



CD PRIVATE
EQUITY
FUND III

Half-Year Financial Report

FOR THE HALF-YEAR ENDED
30 SEPTEMBER 2023

ARSN 612 132 813

RESPONSIBLE ENTITY



K2 Asset Management Ltd
(ACN 085 445 094) (AFSL 244 393)

CD Private Equity Fund III

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30 September 2023

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CD Private Equity Fund III
Report to unitholders
30 September 2023

Dear Unitholders,

K2 Asset Management Ltd (**K2**), as Responsible Entity (**RE**) is pleased to present to you this report on the performance of CD Private Equity Fund III (**Fund**) for the six-month period ended 30 September 2023 (**HY24**).

Over the first half of FY24 (**HY24**), the Fund generated a total return of 3.8%, on a post-tax net asset value basis, posting a net profit of \$4.8 million, or 6.64 cents per Unit, compared with a net profit of \$31.6 million, or 43.86 cents per Unit for the corresponding period last year.

The half-year performance was largely attributable to positive fair value movement in the portfolio held with the underlying investment managers of \$4.7 million. The depreciation in the Australian dollar against the US dollar was accretive to portfolio value during the six-month period, with the Australian dollar falling from 66.85 as at 31 March 2023 to 64.35 US cents, leading to an unrealised foreign currency translation gain of \$5.2 million, included in the total fair value movement.

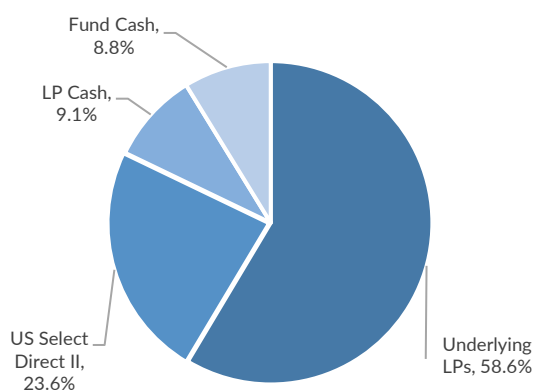
As of 30 September 2023, the Fund had pre-tax net assets of \$152.8 million representing \$2.12 per Unit and post-tax net assets of \$146.3 million representing \$2.03 per Unit. On a post-tax net tangible asset (**NTA**) basis, the Fund has generated total returns of 15.6% p.a. since inception (inclusive of distributions and net of all fees).

Portfolio Positioning

The Fund's investment objectives have been to provide Unitholders with exposure to a portfolio of investments in small to medium private investment funds (**Underlying LPs**) and privately held companies, predominantly in the US. Through its investment in the US Select Private Opportunities Fund III, L.P. (**LP**), the Fund initially invested in 13 US Underlying LPs all focused on small-to-mid-market private investment opportunities.

Since inception in July of 2016, the LP committed a total consideration of US\$117.5 million to the Underlying LPs, of which US\$96.1 million has been contributed, net of recallable capital distributions. The Fund's proportionate interest in the LP is 71.2%, representing a total commitment of approximately US\$70.2 million.

The Fund's investment exposure, as at 30 September 2023, is expanded further below.



As at 30 September 2023, the Fund had total uncalled capital commitments of US\$5.3 million (or \$8.3 million) outstanding to the LP and these capital commitments can be called at any time in the future. Post-balance date, the General Partner (**GP**) agreed to reduce the remaining and prospective capital commitment of the Limited Partners (**LPs**), including the Fund, by US\$2.5 million to US\$5 million. Therefore, the Fund's proportionate share of capital commitment was reduced by US\$1.8 million to US\$3.6 million.

During the half-year, the Underlying LPs made drawdown requests on the LP to fund their investments, management fees and operating expenses totaling US\$1.5 million. Notable investment activity included:

NMS Fund III, LP, Encore Consumer Capital Fund III, LP, & Trive Capital Fund II, LP called capital (US\$0.4 million, US\$0.1 million and US\$0.1 million respectively) to fund follow-on investments in existing portfolio companies.

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US Select Direct Private Equity II, LP called US\$0.2 million to fund a follow-on investment in underlying portfolio company – Pole Star – the market leader in maritime intelligence technology, who acquired a competitor during the quarter.

During the half-year, the LP received 11 distributions for a total of US\$8.5 million, with the below notable distributions occurring during the period:

Encore Consumer Capital Fund III, LP distributed US\$4.1 million in net proceeds from the sale of MBC Companies (MBC) to Entrepreneurial Equity Partners. MBC was created from the acquisition of Murry’s (an underlying portfolio company of Encore Consumer Capital Fund III, L.P.) who are a manufacturer of frozen French sticks and bites, and Bake Crafters – a manufacturer and distributor of breakfast and other baked goods products in 2022.

Incline Equity Partners IV, LP distributed US\$1.9 million in net proceeds from the sale of Foundation Source Philanthropic Services, Inc. Foundation Source has been empowering people and companies to create a better world through philanthropy.

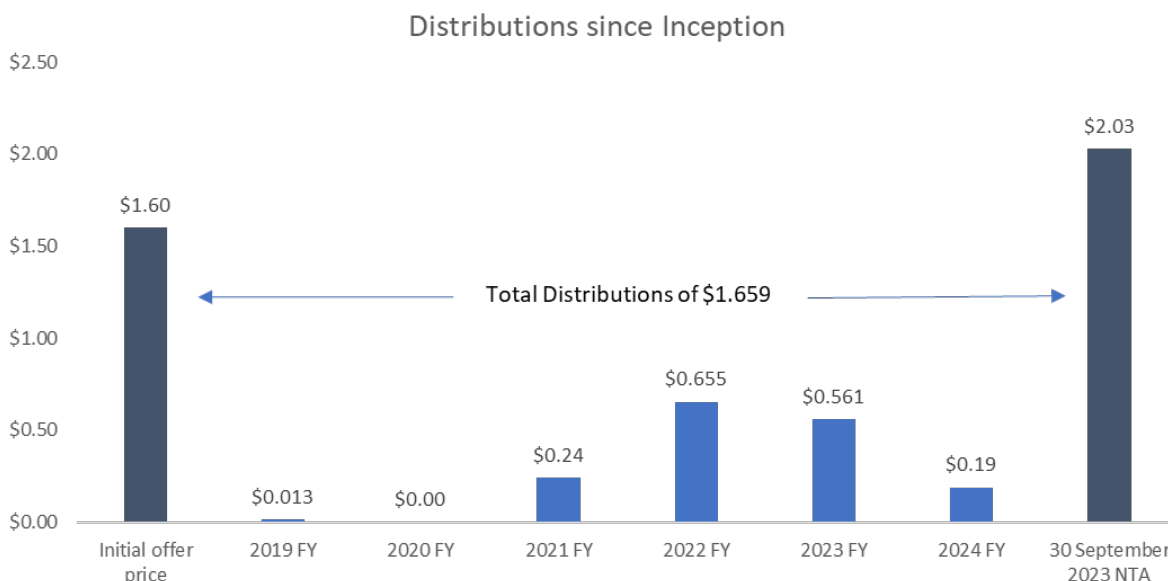
Elephant Partners Fund I, LP distributed US\$0.8 million in proceeds from the sale of Scopely Inc., an American interactive entertainment company and mobile-first video game developer and publisher.

Growth Street Partners I, LP distributed US\$0.7 million in proceeds from the partial sale of an underlying portfolio company.

Bertram Growth Capital III, LP distributed US\$0.6 million in proceeds from a share repurchase plan even with Solo Brands, Inc.

Unitholder Distributions

The aforementioned distributions received by the LP were utilised, in tandem with surplus cash at the LP and Fund level, to make payment of a distribution of 19 cents per unit to Unitholders on 22 June 2023. This represents the eighth distribution since inception, taking the total distributions for investors who have held units since inception to \$1.659 per Unit, or 1.04x the initial \$1.60 offer price subscribed by investors.



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On 4 October 2023 (post balance-date) as a result of the reduction in uncalled capital commitments, the Fund announced a distribution of \$0.03 per Unit to Unitholders. This distribution was funded through the General Partner (GP) agreeing to reduce the remaining and prospective capital commitment of the Limited Partners, including the Fund, by US\$2.5 million. The Fund's share of this reduction in capital commitment was US\$1.8 million, and after accounting for operating and tax expenses, will fund this distribution to Unitholders.

Market conditions

The first half of FY24 was objectively a tough one for private equity (PE) markets, with global economic conditions strained through a combination of high inflation, geopolitical uncertainty, and rising interest rates all providing headwinds for the market. These factors, combined with US bank failures in the first half of the year, saw a tightening on credit and some valuation volatility across the markets, resulting in a slow-down in PE exits for the half year. At a macro-level, continued disparity between buyers and sellers does run the risk of disrupting the cash flow cycle into fundraising and fund deployment, particularly as investments begin to mature and funds are forced to extend their life. Fortunately, it appears that secondary and continuation funds are entering the market and can help with what could otherwise be a pileup of PE assets that have not yet been exited and Funds that are nearing the end of their term life.

While there was a disparity between buyers and sellers as the cost of capital made for a challenging exit environment, there were a number of saving graces in the PE market. Namely, add-ons (when a private equity firm or other buyer acquires a company and integrates it into an existing business), which are at near-record high levels across PE buyouts and have been instrumental in allowing PE funds to continue to deploy capital. Similarly, the private credit market has proved a welcome funding resource, particularly in the sub-\$1 billion market, as they fill the void that the banks left earlier in the year.

We are pleased with the performance of the Fund in the current economic conditions, with the Underlying LPs demonstrating a preference to hold on to promising assets until exit conditions begin to improve, not intending to "time" the market, but instead consistently looks to return capital when the relevant portfolio companies reach the appropriate level of maturity and market conditions allow. We are supportive of this position and are of the belief that the strong returns of the Fund and CD Private Equity Fund Series are a reflection of the expertise of the Manager as they guide, grow and transform the underlying investments in changing – and sometimes challenging – market environments.

We thank you for your support and look forward to updating you on the progress of the Fund through the financial year 2024.

Yours faithfully,



Hollie Wight
Managing Director, Head of RE & Trustee Services
29 November 2023

CD Private Equity Fund III
Directors' report
30 September 2023

The directors of K2 Asset Management Ltd, the Responsible Entity of the CD Private Equity Fund III (**Fund**), present their report together with the condensed financial statements of the Fund for the half-year ended 30 September 2023.

Directors

Effective 24 June 2023, K2 Asset Management Ltd replaced E&P Investments Limited as Responsible Entity of the Fund pursuant to an extraordinary resolution passed on 19 June 2023.

The directors of the Responsible Entity at any time during or since the end of the financial half-year are listed below:

E&P Investments Limited
(resigned effective 24 June 2023)

Stuart Nisbett
Warwick Keneally
Peter Shear

K2 Asset Management Ltd
(appointed effective 24 June 2023)

Campbell Neal
Hollie Wight
George Boubouras
Neil Sheather (appointed 1 July 2023)

Directors have been in office since the start of the half-year to the date of this report unless otherwise stated.

Principal activities and significant changes in nature of activities

The principal activity of the Fund during the half-year was investing in small-to-mid market private investment funds and privately held companies with a predominate focus in the United States (**US**). There were no significant changes in the nature of these activities.

Review and results of operations

The profit for the Fund after providing for income tax amounted to \$4,783,419 (30 September 2022: \$31,594,376).

The key components of this result was a \$4,715,767 fair value gain (30 September 2022: \$32,075,110) incurred on the Fund's investment in the LP during the period. As at 30 September 2023, the Fund had net assets of \$146,315,431 (31 March 2023: \$155,217,412), representing \$2.03 per unit (31 March 2023: \$2.15 per unit).

The Fund has invested in a limited partnership, US Select Private Opportunities Fund III, L.P. (**LP**) which, in turn, invests in small-to-mid market private investment funds and companies. The LP has committed capital across 13 underlying private investment funds which focus on a range of industries including health care, business services, software businesses, and food and consumer products. For the half-year ended 30 September 2023, these underlying private investment funds made drawdown requests on the LP to fund their investments, management fees and operating expenses. Net drawdown requests made by the underlying private investment funds since inception to the end of the period totalled US\$96.1 million.

The Fund has committed capital of US\$75.5 million, representing an interest of 71.2% in the LP. The Fund's proportionate share of the total capital called as at 30 September 2023 was US\$70.2 million (or \$109 million).

Distributions

Distributions paid during the financial half-year were as follows:

	30 September 2023	30 September 2022
	\$	\$
Distribution - 19 cents per unit paid on 22 June 2023	13,685,400	-
Distribution - 24.1 cents per unit paid on 19 August 2022	-	17,358,849
	<u>13,685,400</u>	<u>17,358,849</u>

CD Private Equity Fund III
Directors' report
30 September 2023

Events subsequent to the reporting period

On 1 October 2023, the Fund's capital commitment was reduced from US\$75.5 million to US\$73.7 million, representing an interest of 71.2% in the LP. The Fund's proportionate share of the total capital called as at 30 September 2023 was US\$70.2 million (or \$109 million).

On 4 October 2023, the Fund announced a distribution of \$0.03 per unit paid on 3 November 2023.

No other matter or circumstance has arisen since 30 September 2023 that has significantly affected, or may significantly affect the Fund's operations, the results of those operations, or the Fund's state of affairs in future financial years.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.

On behalf of the directors



Hollie Wight
Director of K2 Asset Management Ltd, Responsible Entity

29 November 2023

29 November 2023

The Board of Directors
K2 Asset Management Ltd
as a Responsible Entity for:
CD Private Equity Fund III
Level 44, 101 Collins Street
Melbourne VIC, 3000
Australia

Dear Board Members

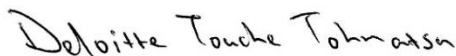
Auditor's Independence Declaration to CD Private Equity Fund III

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of the Responsible Entity of CD Private Equity Fund III.

As lead audit partner for the review of the half year financial report of CD Private Equity Fund III for the half-year ended 30 September 2023, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- The auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- Any applicable code of professional conduct in relation to the review.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Carlo Pasqualini
Partner
Chartered Accountants

CD Private Equity Fund III
Condensed statement of profit or loss and other comprehensive income
For the half-year ended 30 September 2023

	Note	30 September 2023 \$	30 September 2022 \$
Investment income			
Interest income		132,188	72,090
Foreign exchange gain		114,886	1,359,200
Fair value movements of equity investments	4	<u>4,715,767</u>	<u>32,075,110</u>
Total investment income		<u>4,962,841</u>	<u>33,506,400</u>
Expenses			
Management and administration fees	8	(307,720)	(371,131)
Listing fees		(30,852)	(29,006)
Custody fees		(14,287)	(16,260)
Registry fees		(25,944)	(22,730)
Legal and professional fees		(131,470)	(110,997)
Transaction costs		(10,595)	(408,000)
Other expenses		<u>(4,179)</u>	<u>(6,594)</u>
Total expenses		<u>(525,047)</u>	<u>(964,718)</u>
Profit before income tax benefit/(expense)		4,437,794	32,541,682
Income tax benefit/(expense)		<u>345,625</u>	<u>(947,306)</u>
Profit after income tax benefit/(expense) for the half-year		4,783,419	31,594,376
Other comprehensive income for the half-year, net of tax		<u>-</u>	<u>-</u>
Total comprehensive income for the half-year		<u><u>4,783,419</u></u>	<u><u>31,594,376</u></u>
		Cents	Cents
Basic earnings per unit	3	6.64	43.86
Diluted earnings per unit	3	6.64	43.86

The above condensed statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

CD Private Equity Fund III
Condensed statement of financial position
As at 30 September 2023

	Note	30 September 2023 \$	31 March 2023 \$
Assets			
Current assets			
Cash and cash equivalents		14,989,668	29,291,029
Receivables		29,604	29,160
Prepayments		39,905	12,546
Total current assets		<u>15,059,177</u>	<u>29,332,735</u>
Non-current assets			
Other financial assets	4	<u>137,840,651</u>	<u>133,124,884</u>
Total non-current assets		<u>137,840,651</u>	<u>133,124,884</u>
Total assets		<u>152,899,828</u>	<u>162,457,619</u>
Liabilities			
Current liabilities			
Trade and other payables		129,444	204,888
Current tax payables		494,148	1,635,389
Total current liabilities		<u>623,592</u>	<u>1,840,277</u>
Non-current liabilities			
Deferred tax	5	<u>5,960,805</u>	<u>5,399,930</u>
Total non-current liabilities		<u>5,960,805</u>	<u>5,399,930</u>
Total liabilities		<u>6,584,397</u>	<u>7,240,207</u>
Net assets		<u>146,315,431</u>	<u>155,217,412</u>
Equity			
Unit capital	6	109,672,616	109,672,616
Retained earnings		<u>36,642,815</u>	<u>45,544,796</u>
Total equity		<u>146,315,431</u>	<u>155,217,412</u>

The above condensed statement of financial position should be read in conjunction with the accompanying notes

CD Private Equity Fund III
Condensed statement of changes in equity
For the half-year ended 30 September 2023

	Unit capital \$	Retained earnings \$	Total equity \$
Balance at 1 April 2022	109,672,616	56,635,349	166,307,965
Profit after income tax expense for the half-year	-	31,594,376	31,594,376
Other comprehensive income for the half-year, net of tax	-	-	-
Total comprehensive income for the half-year	-	31,594,376	31,594,376
<i>Transactions with unitholders in their capacity as unitholders:</i>			
Distribution paid (note 7)	-	(17,358,849)	(17,358,849)
Balance at 30 September 2022	<u>109,672,616</u>	<u>70,870,876</u>	<u>180,543,492</u>

	Unit capital \$	Retained earnings \$	Total equity \$
Balance at 1 April 2023	109,672,616	45,544,796	155,217,412
Profit after income tax benefit for the half-year	-	4,783,419	4,783,419
Other comprehensive income for the half-year, net of tax	-	-	-
Total comprehensive income for the half-year	-	4,783,419	4,783,419
<i>Transactions with unitholders in their capacity as unitholders:</i>			
Distributions paid (note 7)	-	(13,685,400)	(13,685,400)
Balance at 30 September 2023	<u>109,672,616</u>	<u>36,642,815</u>	<u>146,315,431</u>

The above condensed statement of changes in equity should be read in conjunction with the accompanying notes

CD Private Equity Fund III
Condensed statement of cash flows
For the half-year ended 30 September 2023

	30 September 2023 \$	30 September 2022 \$
Cash flows from operating activities		
Interest income received	132,955	53,717
Net payments to suppliers	(629,061)	(636,166)
Income tax (paid)/refund	(508,475)	155,900
Net cash used in operating activities	<u>(1,004,581)</u>	<u>(426,549)</u>
Cash flows from investing activities		
Receipts from distributions	<u>-</u>	<u>20,741,412</u>
Net cash from investing activities	<u>-</u>	<u>20,741,412</u>
Cash flows from financing activities		
Payment for distribution	<u>(13,685,400)</u>	<u>(17,358,849)</u>
Net cash used in financing activities	<u>(13,685,400)</u>	<u>(17,358,849)</u>
Net (decrease)/increase in cash and cash equivalents	(14,689,981)	2,956,014
Cash and cash equivalents at the beginning of the financial half-year	29,291,029	23,710,544
Effects of exchange rate changes on cash and cash equivalents	<u>388,620</u>	<u>2,589,898</u>
Cash and cash equivalents at the end of the financial half-year	<u><u>14,989,668</u></u>	<u><u>29,256,456</u></u>

The above condensed statement of cash flows should be read in conjunction with the accompanying notes

CD Private Equity Fund III
Notes to the condensed financial statements
30 September 2023

1. General information

CD Private Equity Fund III (**Fund**) is a Managed Investment Scheme registered and domiciled in Australia. The principal activities of the Fund are to invest in small-to-mid-market private investment opportunities in the United States of America (**US**), through its capacity as a Limited Partner of the US Select Private Opportunities Fund III, L.P. (**LP**) registered in the Cayman Islands.

Pursuant to a resolution approved on 19 June 2023, K2 Asset Management Ltd (**Responsible Entity**) replaced E&P Investments Limited (**former Responsible Entity**) as Responsible Entity of the Fund effective 24 June 2023.

This half-year financial report is intended to provide users with an update on the latest annual financial statements of the Fund.

Basis of preparation

(i) Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134: 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standards IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

The condensed financial statements were authorised for issue by the directors on 29 November 2023.

(ii) Summary of significant accounting policies

The same accounting policies and methods of computation have been followed in this half-year financial report as were applied in the most recent annual financial statements.

The Fund has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (**AASB**) that are relevant to the operations and effective for the current half-year. The adoption of new and revised Standards and Interpretations has had no material impact on the financial statements.

(iii) Critical accounting estimates and judgements

In the application of the Fund's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Accounting policies which are subject to significant accounting estimates and judgements include fair value determination of the interest held by the Fund in the Limited Partnership (refer to note 4 (iv)), recognition of a deferred tax liability in respect of likely US tax obligations which will arise from underlying fund investment realisations (refer to note 5), and selection of Australian dollars as the functional currency of the Fund.

2. Operating segment

The Fund operates a single reportable segment, that being the business of investing in small-to-mid-market private investments in the United States of America through its interest in a Limited Partnership.

The Responsible Entity of the Fund is the Chief Operating Decision Maker (**CODM**) for the purpose of resource allocation and assessing performance of the operating segment.

CD Private Equity Fund III
Notes to the condensed financial statements
30 September 2023

2. Operating segment (continued)

Revenue, profit or loss, assets, liabilities and other financial information reported and monitored by the CODM of the single identified segment are reflected in the condensed financial statements and notes to the condensed financial statements of the Fund.

3. Earnings per unit

	30 September 2023	30 September 2022
	\$	\$
Profit after income tax	<u>4,783,419</u>	<u>31,594,376</u>
	Number	Number
Weighted average number of ordinary units used in calculating basic earnings per unit	<u>72,028,420</u>	<u>72,028,420</u>
Weighted average number of ordinary units used in calculating diluted earnings per unit	<u>72,028,420</u>	<u>72,028,420</u>
	Cents	Cents
Basic earnings per unit	6.64	43.86
Diluted earnings per unit	6.64	43.86

4. Non-current assets - other financial assets

(i) Equity investment constituting interest in Limited Partnership (LP) - at fair value:

	30 September 2023	31 March 2023
	\$	\$
US Select Private Opportunities Fund III, LP (LP)	<u>137,840,651</u>	<u>133,124,884</u>

	30 September 2023	31 March 2023
	\$	\$
(ii) Reconciliation		
Balance at the beginning of the period	133,124,884	148,721,726
Movement in fair value through profit or loss*	4,715,767	29,944,163
Distributions received from LP	<u>-</u>	<u>(45,541,005)</u>
Balance at the end of the period	<u>137,840,651</u>	<u>133,124,884</u>

* Included in the 'movement in fair value' amount of \$4,715,767 gain (year ended 31 March 2023: \$29,944,163) is an unrealised foreign exchange translation gain component of \$5,159,600 (year ended 31 March 2023: \$17,096,251). This amount is also net of the Fund's 71.2% share of management fees paid by the LP to the General Partner of the LP, totaling \$565,879 (year ended 31 March 2023: \$1,118,612) and performance fees accrued by the LP to the GP, totaling \$18,102,342 (year ended 31 March 2023: \$14,791,654) (refer to note 8).

CD Private Equity Fund III
Notes to the condensed financial statements
30 September 2023

4. Non-current assets - other financial assets (continued)

(iii) Fund's interest in assets and liabilities of LP

The 71.2% economic interest held by the Fund is not represented by voting rights or other power vested in the Fund to make decisions relating to the assets and liabilities of the LP. As is common practice with Limited Partnership arrangements, the General Partner of the LP is considered to be the party who holds the existing rights to direct the relevant activities of the LP, including the acquisition and disposal of investments.

The Fund's 71.2% interest in US Select Private Opportunities Fund III, L.P. at 30 September 2023 is represented by its proportionate interest in the LP's assets and liabilities as follows:

	30	31 March
	September	2023
	2023	2023
	\$	\$
Cash	15,556,610	7,902,196
Investment in US private investment funds recorded at fair value:		
DFW Capital Partners V, LP	3,827,861	3,627,287
Elephant Partners I, LP	9,548,243	10,055,312
Encore Consumer Capital Fund III, LP	7,479,271	9,413,846
Gemspring Capital Fund I, LP	15,526,887	14,348,503
Growth Street Partners I, LP	5,140,205	5,245,466
Incline Equity Partners IV, LP	7,039,038	8,731,779
Luminate Capital Partners LP	5,643,426	5,446,073
NMS Fund III, LP	13,744,731	13,219,810
PeakSpan Capital Growth Partners I, LP	5,867,644	6,232,619
Smartsheet Inc	520,351	591,501
Telescope Partners I, LP	13,431,459	11,218,610
Trive Capital Fund II, LP	6,054,729	5,177,716
Bertram Growth Capital III, LP	6,395,740	6,609,791
US Select Direct Private Equity II, LP	40,258,119	40,191,704
Due to Gemspring Capital Fund I LP	(91,321)	-
Due to Peakspan Capital Growth Partners I LP	-	(95,675)
Accrued performance fees	<u>(18,102,342)</u>	<u>(14,791,654)</u>
Net assets*	<u><u>137,840,651</u></u>	<u><u>133,124,884</u></u>

*Included in the net assets of \$137,840,651 (31 March 2023: \$133,124,884) are investments in US private investment funds of \$140,477,704 (31 March 2023: \$140,110,017).

(iv) Valuation

Valuation technique adopted

As disclosed in the most recent annual financial report, the valuation of the Fund's interest in the LP at balance date has been based on the Fund's established valuation basis described below.

The fair value of the Fund's interest in the LP is determined using a 'proportionate' value method based on the Fund's 71.2% interest held in the total net asset value of the LP.

CD Private Equity Fund III
Notes to the condensed financial statements
30 September 2023

4. Non-current assets - other financial assets (continued)

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. 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. The underlying investment funds typically invest in US unlisted equity investments with fair values determined periodically based on market or income-based valuation techniques, which may involve the use of unobservable inputs such as discount rate and earnings multiple.

The valuation of the Fund's equity investment in the LP is based on the fair values of the underlying investment funds at 30 June 2023 adjusted for any changes to those valuations to reflect movements to 30 September 2023, including foreign exchange translation impacts arising from translating the USD denominated interest in the LP to AUD at each balance date.

Investment risks

As noted above, the LP has invested in underlying private investment funds in the US market who have in turn invested in a portfolio of private equity investments. 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 to the estimated fair values at balance date. As there are no directly observable prices, the fair values assigned by the investment funds to each investment are based on a range of factors, including but not limited to the initial purchase price, market trading multiples and observed transaction metrics. The resulting valuations may differ significantly from the values that would have been realised had a transaction taken place at balance date. The 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. Estimation uncertainty also arises in relation to likely US tax obligations the Fund will incur in connection with realisation of recorded fair value movements (refer to note 5).

Inter-relationship between significant unobservable inputs and fair value measurement

The inter-relationship between the significant unobservable inputs and fair value measurements is such that the higher the growth rates or earnings multiples adopted by the underlying investment funds, the higher the resultant fair value determination of the underlying equity investments, and therefore ultimately the higher the fair value of the Fund's investment in the LP. Since neither the Fund itself, nor the LP, has access to the underlying detailed equity investment valuations performed by the US investment funds, it is unable to assess the sensitivity of fair value determinations to changes in underlying unobservable inputs. However, at the Fund level, a 5% change (increase/decrease) in the carrying value of the LP's interest held in the underlying US investment funds would result in a \$7,023,885 (increase/decrease) in the carrying value of the Fund's investment in the LP. A 5% increase in the AUD/USD exchange rate would decrease the value of the Fund's investment in the LP by \$6,546,524. Conversely, a 5% decrease would increase the value of the Fund's investment by \$7,273,911. Refer to note 1(iii) for further details regarding investment risks and estimation uncertainty applied in the determination of the fair value of the underlying unlisted equity investments to which the Fund is exposed.

(v) Capital commitments

As at 30 September 2023, the Fund has made capital commitments totaling US\$75.5 million to the LP, of which US\$70.2 million has been called at balance date.

As at 30 September 2023, the Fund has uncalled capital commitments of US\$5.3 million (or \$8.3 million) outstanding to the LP. The capital commitments can be called at any time in the future.

The uncalled capital commitments referred to above were converted at the half-year end AUD:USD exchange rate of 0.6435.

CD Private Equity Fund III
Notes to the condensed financial statements
30 September 2023

5. Non-current liabilities - deferred tax

	30 September 2023 \$	31 March 2023 \$
Deferred tax liability	<u>5,960,805</u>	<u>5,399,930</u>

The deferred tax liability has been assessed based on an estimate of likely US tax obligations the Fund will incur upon realisation of recorded fair value movements in connection with certain underlying private equity investments. This estimate is subject to estimation uncertainty as a result of limitations in the availability of information pertaining to the tax structure of the underlying investments in respect of which the Fund has an interest.

6. Equity - unit capital

	30 September 2023 Units	31 March 2023 Units	30 September 2023 \$	31 March 2023 \$
Ordinary units - fully paid	<u>72,028,420</u>	<u>72,028,420</u>	<u>109,672,616</u>	<u>109,672,616</u>

All issued units are fully paid. The holders of ordinary units are entitled to one vote per unit at meetings of the Fund and are entitled to receive distributions declared from time to time by the Responsible Entity.

There were no movements in unit capital during the half-year and previous year.

7. Equity - distributions

Distributions paid during the financial half-year were as follows:

	30 September 2023 \$	30 September 2022 \$
Distribution - 19 cents per unit paid on 22 June 2023	13,685,400	-
Distribution - 24.1 cents per unit paid on 19 August 2022	-	<u>17,358,849</u>
	<u>13,685,400</u>	<u>17,358,849</u>

8. Related party disclosures

The Responsible Entity of the Fund during the period until 24 June 2023 was E&P Investments Limited (**former Responsible Entity**). The Responsible Entity of the Fund from 24 June 2023 is K2 Asset Management Ltd (**Responsible Entity**).

Key management personnel

Key management personnel include persons who were directors of the Responsible Entity at any time during or since the end of the half-year and up to the date of this report. The following persons held office as directors of the Responsible Entity during or since the end of the half-year and up to the date of this report:

CD Private Equity Fund III
Notes to the condensed financial statements
30 September 2023

8. Related party disclosures (continued)

E&P Investments Limited
(resigned effective 24 June 2023)

Stuart Nisbett
Warwick Keneally
Peter Shear

K2 Asset Management Ltd
(appointed effective 24 June 2023)

Campbell Neal
Hollie Wight
George Boubouras
Neil Sheather (appointed 1 July 2023)

The key management personnel do not receive compensation from the Fund or from the Responsible Entity directly for their management function performed for the Fund.

Management fees

The Responsible Entity's duties include establishing the Fund's compliance plan and procedures and monitoring against regulatory and legislative requirements, the issuance of disclosure documents, the appointment and monitoring of external service providers to the Fund and overall administration of the Fund.

For these services, E&P Investment Limited, as former Responsible Entity of the Fund, charged management fees of 0.33% per annum (exclusive of GST) on the gross asset value of the Fund for the period up to and including the effective date of 24 June 2023. This is comprised of the Responsible Entity Fee of 0.08% per annum and Administration Fee 0.25% per annum. Management fees were paid to the former Responsible Entity monthly in advance.

The total management fees paid to the former Responsible Entity for the half-year ended 30 September 2023 was \$126,238 (2022: \$297,062), exclusive of GST. There were no outstanding management fees to the former Responsible Entity as at 30 September 2023 (2022: \$46,910, exclusive of GST).

Following the change of Responsible Entity to K2 Asset Management Ltd on 24 June 2023, total management fees charged from 25 June 2023 was 0.275% per annum (exclusive of GST) on the gross asset value of the Fund. This is comprised of the Responsible Entity Fee of 0.05% per annum and Administration Fee 0.225% per annum. Management fees are paid to the Responsible Entity monthly in advance.

The total management fees paid to the Responsible Entity for the half-year ended 30 September 2023 was \$109,421, exclusive of GST. There were no outstanding management fees as at 30 September 2023.

Fund administration fee

Australian Fund Accounting Services Pty Limited, a wholly-owned subsidiary of E&P Financial Group Limited, the parent of the former Responsible Entity, provided fund administration services to the Fund under an agreement with the former Responsible Entity. These services included net asset valuation, management accounting, statutory reporting, capital management and taxation. This service agreement ceased on 3 July 2023.

Total fund administration fees paid or payable to Australian Fund Accounting Services Pty Limited for the half-year ended 30 September 2023 were \$30,000 (2022: \$60,000), exclusive of GST.

From 3 July 2023, K2 Asset Management Ltd commenced provision of fund administration services to the Fund under an agreement with the Responsible Entity. These services include net asset valuation, management accounting, statutory reporting, capital management and taxation.

Total fund administration fees paid or payable to K2 Asset Management Ltd for the half-year ended 30 September 2023 were \$30,000, exclusive of GST.

CD Private Equity Fund III
Notes to the condensed financial statements
30 September 2023

8. Related party disclosures (continued)

Investment manager fee

US Select Private Opportunities Fund III, L.P. (LP), in which the Fund holds an 71.2% interest, is required to pay its Investment Manager, US Select Private Opportunities Fund III, GP, being an entity associated with the former Responsible Entity, for acting on behalf of the limited partnership to acquire, manage and transact on partnership interests within the scope of the limited partnership agreement, a fee equivalent to 1% per annum of the total funds committed by the partners to the LP. The fee is payable quarterly in advance from the funds of the LP. The total fees paid or payable during the half-year ended to 30 September 2023 amounted to \$794,774 (US\$525,618) (2022: \$784,194 (US\$547,844)). The Fund's 71.2% interest equates to \$565,879 (2022: \$558,346). This fee is recorded in the books of the LP.

The GP is also entitled to a performance fee of 10% of the return achieved by the LP above invested capital once a cumulative, non-compounded, pre-tax return of 8% per annum (Hurdle Rate) on all capital contributed to the LP and not yet returned by distribution to the limited partners. The Hurdle Rate references to the LP, not the Fund level, and is denominated in US dollars. The performance fees will only be paid following the limited partners' actual receipt of invested capital and once the Hurdle Rate is achieved, through distribution of income and capital by the LP. For the half-year ended 30 September 2023, US\$16,339,869 (2022: US\$13,456,271) was accrued as performance fees. The Fund's interest equates to \$18,102,342 (US\$11,648,857) (2022: \$15,012,152 (US\$9,607,777)). This fee is accrued in the books of the LP.

The performance fee to the GP, as of 30 September 2023, has been earned and it is anticipated that the next distribution from the LP will include an initial, or catch up, payment to the GP. This is anticipated to be 10% of the accrued performance fee. In the event that the next distribution from the LP exceeds the catch up payment, the remaining distribution will be split 10% to the GP and 90% to the limited partners, including the Fund. Moving forward, distributions from the LP will continue to be split 10% to the GP and 90% to the limited partners, including the Fund, until the performance fee is extinguished.

US Select Direct Private Equity II, L.P.

At balance date, the Fund's share of the LP's investment in US Select Direct Private Equity II, L.P. was \$40,258,119 (US\$25,906,100) (31 March 2023: \$40,191,704 (US\$26,868,154)). The General Partner of this investment is associated with the former Responsible Entity of the Fund.

Recharges paid to related entity

To avoid suppliers receiving multiple payments, K2 Asset Management Ltd, makes a single payment to certain suppliers, and recharges the Fund its share at cost. There is no mark-up or charge to the Fund for being provided this service. The Fund only incurs the costs directly attributable to the work performed for it by the supplier, as if it had contracted with that provider individually.

E&P Operations Pty Limited, a related party of the former Responsible Entity also made single payments to certain suppliers and recharged to the Fund its share at cost during the reporting period. This arrangement with the former Responsible Entity ceased after the appointment of K2 Asset Management Ltd.

9. Fair value measurement

Fair value

The fair value of financial assets and financial liabilities approximate their carrying values at the reporting date.

The table below analyses recurring fair value measurements for financial assets and financial liabilities. The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation techniques used. The different levels are defined as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

CD Private Equity Fund III
Notes to the condensed financial statements
30 September 2023

9. Fair value measurement (continued)

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30 September 2023	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<i>Financial assets carried at fair value</i>				
Other financial assets - equity investment constituting interest in US Select Private Opportunities Fund III, LP	-	-	137,840,651	137,840,651
Total assets	-	-	137,840,651	137,840,651

31 March 2023	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<i>Financial assets carried at fair value</i>				
Other financial assets - equity investment constituting interest in US Select Private Opportunities Fund III, LP	-	-	133,124,884	133,124,884
Total assets	-	-	133,124,884	133,124,884

The Fund recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the transfer has occurred. There were no transfers between levels during the period ended 30 September 2023.

Details of the determination of level 3 fair value measurements including the valuation technique adopted and the key underlying unobservable inputs used are set out in note 4(iv).

The Fund has established a control framework with respect to measurement and assessment of fair values. This framework includes a sub-investment committee that has overall responsibility for analysing the performance and fair value movements of underlying US investment fund holdings during each reporting period.

10. Events after the reporting period

On 1 October 2023, the Fund's capital commitment was reduced from US\$75.5 million to US\$73.7 million, representing an interest of 71.2% in the LP. The Fund's proportionate share of the total capital called as at 30 September 2023 was US\$70.2 million (or \$109 million).

On 4 October 2023, the Fund announced a distribution of \$0.03 per unit paid on 3 November 2023.

No other matter or circumstance has arisen since 30 September 2023 that has significantly affected, or may significantly affect the Fund's operations, the results of those operations, or the Fund's state of affairs in future financial years.

CD Private Equity Fund III
Directors' declaration
30 September 2023

In the opinion of the directors of the Responsible Entity:

- the financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with the Accounting Standards;
- the attached financial statements and notes give a true and fair view of the Fund's financial position as at 30 September 2023 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors of the Responsible Entity made pursuant to section 303(5) of the *Corporations Act 2001*.

On behalf of the directors



Hollie Wight
Director of K2 Asset Management Ltd, Responsible Entity

29 November 2023

Independent Auditor's Review Report to the Unitholders of CD Private Equity Fund III

Conclusion

We have reviewed the half-year financial report of CD Private Equity Fund III (the "Fund"), which comprises the condensed statement of financial position as at 30 September 2023, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Fund does not comply with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Fund's financial position as at 30 September 2023 and of its performance for the half-year ended on that date; and
- Complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) ("the Code") that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of K2 Asset Management Ltd (the "Responsible Entity"), would be in the same terms if given to the directors as at the time of this auditor's review report.

Directors' Responsibilities for the Half-year Financial Report

The directors of the Responsible Entity of the Fund (the "directors") are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Fund's financial position as at 30 September 2023 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Carlo Pasqualini
Partner
Chartered Accountants

Sydney, 29 November 2023

**CD Private Equity Fund III
Directory
30 September 2023**

The Fund's units are quoted on the official list of Australian Securities Exchange (**ASX**).
The ASX code is **CD3**.

CD Private Equity Fund III

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Campbell Neal
Hollie Wight
George Boubouras
Neil Sheather (appointed 1 July 2023)

Secretary

Hollie Wight
Caroline Purtell

Auditor

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