

CD Private Equity Fund Series: Fund 3 (ASX: CD3)

Market update

The second quarter of calendar year 2023 followed the first closely, with rising interest rates, failing banks, geopolitical uncertainty and persistent high inflation slowing the private equity (PE) markets. The US saw additional interest rate rises, meaning that the cost of borrowing and servicing debt started to become near prohibitive for otherwise attractive deals. US bank failures led to a further tightening on credit during the first half of the year, with big banks retreating on take-privates as well as the leveraged buy-out (LBO) market. In their absence, private credit funds provided a much-needed source of capital and were integral to deal flow in the PE markets during the period. Despite the assistance of the private credit funds, there has been a noticeable slow-down in PE exits, with the US numbers dropping 22.2% from Q1 2023 as buyers and sellers appear to be waiting for confidence in the future of the market.

All that said, as we closed out the second quarter we are beginning to see a deceleration in inflation as well as signs that the interest rates may be reaching their peak. Fortunately, we have begun to see big banks slowly emerge from their pause on LBO's which we are hopeful will provide more support for increased deal flow, positively impacting the CD Fund series as well as the greater market. Evidence of this positive change at the end of the quarter can be seen in the small-cap market, with the Russell 2000 Index up 5.2% for Q2 despite posting negative results in April and May.

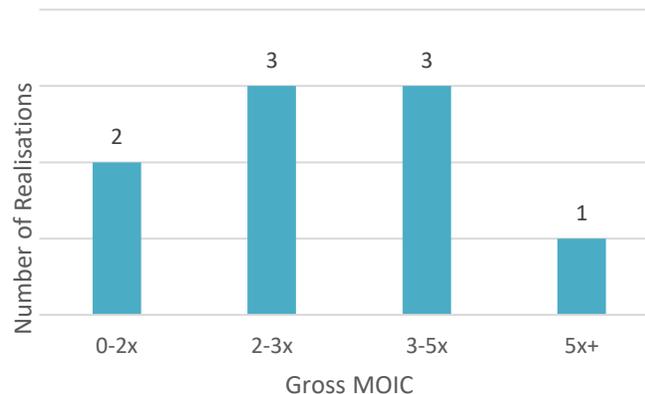
Looking more broadly, global equities have similarly rebounded, with the MSCI World Index returning +6.7% for the quarter, and the S&P 500 performance ending the quarter strong with substantial gains achieved in June and a half-year return of +16%. Fervour surrounding generative AI has also continued to lift technology stocks as it emerges as the next big thing for tech, boosting the Nasdaq by 32% for the half-year.

CD Series & CD3 update

KEY FUND DETAILS ¹	CD3
Inception	July 2016
Original Unitholder Investment	\$1.60
Post-tax NTA per Unit ²	\$1.91
Total Distributions Received Since Inception ⁴	\$1.659
Distribution return on original Unitholder investment ⁵	1.04x
Total return on original Unitholder investment ⁵	2.23x

Despite the macroeconomic conditions creating a significantly tougher and more stringent lending environment, pleasingly, there have been nine exits from the **CD Fund Series** (CD1, CD2, CD3, CD4) this calendar year to 30 June 2023, with three occurring in Q2 2023. Eight of the exits were profitable, with a median gross multiple on invested capital (MOIC) of 2.8x and an average hold period of 5.7 years. Further details are provided by Fund on the following pages.

Gross MOIC on 2023 Realisations
30 June 2023: CD 1 - 4¹, 6, 7



The payment from the sale of KnowBe4 (a CD3 & CD4 portfolio company) was distributed from the LP to the Funds during the quarter. As outlined in the Q1 2023 report, this transaction represented a healthy multiple for pre-IPO investors like CD3, with US Select Direct II, a later investor, still recording a MOIC of 3.4x on this investment.

While final Q2 2023 data is not expected to be received from the LPs until September, feedback from underlying LPs has been positive despite these macroeconomic conditions, with inflation and wage pressures are being felt unevenly throughout the portfolio, however the managers believe that these pressures are temporary. We look forward to sharing this data with Unitholders once it is received.

After fees and taxes, Q2 NTA returns for CD1, CD2, CD3 and CD4 were 0.0%, -1.3%, -2.3% and -0.7% respectively^{1,3}, with FX movement (AUD:USD) having an insignificant impact on total returns for the quarter (-0.3%).

CD1 to CD4 have now returned via distributions 1.66x, 1.29x, 1.04x and 0.20x, respectively, on initial Unitholder investment^{1,5}. As at 30 June 2023, CD1 to CD4 have achieved returns of 2.39x, 2.27x, 2.23x and 1.64x on initial Unitholders investment^{1,5}, respectively.

Note from K2 Asset Management Ltd (K2)

We are delighted to have been appointed as the Responsible Entity (RE) for the CD Fund Series and to be able to present this quarterly report to Unitholders. Following the CD3 and CD4 distributions both paid in June, we have listened to Unitholder feedback and upon consultation with the Investment Manager post quarter end we have announced a distribution for CD1 and CD2 of \$0.11 (details [here](#)) and \$0.195 (details [here](#)) per Unit respectively.

Beyond these distributions, we are excited to meet with Unitholders and look to host a webinar at the end of Q3 2023, as well as in-person presentations in early 2024. In the meantime, Unitholders are encouraged to reach out to our Investor Relations team via email at cdfunds@k2am.com.au, or on +61 3 9691 6110.

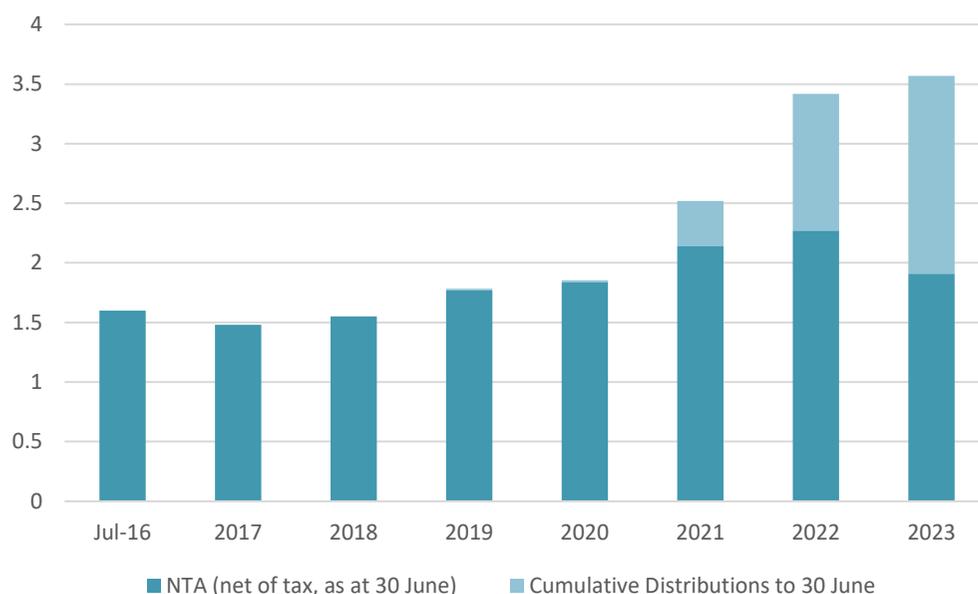
Regards,
Jonathan Cordish, Jonathan Sinex and K2

CD3 Fund Performance

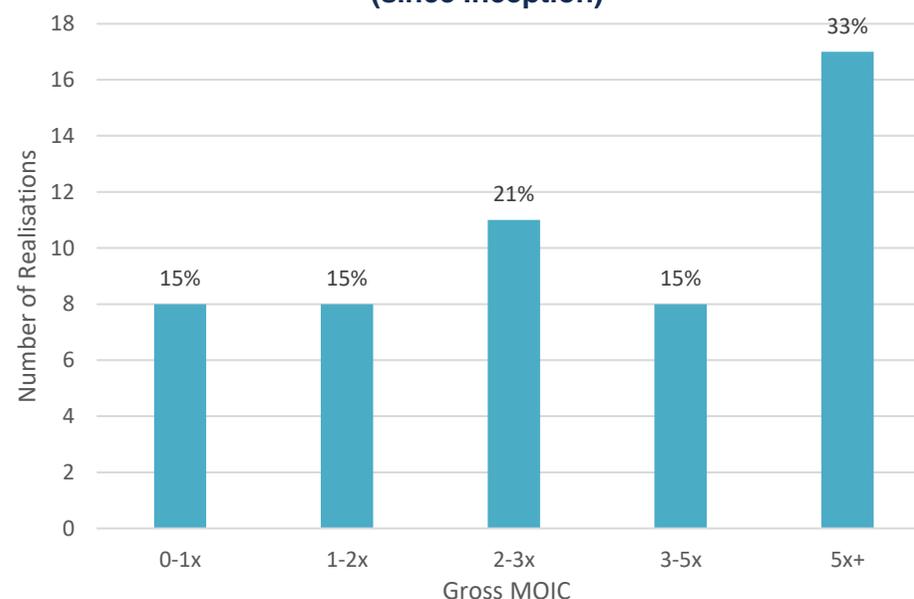
	3m	6m	12m	3y p.a.	5y p.a.	Inception p.a. ⁴
NTA return ^{1, 2, 3}	-2.3%	1.9%	6.9%	30.5%	21.6%	15.1%

Return on Initial Unitholder Investment ^{1, 2, 5}	DPI	TVPI	IRR ⁴
	1.04x	2.23x	14.0%

CD3 NTA + Cumulative Distributions^{1, 2, 4, 5}



CD3: MOIC on Underlying Portfolio Company Realisations (since Inception)^{1, 4, 6, 7}



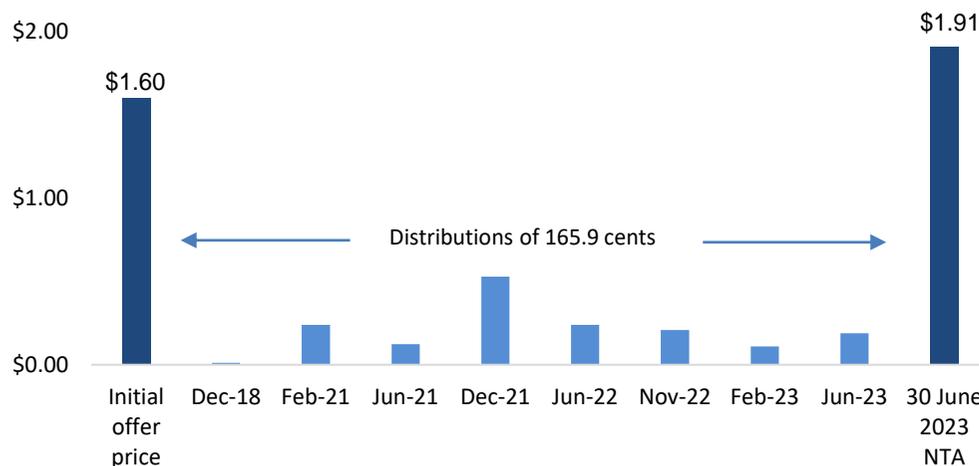
Quarterly fund activity

- During the quarter, there were six capital calls totalling US\$795,000, predominantly funding follow-on investments in underlying portfolio companies.
- Distributions of investment proceeds, totalling US\$1.4 million, were received by the LP from four underlying LPs. US\$545,000 of these distributions were disbursed to the LP from Bertram Growth Capital III, L.P. and were related to a share repurchase plan event with Solo Brands, Inc.
- Growth Street Partners I, L.P. completed a recapitalisation of one of their underlying portfolio companies, ChildCareCRM, who had a majority stake in their business acquired by Marlin Equity Partners. Proceeds from this realisation are expected to be received by the LP in Q3 2023.

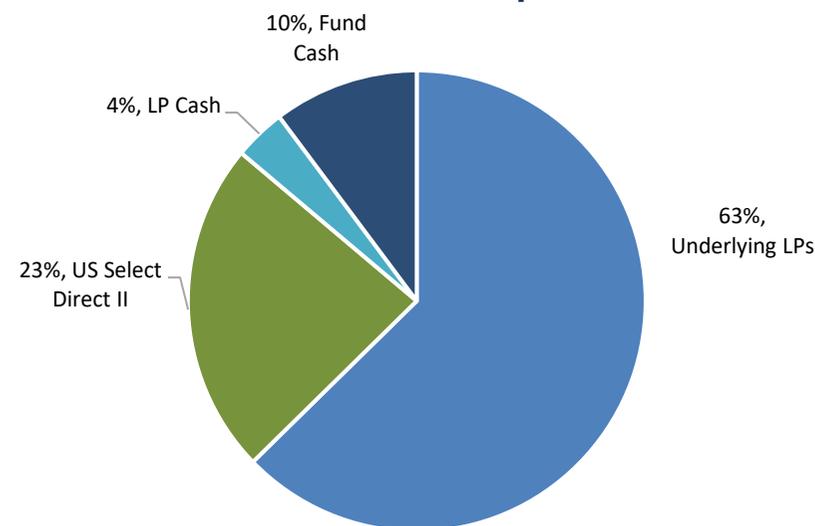
CD3 Portfolio Composition

KEY FUND DETAILS ¹	CD3
Total underlying investments (since inception) ^{4, 7}	142
Total realisations ^{4, 7}	52
Median Gross MOIC ^{4, 6}	2.9x
Remaining portfolio companies ⁷	90
Average age of remaining companies ⁸	4.2 years
Fund Net Asset Value ²	\$137.9 million

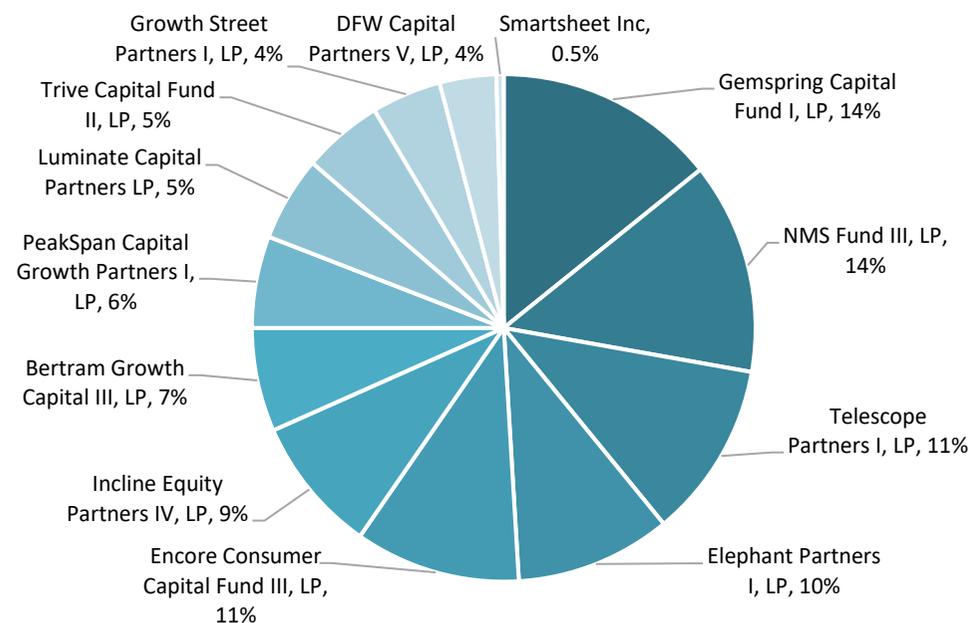
- As at 30 June 2023 the Fund remained invested in 13 underlying LPs, in addition to US Select Direct II. Guidance provided in March 2023 indicated that the Fund has uncalled capital commitments of US\$5.3 million outstanding to the LP, as well as potential remaining callable capital from the underlying LPs of US\$22.9 million.
- As at 30 June 2023, there was \$15.4 million in the Fund's cash account, and the Fund's proportionate interest in the LP's cash account was US\$5.5 million.
- As illustrated in the following chart, during Q2 2023 the Fund paid a distribution of \$0.19 per Unit. On an absolute return basis, distributions to Unitholders of 165.9 cents per Unit since inception⁴ represents a return of 1.04x the initial investment⁵. The Fund's ending NTA at 30 June 2023 was \$1.91 per Unit.



CD3 Investment Exposure^{1, 9}



CD3 Underlying LPs^{1, 9}



Glossary of Terms and Reference Notes

Acronym	Definition
DPI	Distribution to Paid in Capital
IRR	Internal Rate of Return
MOIC	Multiple on Invested Capital
TVPI	Total Value to Paid in Capital
USD1	Co-Investment I - US Select Direct Private Equity Fund (US), L.P.
USD2	Co-Investment II - US Select Direct Private Equity Fund II (US), L.P.

Source: E&P Investments Limited (for data before 24 June 2023) and K2 Asset Management Ltd (for data after 24 June 2023).

Notes: Historical performance is not a guarantee of the future performance of the Funds. All figures are in AUD unless otherwise noted. AUD:USD 30 June 2023 spot rate of 0.6664 used. The Fund's proportionate interest in the LP is 71.2%. The Unit price of CD3 was \$1.50 as at 30 June 2023.

1. Data is as at 30 June 2023.
2. NTA is unaudited as at 30 June 2023.
3. NTA and total returns are inclusive of distributions and are based on post-tax NTA, net of fees and costs.
4. Inception dates were August 2012 (CD1), April 2013 (CD2), July 2016 (CD3) and April 2018 (CD4).
5. CD1, CD2, CD3 and CD4 original Unitholder investment was \$1.60 per Unit.
6. MOIC returns are as at 30 June 2023 and represent all underlying portfolio company sales since inception. MOIC returns are net of all underlying fees and expenses of the individual fund managers, but before fees and expenses of the LP and the Australian Unit Trust. MOIC returns are based on US dollar denominated investments and include US Select Direct II (USD2) realisations.
7. Includes US Select Direct II (USD2).
8. Age of portfolio companies refers to the average duration of time that the LP has been invested in the remaining underlying portfolio companies.
9. LP investments values are based on 30 June 2023 accounting values, which are the 31 March 2023 valuations provided by the LPs, adjusted for capital calls, distributions and foreign exchange movements over the period. It is expected that 30 June 2023 investment valuations will be received from the LPs by the end of September.

CD Private Equity Fund Series

The CD Private Equity Fund Series, including CD Private Equity Fund I (**ASX: CD1**), CD Private Equity Fund II (**ASX: CD2**), CD Private Equity Fund III (**ASX: CD3**), and CD Private Equity Fund IV (**CD4**) (together, Funds or Fund Series), is a series of private equity funds focused on US small-cap private equity funds and direct company investments. The Fund Series investments are selected by a joint venture between the private investment arm of the Cordish Companies of Baltimore, Maryland, and E&P Funds with underlying investments managed by experienced private equity fund managers.

This venture is anchored in the belief that smaller and nimbler private equity funds materially outperform larger private equity funds. The Fund Series was formed to provide investors with a platform to invest in a portfolio of high quality small to mid-market private equity funds and companies – a strategy that is typically beyond the reach of all but the largest endowment funds and family offices.

The Fund Series also provides investors with the opportunity to benefit from the Cordish Family Office's experience and network in investing in specialist small to mid-market private equity funds and direct equity investments in the US, as well as to invest side-by-side and on equal terms with the Cordish family in these compelling opportunities.

Investment objectives

The General Partner and Investment Manager will seek to meet each Fund's aim of providing Unitholders with exposure to a portfolio of investments in small and mid-market private investment funds and privately held companies predominantly focused in the US; and capital growth over the medium to long term.

CD Private Equity team



Jonathan Cordish

Chairman
Advisory Board



Jonathan Sinex

Managing Director
Cordish Private Ventures

Important information

This Quarterly Update (Update) has been prepared by K2 Asset Management Limited as Responsible Entity (ACN 085 445 094, AFSL 244 393) of the CD Private Equity Fund Series (Funds or Fund Series) which includes CD Private Equity Fund I (ARSN 158 625 284) (CD1), CD Private Equity Fund II (ARSN 162 057 089) (CD2), CD Private Equity Fund III (ARSN 612 132 813) (CD3), and CD Private Equity Fund IV (ARSN 624 474 531) (CD4). The general partner of each of the Limited Partnerships (LPs) in the series has engaged either E&P Funds Management Pty Limited (ACN 159 902 708)(LPI)("E&PFM") or the Investment Manager (LPs II,III,IV) to act as investment manager and/ or investment advisor for each respective underlying LP. An investment in any of the Funds is subject to various risks, many of which are beyond the control of the Investment Manager and the Funds. The past performance of the Funds is not a guarantee of the future performance of the Funds. This Update may contain statements, opinions, projections, forecasts and other material (forward looking statements), based on various assumptions. Those assumptions may or may not prove to be correct. The Responsible Entity 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 cautioned not to place undue reliance on forward-looking statements and the Parties assume no obligation to update that information. This Update 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, and consider obtaining advice from a financial advisor. You should obtain a copy of the relevant PDS or offer document before making any decisions to purchase a product. All performance figures, unit prices and distributions are in Australian Dollars, unless otherwise stated. MSCI indices source: MSCI. Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representation with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.

About K2 Asset Management Ltd

K2 Asset Management Ltd (K2) is the Responsible Entity of the Funds. K2 Asset Management (K2) is a listed Australian diversified financial services firm with three core pillars:

- Funds Management;
- Responsible Entity (RE) and Trustee Service; and
- Exchange Traded Funds (ETFs).

Established in 1999, K2 is the main operating subsidiary of K2 Asset Management Holdings Ltd which is listed on the Australian Securities Exchange (ASX Code: KAM).

Risks

Like all investments, an investment in any of the Funds carries risks which may result in the loss of income or principal invested. In addition to the general risks of investing, specific risks associated with investing in the Funds include, but are not limited to, private investments risk, illiquidity risk and foreign exchange risk. For further information about the risks of investing in any of the Funds, please see the relevant Product Disclosure Statements available on the website cdfunds.com.au.

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