

Highfield Fund Ltd.

Annual Report and Audited Financial Statements

For the year ended 31 December 2011

# Highfield Fund Ltd.

## Annual Report and Audited Financial Statements Contents

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# Highfield Fund Ltd.

## Directors and service providers

<b>Company</b>	Highfield Fund Ltd. Aurum House 35 Richmond Road P.O. Box HM 1806 Hamilton HM 08 Bermuda  Tel: (1) (441) 292 6952 Fax: (1) (441) 295 4164
<b>Directors</b>	Dudley R Cottingham W Roger Davidson* Tina Gibbons Adam Hopkin Christopher C Morris S Arthur Morris Meliosa O’Caoimh* Anthony Stent-Torriani Adam Sweidan
<b>Custodian</b>	Northern Trust Fiduciary Services (Ireland) Limited George’s Court 54 - 62 Townsend Street Dublin 2 Ireland  Tel: (353) (1) 542 2000 Fax: (353) (1) 542 2920
<b>Promoter and Investment Advisor</b>	Aurum MAM Fund Management Ltd. Aurum House 35 Richmond Road P.O. Box HM 1806 Hamilton HM 08 Bermuda  Tel: (1) (441) 292 6952 Fax: (1) (441) 295 4164
<b>Administrator</b>	Northern Trust International Fund Administration Services (Ireland) Limited George’s Court 54 - 62 Townsend Street Dublin 2 Ireland  Tel: (353) (1) 542 2000 Fax: (353) (1) 542 2920

\*Non-Executive Directors

## Highfield Fund Ltd.

### Directors and service providers (continued)

**Bermuda  
Administrator,  
Registrar and  
Secretary**

Global Fund Services Ltd.  
Century House  
16 Par-la-Ville Road  
P.O. Box HM 1806  
Hamilton HM 08  
Bermuda

Tel: (1) (441) 292 7478  
Fax: (1) (441) 295 4164

**Independent  
Auditor**

KPMG  
Chartered Accountants  
1 Harbourmaster Place  
International Financial Services Centre  
Dublin 1  
Ireland

Tel: (353) (1) 410 1000  
Fax: (353) (1) 412 2722

**Sponsoring  
Broker for  
Bermuda Stock  
Exchange**

Continental Sponsors Ltd.  
Century House  
16 Par-la-Ville Road  
P.O. Box HM 1806  
Hamilton HM 08  
Bermuda

Tel: (1) (441) 292 7478  
Fax: (1) (441) 295 4164

**Sponsoring  
Broker for  
Irish Stock  
Exchange**

J&E Davy  
Davy House  
49 Dawson Street  
Dublin 2  
Ireland

Tel: (353) (1) 614 8933  
Fax: (353) (1) 661 3042

**Legal  
Advisors in  
Matters of  
Bermuda Law**

Conyers Dill & Pearman Limited  
Clarendon House  
2 Church Street  
P.O. Box HM 666  
Hamilton HM CX  
Bermuda

Tel: (1) (441) 295 1422  
Fax: (1) (441) 292 4720

# Highfield Fund Ltd.

## Directors' Report

The Directors have the pleasure to present the audited annual accounts of Highfield Fund Ltd. (the "Company") for the year ended 31 December 2011 and report as set out herein in respect of matters required by the Irish Stock Exchange and Bermuda Stock Exchange listing regulations.

At 31 December 2011, the Net Asset Value per Participating Share was US\$100.03 (2010: US\$101.55).

No dividends have been declared in the year ended 31 December 2011 (2010: US\$Nil) and the Directors do not recommend the payment of any dividends for the year ended 31 December 2011 (2010: US\$Nil).

### Review

Highfield Fund Ltd. returned -1.51% for the year ended 31 December 2011. Traditional markets and hedge funds alike struggled in 2011, as markets saw extreme levels of volatility without any clear direction or trend.

Gains primarily came from systematic managers that have grown in allocation over the year. These managers made profits from their short term reversion models, which were helped by the sharp mean reverting nature of markets in 2011. Pleasingly, despite very volatile and ultimately flat equity markets the equity managers also made a positive contribution. Losses came from the strategies that are more reliant on a particular economic environment, such as event driven and credit.

### Outlook

As a consequence of the lack of clarity with regard to the future global economic environment, it is extremely difficult to accurately predict how markets will behave over 2012. A myriad of global issues, such as the European debt crisis, Middle East tension, questionable asset bubbles in China, and ongoing housing and employment concerns in the US, have made the investment climate extremely complex. Global linkages across trade and financing channels are likely to become very important factors when developing trading strategies over the year as the increase in globalization has made an understanding of these issues a critical requirement in managing risk. Central bank policy remains the key influence on global economies, and henceforth markets, as the number of potential outcomes remains extremely elevated.

Given the above observations regarding uncertainty, we believe hedge funds will play an even more important role in traditional portfolios, as the commonly more directional traditional investments strategies offer too much downside risk.

### Thanks

We thank the shareholders for their support and look forward to the return of long term growth.



**Dudley R Cottingham**  
Director

25 April 2012

## **Highfield Fund Ltd.**

### **Independent Auditor's Report to the Members of Highfield Fund Ltd.**

We have audited the accompanying financial statements of Highfield Fund Ltd. (the "Company"), which comprise the Statement of Financial Position, the Portfolio Statement as at 31 December 2011, the Statement of Comprehensive Income, the Statement of Changes in Net Assets Attributable to Holders of Participating Shares, the Statement of Cash Flows for the year then ended, and the Notes to the Financial Statements.

This report is made solely to the shareholders of the Company, as a body, in accordance with the terms of our engagement. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders, as a body, for the audit work, for the report or for the opinion we have formed.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditor's Responsibility**

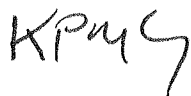
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2011 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



KPMG  
Chartered Accountants

25 April 2012

1 Harbourmaster Place  
International Financial Services Centre  
Dublin 1  
Ireland

## Highfield Fund Ltd.

### Portfolio Statement as at 31 December 2011

Sector Analysis	US\$	% of Fund	US\$	% of Fund
<b>Multi Strategy - Diversified</b>			997,764	10.65
Fund 1	747,764	7.98		
Fund 2	250,000	2.67		
<b>Equity - Diversified</b>			2,048,235	21.87
Fund 3	1,062,924	11.35		
Fund 4	532,225	5.68		
Fund 5	453,086	4.84		
<b>Macro - Diversified</b>			3,026,788	32.31
Fund 6	789,855	8.43		
Fund 7	681,524	7.28		
Fund 8	564,358	6.02		
Fund 9	513,546	5.48		
Fund 10	477,505	5.10		
<b>Commodity - Diversified</b>			533,662	5.70
Fund 11	533,662	5.70		
<b>Systematic - Diversified</b>			1,408,624	15.04
Fund 12	765,550	8.17		
Fund 13	643,074	6.87		
<b>Equity - Healthcare</b>			361,493	3.86
Fund 14	361,493	3.86		
<b>Equity - Commodities</b>			483,020	5.15
Fund 15	483,020	5.15		
<b>Event Driven - Diversified</b>			705,504	7.53
Fund 16	664,878	7.10		
Fund 17	40,626	0.43		
<b>Fixed Income - Diversified</b>			797,864	8.52
Fund 18	797,864	8.52		
<b>Total investments</b>	<b>10,362,954</b>	<b>110.63</b>	<b>10,362,954</b>	<b>110.63</b>
<b>Other assets</b>	<b>19,180</b>	<b>0.20</b>	<b>19,180</b>	<b>0.20</b>
<b>Total Assets</b>	<b>10,382,134</b>	<b>110.83</b>	<b>10,382,134</b>	<b>110.83</b>
<b>Other liabilities</b>	<b>(1,015,060)</b>	<b>(10.84)</b>	<b>(1,015,060)</b>	<b>(10.84)</b>
<b>Net Assets</b>	<b>9,367,074</b>	<b>99.99</b>	<b>9,367,074</b>	<b>99.99</b>

*The accompanying notes form part of these financial statements.*

## Highfield Fund Ltd.

### Portfolio Statement as at 31 December 2010

Sector Analysis	US\$	% of Fund	US\$	% of Fund
<b>Multi Strategy - Diversified</b>			1,295,487	10.48
Fund 1	780,217	6.31		
Fund 2	515,270	4.17		
<b>Equity - Diversified</b>			2,645,004	21.40
Fund 3	811,997	6.57		
Fund 4	530,242	4.29		
Fund 5	505,149	4.09		
Fund 6	418,552	3.38		
Fund 7	379,064	3.07		
<b>Macro - Diversified</b>			4,108,970	33.24
Fund 8	1,276,727	10.33		
Fund 9	680,122	5.50		
Fund 10	624,333	5.05		
Fund 11	575,737	4.66		
Fund 12	494,961	4.00		
Fund 13	457,090	3.70		
<b>Commodity - Diversified</b>			596,805	4.83
Fund 14	596,805	4.83		
<b>Systematic - Diversified</b>			539,120	4.36
Fund 15	539,120	4.36		
<b>Equity - Healthcare</b>			495,577	4.01
Fund 16	495,577	4.01		
<b>Equity - Commodities</b>			529,813	4.28
Fund 17	529,813	4.28		
<b>Event Driven - Diversified</b>			1,315,398	10.64
Fund 18	681,598	5.51		
Fund 19	633,800	5.13		
<b>Fixed Income - Diversified</b>			1,625,171	13.15
Fund 20	1,625,171	13.15		
<b>Total investments</b>	<b>13,151,345</b>	<b>106.39</b>	<b>13,151,345</b>	<b>106.39</b>
<b>Other assets</b>	<b>39,713</b>	<b>0.32</b>	<b>39,713</b>	<b>0.32</b>
<b>Total Assets</b>	<b>13,191,058</b>	<b>106.71</b>	<b>13,191,058</b>	<b>106.71</b>
<b>Other liabilities</b>	<b>(829,132)</b>	<b>(6.71)</b>	<b>(829,132)</b>	<b>(6.71)</b>
<b>Net Assets</b>	<b>12,361,926</b>	<b>100.00</b>	<b>12,361,926</b>	<b>100.00</b>

*The accompanying notes form part of these financial statements.*



## Highfield Fund Ltd.

### Statement of Comprehensive Income for the year ended 31 December 2011

19 February 2010 to 31 December 2010 US\$		Notes	2011 US\$
<hr/>			
	<b>Income from financial assets at fair value through profit or loss</b>	2	
484,603	Net unrealised capital gain on investments		84,194
(84,721)	Net realised capital loss on investments		(20,914)
<hr/>			
	<b>Total income from financial assets at fair value through profit or loss</b>		<b>63,280</b>
<b>399,882</b>			
<hr/>			
	<b>Expenses</b>	2	
84,586	Investment advisory fee	3	111,115
27,496	Incentive fee	3	14,393
8,969	Administration fee	4	10,116
3,631	Custodian fee	5	4,031
22,500	Directors' fees		30,000
7,755	Audit fee		8,040
5,084	Net interest expense		7,242
21,182	Other operating expenses		32,397
<hr/>			
<b>181,203</b>	<b>Total operating expenses</b>		<b>217,334</b>
<hr/>			
	<b>Change in net assets attributable to holders of Participating Shares resulting from operations</b>		<b>(154,054)</b>
<b>218,679</b>			
<hr/>			

*The accompanying notes form part of these financial statements.*

# Highfield Fund Ltd.

## Statement of Financial Position as at 31 December 2011

2010 US\$		Notes	2011 US\$
<b>Assets</b>			
<b>Financial assets at fair value through profit or loss</b>			
13,151,345	Investments at fair value	2	10,362,954
<b>Loans and receivables</b>			
39,713	Other debtors		19,180
<b>13,191,058</b>	<b>Total Assets</b>		<b>10,382,134</b>
<b>Liabilities</b>			
<b>Financial liabilities measured at amortised cost</b>			
10,325	Investment advisory fee		7,817
1,698	Administration fee		1,359
438	Custodian fee		285
13,268	Incentive fee		0
791,493	Bank overdraft	2,7	993,991
11,910	Other payables		11,608
<b>829,132</b>	<b>Total Liabilities (excluding amounts attributable to holders of Participating Shares)</b>		<b>1,015,060</b>
<b>12,361,926</b>	<b>Net Assets attributable to holders of Participating and Sponsor Shares</b>	6	<b>9,367,074</b>
<b>12,361,924</b>	<b>Net Assets attributable to holders of Participating Shares</b>	8	<b>9,367,072</b>
2	<b>Net Assets attributable to holders of Sponsor Shares</b>	6	2
<b>121,729.13</b>	<b>Participating Shares outstanding (number of shares)</b>	6	<b>93,643.87</b>
<b>101.55</b>	<b>Net Asset Value per Participating Share</b>	8	<b>100.03</b>

These financial statements were approved by the Directors on 25 April 2012 and signed on their behalf by:

  
D.R. Cottingham

Director



C.C. Morris

Director

*The accompanying notes form part of these financial statements.*

## Highfield Fund Ltd.

### Statement of Changes in Net Assets Attributable to Holders of Participating Shares for the year ended 31 December 2011

	Total US\$
<b>Balance at 1 January 2011</b>	<b>12,361,924</b>
Change in net assets attributable to holders of Participating Shares resulting from operations	(154,054)
Subscriptions during the year	950,000
Redemptions during the year	(3,790,798)
<b>Balance at 31 December 2011</b>	<b>9,367,072</b>
<b>Balance at 19 February 2010</b>	<b>0</b>
Change in net assets attributable to holders of Participating Shares resulting from operations	218,679
Subscriptions during the period	12,143,245
<b>Balance at 31 December 2010</b>	<b>12,361,924</b>

*The accompanying notes form part of these financial statements.*

## Highfield Fund Ltd.

### Statement of Cash Flows for the year ended 31 December 2011

19 February 2010 to 31 December 2010 US\$		2011 US\$
	<b>Cash flows from operating activities</b>	
	Change in net assets attributable to holders of participating	
218,679	shares resulting from operations	(154,054)
(14,748,384)	Purchase of investments	(2,673,038)
1,996,923	Proceeds from sales of investments	5,524,709
	<b>Adjustment for non cash items</b>	
(399,882)	Net gain on investments	(63,280)
	<b>Changes in operating assets and liabilities</b>	
(39,713)	(Increase)/decrease in debtors	20,533
37,639	Increase/(decrease) in creditors	(16,570)
<b>(12,934,738)</b>	<b>Net cash (used in)/received from operating activities</b>	<b>2,638,300</b>
	<b>Cash flows from financing activities</b>	
12,143,245	Issue of shares	950,000
0	Redemption of shares	(3,790,798)
<b>12,143,245</b>	<b>Net cash inflow/(outflow) from financing activities</b>	<b>(2,840,798)</b>
(791,493)	Net decrease in cash and cash equivalents	(202,498)
<b>0</b>	<b>Cash and cash equivalents at the beginning of the period/year</b>	<b>(791,493)</b>
<b>(791,493)</b>	<b>Cash and cash equivalents at the end of the period/year</b>	<b>(993,991)</b>
	<b>Supplementary Information</b>	
(5,084)	Net interest paid	(7,242)

*The accompanying notes form part of these financial statements.*

# Highfield Fund Ltd.

## Notes to the Financial Statements for the year ended 31 December 2011

### 1 General

Highfield Fund Ltd. (the "Company") was incorporated in Bermuda as an open ended Fund on 19 February 2010 under the Companies Act 1981 as amended and acts as an investment company.

The Company's investment objective is to achieve long-term capital growth by investing either directly or indirectly through selected funds or investment managers, in a strategically determined mix of global fixed income securities, equity securities, derivative securities, currencies and other investment assets with an emphasis on long-term growth.

The audited financial statements were approved by the Board of Directors on 25 April 2012.

### 2 Principal Accounting Policies

The principal accounting policies which have been applied are set out below.

#### Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations of IFRS adopted by the International Accounting Standards Board (IASB).

#### Basis of Preparation

The financial statements are presented in the currency of the primary economic environment in which the Company operates, which is the US dollar, reflecting the fact that the redeemable Participating Shares are issued in US dollars and the Company's operations are primarily conducted in US dollars. They are prepared on a fair value basis for financial assets and financial liabilities at fair value through profit or loss. All other assets and liabilities are stated at amortised cost.

The accounting policies have been applied consistently by the Company and are consistent with those used in the previous period.

#### Changes in accounting policy and disclosures

A number of new standards, amendments to standards and interpretations of IFRS are effective for annual periods beginning after 1 January 2011. None of these are expected to have a significant effect on the measurement of the amounts recognised in the financial statements of the company. IFRS 10, IFRS 11, IFRS 12 and IFRS 13 were issued in May 2011 but are not yet effective.

IFRS 9 (Financial Instruments) issued in November 2009 (IFRS 9 (2009)) will change the classification of financial assets and liabilities. The standard is not expected to have an impact on the measurement basis and classification of the financial assets since the majority of the Company's financial assets are measured at fair value through profit or loss. The standard is effective for annual periods beginning on or after 1 January 2015 subject to EU endorsement. Earlier application is permitted. The Company does not plan to adopt this standard early.

There are a number of other IFRS and interpretations which were in issue but have not been applied in the financial statements as they are not yet effective. The Directors anticipate that the adoption of these standards will have no material impact on the financial statements of the Fund.

#### Investments

The Company, on initial recognition, designated all investments as at fair value through profit or loss as, in doing so, it results in more relevant information because the investments and related liabilities are managed as a group of financial assets and liabilities and performance is evaluated on a fair value basis and reported to key management personnel on that basis.

# Highfield Fund Ltd.

## Notes to the Financial Statements for the year ended 31 December 2011 (continued)

### 2 Principal Accounting Policies (continued)

#### Investments (continued)

Investments in collective investment schemes are recorded at the net asset value per share as reported by the administrators of such funds. Investment transactions are recorded on the trade date at which the company becomes a party to the specific investment. Purchases and sales of financial assets and financial liabilities are recognised using trade date accounting. Realised capital gains and losses on investment transactions are determined on the weighted average cost basis and are included in the Statement of Comprehensive Income. Unrealised capital gains and losses from a change in the fair value of investments are recognised in the Statement of Comprehensive Income.

The Company may invest in other Funds advised by Aurum MAM Fund Management Limited (where such Funds exist) and Funds advised by Aurum Fund Management Ltd., and these Funds are referred to as “MAM Funds”, “Aurum Funds” or “other Aurum Funds”.

Where administrators are unable to provide net asset value per share, the Directors make their own assessment of value based on available information. In determining fair value, the Directors take into consideration where applicable, the impact of suspensions of redemptions, liquidation proceedings, investments in side pockets and any other significant factors.

At the year end, there were no instances wherein the administrator was unable to provide the net asset value per share or that the Directors considered it necessary to make any adjustments to the fair value of the underlying funds. The disclosures of the risks of the funds are in Note 10 “Financial Instruments and Risk Exposure”.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Under IFRS, Participating Shares are treated as a financial liability and the format of the Statement of Financial Position reflects this position.

#### Translation of Foreign Currencies

The results and financial position of the entity are expressed in US dollar which is the functional currency of the Company. Transactions in currencies other than US dollar are recorded at the transaction date rate. At each reporting date, monetary items and non-monetary assets and liabilities that are fair valued and are denominated in foreign currencies are retranslated at the rate prevailing on the reporting date. Gains and losses arising on retranslation are included in the net profit or loss for the period where investments are classified at fair value through profit or loss.

#### Interest Income

Interest income is recognised in the Statement of Comprehensive Income for all interest bearing instruments on an effective interest basis.

#### Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances held at banks together with bank overdrafts. The bank overdrafts are repayable on demand and form an integral part of the Company’s cash management system.

#### Taxation

The Company has received an undertaking from the Ministry of Finance of Bermuda, under the Exempted Undertakings Tax Protection Act, 1966 exempting the Company from Bermuda income, profit, capital transfer or capital taxes, should taxes be enacted, until 31 March 2035.

## Highfield Fund Ltd.

### Notes to the Financial Statements for the year ended 31 December 2011 (continued)

#### 2 Principal Accounting Policies (continued)

##### Expenses

All expenses are recognised in the Statement of Comprehensive Income on an accruals basis.

##### Use of Estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the year. Actual results could differ from those estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised. The areas of estimates which have the most significant effect on the amounts recognised in the financial statements are disclosed in notes 10 and 11.

##### Derecognition of Financial Assets and Liabilities

A financial asset is derecognised when the Company loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expired or are surrendered. The Company uses the weighted average cost basis to determine the realised gain or loss on derecognition. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

#### 3 Investment Advisory Fee and Incentive Fee

The Company pays the Investment Adviser (i) a monthly advisory fee of 0.083333% (equivalent to approximately 1% per annum) of the Net Asset Value of the Participating Shares of the Company as at the relevant month-end; and (ii) a monthly incentive fee of 10% of the increase, if any, of the Net Asset Value of the Participating Shares of the Company in issue at the valuation day over their value at Base Date or if higher the value of such shares upon which an incentive fee was last paid (the high water mark date in respect of the company). The value at Base Date shall mean the Net Asset Value of the Participating Shares of the Company in issue at the valuation day at 1 April 2010. For the purposes of this calculation it shall be assumed that all the participating shares in issue at valuation day were in issue at Base Date and/or the high water mark date as the case may be and had a net asset value equal to the Net Asset Value of the Participating Shares of the Company at Base Date or high water mark date as the case may be. These fees are calculated before all Investment Advisor, Administrators and Custodian fees, Directors' fees, audit fees, formation and sundry expenses for the month concerned are deducted and are paid monthly in arrears. In so far as the Company invests in other Aurum Funds, no fees will be payable on the amount so invested.

#### 4 Bermuda Administrator, Registrar, Secretary and Administrator Fees

The Company pays to the Secretary, Bermuda Administrator and Registrar and the Administrator and Sub-Registrar (collectively the "Administrators") an annual fee of US\$1,500 plus a monthly fee which, subject to a minimum, will be no greater than 1/12 of 0.10% of the Net Asset Value of the Company. These fees are calculated before all fees payable to the Investment Advisor, Administrators, Custodian and Directors, audit fees, formation and sundry expenses for the month concerned are deducted and are paid monthly in arrears and are subject to a US\$2,000 minimum per month and may be subject to reduction if the total Administration Fees from Aurum related Funds exceed specified limits. In so far as the Company invests in other Aurum Funds, no fees will be payable on the amount so invested, but the minimum will remain applicable.

## Highfield Fund Ltd.

### Notes to the Financial Statements for the year ended 31 December 2011 (continued)

#### 5 Custodian Fee

The Company pays to the Custodian a monthly fee no greater than 1/12 of 0.05% of the Net Asset Value of that part of the assets of the Company entrusted to the care of the Custodian. This fee is calculated before all fees payable to the Investment Advisor, Administrators, Custodian and Directors, audit fees, formation and sundry expenses for the month concerned are deducted and is paid monthly in arrears and is subject to a US\$1,000 minimum per month and may be subject to reduction if the total Custodian Fees from Aurum related Funds exceed specified limits. In addition, the Custodian shall receive from the Company a transaction fee for each transaction conducted pursuant to the Custodian Agreement. In so far as the Company invests in other Aurum Funds, no fees will be payable on the amount so invested, but the minimum will remain applicable.

#### 6 Share Capital

	<b>December 2011 US\$</b>	December 2010 US\$
Authorised share capital of US\$0.002 par value per share		
1,000 Sponsor Shares	2	2
4,999,000 Participating Shares	<b>9,998</b>	9,998
	<b>10,000</b>	10,000

All of the Sponsor Shares have been issued to and are beneficially owned by the Investment Advisor. The Sponsor Shares do not carry the right to participate in the assets of the Company in a winding up, except to the extent of repayment of par value paid in cash, nor in any dividends or other distribution of the Company so long as any Participating Shares are in issue.

The Participating Shares are entitled to receive, to the exclusion of the Sponsor Shares, any dividends which may be declared by the Board of the Company and, upon the winding up of the Company, their par value and any surplus remaining after paying to the holders of the Sponsor Shares the par value of the Sponsor Shares (to the extent actually paid up in cash). The Sponsor Shares have the general voting powers of the Company and the holders of Participating Shares are entitled to receive notice of and attend all general meetings of the members.

	<b>Number of Participating Shares</b>		<b>Number of Participating Shares</b>
Opening at 1 January 2011	<b>121,729.13</b>	Opening at 19 February 2010	<b>0.00</b>
Issued during the year	<b>9,415.55</b>	Issued during the period	<b>121,729.13</b>
Redeemed during the year	<b>(37,500.81)</b>	Redeemed during the period	<b>0.00</b>
Closing at 31 December 2011	<b>93,643.87</b>	Closing at 31 December 2010	<b>121,729.13</b>



## Highfield Fund Ltd.

### Notes to the Financial Statements for the year ended 31 December 2011 (continued)

#### 6 Share Capital (continued)

##### Statement of Changes in Sponsor and Participating Shares

	Sponsor Shares US\$	Participating Shares US\$	Share Premium US\$	Return allocated to Participating Shareholders US\$	Total US\$
<b>Balance at 1 January 2011</b>	<b>2</b>	<b>243</b>	<b>12,143,002</b>	<b>218,679</b>	<b>12,361,926</b>
Change in net assets attributable to holders of participating shares				(154,054)	(154,054)
Subscriptions during the year		19	949,981		950,000
Redemptions during the year		(75)	(3,790,723)		(3,790,798)
<b>Balance at 31 December 2011</b>	<b>2</b>	<b>187</b>	<b>9,302,260</b>	<b>64,625</b>	<b>9,367,074</b>
<b>Balance at 19 February 2010</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Change in net assets attributable to holders of participating shares				218,679	218,679
Subscriptions during the period	2	243	12,143,002		12,143,247
<b>Balance at 31 December 2010</b>	<b>2</b>	<b>243</b>	<b>12,143,002</b>	<b>218,679</b>	<b>12,361,926</b>

#### 7 Bank Overdraft

The Company has a facility with Northern Trust (Guernsey) Limited and any outstanding bank overdraft is secured over the portfolio of the Company.

#### 8 Net Asset Value per Participating Share

The Net Asset Value per Participating Share is calculated by dividing the net assets less the par value of the Sponsor Shares included in the Statement of Financial Position by the number of Participating Shares in issue at the year/period end.

	December 2011	December 2010
Total Net Assets (US\$) Less Par Value of Sponsor Shares	<b>9,367,072</b>	12,361,924
Issued Participating Shares	<b>93,643.87</b>	121,729.13
Net Asset Value per Participating Share (US\$)	<b>100.03</b>	101.55

#### 9 Related Parties

The Company's Administrators, Investment Advisor, Custodian and Directors are related parties by virtue of the material contracts in existence that are outlined in notes 3 to 5.

Mrs T Gibbons is a director of the Investment Advisor. Mr A D Sweidan and Mr A J Stent-Torriani are directors of the Investment Advisor and directly and indirectly hold shares in the Investment Advisor with Mr A J Stent-Torriani being a director and shareholder in Monaco Asset Management S.A.M. Mr S A Morris, Mr D R Cottingham and Mr C C Morris are directors of Global Fund Services Ltd, the Bermuda Administrator and along with Mr A Hopkin are directors of both the Investment Advisor and Continental Sponsors Ltd, the sponsoring broker on the Bermuda Stock Exchange. Mr S A Morris and Mr D R Cottingham directly and indirectly hold shares in the Investment Advisor.

## Highfield Fund Ltd.

### Notes to the Financial Statements for the year ended 31 December 2011 (continued)

#### 9 Related Parties (continued)

Ms M O’Caoimh is an employee of the Irish Administrator.

Aurum MAM Fund Management Ltd. is Investment Advisor to, and owns all of the Sponsor Shares of, the Company, and is itself owned 50% each by Aurum Fund Management Ltd. and Monaco Asset Management S.A.M.

Persons connected to the Directors, as defined under the Irish Stock Exchange listing requirements, directly and indirectly own all the Sponsor Shares of the Company. At 31 December 2011, Directors and Persons so connected did not hold any Participating Shares in the Company (2010: Nil).

During the year, the Company had dealings with other Aurum funds and funds in which Aurum Fund Management Ltd. had a significant interest by reason of the direct or indirect ownership of sponsor shares therein, and those dealings may be identified as follows:

	2011	2010
	US\$	US\$
Sales of investments to such other funds	776,445	0
Purchases of investments from such other funds	0	4,550,000

At the end of the year, there were no amounts due to and from such other funds (2010: US\$Nil).

The above figures exclude amounts due to the Investment Advisor which are shown in the body of the financial statements.

All dealings between all parties were at arm’s length prices.

#### 10 Financial Instruments and Risk Exposure

The Company, in the normal course of business, enters into investment transactions in financial instruments through investments in other funds. Financial instruments include investments, cash, interest receivable, dividends receivable, subscriptions receivable, bank overdrafts, accrued expenses and redemptions payable. The carrying value of these financial instruments in the financial statements approximates their fair value.

Asset allocation is determined by the board of directors who manage the distribution of the assets to achieve the investment objectives set out in Note 1. Divergence from target asset allocations and the composition of the portfolio is monitored by the board of directors. The Company is limited by the prospectus as to the percentage of assets that may be invested into any one investment in order to diversify risk, details of these percentages at the Statement of Financial Position date are outlined in the Portfolio Statement on page 5.

The holding of such instruments gives exposure to market risk, price risk, currency risk, credit risk, and liquidity risk.

##### Market Risk

Market risk is the risk that the market price of the financial instrument will fluctuate due to changes in foreign exchange rates, market interest rates, market factors specific to the security or its issuer or factors affecting all securities traded in the market. All investments are recognised at fair value, and all changes in market conditions directly affect net income.

# Highfield Fund Ltd.

## Notes to the Financial Statements for the year ended 31 December 2011 (continued)

### 10 Financial Instruments and Risk Exposure (continued)

#### Market Risk (continued)

The Company's market risk is managed by the Company within a rigorous risk management framework including diversification of the investment portfolio. The risk management policy includes initial and subsequent due diligence reviews of all underlying investments but it will be appreciated that the Company does not normally have access to the detailed underlying investments of entities included in the portfolio. The Company does not use sensitivity analysis to measure market risk as this analysis is not deemed to be meaningful due to the nature of the underlying investments. However, if the price of the underlying funds in the portfolio rose by 1%, the net asset value of the portfolio before reduction of borrowings would also rise by approximately 1%.

Details of the Company's Investment Portfolio as at the Statement of Financial Position date are disclosed in the Portfolio Statement on page 5 that highlights the percentage exposure to each asset type.

#### Market Risk - Price Risk

Price risk is the risk that the value of an investment may fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment or all factors affecting all instruments traded in the market. As the majority of the Company's investments are carried at fair value with fair value changes recognised through the Statement of Comprehensive Income, all changes in market conditions may directly affect net income.

Investments in underlying funds are valued at the net asset values provided by such entities or their administrators. These values may be unaudited or may themselves be estimates. In addition, these entities or their administrators may not provide values at all or in a timely manner and, to the extent that values are not available, those investments will be valued by the Directors using valuation techniques considered to be appropriate to those investments. The Directors believe that the valuations used are reasonable.

Price risk is mitigated by the board of directors constructing a diversified portfolio of investments traded on various markets. The diversity of investments is shown in the Portfolio Statement on page 5.

#### Market Risk - Currency Risk

The Company invests in collective investment schemes which are denominated in US dollars.

The investment funds in which the Company invests have full discretion as to the currencies in whose shares their investments are denominated. Consequently, performance of the underlying funds may be subject to fluctuations in foreign currency exchange rates.

#### Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. Certain of the markets which may be traded by the Company or any investment funds in which the Company invests, for example the inter-bank market in currencies, the swaps market and the government securities market are "principal's markets" in which they are fully subject to the risk of counterparty default. Credit risk is managed by the Company through initial and subsequent due diligence reviews of all underlying investments, as already stated, and the exposure to credit risk is reflected in the carrying amounts in the Portfolio Statement on page 5. The diversification of the investment portfolio reduces the overall credit risk to the Company.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the Statement of Financial Position date. This relates also to financial assets carried at amortised cost, as they have a short term to maturity.

## Highfield Fund Ltd.

### Notes to the Financial Statements for the year ended 31 December 2011 (continued)

#### 10 Financial Instruments and Risk Exposure (continued)

##### Credit Risk (continued)

The carrying amounts as at year/period end:

	2011	2010
	US\$	US\$
Investments	10,362,954	13,151,345
Other debtors	19,180	39,713

Credit risk arising on transactions with brokers relates to transactions awaiting settlement and cash collateral provided against open contracts. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used. The Company monitors the credit rating and financial positions of the brokers used to further mitigate the risk.

Substantially all of the assets of the Company, including cash, are held by the Custodian. Bankruptcy or insolvency of the Custodian may cause the Company's rights with respect to securities held by the Custodian to be delayed or limited. The Company monitors its risk by monitoring the credit quality of the Custodian used by the Company. The Custodian is a wholly owned subsidiary of Northern Trust Corporation. As at 31 December 2011, Northern Trust Corporation had a Long Term Rating from Standard and Poor's of A+ denoting a very strong capacity to repay interest and principal.

Depending on the requirements of the jurisdictions in which the investments of the Company are issued, the custodian may use the services of one or more sub - custodians.

The board of directors analyse credit concentration based on the counterparty, industry and geographical location of the financial assets that the Company holds.

##### Liquidity Risk

Liquidity risk is the risk that difficulties may be encountered in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

At various times, the markets for some securities purchased or sold by the Company may be illiquid, making purchases or sales of securities at desired prices or in desired quantities difficult or impossible. As there is not always a recognisable market for the investments made by the Company, it may be difficult to deal in any such investments at the value recorded in the Statement of Financial Position.

The liquidity of the underlying investments of the Company is reviewed monthly based on the marketability of those investments. The diversification of the Investment Portfolio best reduces overall liquidity risk.

The Company considers that, as at the Statement of Financial Position date, all of the investments shown in the Portfolio Statement on page 5 would have been realisable within 90 days of that date either through redemption or sale.

Participating Shares in the Company may be redeemed at the Net Asset Value per Participating Share on the dealing day immediately following the valuation day, being the last business day of each month, on at least 90 days notice to the Administrator. The Company endeavours to pay the redemption proceeds within 30 days of the redemption date.

## Highfield Fund Ltd.

### Notes to the Financial Statements for the year ended 31 December 2011 (continued)

#### 10 Financial Instruments and Risk Exposure (continued)

##### Liquidity Risk (continued)

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position date to the contractual maturity date.

2011	< 1 Month US\$	1 - 3 Months US\$	3 Months to 1 Year US\$	Total US\$
<b>Liabilities</b>				
Investment advisory fee	7,817	-	-	7,817
Administration fee	1,359	-	-	1,359
Custodian fee	285	-	-	285
Bank overdraft	993,991	-	-	993,991
Other payables	11,608	-	-	11,608
Net assets attributable to holders of Participating Shares	-	-	9,367,072	9,367,072
<b>Total Liabilities</b>	<b>1,015,060</b>	<b>-</b>	<b>9,367,072</b>	<b>10,382,132</b>
2010	< 1 Month US\$	1 - 3 Months US\$	3 Months to 1 Year US\$	Total US\$
<b>Liabilities</b>				
Investment advisory fee	10,325	-	-	10,325
Administration fee	1,698	-	-	1,698
Custodian fee	438	-	-	438
Performance fee	13,268	-	-	13,268
Bank overdraft	791,493	-	-	791,493
Other payables	11,910	-	-	11,910
Net assets attributable to holders of Participating Shares	-	-	12,361,924	12,361,924
<b>Total Liabilities</b>	<b>829,132</b>	<b>-</b>	<b>12,361,924</b>	<b>13,191,056</b>

Net assets attributable to participating shares show undiscounted cash flows on the basis of the earliest possible contractual maturity.

#### 11 Fair Value Measurement

The International Accounting Standards Board published *Improving Disclosures about Financial Instruments (Amendments to IFRS 7)* in order to improve the disclosure of how entities measure the fair value of their financial instruments. The disclosure requirements in IFRS 7 have been extended to introduce a fair value hierarchy and enhanced liquidity risk disclosures. The new disclosures are effective for annual periods beginning on or after 1 January 2009.

The fair value hierarchy prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). Valuation techniques shall maximise the use of observable inputs and minimise the use of unobservable inputs. The three levels of the fair value hierarchy under IFRS 7 are as follows:

- Level 1: Fair values that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date;

## Highfield Fund Ltd.

### Notes to the Financial Statements for the year ended 31 December 2011 (continued)

#### 11 Fair Value Measurement (continued)

- Level 2: Fair values other than quoted prices included within level 1 where the inputs are observable for the asset or liability valuation either directly or indirectly; and
- Level 3: Fair values measured using inputs for the asset or liability that are not based on observable market data.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Company. The Company considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The Company categorises Funds into which the Company may invest that provide their own monthly net asset value at level 2 as not independently sourced albeit that the Company does not doubt such net asset value.

The categorisation of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Company's perceived risk of that instrument.

Financial instruments whose values are based on quoted market prices in active markets, and are therefore classified within level 1, includes all listed funds with regular independent quotes. The Investment Advisor does not adjust the quoted price for such instruments, even in situations where the Company holds a large position and a sale could reasonably impact the quoted price.

Financial instruments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include certain Forward Foreign Currency Contracts where the price is calculated internally using observable data.

As level 2 financial instruments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

All other unquoted funds would be classified into level 3 category by default. Financial instruments classified within level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments, for example, would include Forward Foreign Currency Contracts where the price has been calculated as part of an internal model using unobservable data.

The disclosure required for financial instruments which are measured at fair value in the Statement of Financial Position is as follows:

- the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety;
- any significant transfers between level 1 and level 2 of the fair value hierarchy and the reasons for those transfers; and
- for fair value measurements in level 3 of the hierarchy, a reconciliation from the beginning balances to the ending balances. As well as highlighting purchases, sales, and gains and losses, this reconciliation will identify transfers into or out of level 3 and the reasons for those transfers.

## Highfield Fund Ltd.

### Notes to the Financial Statements for the year ended 31 December 2011 (continued)

#### 11 Fair Value Measurement (continued)

The following table presents the financial instruments carried on the Statement of Financial Position by level within the valuation hierarchy as at 31 December 2011.

<b>Financial assets at fair value through profit or loss At 31 December 2011</b>	<b>Total US\$</b>	<b>Level 1 US\$</b>	<b>Level 2 US\$</b>	<b>Level 3 US\$</b>
Collective Investment Schemes	10,362,954	-	10,362,954	-
<b>Total</b>	<b>10,362,954</b>	<b>-</b>	<b>10,362,954</b>	<b>-</b>

<b>Financial assets at fair value through profit or loss At 31 December 2010</b>	<b>Total US\$</b>	<b>Level 1 US\$</b>	<b>Level 2 US\$</b>	<b>Level 3 US\$</b>
Collective Investment Schemes	13,151,345	-	13,151,345	-
<b>Total</b>	<b>13,151,345</b>	<b>-</b>	<b>13,151,345</b>	<b>-</b>

There have been no transfers during the year between levels 1 and 2.

#### 12 Subsequent Events

No events have occurred in respect of the Company subsequent to the year end that may be deemed relevant to the accuracy of these financial statements.