

adidas®  
GROUP

AngloAmerican

Arcos Dorados

Chesapeake  
ENERGY

COACH

DeLaRue

DIAGEO

Discovery  
COMMUNICATIONS™

Edgewell™  
PERSONAL CARE

Givaudan®

gsk  
GlaxoSmithKline

G·A·B  
GUINNESS  
ANCHOR  
BERHAD

HEINEKEN

KERING



Mondelēz  
International

MSG

Nestlé

pental



P&G

RÉMY COINTREAU USA

SAN JUAN BASIN ROYALTY TRUST

SCHOLASTIC

SGS

skyline

SWATCH GROUP

TIFFANY & CO.

TIME

TimeWarner



Tribune Media

VIACOM

# QUARTERLY REPORT

ELEVATION CAPITAL VALUE FUND

31 December 2015

ELEVATION CAPITAL®

Quarterly Report – Period Ending 31 December 2015

## PERFORMANCE

Performance	Q4 2015	FYTD**	CYTD***	2 Years Annualised	3 Years Annualised	5 Years Annualised	7 Years Annualised	Since Inception Annualised
Value Fund NZ\$ (Net)	-3.37%	2.91%	6.94%	4.53%	10.59%	5.55%	6.13%	6.08%
Value Fund US\$* (Net)	3.41%	-6.05%	-6.33%	-4.67%	3.92%	2.84%	8.51%	8.88%
Average Cash Balance	-	17.64%	18.14%	21.07%	21.43%	21.29%	27.40%	28.14%


\* 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
		4.02%			3.38%
		3.99%			3.36%
		3.84%			3.28%
		3.72%			3.25%
		3.41%	<b>TIFFANY &amp; CO.</b>		3.09%

## COMMENTARY

### Q4 2015

The fourth quarter (and now into early 2016) saw continued volatility in global markets as commodity prices further weakened and investors exhibited concern about China's slowing growth rate and monetary interventions by the People's Bank of China (PBOC). The Fund took advantage of this volatility on both the acquisition and divestment front – please refer page 5 of this report for further details on specific names.

As we have written in the past, many investors fixate on the headlines on an almost daily basis and try to “time” the markets by buying and selling in rapid fashion. History shows time and time again that short-term events that make headlines have very little impact on long-term business value. Being only concerned with the long-term value we continue to use the short-term exuberance of speculators to sell and fear of the same short-term investors to acquire fractional interests in enterprises we deem underpriced and attractive in the long term.

During periods of market exuberance in the fourth quarter we exited a number of positions that exceeded our estimate of their intrinsic values – all of these divestments delivered positive investment returns (including dividends) for the Fund over their respective holding periods: LAACO – Los Angeles Athletic Club which we held for 6.5 years, generated a return per annum of +13.2%; Molson Coors which we held for 4.7 years, generated a return per annum of +29.8%; Imperial Brands plc which we held for 4.2 years, generated returns per annum of +22.8%; Post Holdings which we held for 2.2 years, generated returns per annum of +41.8% and EBay/Paypal which we held for 1.0 years for the spin-off transaction, generated a return per annum of +30.9%.

Please find a [link](#) to our newly created Historical Investments webpage, to view those investments on which we produced an investment presentation. Here you can review our historical thinking on these investments - two examples are detailed below:

<http://www.elevationcapital.co.nz/molson-coors>

<http://www.elevationcapital.co.nz/post>

### **The Importance of Your Own Research**

The importance of conducting your own research was highlighted during 2015 and we would like to use one particular example the financial world has been trans-fixed with – Valeant Pharmaceuticals. (*Note: we did not and do not hold this stock in the Value Fund or any of our Separate Account portfolios.*)

Valeant is a pharmaceutical company, which has been a serial acquirer of small pharmaceutical companies. Its modus operandi is to cut research and development budgets immediately on acquisition and then in many cases raise prices of the existing drugs within the acquired companies' portfolio.

Valeant Pharmaceuticals had many high profile investors - one in particular - Mr. Bill Ackman from Pershing Square Capital Management. Mr. Ackman is an extremely successful investor and by virtue of this fact, many people follow his investments very carefully. In fact, it would not be uncommon to find numerous money managers that simply “mirror” Mr. Ackman's and others portfolios with little or no due diligence of their own. Companies like Valeant Pharmaceuticals are frequently referred to as “hedge fund hotels” due to the substantial ownership by these funds that have “mirrored” one or more large name investors.

For a very short précis of the issues at Valeant Pharmaceuticals please visit [here](#) and [here](#).

This ‘mirroring’ is not an “investment process” we subscribe to at Elevation Capital. We undertake all of our own research and this enables us to produce comprehensive presentations on the companies we own in the Value Fund (or on behalf of our Separate Account clients). Please find a link to presentations on some of our Current Investments [here](#).

We have also published our research into an Annual Research Publication available in hardcopy or online – please find a link to our 2014 inaugural publication [here](#). Our 2015 Research Annual will be released in late February 2016 and an online link will be sent to all investors.

Our ‘Research Annual’ will include all of our research presentations in a given calendar year irrespective of the returns they delivered. We believe this continues to set us apart from most fund managers (on a global basis) as we offer our investors a high level of transparency on where their money is invested (or has been invested) and why.

The aforementioned research is a key part of the selection of enterprises we choose to invest in. Below is a snapshot of the companies we met with (or attended a presentation by corporate personnel) in the past year:

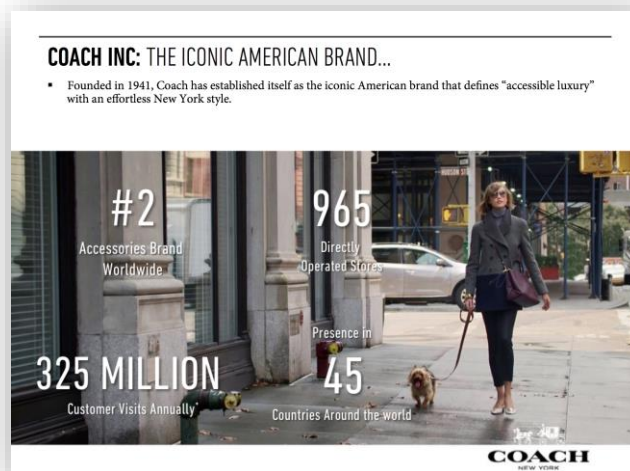


Our research process leads us to companies on our own terms. By virtue of this fact the Value Fund’s overall portfolio is quite unlike any other value manager that we are aware of and we continue to maintain a high “Active Share” versus the MSCI All Country World Index (“the Index”) equivalent to 97.2%. We have written previously about Active Share [here](#). As a short re-cap, this means the Fund is 97.2% different to the Index and therefore only has 2.9% commonality with the underlying holdings of the Index. This highlights the key tenants the Fund was founded on, “Independent Thinking – Disciplined Investing”.

Our most recent research presentation is on Coach Inc. – a link to the presentation is detailed below:



<http://www.elevationcapital.co.nz/coach>



Coach Inc. is famous for its Coach logo bags and accessories. The Coach brand is the #2 accessories brand worldwide. The Company has 965 directly operated stores, a presence in ~45 countries and 325 million customer visits per annum. The past expansion strategy under previous management led to excessive promotions that damaged the Coach brand and allowed competitors to secure meaningful market shares. Since 2013, the Company has embarked on a turnaround/rebranding effort - led by a new creative director Stuart Vevers. The opportunity to invest in Coach presented itself as investors were becoming impatient as the Company continued to rein in promotions, close stores and execute a rebranding strategy, which saw significant declines in revenues and profits in the short term. This potentially provides a longer-term investment opportunity, as the stock now trades at multiples below that of its major peers and below past industry consolidation multiples. This is despite having a long list of positive attributes, such as a net cash position, real estate which can be monetised, strong free cash flow generation and a high dividend payout (with low risk to a dividend cut). Lastly, Coach may potentially become an acquisition/merger target for a competitor, luxury conglomerate or even private equity.

Coach is currently (as at 31 January 2016) the largest position in the Fund with a weighting of 4.29% of the portfolio.



### Portfolio Review – Q4 2015

Below we have detailed the five largest contributors/detractors from Fund performance during Q4 2015:

Contributors Q4 2015		Detractors Q4 2015	
Pental Ltd	Australia	Chesapeake Energy Corp	US
adidas AG	Germany	Anglo American Plc	UK
Coach Inc	US	Time Inc	US
News Corp	US	Tribune Media Co	US
Post Holdings Inc	US	De La Rue Plc	UK

During Q4 2015 we undertook the following portfolio movements:

Increased	Decreased	Exited	New
Anglo American	GlaxoSmithKline	BHP Billiton	MSG Networks
Arcos Dorados Holding	Procter & Gamble	Cable One	Time Warner
De La Rue		eBay/Paypal	Tribune Media
Discovery Communications		Imperial Brands	
Edgewell Personal Care		LAACO	
Pental		Molson Coors Brewing	
Scholastic		News Corp	
Tiffany		Post Holdings	
Time			
Viacom			

We exited the following positions during Q4 2015:

Company Name	Holding Period	Annualised Returns <sup>1</sup>	Reason for Sale
BHP Billiton	<1 month	Positive	Change of view
Cable One	0.1yr	Positive	Redirected funds to new positions
eBay/Paypal	1.0yr	+30.9%	Spinoff completed
Imperial Brands	4.2yrs	+22.8%	Reached Intrinsic value estimate
LAACO	6.5yrs	+13.2%	Reached Intrinsic value estimate
Molson Coors Brewing	4.7yrs	+29.8%	Reached Intrinsic value estimate
News Corp	0.3yr	Positive	Redirected funds to new positions
Post Holdings	2.2yrs	+41.8%	Reached Intrinsic value estimate

<sup>1</sup> In the holding's local currency including dividends



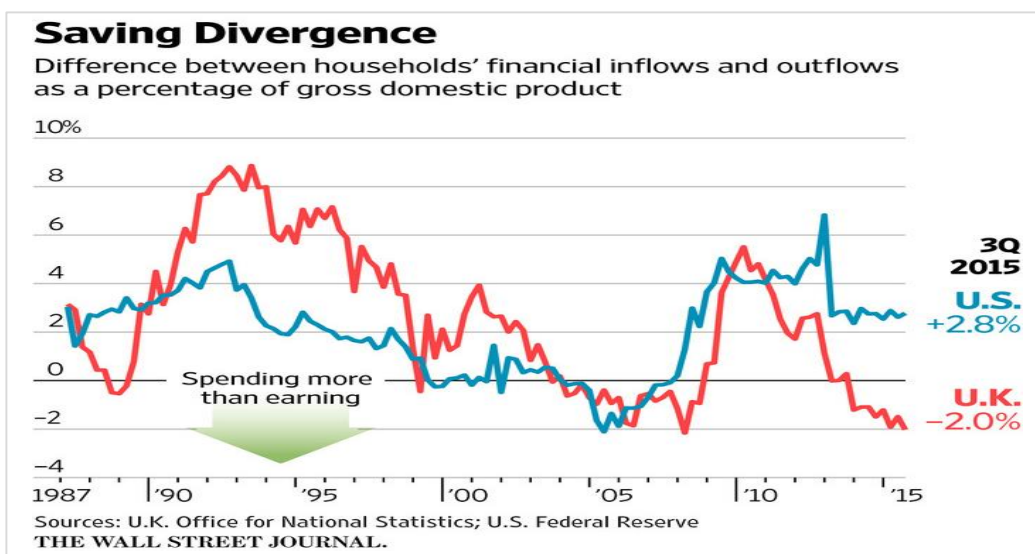
**Contemplating a Global Monetary Experiment**

With interest rates moving into negative territory in Japan in 2016, (following Austria, Denmark, Germany, the Netherlands, Switzerland and Sweden), we have been reflecting on this being implemented by more Central Banks around the world and the distortions low or negative interest rates may create in various asset classes.

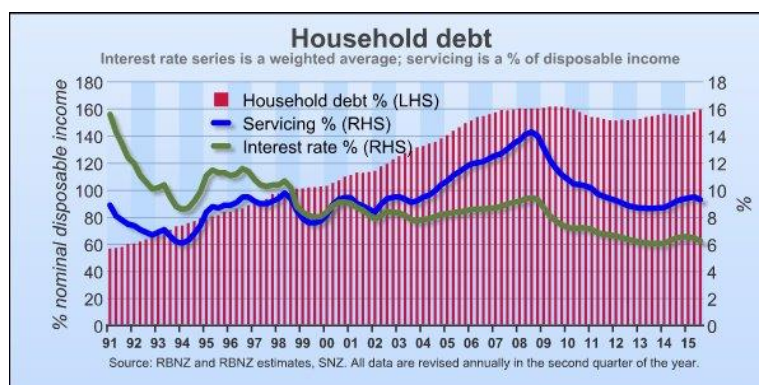
As Mr. Jim Grant of Grant’s Interest Rate Observer aptly wrote on 11 December 2015, “Ultra-low interest rates work their black magic as the clock ticks. They pull consumption forward in time and push failure backward in time. They flatter the judgment of aggressive lenders and ease the burdens of encumbered borrowers ... The benefit’s of today’s monetary experiments are mainly in the past; the costs of those benefits loom mainly in the future.”

With Mr. Grant’s sentiments in mind we thought it worthwhile to highlight...

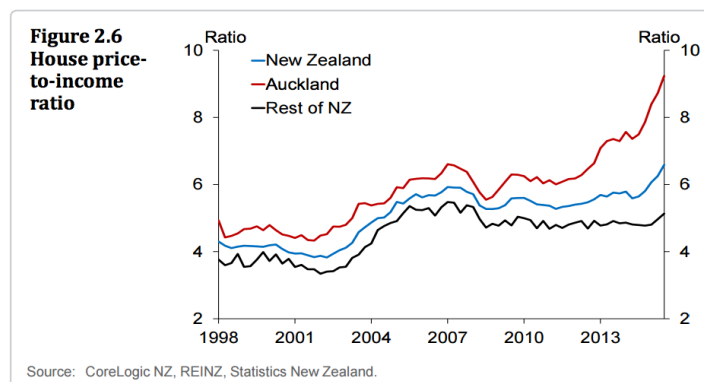
UK households are once again spending more than they earn. Within developed countries the Wall Street Journal says that only Canada is in a similar position to the UK. Higher home values are once again to blame and are fueling a belief among homeowners they can bulk up on debt (with increases in house prices raising equity). History and current residential property price appreciation suggest to us this is a potentially growing risk for New Zealand. (Especially as we believe that New Zealand is becoming an increasingly expensive place to live relative to many developed countries around the world.)



Given our poor savings history this is clearly something to watch in New Zealand – especially as household debt is now attaining new highs according to RBNZ data. The RBNZ Financial Stability Report (November 2015) tables that, “Household debt-to-income multiples (DTI) remain elevated at 160% of household disposable income ...”



Also concerning with regard to overall financial stability according to the RBNZ, “The price-to-income multiple of Auckland has now reached 9.2x, up significantly from 6.0x in 2011” – refer chart below. This is high by international standards and has seen New Zealand the feature of a recent report by Fitch (released January 2016) with the highest house prices in the world on a cost-to-income basis.



Additional commentary from the RBNZ concludes that, “substantial falls in Auckland rental yields in recent years are stretching the debt servicing capacity of investors, and suggest investors are entering the market on the expectation of capital gain. Consistent with low rental yields, the median Auckland Residential Property Investment Survey expects cumulative house price inflation of +48% over the next five years.”

In our view, the time may be approaching to act more judiciously. Simply put, when underlying fundamentals do not support an investment on a standalone basis – e.g. they rely on large periods of interest only payments in a low interest rate environment or when the returns rely on the greater fool theory of investment (someone who is a greater fool will purchase at a higher price) as opposed to being supported by basic fundamentals – like income or rental growth.

It seems to us many “investors” are using a rapid short-term increase in asset prices (and at present very low interest rates) to extrapolate out future asset growth – something we as value investors believe speculators fall victim to time and time again - with little or no regard to the underlying earning capability of the assets, the tenants earnings or earnings capacity (in the case of real estate), overall credit risks and the fact that global monetary stimulus has seen a rising tide lift all ships.



**In Closing**

Our caution may prove to be misplaced with regard certain asset classes (e.g. real estate) and the monetary experiment we now find ourselves immersed in globally. We admit we no longer understand the financial leverage within many parts of our economy and its affordability based on current income/earnings data.

Despite our caution, we remain positively disposed to the long-term outlook for our underlying investments – fractional interests in world-class businesses/franchises. For example, despite slowing growth in China – we cannot escape the fact that they have the largest set of consumers in the world at present and their economy will be a lot larger in ten years than it is today. This is extremely positive for the likes of Coach, Kering, Remy Cointreau, Swatch, Tiffany and Tod’s – all holdings within the Value Fund portfolio at present.

So for the “market timers” in all of us, it is worth remembering that (excluding two commodity exposed investments – Chesapeake Energy and Anglo American) we are invested in enterprises that are well-capitalised, have a high percentage of recurring purchasers or desirable products with pricing power and most importantly are undervalued relative to what we believe an experienced industry participant might pay to acquire the assets/brands of the business.

The Fund therefore remains an attractive vehicle to acquire fractional interests in world-class businesses/franchises at a sizeable discount to what we believe they are intrinsically worth.

Respectfully submitted,

**Christopher Swasbrook**  
**Principal**

**Elevation Capital Management Ltd**

**Richard Milsom**  
**Principal**

**Elevation Capital Management Ltd**

**John Tsai**  
**Principal**

**Elevation Capital Management Ltd**

**FUND PORTFOLIO HOLDINGS**

Asset	Domicile*	% of Portfolio	# of Shares	Year First Purchased	Asset	Domicile*	% of Portfolio	# of Shares	Year First Purchased
Discovery Communications Inc	US	4.02	22,500	2015	The Swatch Group	Switzerland	2.64	1,125	2014
Procter & Gamble Co	US	3.99	7,500	2015	Remy Cointreau	France	2.40	5,000	2014
Coach Inc	US	3.84	17,500	2015	Nestlé SA	Switzerland	2.37	4,750	2011
Pental Ltd	Australia	3.72	1,250,000	2014	Time Inc	US	2.36	22,500	2014
Edgewell Personal Care Co	US	3.41	6,500	2015	Kering	France	2.30	2,000	2015
Mondeléz International	US	3.38	11,250	2012	Guinness Anchor Bhd	Malaysia	2.17	105,000	2013
Scholastic Corp	US	3.36	13,000	2013	Arcos Dorados Holdings Inc (ADR)	US	2.08	100,100	2014
adidas AG	Germany	3.28	5,000	2014	Tod's Spa	Italy	1.99	3,750	2014
Time Warner Inc	US	3.25	7,500	2015	SGS SA	Switzerland	1.98	155	2015
Philip Morris International	US	3.09	5,250	2015	Glaxosmithkline Plc	UK	1.36	10,000	2013
Tiffany & Co	US	3.07	6,000	2012	Chesapeake Energy Corp	US	1.28	42,500	2012
Diageo Plc	UK	3.03	16,500	2014	Skyline Enterprises	NZ	1.08	15,000	2009
Tribune Media Co	US	2.95	13,000	2015	Liberty Media	US	1.05	4,000	2015
Viacom, Inc	US	2.95	10,000	2014	Anglo American Plc	UK	0.98	33,000	2011
Givaudan SA	Switzerland	2.87	235	2015	San Juan Basin Royalty Trust	US	0.57	20,500	2016
Heineken Holdings NV	Netherlands	2.84	5,500	2010	MSG Networks Inc	US	0.04	300	2015
De La Rue Plc	UK	2.83	65,000	2015	Cash		17.48		

Total Number of Holdings = 33, Total Number of Countries = 10

\* Domicile = Primary Listing

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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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