

***COUTTS PRIVATE EQUITY LIMITED  
PARTNERSHIP II***

**Financial Statements**

December 31, 2019

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

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## **Independent Auditors' Report to the General Partner**

### ***Opinion***

We have audited the financial statements of Coutts Private Equity Limited Partnership II (the "Partnership"), which comprise the statement of assets, liabilities and partners' capital as at December 31, 2019, the statements of operations, changes in partners' capital and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

### ***Basis for Opinion***

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Partnership in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Partnership or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Partnership's financial reporting process.



## **Independent Auditors' Report to the General Partner (continued)**

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Partnership's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Partnership to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

June 30, 2020

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Statement of Assets, Liabilities and Partners' Capital

As at December 31, 2019

(expressed in United States dollars)

	Note	2019	2018
		\$	\$
<b>Assets</b>			
<b>Financial assets at fair value through profit or loss</b>	3,10	18,514,958	84,786,176
<b>Financial assets measured at amortised cost</b>			
Cash and cash equivalents	9	12,144,535	18,332,437
Receivable due from General Partner	9	589,787	-
Interest receivable	9	9,863	29,828
Prepayments		1,600	2,375
<i>Total financial assets measured at amortised cost</i>		12,745,785	18,364,640
<b>Total assets</b>		31,260,743	103,150,816
<b>Liabilities</b>			
<b>Financial liabilities measured at amortised cost</b>			
Distributions payable to Limited Partners		6,165,748	3,323,750
Operational fee payable	6,9	44,538	123,786
Accounts payable and accrued expenses	9	125,441	130,585
<i>Total financial liabilities measured at amortised cost</i>		6,335,727	3,578,121
<b>Total liabilities</b>		6,335,727	3,578,121
<b>Partners' capital (net assets)</b>	5	24,925,016	99,572,695

The accompanying notes on pages 7 - 19 form an integral part of these financial statements.

Approved by Aberdeen General Partner CPELP II Limited on 30 June 2020.

Andrew Galloway Director

Julian Reddyhough Director

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Statement of Operations

For the year ended December 31, 2019

(expressed in United States dollars)

	Note	2019	2018
		\$	\$
<b>Income from financial assets at fair value through profit or loss</b>			
Net realised (loss)/gain on investments		(38,189,986)	23,517,280
Movement in unrealised gain/(loss) on investments		29,356,407	(19,528,746)
		(8,833,579)	3,988,534
<b>Other investment income/(loss)</b>			
Interest income	9	442,830	575,164
Foreign exchange loss		(2,933)	(38,373)
		439,897	536,791
<b>Net investment (loss)/income</b>		(8,393,682)	4,525,325
<b>Operating expenses</b>			
Administration fee	7	217,771	233,552
Professional fees		143,119	69,465
Directors' fees	9	21,506	20,103
Other		30,504	29,678
<b>Total operating expenses</b>		412,900	352,798
<b>Net (loss)/income from operations before tax</b>		(8,806,582)	4,172,527
Withholding tax expense		(473,536)	(658,439)
<b>Net change in partners' capital resulting from operations after tax</b>		(9,280,118)	3,514,088

The accompanying notes on pages 7 - 19 form an integral part of these financial statements.

## COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

### Statement of Changes in Partners' Capital

For the year ended December 31, 2019

(expressed in United States dollars)

	Note	General Partner \$	Limited Partners \$	Total \$
<b>Balance at December 31, 2017</b>		-	159,662,798	159,662,798
Distributions		(1,697,391)	(61,906,800)	(63,604,191)
Allocation of operational fee	6,9	1,697,391	(1,697,391)	-
Net change in partners' capital resulting from operations after tax		-	3,514,088	3,514,088
<b>Balance at December 31, 2018</b>		-	99,572,695	99,572,695
Distributions		(881,311)	(64,486,250)	(65,367,561)
Allocation of operational fee	6,9	881,311	(881,311)	-
Net change in partners' capital resulting from operations after tax		-	(9,280,118)	(9,280,118)
<b>Balance at December 31, 2019</b>		-	24,925,016	24,925,016

The accompanying notes on pages 7 - 19 form an integral part of these financial statements.

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Statement of Cash Flows

For the year ended December 31, 2019

(expressed in United States dollars)

	2019	2018
	\$	\$
<b>Cash provided by/(used in):</b>		
<b>Operating Activities</b>		
Net change in partners' capital resulting from operations after tax	(9,280,118)	3,514,088
Add/(deduct) items not involving cash:		
Net realised loss/(gain) on investments	38,189,986	(23,517,280)
Movement in unrealised (gain)/loss on investments	(29,356,407)	19,528,746
Net change in non-cash operating balances:		
Receivable due from General Partner	(589,787)	-
Other receivables and prepayments	775	3,200
Interest receivable	19,965	13,610
Accounts payable and accrued expenses	(5,144)	15,971
Investments in financial assets designated at fair value	(471,380)	(808,529)
Distributions / sales from financial assets designated at fair value	57,909,019	59,852,401
Net cash provided by operating activities	56,416,909	58,602,207
<b>Financing Activities</b>		
Distributions to General Partner	(960,559)	(1,965,004)
Distributions paid to Limited Partners	(61,644,252)	(65,972,800)
Net cash used in financing activities	(62,604,811)	(67,937,804)
<b>Movements in cash and cash equivalents during the year</b>	<b>(6,187,902)</b>	<b>(9,355,597)</b>
Cash and cash equivalents at beginning of year	18,332,437	27,668,034
<b>Cash and cash equivalents at end of year</b>	<b>12,144,535</b>	<b>18,332,437</b>
<b>Supplementary information on cash flows from operating activities:</b>		
Interest received	462,795	588,774

The accompanying notes on pages 7 - 19 form an integral part of these financial statements.

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements

December 31, 2019

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### 1. GENERAL INFORMATION

Coutts Private Equity Limited Partnership II (the “Partnership”) was established under the Exempted Limited Partnership Law of the Cayman Islands on February 2, 2007 as a Cayman Islands closed-ended exempted limited partnership. The registered office of the Partnership is located at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

Pursuant to the terms of the Amended and Restated Limited Partnership Agreement dated April 23, 2007 (the “Agreement”), Aberdeen General Partner CPELP II Limited (the “General Partner”) acts as General Partner to the Partnership and is responsible for the operation, management and risk management of the Partnership on the advice of Aberdeen Asset Managers Limited (the “Investment Manager”). Accordingly, in these notes, references to the General Partner should be read in the context that the General Partner has delegated investment discretion to the Investment Manager. The General Partner was incorporated under the Companies Law of the Cayman Islands on January 29, 2007 as an exempted company with limited liability. The General Partner does not intend to invest any capital in the Partnership and does not have any capital invested as of December 31, 2019 and 2018.

The investment objective of the Partnership is to seek long-term capital appreciation by investing in selected closed-ended investment funds operated by leading private equity investment managers (“Investment Vehicles”). In particular, the Partnership is a limited partner in a number of Investment Vehicles. As at December 31, 2019, the Partnership is a limited partner in the following Investment Vehicles: Carlyle Partners V, L.P. and Thomas H. Lee Parallel Fund VI, L.P. In addition, the Partnership has invested in Carlyle Europe Partners III, L.P. through CPELP II Guernsey Limited Partnership Inc. (“CPELP II Guernsey”).

CPELP II Guernsey is a limited partnership with legal personality in Guernsey established under the Limited Partnership (Guernsey) Law on April 18, 2007 which was established to facilitate the acquisition of certain investments on behalf of the Partnership. The General Partner is also the general partner of CPELP II Guernsey and the Partnership is CPELP II Guernsey’s sole limited partner.

The Partnership may invest in other Investment Vehicles in place of or in addition to the Investment Vehicles listed above.

At the start of the life of the Partnership, it was intended that the term of the Partnership would be for the same term as the longest term of any of the Investment Vehicles plus a period determined by the General Partner during which period the Partnership would be wound up. On 30 June 2019 the Partnership transferred a significant portion of its Investment Vehicles to a third party. The General Partner further intends to transfer the remaining Investment Vehicles in the future. After the transfer is complete, the General Partner intends to liquidate the Partnership. This is expected to be completed near the end of 2021 or such other date as the General Partner reasonably determines.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### *Basis of preparation*

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and reflect the following significant accounting policies:

The functional and presentation currency of the Partnership is the U.S. dollar and not the local currency of the Cayman Islands, reflecting the fact that partners’ capital is denominated in U.S. dollars and the Partnership’s operations are primarily conducted in U.S. dollars.

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2019

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Basis of preparation (continued)*

The accounting policies have been consistently applied by the Partnership during the current and previous reporting periods.

#### *New standards and interpretations*

There are a number of new standards, amendments to standards and interpretations not yet effective for the year ended December 31, 2019 which have not been applied in preparing these financial statements. There are no new standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2019 that have a material effect on the financial statements of the Partnership.

#### *Use of estimates*

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the year. Actual results could differ from those estimates.

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

#### *Financial assets and financial liabilities*

##### *Classification of financial assets*

On initial recognition, the Partnership classifies financial assets as measured at amortised cost or fair value through profit or loss ("FVTPL"). A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cashflows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of Principal and Interest.

All other financial assets of the Partnership are measured at FVTPL and include investments in Investment Vehicles.

Financial assets at amortised cost are:

Cash and cash equivalents, Receivable due from General Partner, Interest receivable and Prepayments.

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2019

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Business model assessment*

In making an assessment of the objective of the business model in which a financial asset is held, the Partnership considers all of the relevant information about how the business is managed, including:

- the documented investment strategy and the execution of this strategy in practice. This includes whether the investment strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Partnership's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed;
- how the investment manager is compensated; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Partnership's continuing recognition of the assets.

#### *Reclassifications*

Financial assets are not reclassified subsequent to their initial recognition unless the Partnership were to change its business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

#### *Classification of financial liabilities*

Financial liabilities are classified as measured at amortised cost.

Financial liabilities at amortised cost are:

Operational fee payable, Accounts payable and accrued expenses and Distributions payable to limited partners.

#### **Recognition, measurement and derecognition**

The Partnership recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument using trade date accounting. Other financial assets and financial liabilities are recognized on the date on which they are originated. Financial instruments are initially measured at fair value and, for an item not at FVTPL, includes transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Operations. Net gain on investments is calculated using the specific identification method. Other financial assets or financial liabilities are subsequently measured at amortised cost using the effective interest method. The Partnership derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IFRS 9. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

#### **Impairment**

IFRS 9 introduces a new expected credit loss ("ECLs") impairment model. The Partnership recognises loss allowances for expected credit losses on financial assets measured at amortised cost.

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2019

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Impairment (continued)*

The Partnership measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- financial assets that are determined to have low credit risk at the reporting date; and
- other financial assets for which credit risk has not increased significantly since initial recognition.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. At each reporting date, the Partnership assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. The adoption of IFRS9 and the application of the new impairment model has not had a material impact on the Partnership's financial statements.

#### *Investments in Investment Vehicles*

The Partnership has designated its investments in Investment Vehicles into the financial assets at fair value through profit or loss category. The fair value of investments in Investment Vehicles is based primarily on the unadjusted value of the Partnership's capital accounts in such investments as determined by those Investment Vehicles. As a result, there are no additional unobservable inputs applied by the General Partner in determining the fair values as at December, 31 2019 and 2018.

The Investment Vehicles hold a majority of their investments in assets which are not actively traded. Consequently, it may be relatively difficult for the investment manager of the Investment Vehicles to obtain reliable information on the investments for valuation purposes and to dispose of the investments at the valuation level. Inherent uncertainties as to the valuation of assets held by Investment Vehicles could have an adverse effect on the partners' capital interests.

The valuations produced by the investment managers of the Investment Vehicles are estimates where they relate to unrealised investments. Therefore, these estimated values may differ significantly from the values that would have been used had a ready market for the Investment Vehicles and their underlying investments existed, and the differences could be material.

The Partnership's investment in the Investment Vehicles meets the definition of unconsolidated structured entities as the voting rights are not the dominant factor in determining control, the Investment Vehicles' activities are restricted by their offering memorandum and they have a narrow and well-defined objective to provide investment opportunities to investors.

#### *Other financial assets and liabilities*

The carrying value of financial assets and liabilities not classified at FVTPL approximate the fair value principally because of the short-term nature of these instruments.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise deposit accounts or short-term, highly liquid investments with original maturities of three months or less.

The Partnership held \$5,969,341 (2018: \$15,007,650) of cash and cash equivalents in a money market account at year end which is classified as level 1 on the fair value hierarchy.

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2019

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Fair value measurement principles*

Financial instruments recognised at fair value in the statement of assets, liabilities and partners' capital have been classified into a fair value hierarchy with the following levels:

- |         |   |
|---------|---|
| Level 1 | Fair value is determined by quoted prices in active markets for identical assets and liabilities that the Partnership can access at the same measurement date;  |
| Level 2 | Fair value is determined by reference to observable inputs for the instrument not included within Level 1 of the fair value hierarchy; and  |
| Level 3 | Fair value is determined by reference to unobservable inputs (including the Partnership's own data, which are adjusted, if necessary, to reflect the assumptions market participants would use in the circumstances). |

All financial assets designated at FVTPL, being the investments in Investment Vehicles, are classified as level 3 in the fair value hierarchy reflecting that investments in Investment Vehicles are not redeemable.

#### *Interest income*

Interest income on cash and cash equivalents is accrued using the effective interest method.

#### *Expenses*

Expenses are recognised in the period when the service is provided on an accruals basis, in accordance with contractual arrangements.

#### *Foreign currency*

Unfunded commitments, investments in Investment Vehicles and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the reporting date. Purchases and sales of investments in Investment Vehicles and income and expense items denominated in foreign currencies are translated into U.S. dollars on the respective dates of such transactions. Realised and unrealised gains and losses resulting from foreign currency transactions are included in the Statement of Operations.

#### *Taxes*

Under Cayman Islands law, distributions made by the Partnership and return of capital in respect of investments in the Partnership are not subject to taxation in the Cayman Islands and no withholding will be required on such payments to limited partners. The Partnership has received an undertaking from the Governor in Cabinet exempting it from all local income, profits and capital gains taxes until February 13, 2057. No such taxes are levied in the Cayman Islands at the present time. The limited partners are responsible for reporting their respective share of the Partnership's net income or net loss on their own tax returns.

Withholding tax is being applied on distributions received from the underlying Investment Vehicles.

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2019

### 3. INVESTMENTS IN INVESTMENT VEHICLES

The committed capital and investments in Investment Vehicles at fair value at December 31, 2019 are as follows:

Investment Vehicle		Total Net Assets of Investment Vehicle		Original Commitment (source currency)		Unfunded Commitment		Investment at Cost		Investment at Fair Value
Carlyle Europe Partners III, L.P.*	€	535,408 <sup>1</sup>	€	50,000,000	\$	1,062,427	\$	23,965,783	\$	4,833,539
Carlyle Partners V, L.P.	\$	2,274,046 <sup>1</sup>	\$	70,000,000	\$	12,660,899	\$	26,151,111	\$	9,758,735
Thomas H.Lee Parallel Fund VI, L.P.	\$	293,883 <sup>1</sup>	\$	50,000,000	\$	2,341,743	\$	827,784	\$	3,922,684
					\$	16,065,069	\$	50,944,678	\$	18,514,958

<sup>1</sup> Amounts expressed in thousands

\* This investment is made via CPELP II Guernsey

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2019

### 3. INVESTMENTS IN INVESTMENT VEHICLES (continued)

The committed capital and investments in Investment Vehicles at fair value at December 31, 2018 are as follows:

Investment Vehicle		Total Net Assets of Investment Vehicle		Original Commitment (source currency)		Unfunded Commitment		Investment at Cost		Investment at Fair Value
Apax Europe VII-B, L.P.*	€	1,908,349 <sup>1</sup>	€	30,000,000	\$	408,620	\$	23,251,985	\$	6,017,503
Blackstone Capital Partners V-AC, L.P.	\$	156,889 <sup>1</sup>	\$	60,000,000	\$	3,285,584	\$	11,104,953	\$	3,349,875
Carlyle Europe Partners III, L.P.*	€	666,473 <sup>1</sup>	€	50,000,000	\$	3,039,084	\$	23,544,381	\$	5,969,003
Carlyle Partners V, L.P.	\$	2,615,490 <sup>1</sup>	\$	70,000,000	\$	12,660,899	\$	28,639,969	\$	11,751,065
CVC Capital Partners Asia Pacific III, L.P.	\$	563,731 <sup>1</sup>	\$	20,000,000	\$	3,431,294	\$	7,057,724	\$	2,779,375
Doughty Hanson & Co V, L.P.*	€	78,992 <sup>1</sup>	€	40,000,000	\$	1,594,841	\$	10,248,327	\$	1,224,179
Fortress Investment Fund V	\$	1,976,520	\$	25,000,000	\$	121,997	\$	12,693,688	\$	11,160,598
KKR Asian Fund, L.P.	\$	311,493 <sup>1</sup>	\$	35,000,000	\$	- <sup>2</sup>	\$	7,506,251	\$	2,631,156
PAI Europe V-2, L.P.*	€	287,903 <sup>1</sup>	€	7,500,000	\$	606,558	\$	1,727,103	\$	2,477,862
Thomas H.Lee Parallel Fund VI, L.P.	\$	908,647 <sup>1</sup>	\$	50,000,000	\$	2,368,623	\$	2,542,296	\$	12,477,965
TPG Asia V, L.P.	\$	1,182,218 <sup>1</sup>	\$	20,000,000	\$	3,172,211	\$	8,375,016	\$	5,259,043
Warburg Pincus Private Equity X	\$	6,493,174 <sup>1</sup>	\$	50,000,000	\$	-	\$	9,880,611	\$	19,688,552
					\$	30,689,711	\$	146,572,304	\$	84,786,176

<sup>1</sup> Amounts expressed in thousands

\* This investment is made via CPELPII Guernsey

<sup>3</sup> During 2017, 309,559 of commitment expired

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2019

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### 3. INVESTMENTS IN INVESTMENT VEHICLES (continued)

Commitments represent the aggregate commitments by the Partnership to each Investment Vehicle, in the actual currency and U.S. dollars, as at December 31, 2019 and 2018. Unfunded commitments represent the remaining undrawn funds and recallable distributions which may be called by each of the Investment Vehicles, in U.S. dollar equivalent amounts.

The Partnership's maximum exposure to loss at December 31, 2019 is \$34,580,027 (2018: \$115,475,887) represented by the Partnership's investment at fair value and the unfunded commitment. During the year the Partnership did not provide financial support to the Investment Vehicles and has no intention of providing financial support.

### 4. FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COST

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance. The Partnership's carrying value of other financial assets and liabilities at amortised cost approximates fair value and are classified as level 2 on the fair value hierarchy.

### 5. PARTNERS' CAPITAL

The Partnership held a first offering which closed on April 23, 2007 that resulted in commitments from the partners of \$515,890,000, of which \$464,301,000 has been called and recorded as contributions to the Partnership. On June 21, 2016 the General Partner released the remaining commitment. Limited partners' capital interests are not redeemable and cannot be transferred except at the discretion of the General Partner.

As at December 31, 2019 the Partnership has distributed \$651,569,070 (2018: \$587,082,820) to limited partners of which \$64,486,250 (2018: \$61,906,800) relates to distributions declared during the year ending December 31, 2019. In certain circumstances, limited partners may be required to repay distributions previously declared by the Partnership so that the Partnership is able to meet obligations imposed by the Investment Vehicles.

Limited partners' capital interests are not redeemable and cannot be transferred except at the discretion of the General Partner.

### 6. OPERATIONAL AND PERFORMANCE FEE

Pursuant to the Agreement, the General Partner is entitled to receive from the Partnership an amount (the "Operational Fee") equal to 1.25% per annum (0.3125% per quarter) of the aggregate amount of limited partners' contributions drawn down by the Partnership as at the end of each relevant quarter, for the period from April 23, 2007 (the "Closing Date") until the end of the Investment Period, as defined in the Agreement. For the period from the end of the Investment Period to the Termination Date, as defined in the Agreement, the General Partner will receive an Operational Fee equal to 1.25% per annum (0.3125% per quarter) of the lesser of the Net Asset Value, as defined in the Agreement, of the Partnership or the aggregate amount of limited partners' contributions drawn down by the Partnership since the Closing Date as at the relevant quarter date.

The Operational fee will be treated as an equity transaction and allocated to the General Partner through the Statement of Changes in Partners' Capital.

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2019

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### 6. OPERATIONAL AND PERFORMANCE FEE (continued)

The Partnership must also pay a performance fee of 10% of the Partnership's net income and capital gains, after all other fees and expenses have been deducted, in excess of the "Hurdle" rate, as defined in the Agreement. Once the limited partners have been returned their original investment in the Partnership plus the Hurdle rate thereon, the General Partner receives 10% of all sums distributed after that time. The remaining 90% will be distributed to the limited partners pro rata to their investment in the Partnership. During the year ended 31 December, 2019 and 2018, no performance fees were accrued by the Partnership.

### 7. ADMINISTRATION FEE

On January 8, 2013 the Partnership appointed Apex Fund and Corporate Services (Guernsey) Limited (previously named Ipes (Guernsey) Limited) (the "Administrator") pursuant to an administrative services agreement ("Administration Agreement") to act as the administrator to the Partnership. The Administrator is primarily responsible for processing contributions from and distributions to limited partners and providing administrative and accounting services to the Partnership. In return for its services, the Administrator receives a fixed administration fee from the Partnership.

### 8. INVESTMENT MANAGER

Pursuant to an investment agreement dated June 1, 2010 (as novated on June 4, 2013 and March 31, 2016) the Investment Manager has agreed to act as investment manager to the General Partner. The investment management fee is met by the General Partner out of the Operational Fee.

### 9. RELATED PARTIES

The following balances and transactions were with related parties:

	<u>2019</u>	<u>2018</u>
	\$	\$
<b><u>Assets</u></b>		
Cash and cash equivalents held in the Aberdeen Liquidity Fund	5,969,341	15,007,650
Interest receivable	9,863	29,828
Receivable due from General Partner	589,787	-
<b><u>Liabilities</u></b>		
Operational fee payable	44,538	123,786
Payable to General Partner	8,284	9,431
<b><u>Income</u></b>		
Interest income	442,830	575,164
<b><u>Expenses</u></b>		
Directors' fees	21,506	20,103
<b><u>Allocation of partners' capital</u></b>		
Operational Fee	881,311	1,697,391

The General Partner and Investment Manager are related parties by virtue of common control by Standard Life Aberdeen PLC.

Directors' fees are paid by the Partnership on behalf of the General Partner.

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2019

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### 10. RISK MANAGEMENT

The Partnership's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. Significant financial risks to which the Partnership is exposed are market risk, credit risk and liquidity risk. Market risk includes price risk, interest rate risk and currency risk.

The Partnership's financial risk is managed by the General Partner. The General Partner undertakes due diligence prior to investment in an Investment Vehicle. This due diligence includes meetings to review the investment managers' investment processes and organisations, negotiating the terms of investment in an Investment Vehicle and other checks. Progress of the Partnership is monitored on a quarterly basis by the General Partner.

The nature and extent of the financial instruments outstanding at the date of the Statement of Assets, Liabilities and Partners' Capital and the risk management policies employed by the General Partner on behalf of the Partnership are discussed below.

#### (a) Market risk

Market risk is the risk that changes in interest rates, foreign exchange rates or equity and commodity prices will make an instrument less valuable or more onerous. All financial assets designated at fair value through profit or loss are recognised at fair value, and all changes in market conditions directly affect net income.

The Partnership's market risk is managed through its portfolio construction. The General Partner invests in a number of Investment Vehicles in order to take advantage of the diversification offered by various asset classes and Investment Vehicles in differing geographical areas and market sectors. Each investment manager manages the market risk in each relevant Investment Vehicle.

##### *Price risk*

The Partnership is exposed to price risk through the underlying investments held by the Investment Vehicles. To manage this risk, the Partnership has selected investment managers with extensive experience and global networks. The General Partner is supported by the Investment Manager in reviewing the operation and performance of the investment managers and the Investment Vehicles.

At December 31, 2019, had the fair value of the investments increased by 5%, with all other variables held constant, partners' capital and the change in partners' capital per the Statement of Operations would have increased by \$925,748 (2018: \$4,239,309). A 5% decrease would have resulted in an equal but opposite effect on the basis that all other variables remain constant.

##### *Interest rate risk*

At December 31, 2019 and 2018 cash and cash equivalents, which are repriced daily, are the Partnership's only interest bearing financial assets.

The Partnership's exposure to interest rate risk is considered insignificant and fluctuations in interest rates would not have a significant impact on the Partnership's net assets.

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2019

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### 10. RISK MANAGEMENT (continued)

#### *Currency risk*

The Partnership invests in financial instruments denominated in currencies other than its functional currency. Consequently, the Partnership is exposed to risks that the exchange rate of its currency relative to other currencies may change in a manner that has an adverse effect on the value of that portion of the Partnership's assets or liabilities denominated in currencies other than U.S. dollars.

It is not the intention of the General Partner to enter into hedging arrangements with respect to this currency exposure. The General Partner monitors the Partnership's currency exposure and may take such action as it deems appropriate.

At December 31, 2019 the Partnership's net exposure to fluctuations in foreign exchange rates converted into U.S. dollars was \$4,833,539 (2018: \$15,688,547), which represents 19.4% (2018: 15.8%) of partners' capital.

#### *Sensitivity analysis*

At December 31, 2019, had the U.S. dollar strengthened by 1% in relation to the euro, with all other variables held constant, partners' capital and the change in partners' capital per the Statement of Operations would have decreased by \$48,335 (2018: \$156,885). A 1% weakening of the U.S. dollar against the euro would have resulted in an equal but opposite effect on the basis that all other variables remain constant.

#### **(b) Credit risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Partnership. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for non-exchange traded financial instruments is not backed by an exchange clearing house. At December 31, 2019 and 2018, none of the instruments were exchange traded.

The amount of credit exposure is represented by the carrying amount of each financial instrument in the Statement of Assets, Liabilities and Partners' Capital. The bank accounts are held with Barclays Bank plc. The Partnership also subscribed into the Aberdeen Liquidity Fund ("LUX") a money market account that is readily convertible to cash. The Partnership is subject to credit risk to the extent that these entities may be unable to fulfil their obligations to repay the amounts owed. The General Partner considers the possibility that these entities will fail to meet their obligations to be remote.

Other than outlined above, there were no significant concentrations of credit risk to counterparties at December 31, 2019 or 2018.

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2019

### 10. RISK MANAGEMENT (continued)

#### (c) Liquidity risk

The Partnership's financial instruments include investments in Investment Vehicles that are not traded on a public exchange and are illiquid. As a result, the Partnership may not be able to liquidate its investments in these instruments, in order to meet its liquidity requirements or to respond to particular events such as deterioration in the creditworthiness of any particular counterparty. The amounts that are ultimately realised for each Investment Vehicle may be substantially different from their current fair values.

#### (d) Level 3 financial instruments

The following table presents additional information about level 3 financial instruments measured at fair value.

	2019	2018
	\$	\$
Balance at beginning of year	84,786,176	139,841,514
Investment during year	471,380	808,529
Distributions during year	(57,909,019)	(59,852,401)
Net realised (loss)/gain on investments	(38,189,986)	23,517,280
Movement in unrealised gain/(loss) on investments	29,356,407	(19,528,746)
	18,514,958	84,786,176

Net realised and unrealised gains/(losses) are recognised in the Statement of Operations.

There were no transfers between the investment levels during the year to December 31, 2019 or 2018.

Of the total unrealised gain on investments recognised in the Statement of Operations, a loss of \$7,901,107 (2018: loss of \$19,528,746) relates to investments held at the year end.

#### (e) Residual contractual maturities of financial liabilities

The Partnership's contractual obligations to settle financial liabilities are disclosed in the following notes: Partners' Capital (note 5), Operational and Performance Fee (note 6) and Administration Fee (note 7).

### 11. COMPARATIVE INFORMATION

Certain of the prior year information has been reclassified to conform with the current year presentation of income and expenses on the Statement of Operations. These reclassifications had no effect on the previously reported net income.

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2019

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### 12. SUBSEQUENT EVENTS

The outbreak of the Novel Coronavirus ("COVID-19") in 2020 has resulted in significant loss of life, adversely impacted global commercial activity and contributed to significant volatility in equity and debt markets around the world. The global impact of the outbreak is rapidly evolving and on 11th March 2020, the World Health Organization declared a pandemic. Many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of COVID-19, are creating significant disruption in supply chains and economic activity and are having a particularly adverse impact on transportation, hospitality, tourism, entertainment and other industries. The impact of COVID-19 has led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue. As COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, are increasingly uncertain and difficult to assess.

The outbreak of COVID-19 and the resulting financial and economic market uncertainty could have a significant adverse impact on the Partnership, including the fair value of its investments. The most significant conditions relating to COVID-19 arose after the reporting period and as a result the General Partner considers the emergence of the COVID-19 Coronavirus pandemic to be a non-adjusting post balance sheet event. Any future impact on the Partnership is likely to be in connection with the assessment of the fair value of investments at future dates and the timing of the disposal or any distributions to be received from the underlying Investment Vehicles. At the date of reporting it is not possible to quantify the future financial impact of COVID-19 on the Partnership's investments with any degree of certainty. The General Partner will continue to closely analyse and review the impact of COVID-19 on the Partnership and will take appropriate action as required.

There were no other significant events subsequent to December 31, 2019 to the date the financial statements were approved by the General Partner that require disclosure in the financial statements.