ELEVATION CAPITAL®

FIRST QUARTER 2011 INVESTOR REPORT

"Independent Thinking - Disciplined Investing"

5th May 2011

Key Performance Data

	Q1 2011 Net Return (%)	FY 2011 Net Return (%)	Since Inception (%)	FUM (NZ$)	Unit Price (NZ$)
ECVF	+4.53%	+9.49%	+21.03%	$ 6.166mln	1.2103
ECGVFoF	-----	-----	-----	-----	----
ECMSF	+0.86%	+7.26%	-11.84%	$15.700mln	0.8816

Top Ten Holdings

ELEVATION CAPITAL VALUE FUND		ELEVATION CAPITAL GLOBAL VALUE FUND of FUNDS		ELEVATION CAPITAL MULTI STRATEGY FUND	
Security	**% of Portfolio**	**Security**	**% of Portfolio**	**Security**	**% of Portfolio**
Maryborough Sugar	1.97%	----	----	Building Society Hldg.	14.16%
Kirkcaldie & Stains	1.91%	----	----	Vealls Limited	8.28%
CNP	1.83%	----	----	Colonial Motor Co.	5.93%
JAPEX	1.81%	----	----	Kirkcaldie & Stains	5.80%
Vealls Limited	1.73%	----	----	Skyline Enterprises	4.47%
Van Eyk 3 Pillars	1.70%	----	----	Tishman SpeyerOffice	4.08%
Société BIC	1.70%	----	----	Salvus Strategic	3.54%
Skyline Enterprises	1.65%	----	----	Satara Co-op Group	3.53%
GPG plc	1.60%	----	----	Pargesa SA	3.21%
Yonex Co.	1.60%	----	----	Smiths City	3.09%

Quarterly Commentary:

Our Funds delivered positive returns during Q1 2011 as we remained conservatively positioned with robust cash holdings in both Funds. For the year ending 31 March 2011, the Elevation Capital Value Fund (ECVF) delivered a net return of +9.49% and the Elevation Capital Multi Strategy Fund (ECMSF) a net return of +7.26%. Both Funds remain un-hedged on all international investments, and in the case of ECVF, this return was delivered with an average cash balance of 34.71% over the year. When one considers this from a so-called "risk" perspective, we believe it highlights the exceptionally conservative positioning of this Fund since its inception in late 2008 with our cash balance averaging 44%.

Many investors and industry professionals question our decision to hold large cash balances, potentially at the expense of investment returns. However, we continue to see this as an integral part of our long-term investment strategy for the following reasons:

(i) Cash lies at the heart of defensive investing. Our job is not only to do the right thing, but to try and not do the wrong thing. Clearly, this is not an objective which we have a 100% strike rate with, nor do we expect one in the future - we all make mistakes. However, cash increases our likelihood of survival and our ability to capitalise on the opportunities when others cannot. This is exactly the reason why we eschew leverage in our underlying investments - it also increases their likelihood of their survival during times of duress;

(ii) Cash also provides us with the ability to target multiple investments when such opportunities present themselves. "Acts of Randomness" seem to be increasing not decreasing, and with this comes opportunity. *Refer page 2, our recent purchases in Japan and Europe*;

(iii) Cash provides considerable option value - this option value is not priced into a Fund's NAV. After a severe stock market dislocation, $1 of cash has more than $1 of buying power as assets go on sale, particularly if there are distressed investors who need cash and will sell investments below fair value to access cash quickly. This option value will increase in time if the Manager proves themselves adept at allocating capital over long periods of time;

(iv) Finally, unlisted unit trust capital is not permanent and therefore individual fund liquidity is of paramount importance, to avoid having to sell investments at unfavorable times.

Due to this philosophy, we are sure to underperform the markets at times -- this is why most money managers remain fully invested. However, compromising safety for short-term returns is not a strategy we wish to adopt. Buffett once said -- *"as a group, lemmings have a rotten image, but no individual lemming has ever received bad press."* Bruce Berkowitz has summed it up even better -- *"avoid the crowd".* We will continue to heed their sound advice.

Christchurch Earthquake:

Both Funds currently hold positions in a number of South Island-domiciled companies or companies with operations in Christchurch. These are: Skyline Enterprises (ECMSF & ECVF), Smiths City (ECMSF) and the Colonial Motor Company (ECMSF & ECVF).

- Skyline Enterprises suffered the greatest impact with the 50%-owned Christchurch Casino, closed for an extended period of time. However, given Skyline's robust financial position (no debt) and diversified operations with the bulk of revenue and earnings being generated in Singapore, Queenstown and Rotorua, the financial impact will not be substantial.
- Smiths City was also impacted with a number of its stores (including its main Colombo Street store) suffering extensive damage. While there is a short-term economic impact as business interruption insurance will never fully cover the lost income, the prospect of a significant rebuilding program in Christchurch over the next 5 - 10 years will eventually provide Smiths City with a strong tailwind despite the sector remaining extremely competitive.
- For Colonial Motors, Christchurch is just part of a nationwide operation, which has strong representation in Wellington and small cities serving prosperous rural areas.

These impacts highlight to us the benefits of investing in financially strong and operationally diversified companies even if their businesses seem unglamorous.

Japan:

In the aftermath of the March Japanese earthquake, many equities suffered significant price declines. At the end of Q4 2010 our weightings in Japan in each fund were 5.17%% (ECVF) and 0.78% (ECMSF). By the end of Q1 2011, this was 8.95% and 1.49%, respectively - we took advantage of the "weak sellers" and added to existing positions,- but we also acquired new positions in Japan Tobacco (ECMSF), Makita (ECVF), Yonex (ECVF) and Mizuno (ECVF).

We also took opportunity of the global market weakness following the Japanese markets' aggressive sell-off to acquire a number of stocks (mostly in Europe and the US) which we felt presented interesting opportunities. We acquired the following stocks during the quarter: Molson Coors (ECVF), Laurent-Perrier (ECVF), Esso Francaise (ECVF), Encana (ECVF & ECMSF), Carrefour (ECMSF), Ciments Français (ECMSF), Liberty Media, (ECMSF), Lorillard (ECMSF), Sanofi Aventis (ECMSF), Société BIC (ECMSF).

Berkshire Hathaway:

News of the now infamous David Sokol "Lubrizol" trading scandal was first released by Berkshire Hathaway on 30 March 2011. ECVF is a shareholder in Wesco Financial, which Berkshire Hathaway is currently bidding for. Andrew Harmos and I had decided to travel to Omaha, Nebraska to attend the Annual Meeting prior to the Sokol announcement but the subsequent fall-out made attendance all the more interesting. Please see EC Insights # 2 for our full commentary on the Berkshire Hathaway 2011 Meeting.

(For the record, Andrew Harmos and I travelled at personal expense and company expense respectively – not at the expense of the Funds. Elevation Capital Management Limited and its Directors have never sought a single expense recovery from any of the Funds we manage. We believe that the management fees we receive are fair compensation and that all research/business trips should be at the expense of Manager, not investors, if we are really acting in your best interests.

Portfolio Activity:

We received one new takeover offer in ECVF during the quarter, with Belgian billionaire and controlling shareholder Albert Frère bidding to privatise CNP (Compagnie Nationale à Portofeuille). We also continue to wait in ECVF for the closing of the Wesco Financial takeover by Berkshire Hathaway. We anticipate more than satisfactory returns on both investments when the transactions close.

ECVF continues to operate with very low portfolio turnover - currently ~9% - should this low turnover continue (and we see no reason why it would change) then it implies our average time horizon on our investments is ~10 years. This is an investment holding period that I personally believe will deliver the best outcomes to long-term investors in the Fund. There were a number of investment realisations during the quarter: Universal Entertainment (ECVF), Leucadia National (ECVF), St Johns Property Fund (ECVF), Convera Corp (ECMSF), Hill Top Holdings (ECMSF), National Western Life (ECMSF), Orient Express Hotels (ECMSF), San Miguel Brewery HK (ECMSF), RMX Holdings (ECMSF). All positions excluding RMX Holdings were profitable.

The Top 3 realised returns were: +412% Universal Entertainment (ECVF), +106% Leucadia National (ECVF), and + 51% St. Johns Balanced Property Fund (ECVF).

ECVF continues to have significant liquidity to capitalise on any/all opportunities. In ECMSF, we have spent considerable time building liquidity, researching new opportunities and shifting the portfolio to a broader mix of highly liquid and arbitrage/liquidation positions. At the time of writing, our cash balance in ECMSF is also well in excess of 20%, which provides ECMSF with additional option value. ECMSF continues to hold a number of attractive investments in New Zealand but unfortunately the Christchurch and Japanese earthquakes will compound the effect of the slow economic recovery, and extend the time frame over which value will be realised. This is frustrating for all investors, but it does seem that in two holdings there is momentum building to either realise value or place a more appropriate valuation on the enterprise.

Building Society Holdings (BSH) remains our largest position in ECMSF (14.16%). The Company has recently made two significant announcements – (i) PGC shareholders are set to receive shares in BSH on 30 May 2011. Once this is complete, it is reasonable to expect that (in time) BSH will be included in the NZX 50 Index and will begin to receive "institutional" research coverage. (ii) BSH also announced it will change its name to "Heartland Building Society on 1 June 2011 to better reflect its current customer base and its targeted market. *(At the time of writing, BSH is +12.86% since the 31 March 2011 valuation date.)*

Kirkcaldie & Stains (KRK) is our fourth largest position (5.80%). We have continued our discussions with the Company on plans to realise value for all shareholders. We continue to believe a sale of the retail assets and a subsequent sale of the Harbour City Centre (once earthquake strengthening and the new tenancy refurbishments are completed in December 2011) is in the best interest of shareholders and will result in significant value uplift from the current share price of NZ$ 2.57.

Subsequent to the end of the quarter, I have also been invited to put myself forward for a board seat at an ECMSF investee company. If I am elected, this will result in a not insignificant time commitment, however, I believe it is in the best interests of the Fund and its investors. Should I decide to proceed and receive the support of shareholders then any remuneration I receive for this role will be paid directly to the Fund.

Launch of Elevation Capital Global Value Fund of Funds:

On 4 April 2011 we launched the Elevation Capital Global Value Fund of Funds (ECGVFoF). This is a fund which enables investors to invest with a selection of who Elevation Capital considers to be some of the world's best value style investment managers.

The current managers are: Third Avenue, International Value Advisers and Ruane, Cunniff & Goldfarb (the Sequoia Fund). We are actively investigating a fourth manager.

Elevation Capital received NZ$ 6.0mln of new inflows for this fund during April, and we have indications of a further NZ$ 6.5mln which we expect to receive by the end of Q2 2011.

This is a pleasing new development for Elevation Capital Management Limited as it begins to provide a solid foundation from which to continue to build a sustainable funds management company in New Zealand. Total funds under management now stands at +NZ$ 27.0mln - while this is still small by global standards this is a long way from where we started.

Should you wish to receive any information on the Elevation Capital Global Value Fund of Funds please email either:

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Thank you for your continued interest and support.

Christopher Swasbrook
Managing Director
Elevation Capital Management Limited