

# CD Private Equity Fund Series

## Merger Proposal – Supplementary Explanatory Memorandum

Dear Unitholders,

I am writing to provide you with an update in relation to the proposed merger of the CD Private Equity Fund Series (Proposal) as described in the Explanatory Memorandum dated 7 October 2022 (**Explanatory Memorandum or EM**).

Since announcing the Proposal, the Responsible Entity (**RE**) has received a number of queries from investors in the CD Private Equity Fund Series, including in relation to the intended operation of the liquidity mechanism.

A key purpose of the Proposal is to improve the ability of investors to withdraw from their investment, should they wish to do so, at a fair price. Taking into account investors' feedback, the RE has decided to adjust its strategy for the Fund, to potentially increase the size of the regular six-monthly withdrawal offers from the Merged Fund that was described in the EM.

### How will the RE seek to increase cash available for withdrawals?

As described in Section 8 of the EM, the RE proposes to make withdrawal offers every six months commencing in December 2023, targeting an amount of total available withdrawals of 5% of units in the Fund. Under those offers, unitholders will be able to apply to have some or all of their holdings redeemed at net asset value (**NAV**), less a sell spread (normally expected to be 0.5% and not more than 3%) to cover the reasonable estimate of the costs of the withdrawal offer, including the cost of selling assets (if required).

Under the revised strategy, where unitholders' requests to withdraw have not been fully satisfied in a withdrawal offer, the RE will allocate cash received from sales of underlying assets during the following six months to fund the next withdrawal offer in priority to using that cash to make new investments. Depending on the demand for withdrawals and the available cash from asset sales, the size of withdrawal offers may be more than the 5% target (but could be less in certain market conditions).

The possible sources of cash to fund withdrawal offers are sale of assets in the Merged Fund's underlying portfolio via distributions from the limited partnerships in which the Merged Fund invests, new applications for Units, and potentially some borrowing.

This revised strategy potentially increases the size of withdrawal offers by prioritising the use of cash from asset sales away from buying further assets and towards withdrawal offers where there have been unsatisfied withdrawal requests.

### No new investments with funds from asset sales while unmet demand for redemptions

Consistently with the revised strategy, the RE may only choose to allocate some or all of the cash generated from asset sales and which it holds at the commencement of a withdrawal offer to new investments following the withdrawal offer if withdrawal applications have been fully satisfied under that withdrawal offer. In other words, cash from asset sales may only be committed to new investments if it is "Surplus Capital".

**Surplus Capital** means Excess Capital minus total acceptances in response to the relevant withdrawal offer (including any that are not met because the offer is scaled back as the Corporations Act requires, or cancelled). The time for calculating Surplus Capital will be as at the close of the relevant withdrawal offer. If Surplus Capital is negative, then no new investments will be made during the following six months.

**Excess Capital** means the available cash from underlying asset sales during the prior six months, less the Merged Fund's operating and working capital needs. The time for calculating Excess Capital will be as at 5 business days before the date of dispatch of the relevant withdrawal offer.

To the extent Surplus Capital is not allocated to new investments prior to the next withdrawal offer, it is intended that it will be applied to that next withdrawal offer (subject to market and operating conditions).

The RE must always act in the best interests of members, so there may be circumstances where it needs to vary this general approach. For example, it would not be appropriate to make withdrawal offers in extreme market circumstances where the RE is unable to appropriately value the Merged Fund's underlying assets. If at any time the RE were to seek to change the general approach as described above, it intends wherever possible to first seek approval of the members by ordinary resolution.

This revised strategy only affects whether cash from asset sales is recycled into new investments. It does not prevent other cash in the Fund (which is not from asset sales during the prior six months) and cash from new applications being invested in new investments. Any such cash is separate from the Excess Capital, and the RE may decide to apply it to a particular withdrawal offer to meet the 5% target or any unmet demand for redemptions or, if it is in the best interests of members, to acquire new investments.

### Examples\*

#### 1. Demand for withdrawals is met

The RE determines that the Merged Fund has \$30m of Excess Capital, and applies it to a six-monthly withdrawal offer. There are withdrawal requests of \$20m. The Fund therefore has \$10m of Surplus Capital which is able to be allocated to new investments in the next six months. If only \$5m of the \$10m of Surplus Capital is allocated to new investments by five business days before the dispatch of the next Withdrawal Offer documents then that remaining \$5m will be included in the calculation of Excess Capital for the next Withdrawal Offer.

#### 2. There is unmet Demand

- (a) As above, the Merged Fund has \$30m of Excess Capital available to be applied to a six-monthly Withdrawal Offer. There are withdrawal requests of \$60m. Investors will receive a pro-rata amount of their application of 50% of their requested amount. The Merged Fund will not allocate any capital to new investments as there is unmet demand for redemptions.
- (b) Investors are able to participate in the next six-monthly Withdrawal Offer. However if there have not been sufficient asset sales or other inflows during the six months to meet the unsatisfied \$30 million of demand for withdrawals and any new demand at that offer, the Merged Fund will still not be able to allocate capital to new investments.

#### 3. There is unmet demand in the previous Withdrawal Offer but inflow from new applications

In the six-month window following example 2(a) above, the Merged Fund receives \$30m from asset sales. Because there has been unmet demand from the previous withdrawal offer, those asset sales proceeds will not be used for investment in the current six-month period. At the end of the six-month period, the RE will determine the Excess Capital five business days before the date of dispatch of the relevant withdrawal offer materials. Excess Capital at that time is \$20m, being the \$30m from asset sales less operating and working capital needs of \$10m. There have been \$20 million in new applications in the past six months. Because of the unmet demand for redemptions, the RE decides to make a withdrawal offer comprising the \$20m in Excess Capital and the \$20m of the inflows from applications. If there were withdrawal requests of \$30m at that withdrawal offer, being the unmet demand from before, then all redemption applications would be fully satisfied and during the following six months the RE could devote the other \$10m to new investments.

\* These examples are hypothetical only and not a forecast or indication of the likely funds available for Withdrawal Offers.

### What capital management strategy applies from implementation of the merger?

As stated in the EM, in the period of approximately 6 months while the Merged Fund remains listed, no capital will be allocated to new investments. Rather, all Excess Capital will be applied to on-market buy-backs and/or allocated towards the initial withdrawal offer in December 2023. During the period of approximately 6 months from delisting until the first withdrawal offer in December 2023, the RE's intention is to allocate all cash from sales of underlying assets, less any amount required for the operating and working capital needs of the Merged Fund, to the first withdrawal offer.

## Could the change have any risks or disadvantages?

The proposal that the Merged Fund will only be able to allocate cash from sale of underlying assets to new investments if withdrawal applications are fully satisfied may impact the Merged Fund's ability to deploy capital to new investments and grow. There is no guarantee that the Merged Fund will grow especially during periods where there are unsatisfied withdrawal requests, and this may impact on the return profile of the Merged Fund. For the avoidance of doubt, the Merged Fund will be unable to execute its investment strategy for at least the following six months if there were unsatisfied withdrawal requests during the last withdrawal offer. The time that the Merged Fund will not be able to execute its investment strategy will be longer if there are multiple, consecutive withdrawal offers where investors receive a pro-rata amount of their withdrawal requests as there will be no Surplus Capital for reinvestment, although this may be offset by any ongoing returns from the Merged Fund's existing investments. However, inflows from new application money into the Merged Fund may be used to invest, rather than to facilitate withdrawal offers.

Additionally, cash generated from sales of underlying assets which cannot be deployed is expected to be held in cash which may have significantly lower returns than might be received from an investment in the underlying funds.

The RE will aim not to exceed a cash holding of 10% for the Merged Fund, but there is no specific limitation on the amount of cash that may be held at a particular time.

There are other risks in relation to withdrawals from the Merged Fund that are described in the Explanatory Memorandum (see Liquidity risk on page 66 and Details of withdrawal offers on page 44). In particular, investors should note that:

- it may take multiple withdrawal offer windows for an investor to redeem all of their units;
- the Responsible Entity can cancel a Withdrawal Offer (including during the Withdrawal Offer window) if doing so is in the best interests of members as a whole; and
- market conditions at a particular time may mean that it is not in the members' best interests to make a withdrawal offer for that six month period. If a withdrawal offer is not made, cash received from sales of underlying assets will continue to be kept aside to fund the next withdrawal offer in priority to using that cash to make new investments.

## GP management fee for future investments

We have also had some queries concerning the future fees for the Merged Fund, and would like to draw to your attention the statements about this in the Explanatory Memorandum.

The general partner (**Evergreen GP**) of the new Evergreen LP is expected to be 57.5% owned by two affiliates of Cordish Private Ventures and 42.5% owned by a wholly owned subsidiary of E&P Financial Group Limited. The Evergreen

LP will have a GP management fee of 1.0% on committed capital and a performance fee of 10% over a cumulative, non-compounded, pre tax 8% hurdle, both on a per investment basis.

The Evergreen GP management fee will only be payable on new investments, if and only if, the Merged Fund makes a commitment to the Evergreen LP and, subsequently, the Evergreen LP makes its first portfolio investment. The first opportunity for Surplus Capital to be invested would be from December 2023.

For clarity, the performance fees for LPIII and LPIV post-implementation will continue to be based on the return achieved by each respective LP, whereas for the Evergreen LP the performance fee will be calculated on a per investment basis.

## General – minor amendments and definitions

The RE notes that references to dates on page 24 of the Explanatory Memorandum should be as set out in the 'Correct reference' column in the table below. The timetable in Section 1 Key Dates for the Proposal in the Explanatory Memorandum remains correct.

Event	Page 24 reference	Correct reference
Meeting of Unitholders	27 October 2022	7 November 2022
Implementation of the Proposal	10 November 2022	21 November 2022
Delisting	Mid-November 2022	Late November 2022
6 month liquidity period	Starting mid-November 2022 and ending mid-May 2023	Starting late November 2022 and ending late May 2023
Delisting of Merged Fund	Mid-May 2023	Late May 2023

Also, section 5.2 of the report of the Independent Expert on page 102 of the Explanatory Memorandum is amended as marked on the following:

"A special resolution must be passed by at least 75% of votes cast ~~and 50% in number of~~ by eligible Unitholders present and voting (in person, virtually or by proxy)."

This is a correction for consistency with the Notices of Meeting and the requirements of the Corporations Act, and is not a change to voting entitlements.

Capitalised terms used in this document that are not otherwise defined have the same meaning given to them in the Glossary set out in Section 15 of the Explanatory Memorandum.

## **This supplementary Explanatory Memorandum**

It is important that you do not rely solely on this supplementary information in deciding how to vote on the Proposal. You should also read the Explanatory Memorandum and the Product Disclosure Statement for the CD Private Equity Fund (ARSN 612 132 813) (**PDS**) that has already been made available to you. In particular, you should read Sections 3, 'Considerations Relevant to your Vote on the Proposal' and 10, 'Key Risks of Implementation of the Proposal', of the Explanatory Memorandum and Section 3, 'Key Benefits and Risks', of the PDS. This Supplementary Explanatory Memorandum should be read together with both of those documents. Please read all this information carefully before deciding how to vote.

This document does not take into account the investment objectives, financial situation or particular needs of any unitholder in the Funds or any other person. This document should not be relied upon as the sole basis for any investment decisions in relation to the Proposal, and independent financial and taxation advice should be sought before making any such investment decision.

## **Does the updated capital management strategy change the conclusion of the Directors or the Independent Expert?**

The Directors of the Responsible Entity continue to recommend unanimously that Unitholders in each Fund vote in favour of the Proposal.

The Independent Expert has concluded that the Proposal is fair and reasonable and in the best interests of the unitholders of each Fund, and has confirmed to the Responsible Entity that its conclusion is unchanged by this document. A copy of the Independent Expert's Report is contained in Section 14 of the Explanatory Memorandum.

## **Your right to cast, or change, your vote**

Instructions for how to vote in relation to the Proposal are set out in the Notice of Meeting and other materials that have been dispatched to you, and are available on the website at [cdfunds.com.au/merger-proposal](http://cdfunds.com.au/merger-proposal).

Unitholders in a Fund should note the cut-off times for receipt of proxies as set out in the Explanatory Memorandum.

Investors that hold units in a Fund indirectly through a platform or other custodial arrangement should check with the relevant platform or other custodian as to any earlier deadline for providing voting instructions to enable those custodians to cast their votes before the relevant cut-off times noted above.

Unitholders who have submitted proxy forms and wish to change their votes may lodge an updated proxy form for the relevant Meeting in accordance with the instructions set out in the relevant Notice of Meeting. If you do so, you will be taken to have revoked your earlier proxy.

I look forward to your participation in the unitholder Meetings on 7 November 2022.

Kind regards,



**Stuart Nisbett**

Chair