

**RECOVERY FUND SEGREGATED PORTFOLIO**  
**(a segregated portfolio of Eschler Global Fund SPC)**

Financial Statements

For the period from 8 October 2012 (commencement of operations)  
to 31 December 2013

**RECOVERY FUND SEGREGATED PORTFOLIO**  
**(a segregated portfolio of Eschler Global Fund SPC)**

**Financial Statements**

**For the period from 8 October 2012 (commencement of operations) to 31 December 2013**

---

	<b>Page(s)</b>
Fund Directory	1
Independent Auditor's Report	2-3
Statement of Assets and Liabilities	4
Condensed Schedule of Investments	5-6
Statement of Operations	7
Statement of Changes in Net Assets	8
Statement of Cash Flows	9
Notes to the Financial Statements	10-21

**RECOVERY FUND SEGREGATED PORTFOLIO**  
**(a segregated portfolio of Eschler Global Fund SPC)**

**Fund Directory**  
**At 31 December 2013**

---

**Director**

Theron de Ris

**Registered Agent and Office**

Harbour Centre  
42 North Church Street  
P.O. Box 10364  
Grand Cayman KY1-1004  
Cayman Islands

**Administrator**

Trinity Fund Administration (Cayman) Ltd.  
Harbour Place, 2nd Floor  
103 South Church Street  
P.O. Box 10364  
Grand Cayman KY1-1004  
Cayman Islands

**Investment Manager**

Eschler Asset Management LLP  
7th Floor, Heathcoat House  
20 Savile Row  
London W1S 3PR  
United Kingdom

**Legal Advisors**

Ogier  
89 Nexus Way  
Camana Bay  
Grand Cayman KYI-9007  
Cayman Islands

**Broker**

Morgan Stanley & Co. International  
20 Cabot Square  
Canary Wharf  
London E14 4QA  
United Kingdom

**Auditor**

Baker Tilly (Cayman) Ltd.  
Governor's Square  
23 Lime Tree Bay Avenue  
P.O. Box 888  
Grand Cayman KY1-1103  
Cayman Islands



Baker Tilly (Cayman) Ltd.  
Governor's Square  
23 Lime Tree Bay Avenue  
P.O. Box 888  
Grand Cayman KY1-1103  
Cayman Islands  
Tel: +1 345 946 7853  
Fax: +1 345 946 7854  
[www.bakertillycayman.com](http://www.bakertillycayman.com)

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF**

### **RECOVERY FUND SEGREGATED PORTFOLIO (a segregated portfolio of Eschler Global Fund SPC)**

We have audited the accompanying financial statements of Recovery Fund Segregated Portfolio (the "Fund"), a segregated portfolio of Eschler Global Fund SPC (the "Company") which comprise the statement of assets and liabilities and condensed schedule of investments as at 31 December 2013, and the related statements of operations, changes in net assets and cash flows for the period from 8 October 2012 (commencement of operations) to 31 December 2013, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the shareholders of the Fund, as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the shareholders, as a body, for our audit work, for this 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 accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 the auditor's 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, the auditor considers internal control relevant to the Fund'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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies 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 audit opinion.



**Audit opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2013, and its financial performance for the period from 8 October 2012 (commencement of operations) to 31 December 2013 in conformity with accounting principles generally accepted in the United States of America.

*Baker Tilly (Cayman) Ltd.*

**Baker Tilly (Cayman) Ltd.**

**10 March 2014**

**Grand Cayman, Cayman Islands**

**RECOVERY FUND SEGREGATED PORTFOLIO**  
**(a segregated portfolio of Eschler Global Fund SPC)**

**Statement of Assets and Liabilities**

**At 31 December 2013**

*Expressed in U.S. Dollars (unless otherwise stated)*

	<b>Note</b>	<b>2013</b>
<b>Assets</b>		
Cash and cash equivalents		168,399
Balance due from brokers		741,929
Investment in securities, at fair value (cost: \$2,776,123)	3	2,857,459
Derivative contracts, at fair value (cost: \$244,178)	3,4	24,635
Interest receivable		29,370
Other assets		<u>68,571</u>
<b>Total assets</b>		<u><u>3,890,363</u></u>
<b>Liabilities</b>		
Investment in securities sold short , at fair value (proceeds: \$458,875)	3	555,237
Derivative contracts, at fair value (proceeds: \$47,611)	3,4	58,187
Accounts payable and accrued expenses		<u>2,806</u>
<b>Total liabilities</b>		<u><u>616,230</u></u>
<b>NET ASSETS</b>		<u><u>\$ 3,274,133</u></u>
<b>Net asset value per share:</b>		
Class B - Lead Series (based on 10,389.46 shares in issue)	5,10	\$ 108.51
Class B - Lead Series Zurich Trust (based on 13,501.50 shares in issue)	5,10	108.51
Class B - Series B Jan-13 (based on 170.00 shares in issue)	5,10	100.42
Class B - Series B Feb-13 (based on 680.00 shares in issue)	5,10	91.54
Class B - Series B Nov-13 (based on 6,000.00 shares in issue)	5,10	<u><u>100.41</u></u>

*See accompanying notes to the financial statements.*

Authorized for issue on 10 March 2014 on behalf of the Board of Directors:

THERON DE RIS

Director

**RECOVERY FUND SEGREGATED PORTFOLIO**  
**(a segregated portfolio of Eschler Global Fund SPC)**

**Condensed Schedule of Investments**

**At 31 December 2013**

*Expressed in U.S. Dollars (unless otherwise stated)*

	<u>Shares/ Units</u>	<u>Cost</u>	<u>Fair value</u>	<u>% of Net Assets</u>
<b>INVESTMENTS IN SECURITIES</b>				
<b>Listed equities:</b>				
Canada:				
Insurance				
Fairfax Financial Holdings Ltd.	623	238,277	248,725	7.60%
Metals and mining		770,742	641,616	19.60%
		<u>1,009,019</u>	<u>890,341</u>	<u>27.19%</u>
Europe:				
Real estate				
Dolphin Capital Investors Ltd.	500,000	217,836	322,862	9.86%
United States:				
Insurance				
Markel Corp	615	319,150	356,580	10.89%
Energy				
Chesapeake Energy Corporation	11,065	206,720	300,304	9.17%
Healthcare				
InfuSystems Holdings Inc.	92,313	129,930	197,550	6.03%
Metals and mining				
Silver Wheaton Corp	9,430	189,480	190,392	5.82%
Other		455,260	356,530	10.89%
Real estate		49,063	58,750	1.79%
Banking		401	586	0.02%
		<u>1,350,004</u>	<u>1,460,692</u>	<u>44.61%</u>
<b>Total investments in listed equities</b>		<u>2,576,859</u>	<u>2,673,895</u>	<u>81.67%</u>
<b>Investments in debentures:</b>				
Canada:				
Healthcare				
Mitomics- 8% due 18/05/2017	195,000	199,264	183,564	5.61%
<b>Total investments in debentures</b>		<u>199,264</u>	<u>183,564</u>	<u>5.61%</u>
<b>TOTAL INVESTMENTS IN SECURITIES</b>		<u>\$ 2,776,123</u>	<u>\$ 2,857,459</u>	<u>87.27%</u>

*See accompanying notes to the financial statements.*

**RECOVERY FUND SEGREGATED PORTFOLIO**  
**(a segregated portfolio of Eschler Global Fund SPC)**

**Condensed Schedule of Investments (Continued)**

**At 31 December 2013**

*Expressed in U.S. Dollars (unless otherwise stated)*

	<u>Proceeds</u>	<u>Fair value</u>	<u>% of Net Assets</u>
<b>SECURITIES SOLD SHORT</b>			
<b>Listed equities:</b>			
United States:			
Automotive	(41,730)	(45,129)	-1.38%
Biotechnology	(84,536)	(75,141)	-2.29%
Consumer products	(172,254)	(234,408)	-7.16%
Energy	(28,503)	(54,640)	-1.67%
Media content	(51,188)	(40,578)	-1.24%
Medical equipment	(30,262)	(33,760)	-1.03%
Metals and mining	(14,232)	(15,571)	-0.48%
Software	(36,170)	(56,010)	-1.71%
<b>TOTAL SECURITIES SOLD SHORT</b>	<b>\$ <u>(458,875)</u></b>	<b>\$ <u>(555,237)</u></b>	<b><u>-16.96%</u></b>
<b>DERIVATIVE ASSETS</b>			
<b>Equity swaps:</b>			
United States			
Real estate		24,635	0.75%
<b>TOTAL DERIVATIVE ASSETS</b>		<b>\$ <u>24,635</u></b>	<b><u>0.75%</u></b>
<b>DERIVATIVE LIABILITIES</b>			
<b>Equity swaps:</b>			
Europe:			
Retail staples		(58,187)	-1.78%
<b>TOTAL DERIVATIVE LIABILITIES</b>		<b>\$ <u>(58,187)</u></b>	<b><u>-1.78%</u></b>

*See accompanying notes to the financial statements.*



**RECOVERY FUND SEGREGATED PORTFOLIO**  
**(a segregated portfolio of Eschler Global Fund SPC)**

**Statement of Operations**

**For the period from 8 October 2012 (commencement of operations) to 31 December 2013**

*Expressed in U.S. Dollars (unless otherwise stated)*

	<b>2013</b>
<b>Investment income</b>	
Interest income	29,370
Dividend income (net of withholding taxes of \$6,365)	<u>15,959</u>
Total investment income	<u>45,329</u>
<b>Expenses</b>	
Interest expense	35,382
Brokerage fees and commission	17,144
Formation expenses	16,404
Professional fees	5,996
Dividends paid on securities sold short	4,162
Other expenses	<u>605</u>
Total expenses	<u>79,693</u>
<b>Net investment loss</b>	<u>(34,364)</u>
<b>Net realized and unrealized gain (loss) on investing activities</b>	
Net realized gains on investments	144,733
Net realized gains on derivative instruments	122,435
Net movement in unrealized losses on investments	(15,026)
Net movement in unrealized losses on derivative instruments	(33,552)
Net realised and unrealized gains on foreign exchange	<u>17,826</u>
<b>Net realised and unrealized gain on investing activities</b>	<u>236,416</u>
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	<u><u>\$ 202,052</u></u>

*See accompanying notes to the financial statements.*

**RECOVERY FUND SEGREGATED PORTFOLIO**  
**(a segregated portfolio of Eschler Global Fund SPC)**

**Statement of Changes in Net Assets**

**For the period from 8 October 2012 (commencement of operations) to 31 December 2013**

*Expressed in U.S. Dollars (unless otherwise stated)*

	Beginning of the period	Subscriptions	Redemptions	Net change in net assets	End of the period
<b><u>Number of Shares:</u></b>					
Class B - Lead Series	—	10,639.46	(250.00)	—	10,389.46
Class B - Lead Series Zurich Trust	—	13,501.50	—	—	13,501.50
Class B - Series B Jan-13	—	170.00	—	—	170.00
Class B - Series B Feb-13	—	680.00	—	—	680.00
Class B - Series B Nov-13	—	6,000.00	—	—	6,000.00
Total	—	30,990.96	(250.00)	—	30,740.96
<b><u>Net Asset Value (\$):</u></b>					
Class B - Lead Series	—	1,063,945	(27,014)	90,413	1,127,344
Class B - Lead Series Zurich Trust	—	1,350,150	—	114,875	1,465,025
Class B - Series B Jan-13	—	17,000	—	72	17,072
Class B - Series B Feb-13	—	68,000	—	(5,754)	62,246
Class B - Series B Nov-13	—	600,000	—	2,446	602,446
Total	\$ —	3,099,095	(27,014)	202,052	3,274,133

**RECOVERY FUND SEGREGATED PORTFOLIO**  
**(a segregated portfolio of Eschler Global Fund SPC)**

**Statement of Cash Flows**

**For the period from 8 October 2012 (commencement of operations) to 31 December 2013**

*Expressed in U.S. Dollars (unless otherwise stated)*

	<b>2013</b>
<b>Cash flows from operating activities</b>	
Net increase in net assets resulting from operations	202,052
Payments for purchase of investments *	(8,495,337)
Proceeds from sale of investments	6,445,257
Net realised and unrealized gain on investing activities	(218,590)
Net changes in operating assets and liabilities:	
Balance due from brokers	(741,929)
Interest receivable	(29,370)
Other assets	(68,571)
Accounts payable and accrued expenses	<u>2,806</u>
<i>Net cash flows from operating activities</i>	<u>(2,903,682)</u>
<b>Cash flows from financing activities</b>	
Proceeds from issuance of shares *	3,099,095
Payment on redemption of shares	<u>(27,014)</u>
<i>Net cash flows from financing activities</i>	<u>3,072,081</u>
<b>Net increase in cash and cash equivalents</b>	168,399
<b>Cash and cash equivalents at beginning of period</b>	<u>—</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 168,399</u>
<b>Supplemental disclosure of cash flows from operating activities:</b>	
Interest paid	\$ (35,382)
Dividends received	15,959
Dividends paid on securities sold short	<u>(4,162)</u>

\* On 8 October 2012, subscriptions in kind were received from investors, in the form of investments with a fair value of \$2,284,096. This amount is included in the cash flows above.

*See accompanying notes to the financial statements.*

## **RECOVERY FUND SEGREGATED PORTFOLIO (a segregated portfolio of Eschler Global Fund SPC)**

### **Notes to the Financial Statements**

**For the period from 8 October 2012 (commencement of operations) to 31 December 2013**

*Expressed in U.S. Dollars (unless otherwise stated)*

---

#### **1. GENERAL INFORMATION**

Eschler Global Fund SPC (the "Company") was incorporated under the Companies Law of the Cayman Islands on 21 August 2009 as an exempted company limited by shares and registered as a segregated portfolio company. Cayman Islands company law permits the Company to legally segregate the assets and liabilities within or on behalf of a segregated portfolio from the assets and liabilities held within or on behalf of any other segregated portfolio of the Company. The Company is structured as an umbrella fund and has the power to create one or more segregated portfolios and to issue different classes or series of shares in respect of each segregated portfolio.

The primary investment objective of the Company is to preserve and grow capital while attempting to limit investment risk. The Company will structure the investment programmes of each segregated portfolio based on the specific objectives of each segregated portfolio. The investment objective of the Recovery Fund Segregated Portfolio (the "Fund") is to preserve capital and increase the value of the capital over time. The Fund commenced trading on 8 October 2012. The Fund issues shares in six share classes - Class A USD, Class B USD, Class C USD, Class A EUR, Class B EUR and Class C EUR. Shares of each class are generally issued in share series. As at 31 December 2013, shares were issued in Class B USD only.

The Fund contracts for its supervisory, general and administrative and investment management services with various service providers and professional organizations. As a result, the Fund has no employees of its own. The financial statements reflect the costs of these various service providers and professional organizations.

The Fund's investment activities are managed by Eschler Asset Management LLP (the "Investment Manager") pursuant to an investment management agreement.

The Fund has appointed Trinity Fund Administration (Cayman) Ltd. (the "Administrator") as the administrator, registrar and transfer agent to the Fund pursuant to an administration agreement.

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") as detailed in the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC"). The significant accounting policies adopted by the Fund are as follows:

##### **(a) Use of estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

## RECOVERY FUND SEGREGATED PORTFOLIO (a segregated portfolio of Eschler Global Fund SPC)

### Notes to the Financial Statements

For the period from 8 October 2012 (commencement of operations) to 31 December 2013

Expressed in U.S. Dollars (unless otherwise stated)

---

#### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### (b) Investments in securities and derivatives

###### *Investment transactions:*

Investment transactions are accounted for on a trade date basis. Realised gains and losses from investments are computed on the basis of the identified cost of the securities sold or covered. Dividend income and expense are recorded on the ex-dividend date, net of foreign withholding taxes. Interest income and expense are recorded on the accrual basis. Discounts and premiums on securities purchased are accreted and amortized over the lives of the respective securities.

###### *Valuation:*

In accordance with the authoritative guidance on fair value measurements and disclosures under U.S. GAAP, the Fund discloses the fair value of its investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure the fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (level 3 measurements). The guidance establishes three levels of the fair value hierarchy as follows:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 - Quoted prices for similar assets or liabilities in an active market, or inputs that are directly observable or inputs that are corroborated with observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to the security.
- Level 3 - Pricing inputs that are unobservable for the assets or liabilities, that is, significant inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the assets or liabilities. Level 3 includes private portfolio investments that are supported by little or no market activity.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Fund's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

Listed equity securities and equity securities sold short are valued at their last sales price on the valuation date. To the extent these securities are actively traded and valuation adjustments are not applied, they are classified in Level 1 of the fair value hierarchy. Preferred stocks and other equities traded on inactive markets are valued by reference to similar instruments and are generally classified in Level 2.

## **RECOVERY FUND SEGREGATED PORTFOLIO** **(a segregated portfolio of Eschler Global Fund SPC)**

### **Notes to the Financial Statements**

**For the period from 8 October 2012 (commencement of operations) to 31 December 2013**

*Expressed in U.S. Dollars (unless otherwise stated)*

---

#### **2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **(b) Investments in securities and derivatives (Continued)**

Debt instruments comprise of an investment in a debenture which is interest-bearing. There is only one investment in debenture where the fair value was determined by the Directors to be at cost and is categorised in Level 3 of the fair value hierarchy.

Listed derivatives that are actively traded are valued based on quoted prices from the exchange and are categorised in Level 1 of the fair value hierarchy.

Over the counter (OTC) derivative contracts include swaps related to interest rates, foreign currencies, equity prices or commodity prices. Depending on the product and terms of the transactions, the fair value of the OTC derivative contracts can be modeled taking into account the counterparties' creditworthiness and using a series of techniques, including simulation models. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgments and the pricing inputs are observable from actively quoted markets, as is the case of interest rate swap and foreign currency forward contracts. OTC derivatives which are valued using such pricing models are classified within Level 2 of the fair value hierarchy.

In the event the Fund acquires securities or other financial instruments for which market quotations are not available, such securities will be valued at their fair value as determined by the Investment Manager, under authority of the Board of Directors, and would be classified in Level 2 or Level 3 of the fair value hierarchy.

##### **(c) Foreign currency transactions**

The books and records of the Fund are maintained in United States dollars ("US dollars"). Assets and liabilities in foreign currencies are translated into the reporting currency at the rates prevailing at the period end date, while revenue and expenses are translated at the daily spot rates of exchange. The Fund does not isolate that portion of the results of operations arising as a result of changes in foreign currency exchange rates from the fluctuations arising from changes in market prices of securities held or sold during the period.

Foreign currency translation gains and losses are included in the statement of operations. The foreign currency transaction element of net realised gains or losses represents the net foreign currency exchange gains or losses from sale of foreign currencies, currency gains or losses realised between the trade and settlement dates on securities transactions and the difference in the amounts of dividends, interest and foreign withholding taxes recorded on the Fund's books and the US dollar equivalent of the amount actually received or paid.

##### **(d) Cash and cash equivalents**

Cash at bank represents amounts due from bank on demand. Cash equivalents comprise of short term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value and are held for the purpose of meeting short term cash commitments rather than for investment or other purposes.

## **RECOVERY FUND SEGREGATED PORTFOLIO** **(a segregated portfolio of Eschler Global Fund SPC)**

### **Notes to the Financial Statements**

**For the period from 8 October 2012 (commencement of operations) to 31 December 2013**

*Expressed in U.S. Dollars (unless otherwise stated)*

---

#### **2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **(e) Taxation**

Under the current laws of the Cayman Islands there are no income, estate, transfer, sales or other Cayman Islands taxes payable by the Fund. Accordingly, no income tax provision is required in these financial statements. The Fund may be subject to foreign withholding taxes on certain interest, dividends and capital gains.

The Fund is subject to the provisions of ASC 740, Accounting for Uncertainty in Income Taxes. This standard establishes consistent thresholds as it relates to accounting for income taxes. It defines the threshold for recognizing the benefits of tax-return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority and requires measurement of a tax position meeting the more-likely-than-not criterion, based on the largest benefit that is more than 50 percent likely to be realised. The Investment Manager has analyzed the Fund's inventory of tax positions taken with respect to all applicable income tax issues for all open tax years (in each respective jurisdiction), and has concluded that no provision for income tax is required in the Fund's financial statements.

##### **(f) Redemptions payable**

In accordance with disclosures about accounting for certain financial instruments with characteristics of both liabilities and equity of the FASB Accounting Standards Codification, redemptions, whether expressed as a monetary amount or shares, are recognized as liabilities, when each monetary and share amount requested in the redemption notice becomes fixed, which generally occurs on the last day of the fiscal period. As a result, redemptions paid after the period end, but based on period-end net asset values, are reflected as redemptions payable at year-end date. Redemption notices received for which monetary and share amounts are not fixed remain in capital until the net asset value used to determine the redemption and share amounts are determined. There were no redemptions payable held at period end.

#### **3. FAIR VALUE INFORMATION**

At 31 December 2013, the carrying values of cash and cash equivalents, balances due from and to brokers, interest receivable, other assets and accounts payable and accrued expenses approximate their fair values due to the relatively short-terms to maturity of these financial instruments. The fair values for all other financial instruments are determined in accordance with the accounting policies described in Note 2 above.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

**RECOVERY FUND SEGREGATED PORTFOLIO**  
**(a segregated portfolio of Eschler Global Fund SPC)**

**Notes to the Financial Statements**

**For the period from 8 October 2012 (commencement of operations) to 31 December 2013**

*Expressed in U.S. Dollars (unless otherwise stated)*

3. **FAIR VALUE INFORMATION** (Continued)

The following table analyses within the fair value hierarchy the Fund's financial assets and liabilities (by class) measured at fair value as at 31 December 2013:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Equity securities	2,673,895	-	-	2,673,895
Debenture	-	-	183,564	183,564
Swaps	-	24,635	-	24,635
Total assets	<u>\$ 2,673,895</u>	<u>\$ 24,635</u>	<u>\$ 183,564</u>	<u>\$ 2,882,094</u>
<b>Liabilities</b>				
Equity securities sold short	(555,237)	-	-	(555,237)
Swaps	-	(58,187)	-	(58,187)
Total liabilities	<u>\$ (555,237)</u>	<u>\$ (58,187)</u>	<u>\$ -</u>	<u>\$ (613,424)</u>

There was no movement between the levels for the year ended 31 December 2013.

The table below outlines the roll forward of level 3 items:

	<u>Level 3</u>
Opening balance	-
Purchase	199,264
Movement in unrealized loss	<u>(15,700)</u>
Closing balance	<u>\$ 183,564</u>

Level 3 investments comprise of an investment in an interest-bearing debenture whose fair value was determined by the Directors to be at cost. The Directors believe there is minimal risk of default before maturity.

4. **DERIVATIVE CONTRACTS**

The Fund enters into various swap contracts as part of its investment strategies, including equity swaps. Fair values are determined in accordance with the valuation principles set out in note 2 to the financial statements. For over-the-counter ("OTC") contracts, the Fund enters into master netting agreements with its counterparties.

Similarly, liabilities represent net amounts owed to counterparties on OTC contracts. The primary difference in the risk associated with OTC contracts and exchange-traded contracts is credit risk. The Company has credit risk from OTC contracts when two conditions are present (i) the OTC contracts have unrealized gains, net of any collateral and (ii) the counterparty to the contracts defaults. The credit risk related to exchange-traded contracts is minimal because the exchange ensures that their contracts are always honored.



**RECOVERY FUND SEGREGATED PORTFOLIO**  
**(a segregated portfolio of Eschler Global Fund SPC)**

**Notes to the Financial Statements**

**For the period from 8 October 2012 (commencement of operations) to 31 December 2013**

*Expressed in U.S. Dollars (unless otherwise stated)*

**4. DERIVATIVE CONTRACTS (Continued)**

The following table identifies the fair value of derivative contracts included in the statement of assets and liabilities as derivative contracts, categorised by primary underlying risk, at 31 December 2013. Balances are presented on a gross basis. The following table also identifies the net gain and loss amounts included in the statement of operations for the period ended 31 December 2013.

	Derivative assets	Derivative liabilities	Net loss
<i>Primary underlying risk:</i>			
Equity price	\$ 24,635	(58,187)	(33,552)

As at 31 December 2013, the notional or contract amounts, converted to United States dollars, of the Fund's outstanding derivative contracts were as follows:

	<u>Swaps</u>
Gross asset derivatives	244,178
Gross liability derivatives	<u>(47,611)</u>
	<u>\$ 196,567</u>

Each derivative contract was marked-to-market, and the change in market value was recorded by the Fund as an unrealized gain or loss as it occurred. The net change in unrealized gain/loss on derivative contracts as at 31 December 2013 represents the movement in the fair value of the derivative contracts to 31 December 2013 and is included in the net change in unrealized loss on derivatives in the statement of operations. Realized gains or losses are recorded upon maturity, sale or settlement of a contract. Realised gains and losses on derivatives are included in net realized loss on derivatives in the statement of operations.

The following table shows the number of trades made in the Fund during the year ended 31 December 2013:

	Number of trades	
	Long	Short
Swaps	18	2

## **RECOVERY FUND SEGREGATED PORTFOLIO** **(a segregated portfolio of Eschler Global Fund SPC)**

### **Notes to the Financial Statements**

**For the period from 8 October 2012 (commencement of operations) to 31 December 2013**

*Expressed in U.S. Dollars (unless otherwise stated)*

---

#### **5. SHARE CAPITAL**

The authorized share capital of the Company is US\$50,000 divided into 100 voting management shares (the "Management Shares") and 4,999,900 participating shares (the "Shares"), which may be issued in classes. Each class of shares participates in a Portfolio.

100 Management Shares are in issue, fully paid and held by the Investment Manager. The Management Shares have the entire voting power of the Company except on a variation of rights issue. However, they do not entitle the holder to participate in the Company's profits and losses and they are not redeemable. Upon the winding up of the Company the holders of Management Shares are entitled to receive their paid in capital of US\$0.01 per management share.

As stated in note 1, the Fund may issue Shares in six classes - Class A USD, Class B USD, Class C USD, Class A EUR, Class B EUR and Class C EUR. Shares of each class are generally issued in series. As at 31 December 2013, shares were issued in Class B USD only. The proportion of income, expenses, realised and unrealized gains or losses allocated to the share classes is based on the percentage of capital invested by each share class in the Fund, with the exception of management fees which are calculated as outlined in note 6 to the financial statements. Share classes carry the same rights and privileges and differ only in their issue currency, management fee and certain redemption restrictions.

Subject to restrictions and conditions outlined in the Fund's Offering Memorandum, Shares may be redeemed on any redemption day, at the redemption price upon at least 30 calendar days notice. Redemption day is defined as the first business day of each calendar month or such additional business day or business days as the directors may in their sole discretion determine.

#### **6. RELATED PARTIES AND SIGNIFICANT CONTRACTS**

Related parties to the Fund include the Fund's directors and the Investment Manager. The Investment Manager is related to the Fund by virtue of the common directors and control over the investment decisions of the Fund. A director of the Company is also a principal of the Investment Manager. Transactions with these parties during the period include the following:

##### **Investment Manager:**

###### *Management fees:*

Under the terms of the management agreement, the Investment Manager will not levy any management fee on the Class B Shares.

###### *Incentive fees:*

The Investment Manager is entitled to an incentive fee equal to 25% of the net profits of the Fund, subject to a 6% hurdle and "high water mark" limitation, which requires a full recovery of any net losses from prior years before an incentive fee can be earned. For this purpose, the incentive fee is generally calculated by comparing the ending net asset value of a series at the end of a fiscal year or at the redemption day with the highest of the following amounts (in each case as adjusted for any intervening distributions): (i) the net asset value as of the beginning of the current fiscal year, (ii) the net asset value as of the beginning of any preceding fiscal year or (iii) the subscription price of the share at the date of issue.

## RECOVERY FUND SEGREGATED PORTFOLIO (a segregated portfolio of Eschler Global Fund SPC)

### Notes to the Financial Statements

For the period from 8 October 2012 (commencement of operations) to 31 December 2013

Expressed in U.S. Dollars (unless otherwise stated)

---

#### 6. RELATED PARTIES AND SIGNIFICANT CONTRACTS (Continued)

Incentive fees are calculated and charged separately with respect to each series. If a shareholder redeems a series of shares during a fiscal year, the incentive fee payable with respect to such series will be determined solely by reference to the performance of that series through the redemption day and will be payable to the Investment Manager on the finalization of the net asset value of the particular series for the relevant redemption day.

The annual incentive fee will generally be payable to the Investment Manager after the end of each fiscal year or the relevant redemption day.

No incentive fee was incurred during the period ended 31 December 2013.

#### Directors:

Theron de Ris currently serves in his capacity as director of the Company and the Fund without compensation. The following Class B Shares are held by the director of the Company at 31 December 2013:

	<u>Shares</u>
Class B - Lead Series	10,049.32
Class B - Series B Jan-13	170.00
Class B - Series B Feb-13	<u>680.00</u>

In addition, PAL Trustees Limited held 7,361.16 shares of the Lead Series at period end. A director of the Fund is the beneficial owner of these shares.

As at 31 December 2013, the following shareholders held shares greater than or equal to 10% of the share capital of the Fund.

- Zurich Trust Limited
- Theron de Ris
- PAL Trustees Ltd & Theron de Ris as trustees of the IPS
- UBS AG Zurich

#### Significant contracts - Administrator:

The Administrator is entitled to a fee from the assets of the Fund which will be charged at normal commercial rates, subject to a set minimum and a surcharge for each of the second and subsequent Classes activated to correspond to the Fund. All such fees and expenses will be borne by the Fund or the Investment Manager.

For the period ended 31 December 2013, administration fees of \$15,000 were borne by the Investment Manager.

**RECOVERY FUND SEGREGATED PORTFOLIO**  
**(a segregated portfolio of Eschler Global Fund SPC)**

**Notes to the Financial Statements**

**For the period from 8 October 2012 (commencement of operations) to 31 December 2013**

*Expressed in U.S. Dollars (unless otherwise stated)*

**7. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS**

In pursuing its investment objective, the Fund invests in securities with the aim of spreading investment risk. Investment in securities and derivatives expose the Fund to various risks, including market risks, credit risk and particular risks associated with derivative contracts. A brief description of the specific risks and the policies for managing them is set out below. For more detail of the risk factors, refer to the Offering Memorandum and the relevant supplement.

**Market price risk:**

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, other than those arising from foreign exchange values or interest rate risk.

Securities sold short represent obligations of the Fund to deliver the specified security thereby creating a liability to repurchase the security in the market at prevailing prices.

The fair value of swap contracts at 31 December 2013 is the unrealized gain or loss on the derivative contract. Accordingly, these investments may result in off-balance sheet risk as the Fund's satisfaction of the obligations may exceed the amount recognized in the settlement of asset and liabilities.

**Interest rate risk:**

The majority of the Fund's financial assets and liabilities are non-interest bearing and as a result the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents of the Fund are invested at short term market interest rates.

**Currency risk:**

The Fund may invest in assets denominated in currencies other than US dollars. Consequently, the Fund is exposed to risks that the exchange rate of the US dollar relative to other currencies may change in a manner that has an adverse effect on the reported value of that portion of the Fund's assets which are denominated in currencies other than the US dollar.

As at 31 December 2013, the Fund's exposure to foreign currency risk was as follows (in U.S. dollars):

	<b>Year-end exchange rate</b>	<b>Investments and derivatives</b>	<b>Cash and cash equivalents</b>	<b>Total</b>
Canadian dollars	1.0623	1,073,905	(955,415)	118,490
Euro	0.7276	-	(208,857)	(208,857)
Pounds Sterling	0.6040	264,674	(212,422)	52,252
		<b>\$1,338,579</b>	<b>\$ (1,376,694)</b>	<b>\$ (38,115)</b>

## **RECOVERY FUND SEGREGATED PORTFOLIO** **(a segregated portfolio of Eschler Global Fund SPC)**

### **Notes to the Financial Statements**

**For the period from 8 October 2012 (commencement of operations) to 31 December 2013**

*Expressed in U.S. Dollars (unless otherwise stated)*

---

#### **7. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (Continued)**

##### **Credit risk:**

Credit risk is the risk that a counterparty will be unable or unwilling to meet commitments it has entered into with the Fund. All investment transactions are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal since delivery of securities sold is only made once the broker has received payment. On purchase, payment is made once the securities have been received by the broker. If either party fails to meet their obligation, the trade will fail.

At 31 December 2013 all of the Fund's assets were subject to counterparty credit risk.

All investments and derivatives are held under one single prime broker - Morgan Stanley & Co. International (the "Prime Broker"). Cash is held with Bank of America and the Prime Broker.

Bankruptcy or insolvency of the Prime Broker may cause the Fund's rights with respect to the cash and investments held by the Prime Broker to be delayed or limited. The impact to the Fund of a broker becoming insolvent could be significant and could materially impair the ability of the Fund to achieve its investment objective. The Investment Manager monitors the Prime Broker for ongoing creditworthiness. The Prime Broker is rated A by Standard & Poor's credit rating agency at 31 December 2013. The Fund's non-cash assets are segregated from the proprietary assets of the Prime Broker.

##### **Liquidity risk:**

Most exchanges limit fluctuations in certain commodity interest prices during a single day by imposing what are known as "daily limits". The existence of daily limits may reduce liquidity or effectively curtail trading in particular markets. The daily limit, which is set by most exchanges for all but a portion of the expiration month, imposes a floor and ceiling on the prices at which a trade may be executed, as measured from the last trading day's close.

Financial markets, from time to time, may be "thin" or illiquid, making purchases or sales of financial futures contracts and forward contracts at desired prices or in desired quantities difficult or impossible for short periods of time. The volume and volatility of trading in the market depends in part, on general public interest and public opinion concerning economic conditions as well as the liquidity provided by market makers and brokers. Notwithstanding the above, most of the Fund's securities are considered to be readily realizable as they are listed on the main world stock exchanges.

The Fund is subject to liquidity risk arising from the redemption of shares. In order to reduce the associated risk, investment shares may only be redeemed on redemption days and by giving notice 30 business days prior to the relevant redemption day. Furthermore, Class A Shares are not redeemable by shareholders until the expiry of the second anniversary date on which they became a shareholder; and if a shareholder redeems its Class B Shares or Class C Shares within the first 12 months following the date on which they became an investor, such redemption will be subject to a 2% redemption charge.

At 31 December 2013, all of the Fund's liabilities have a maturity within three months of year end.

**RECOVERY FUND SEGREGATED PORTFOLIO**  
**(a segregated portfolio of Eschler Global Fund SPC)**

**Notes to the Financial Statements**

**For the period from 8 October 2012 (commencement of operations) to 31 December 2013**

*Expressed in U.S. Dollars (unless otherwise stated)*

8. **SOFT COMMISSIONS**

During the period ended 31 December 2013, the Investment Manager and connected persons did not enter into soft commission arrangements with brokers in respect of which certain goods and services used to support investment decision making were received.

9. **COMMITMENTS AND CONTINGENT LIABILITIES**

In the normal course of business, the Fund enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Fund's maximum exposure under these arrangements is unknown and this would involve futures claims that may be made against the Fund that have not yet occurred. However based on our experience, the Fund expects the risk of loss to be remote.

10. **FINANCIAL HIGHLIGHTS**

Financial highlights for the period ended 31 December 2013 are as follows:

	<b>Lead Series</b>
<b><u>Ratios to average net assets</u></b>	
Net asset value per share, beginning of period	\$ 100.00
<i>Income/(loss) from operations:</i>	
Net investment income	(2.33)
Net realised and unrealized loss on investments	10.84
<b>Net asset value per share, end of period</b>	<b><u>\$108.51</u></b>
<b>Total return:</b>	
Return before performance fees	8.51%
Incentive fee	-
Total return after incentive fees	<u>8.51%</u>
<b>Supplemental data:</b>	
Ratio of expenses to average net assets (before interest and incentive fees)	(1.24%)
Ratio of expenses to average net assets (after interest and incentive fees)	(2.15%)
Ratio of net investment income to average net assets	<u>(1.37%)</u>

The financial highlights are calculated for the initial series of each Class of Shares. Ratios are being calculated for all Classes, taken as a whole. An individual shareholder's return and ratios may vary from these returns and ratios based on the timing of capital transactions and different fee arrangements, if applicable.

**RECOVERY FUND SEGREGATED PORTFOLIO**  
**(a segregated portfolio of Eschler Global Fund SPC)**

**Notes to the Financial Statements**

**For the period from 8 October 2012 (commencement of operations) to 31 December 2013**

*Expressed in U.S. Dollars (unless otherwise stated)*

---

11. **SUBSEQUENT EVENTS**

Management has evaluated subsequent events through the date of this report and there is nothing to report.