

29 May 2020

## **Cordish Dixon Private Equity Fund II (Fund)**

**ASX: CD2**

### **2020 Full Year Results**

#### **2020 Highlights**

- Post-tax Net Tangible Asset (**NTA**) return of 16.6%, including the impacts of COVID-19 toward the end of 2020
- Net profit was \$21.4 million or 38.8 cents per Unit, compared with \$24.6 million or 44.5 cents per Unit for the previous financial year, reflecting positive private equity market
- The Fund paid two distributions totalling \$0.34 per Unit during the year. Since inception the Fund has paid, in aggregate, distributions of \$0.95 per Unit relative to the initial offer price of \$1.60 and current post-tax NTA of \$2.33.
- The impact of COVID-19 restrictions will continue to be felt throughout 2020 and likely into 2021, but the Fund's portfolio is well diversified and our underlying fund managers continue to be proactive in addressing the effects of the outbreak across the portfolio.

#### **Financial performance**

The performance of the Fund on a total return basis over the financial year ended 31 March 2020 (**FY20**) has been strong with a post-tax Net Tangible Asset (**NTA**) return of 16.6%. This return reflects positive private equity market conditions through 2019 and into 2020 and the success of the underlying fund managers, but also incorporates the impact of COVID-19 towards the end of FY20, which is discussed in more detail below. The return was also aided by the declining Australian dollar, which fell 13.6% against the US dollar during FY20.

Underlying the strong NTA returns, this year's financial results are very pleasing. Net profit was \$21.4 million or 38.8 cents per Unit, compared with \$24.6 million or 44.5 cents per Unit for the previous financial year (**FY19**). The key component of this result was a \$21.2 million fair value movement gain in the Fund's investment in the US Select Private Opportunities Fund II Limited Partnership (**LP**) and substantial distributions received by the LP and passed on to Unitholders of the Fund. The LP is the investment vehicle through which the Fund's investments in the underlying United States (**US**) private investment funds are made. At 31 March 2020, the Fund had pre-tax net assets of \$137.3 million representing \$2.49 per Unit and post-tax net assets of \$128.4 million representing \$2.33 per Unit.

## Investment activity

The Fund's investment objectives are to provide Unitholders with exposure to a portfolio of investments in small and mid-market private investment funds and privately held companies, predominantly in the US, and capital growth over a five to ten-year investment horizon.

The principal activity of the Fund during the financial year, and its single reporting segment, was the business of investing in small-to-mid-market private investment funds and privately held companies with a predominate focus in the US, through its interest in a Limited Partnership. There were no significant changes in the nature of these activities during the year.

Through its investment in the LP, the Fund is fully committed across 12 US private investment funds all focused on small-to-mid-market private investment opportunities, for a total investment of US\$98.0 million.

The US private investment funds have been selecting and investing in small to mid-size private businesses since the Fund's inception in April 2013. As a result, many of the underlying business investment opportunities are well-progressed in utilising the capital or have been realised through sale, recapitalisation or another form of investment realisation. As at 31 March 2020, US\$81.4 million (or 91.9% of total funds committed) of commitments to the LP had been called. The Fund's proportionate share of the capital called is approximately US\$71.1 million (an 87.3% share).

During the period, the LP received 40 drawdown requests, and benefitted from six capital returns. For FY20, net drawdown requests from underlying investment funds were US\$5.2 million (or 5% of total LP commitments). In February 2020, the LP reduced the Fund's capital commitment from US\$83.0 million to US\$77.3 million.

## The impact of COVID-19 on the Fund

During FY20, global financial markets, including US markets, hit multi-year highs. These gains were rapidly eroded in late-February and March of 2020 as the world implemented measures to control the spread of COVID-19 and to protect lives, effectively shutting down economic activity. The impact of COVID-19 restrictions will continue to be felt throughout 2020 and probably into 2021 despite economies beginning to re-open and for the time-being, we are in a period of relative uncertainty and dislocation. For private equity markets in general the most likely outcome will be a curtailed level of activity and longer holding periods for investments. At the underlying company level, many will take time to recover and some will not survive, but there are also sectors and companies that are finding opportunity in the crisis. At this stage, it is too early to understand how all of the investments will perform in the medium to longer term, but the Fund's portfolio is well diversified and our underlying fund managers continue to be proactive in addressing the effect of the outbreak across the portfolio.

### **Valuation technique adopted**

The fair value of the Fund's interest in the LP is determined using a 'proportionate' value method based on the Fund's 87.3% interest held in the total net asset value of the LP. The LP holds investments predominately in US private investment funds, and the LP adopts a similar fair value measurement basis, based on the proportionate interest it holds in the most recent reported total net asset values of the respective investment funds.

Consistent with the prior year, the valuation of the Fund's equity investment in the LP is based on the fair values of the underlying investment funds at 31 December 2019 adjusted for any changes to those valuations to reflect movements to 31 March 2020, including foreign exchange translation impacts arising from translating the USD denominated interest in the LP to AUD at each balance date.

As there is up to a three-month difference between the Fund's reporting date and the date of the most recent reported net assets of the underlying investment funds, and given prevailing volatility in markets due to the advent of COVID-19, the Board in consultation with the Investment Manager, has considered likely movements in the first quarter 2020 valuations.

The Board has estimated the movement in the fair values of the underlying investment funds between 31 December 2019 and 31 March 2020 by having regard to the percentage change in a comparable US public market index during the quarter, the historic correlation between public market and private equity valuations and the lack of liquidity in the markets during March 2020.

The adjustments resulting from the Board's consideration resulted in a reduction of the previously announced after-tax NTA at 31 March 2020 of 5.7%, or \$0.14 per Unit, to \$2.33 per Unit, as noted above. As the Board and Investment Manager receive updated valuations from underlying fund managers, these will be incorporated into the Fund's monthly NTA reports, as they have been in the past.

The underlying investment funds typically invest in US unlisted equity investments with fair values determined periodically using market or income-based valuation techniques, which may involve the use of unobservable inputs. The fair value of the Fund's interest in the LP is therefore ultimately based on the valuation techniques adopted by the investment funds in the measurement of their underlying unlisted equity investments.

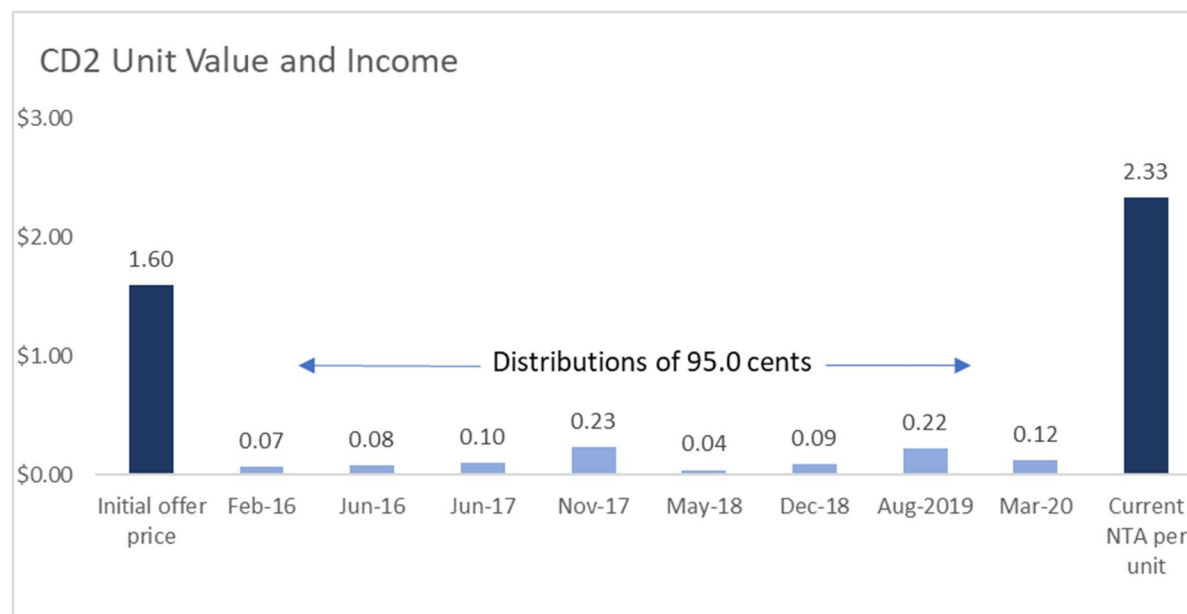
### **Investment risk**

Because of the absence of any liquid trading market for these types of investments, it may take longer to liquidate these investments than would be the case for marketable securities and accordingly the value obtained on realisation may differ materially to the estimated fair values at balance date. The fair values assigned by the investment funds are based on a range of factors, including but not limited to the price at which the investments were acquired, the nature of the investments, private and public company comparables used to determine enterprise value, and other techniques using unobservable market inputs such as price/earnings multiples and discounted cash flow models. As such, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

These differences would directly impact the value of the interest held by the LP in the underlying investment funds and consequently the value of the interest held by the Fund in the LP. In addition, further investment valuation uncertainty arises as a result of a time lag of up to three months between the Fund's reporting date and the date of the most recent reported net assets of the private investment funds. Estimation uncertainty also arises in relation to likely US tax obligations the Fund will incur in connection with realisation of recorded fair value movements.

## Distributions

Over FY20, the Fund paid two distributions totalling \$0.34 per Unit. These distributions represent the seventh and eighth distributions from the Fund since its inception and were paid as follows: \$0.22 in August 2019 and \$0.12 in March 2020. The distributions gained through your investment in the Fund are shown in the graphic below, which also indicates the amount of your original investment and the value of net tangible assets per Unit as at the end of this FY20 period. The sum of the distributions paid to investors since inception of 95.0 cents per Unit is greater than, or represents 59% of, the initial \$1.60 offer price.



## Asset sale – voted down

On 14 October 2019, the Responsible Entity (**RE**) of CD2 and Cordish Dixon Private Equity Fund I (**CD1**) announced that both Funds had entered into sale agreements to sell the underlying US Limited Partnerships (US Select Private Opportunities Fund II, L.P (CD2) and US Select Private Opportunities Fund, L.P (CD1)) to an entity controlled by Whitehorse Liquidity Partners, a Canadian private equity firm. The sale of assets for each Fund was subject to Unitholder approval, by poll, at respective General Meetings held on 26 November 2019. Under the Sale Agreement, the estimated net sale proceeds to unitholders in the Fund if the resolutions were approved was \$1.97 per Unit. The resolutions to approve the sales were not carried, and both CD2 and CD1 continue to operate in line with their existing strategies.

The proposed sales were undertaken in response to feedback from investors seeking liquidity options and in response to the recent discount to net tangible assets at which the Fund was, and continues, to trade. The RE is very pleased with the resounding endorsement of the strategy and the investments held by the Fund.

### **Fund communications**

We are releasing this announcement along with the Fund's Appendix 4E and financial statements today. We will release the full annual report during June 2020, which in addition to the financial statements will include the Report to Unitholders, Investment Manager's Report, Corporate Governance Statement, Directors' Report and Declaration, Auditor's Report and Declaration, and all notes to the financial statements.

Investors, who have elected to, continue to receive emails from the Fund with updates on the Fund's activities. Please contact the Registry if you would like to update your communications preferences.

Registry: Boardroom Pty Limited

Phone: 1300 737 760

Website: <https://www.boardroomlimited.com.au>

Authorised for release by Walsh & Company Investments Limited (ACN 152 367 649, AFSL 410 433), the responsible entity of Cordish Dixon Private Equity Fund II.

This announcement may contain general advice. Any general advice provided has been prepared without taking into account your objectives, financial situation or needs. Before acting on the advice, you should consider the appropriateness of the advice with regard to your objectives, financial situation and needs. Past performance of the Fund is not a reliable indicator of the future performance of the Fund. This announcement may contain statements, opinions, projections, forecasts and other material (forward-looking statements), based on various assumptions. Those assumptions may or may not provide to be correct. The Responsible Entity, Dixon Asset Management USA Inc (Investment Manager) and its advisers (including all of their respective directors, consultants and/or employees, related bodies corporate and the directors, shareholders, managers, employees or agents of them) (Parties) do not make any representation as to the accuracy or likelihood of fulfilment of the forward-looking statements or any of the assumptions upon which they are based. Actual results, performance or achievements may vary materially from any projections and forward-looking statements and the assumptions on which those statements are based. Readers are strongly cautioned not to place undue reliance on forward-looking statements, particularly in light of the current economic climate and the significant volatility, uncertainty and disruption caused by the outbreak of COVID-19, and the Parties assume no obligation to update that information.

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The Cordish Dixon Private Equity Fund series comprise ASX listed and unlisted investment trusts focused on investing with and alongside leading, highly differentiated and specialised private equity funds focused on lower middle-market operating businesses in the US.