalize on this in our opinion.

Versus



- Molson Coors - Canadian / US brewer;
- Market Cap = US$ 7.50Bln;
- Trading below Book Value at our acquisition cost;
- Dividend Yield = 3.1%;
- Buyback announced 2 August 2011 = US$ 1.20Bln;
- If there is no change in the market cap or total dividend over next 3 years while the buyback is active we estimate we will still earn 8.80% per annum (not bad when compared to many fixed interest investments when relative risk is taken into account);
- The Company is trading at a sizeable discount to peers due to a lack of "emerging market exposure" – but we are still comfortable with the reliability of "old world" drinkers!
- *(Note: Molson Coors is 0.82% of the Portfolio as at 31 October 2011)*

- Dolby Labs – develops and delivers products and technologies to enhance audio entertainment experience;
- Globally recognised brand;
- Market Cap = US$ 1.47bln
- US$ 900mln of cash and short term investments – no debt;
- Capital light business model suggests much of the cash can be returned to shareholders;
- Return on Equity ~20%;
- Ray Dolby (founder) still owns 52% of the Company and has voting control – we believe this creates a strong alignment of interest;
- *(Note: Dolby Labs is 0.39% of the Portfolio as at 31 October 2011)*

Why we don't own Fletcher Building in the Value Fund…

- Value-destructive acquisiton history (in our opinion);
- Dividend yield not enough… need to look at "tangible" asset values and cashflow (in our opinion);
- Total Debt to Total Equity (below) also needs to be adjusted for sizeable "intangibles" (in our opinion);

	Stock Price	Cheapness Ranking	Overall Score	P/E (TTM)	P/E FY11	P/E FY12	P/B	P/TB	P/CF	Dividend Yield	Total Debt / Total Equity
Lafarge SA	27.95	2	2.67	11.6	10.5	8.8	0.49	4.3	3.7	3.6	1.08
Ciment Francais SA	65.7	3	2.83	12.6	13.1	10.5	0.69	1.3	3.6	4.7	0.53
Italcementi SpA	4.95	1	2.50	26.0	24.8	14.1	0.38	0.7	1.6	2.5	0.84
Titan Cement	12.3	5	4.00	17.4	27.3	14.8	0.67	1.0	5.8	0.7	0.63
Fletcher Building Ltd	6.39	4	3.00	14.3	10.6	8.3	1.18	2.3	8.7	5.2	0.55

[Data Source: Thomson Reuters]

<u>Some of the building materials companies we have invested in within the Value Fund portfolio:</u>

- Lafarge SA – world's largest building materials company. The Fund maintains exposure via Pargesa in Switzerland. By purchasing Pargesa we access Lafarge (and other global companies) at an attractive discount to the market price via a well-financed holding company which also has Board representation at Lafarge (and other global companies) – Pargesa is Lafarge's largest shareholder owning +20% of the company.
- Italcementi SpA owns +80% of Ciments Français SA - there exists a compelling case to consolidate the two enterprises at some stage. In the interim, we receive relatively attractive dividend yields on stocks trading at very low multiples to both tangible book value and cashflow.
- Titan Cement – Greek listed since 1912 but global operations – with attractive North African / Emerging market operations.
- *Note: Pargesa, Italcementi, Ciments Français and Titan Cement are 2.61%, 0.58%, 0.85%, and 0.58% of the Value Fund Portfolio (respectively) as at 31 October 2011.*

Closing Comments:

The Value Fund closed the third quarter with a cash balance of 17.09% and with the total number of investments held at 98. Long-term investors with Elevation Capital will have noticed that this is a significantly larger number of holdings with larger market-caps and smaller individual position sizes than has historically been the case. We believe this better suits our investment style and the current environment. It also maintains liquidity within the portfolio and reduces Fund volatility.

We expect the Top 10 investments to exhibit a trend of reducing in absolute size either via investment realisations or growth in funds under management over the next 12 months. It is reasonable to expect (going forward) our largest position size to represent no more than 3% - 4% of the total portfolio, which is well under the 5% cap imposed by the new Establishment Deed approved by Unitholders. *(Please note: we have an 18-month window to reduce Heartland, Vealls and Kirkcaldie & Stains to below the 5% threshold.)*

We do not envisage that a greater number of smaller positions forming the bulk of the portfolio will have a significant impact on returns over the long term and in fact believe it is reasonable to expect it may result in improved performance. It is equally important to highlight that we will continue to maintain a robust cash balance in the Fund to provide us with "dry powder" and liquidity for our Unitholders should they require it. *(Note: we consider a 15% - 20% cash balance to fit the definition of robust.)*

In closing, we continue to believe that there is a real time arbitrage opening up at present. The playing field for long term investment is becoming less crowded. Fewer and fewer people are thinking about investing in businesses versus speculating in/on markets. We believe this continues to afford investors the opportunity to buy long duration investments at attractive prices.

Commentary for the Elevation Capital Global Value Fund of Funds:

The Elevation Capital Global Value Fund of Funds Managers performed extremely well during the quarter -4.82% versus the MSCI World Value Index -11.11% over the same period. While a negative performance is difficult to become excited about we believe it has to be analysed in the context of an extremely volatile and hostile environment to global investing. We believe that, in the long term the real performance battle for a fund manager is won during periods of prolonged market weakness and the manager/s delivering solid outperformance during these periods.

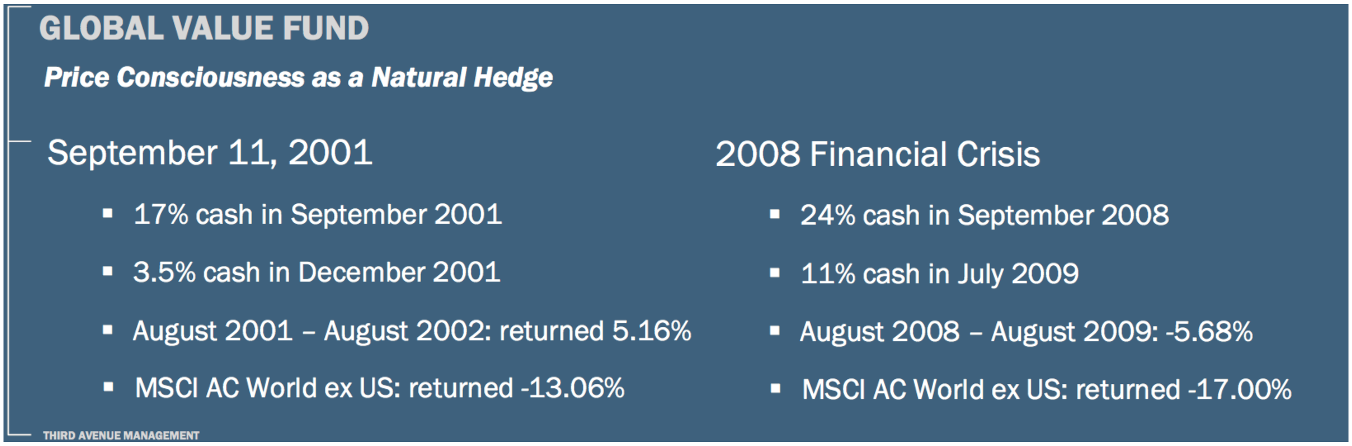
In this commentary we have decided to focus on just one of the Managers – Third Avenue. The Fund in which we are invested is a global value fund, which has traditionally invested in emerging markets. However, the approach by the Manager has been to try and be the first on the ground (so to speak).

Slide 1. Provides an illustration of where the portfolio manager and his team of analysts are currently searching for new investments. You will notice that Africa is currently an area where they now see potential opportunity for long-term investment. We as NZ investors generally have little ability to access investment opportunities in Africa that maybe presented to an experienced (and well resourced) global investment manager like Third Avenue. While it is reasonable to expect that any such investments (if undertaken) will take time to deliver results, the real point is that one of the Managers in which we are invested is on the ground searching for potential opportunities on our behalf in regions and countries that most people are not even currently thinking about. Elevation Capital believes this is how we can add value to one's portfolio over the long-term.

Slide 1. Source – Third Avenue - Emerging Markets Investment Activity by Third Avenue as at 6 October 2011.

Slide 2. Details the Managers view towards utilising cash and allowing cash to build in the portfolio to take advantage of the opportunities when they present themselves. Below Third Avenue has detailed its performance post the "World Trade Center attacks" on 11 September 2001 and post the "Global Financial Crisis" in September 2008.

We believe the performance (detailed below) post these events illustrates the importance of investing with Managers whom are prepared to hold cash and deploy it when everyone else is heading for the "exits".



Slide 2. Source – Third Avenue (The returns are calculated based on USD)

Closing Comments:

The Elevation Capital Global Value Fund of Funds should be viewed as a truly long term investment fund. The investment story/idea is not a complicated one – it really breaks down into two key facts:

(i) As investors in this Fund, we are without doubt invested with (and alongside) some of the world's best investors, (and);

(ii) The underlying managers with which we are invested all focus on the long term and invest on an understandable premise that "price is what you pay, value is what you get".

We will continue to distribute the individual manager commentaries via email links – we encourage you to take the time to read them. These commentaries and videos can also be accessed on our website – www.elevationcapital.co.nz.

Once again thank you for your continued support and trust.

Yours sincerely,

Elevation Capital Management Limited

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