

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

**Financial Statements**

December 31, 2013

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

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

We have audited the accompanying 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, 2013, the statements of operations, changes in partners' capital and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Partnership's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2013, its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**KPMG**

June 18, 2014

**COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II**  
**Statement of Assets, Liabilities and Partners' Capital**

December 31, 2013

(expressed in United States dollars)

	Note	2013	2012
<b>Assets</b>			
<b>Financial assets designated at fair value</b>	3,12	\$ 457,711,421	\$ 415,784,051
<b>Loans and receivables</b>			
Cash and cash equivalents		56,083,886	36,748,606
Prepayments		2,000	-
<i>Total loans and receivables</i>		56,085,886	36,748,606
<b>Total assets</b>		513,797,307	452,532,657
<b>Liabilities</b>			
<b>Financial liabilities measured at amortised cost</b>			
Operational fee payable	6,10	1,450,941	1,370,333
Accounts payable and accrued expenses		132,419	342,188
<i>Total financial liabilities measured at amortised cost</i>		1,583,360	1,712,521
<b>Total liabilities</b>		1,583,360	1,712,521
<b>Partners' capital (net assets)</b>	5	\$ 512,213,947	\$ 450,820,136

See accompanying notes to financial statements.

Approved by Aberdeen General Partner CPELP II Limited on June 18, 2014.

ANDREW GALLOWAY  
 \_\_\_\_\_ Director

JENNIFER NICHOLS  
 \_\_\_\_\_ Director

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Statement of Operations

For the year ended December 31, 2013

(expressed in United States dollars)

	Note	2013	2012
<b>Income from financial assets designated at fair value</b>			
Net realised gain		\$ 33,568,005	\$ 21,056,906
Movement in unrealised gain		50,336,036	19,659,423
Movement in unrealised foreign exchange gain		6,867,498	4,318,132
		90,771,539	45,034,461
<b>Other investment income</b>			
Interest income		14,719	11,200
Exchange (loss)/gain on currencies held		(22,354)	51,500
Other income		-	25,000
		(7,635)	87,700
<b>Net investment income</b>		90,763,904	45,122,161
<b>Operating expenses</b>			
Administration fee	7	298,459	492,754
Management fees to Investment Vehicles	11	94,613	470,468
Professional fees		75,609	59,645
Directors' fees	10	15,160	13,990
Other		28,396	19,167
<b>Total operating expenses</b>		512,237	1,056,024
<b>Net income from operations before finance costs</b>		90,251,667	44,066,137
<b>Finance costs</b>			
Overdraft facility arrangement fee	9	259	150,000
Overdraft facility interest	9	-	26
		259	150,026
<b>Net change in partners' capital resulting from operations</b>		\$ 90,251,408	\$ 43,916,111

See accompanying notes to financial statements.

## COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

### Statement of Changes in Partners' Capital

For the year ended December 31, 2013

(expressed in United States dollars)

	Note	General Partner	Limited Partners	Total
<b>Balance at December 31, 2011</b>		\$ -	\$ 401,986,949	\$ 401,986,949
Limited partner contributions		-	25,794,500	25,794,500
Distributions		(5,400,724)	(15,476,700)	(20,877,424)
Allocation of operational fee	6,10	5,400,724	(5,400,724)	-
Net change in partners' capital resulting from operations		-	43,916,111	43,916,111
<b>Balance at December 31, 2012</b>		-	450,820,136	450,820,136
Limited partner contributions			25,794,500	25,794,500
Distributions		(5,642,547)	(49,009,550)	(54,652,097)
Allocation of operational fee	6,10	5,642,547	(5,642,547)	-
Net change in partners' capital resulting from operations			90,251,408	90,251,408
<b>Balance at December 31, 2013</b>		\$ -	\$ 512,213,947	\$ 512,213,947

See accompanying notes to financial statements.

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Statement of Cash Flows

For the year ended December 31, 2013

(expressed in United States dollars)

	2013	2012
<b>Cash provided by/(applied in):</b>		
<b>Operating Activities</b>		
Net change in partners' capital resulting from operations	\$ 90,251,408	\$ 43,916,111
Add/(deduct) items not involving cash:		
Net realised gain on financial assets designated at fair value	(33,568,005)	(21,056,906)
Movement in unrealised gain on financial assets designated at fair value	(50,336,036)	(19,659,423)
Movement in unrealised foreign exchange gain on financial assets designated at fair value	(6,867,498)	(4,318,132)
Net change in non-cash operating balances:		
Cash call receivable		739,999
Interest receivable from defaulting partners	-	23,430
Prepayments	(2,000)	-
Accounts payable and accrued expenses	(209,769)	150,633
Subsequent interest due to limited partners	-	(23,430)
Investments in financial assets designated at fair value	(43,512,821)	(42,979,091)
Distributions from financial assets designated at fair value	92,356,990	48,736,753
	48,112,269	5,529,944
<b>Financing Activities</b>		
Limited partner contributions	25,794,500	25,794,500
Distributions to limited partner	(49,009,550)	(15,476,700)
Distributions to General Partner	(5,561,939)	(5,320,116)
Proceeds from overdraft facility	-	1,275,051
Payments to overdraft facility	-	(1,275,051)
	(28,776,989)	4,997,684
<b>Movements in cash and cash equivalents during the year</b>	19,335,280	10,527,628
Cash and cash equivalents at beginning of year	36,748,606	26,220,978
<b>Cash and cash equivalents at end of year</b>	\$ 56,083,886	\$ 36,748,606
<b>Supplementary information on cash flows from operating activities:</b>		
Interest received	\$ 14,719	\$ 11,200
Overdraft facility interest paid	-	26

See accompanying notes to financial statements.

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements

December 31, 2013

(expressed in United States dollars)

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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 Limited Partnership Agreement (the "Agreement") dated April 23, 2007, 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 SVG Private Equity Managers Limited (the "Investment Manager") (both related parties as discussed in note 10). 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, 2013 and 2012.

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, 2013, the Partnership is a limited partner in the following Investment Vehicles: Blackstone Capital Partners V, L.P., Carlyle Partners V, L.P., CVC Capital Partners Asia Pacific III, L.P., Fortress Investment Fund V, KKR Asian Fund, L.P., Thomas H. Lee Fund VI, L.P., TPG Asia V, L.P., and Warburg Pincus Private Equity X, L.P. In addition, the Partnership has invested in Apax Europe VII-B, L.P., Carlyle Europe Partners III, L.P., Doughty Hanson & Co V, L.P. and PAI Europe V-2, 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.

It is intended that the term of the Partnership will 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 will be wound up. This is expected to be before the end of 2019 or such other date as the General Partner reasonably determines.

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

#### ***Basis of preparation***

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, 2013

(expressed in United States dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

These financial statements are prepared on a fair value basis for financial assets at fair value through profit or loss. Other financial assets and liabilities and non-financial assets and liabilities are stated at historical or amortised cost. The accounting policies have been consistently applied by the Partnership during the current and previous reporting periods.

#### *Adoption of new standards*

The Partnership has adopted the following new standards and amendments to standards with a date of initial application of January 1, 2013:

- IFRS 13 *Fair Value Measurement* establishes a framework for measuring fair value, sets out related disclosure requirements when fair value measurement is required or permitted under other standards, and replaces the requirements which had been previously contained in several other standards. The Partnership has applied the new definition of fair value as outlined in IFRS 13 prospectively and has incorporated the measurement and disclosures requirements in the financial statements.
- IFRS 10 *Consolidated Financial Statements* builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 does not have any impact on the Partnership's financial position or performance.
- IFRS 12 *Disclosure of Interests in Other Entities* sets out new disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a result of IFRS 12, the Partnership has expanded disclosures on unconsolidated structured entities prospectively.

#### *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 instruments. 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.

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2013

(expressed in United States dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Financial instruments*

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. From this date any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded. Financial instruments are initially measured at fair value. Subsequent to initial recognition, all instruments classified as fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of operations. 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 IAS 39. The Partnership uses the first-in first-out method to determine realised gains and losses on derecognition. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

#### *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 estimated by the General Partner in its reasonable discretion, based primarily on the unadjusted value of the Partnership's capital accounts in such investments as determined by the investment managers. As a result, there are no unobservable inputs applied by the General Partner in determining the fair value as at December 31, 2013 and 2012.

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 managers of the Investment Vehicles to obtain reliable information on the investments for valuation purposes and to dispose of 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 investment managers of the Investment Vehicles attempt to utilise consistent valuation methodologies where possible, however, the valuations provided by this process 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.

#### *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 | Instruments with quoted prices in active markets;  |
| Level 2 | Fair value is determined by reference to observable inputs for the instruments other than quoted prices in active markets; and |
| Level 3 | Fair value is determined by reference to unobservable inputs.  |

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

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2013

(expressed in United States dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### ***Cash and cash equivalents***

Cash and cash equivalents comprise deposit accounts and short-term, highly liquid investments.

#### ***Interest income***

Interest income is recognised on an accrual basis.

#### ***Expenses***

Expenses are recognised in the period when the service is provided, 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 date of the statement of assets, liabilities and partners' capital. 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 tax returns.

During the year ended December 31, 2009, the Partnership's investment in Fortress Investment Fund V generated U.S. income connected with a U.S. based business or trade ("ECI"). Receiving ECI would have resulted in both the Partnership and its limited partners having an obligation to file U.S. tax returns. However, in order to stream line and simplify the U.S. filing process for limited partners, the General Partner made a retroactive election for the Partnership to be treated as a corporation for U.S. tax purposes. The result of this election is that the Partnership is considered to be a single entity for U.S. tax purposes and the ECI is deemed to have been received by the Partnership and not its limited partners. The General Partner, therefore, makes one U.S. tax filing on behalf of the entire Partnership. The estimated tax receivable is not considered material and therefore has not been included in the financial statements.

#### ***Other financial assets and liabilities***

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

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2013

(expressed in United States dollars)

### 3. INVESTMENTS IN INVESTMENT VEHICLES

The committed capital and investments in Investment Vehicles at estimated fair value at December 31, 2013 are as follows:

Investment Vehicle	Total Net Asset of Investment Vehicle	Commitment (source currency)	U.S. Dollar Commitment	Unfunded Commitment	Investment at Cost	Investment at Fair Value
Apax Europe VII-B, L.P.*	€ 6,902,952,744	€ 30,000,000	41,898,102	586,097	35,801,535	41,609,210
Blackstone Capital Partners V-AC, L.P.	\$ 2,201,835,098	\$ 60,000,000	60,000,000	7,498,217	42,158,879	58,173,399
Carlyle Europe Partners III, L.P.*	€ 4,438,495 <sup>1</sup>	€ 50,000,000	75,403,527	7,940,024	54,259,160	60,172,572
Carlyle Partners V, L.P.	\$ 11,393,349 <sup>1</sup>	\$ 70,000,000	70,000,000	12,343,054	52,037,808	61,529,764
CVC Capital Partners Asia Pacific III, L.P.	\$ 2,768,268,547	\$ 20,000,000	20,000,000	3,888,212	13,850,034	15,635,911
Doughty Hanson & Co V, L.P.*	€ 1,897,908,061	€ 40,000,000	61,760,480	11,994,641	34,416,846	34,888,865
Fortress Investment Fund V	\$ 5,066,664 <sup>1</sup>	\$ 25,000,000	25,000,000	121,997	22,833,019	21,003,091
KKR Asian Fund, L.P.	\$ 4,604,893,740	\$ 35,000,000	35,000,000	1,115,928	28,219,879	41,644,530
PAI Europe V-2, L.P.*	€ 834,148,773	€ 7,500,000	10,365,840	692,419	8,580,803	10,796,336
Thomas H.Lee Parallel Fund VI, L.P.	\$ 2,894,688,114	\$ 50,000,000	50,000,000	9,250,000	31,908,991	48,737,124
TPG Asia V, L.P.	\$ 3,081,981 <sup>1</sup>	\$ 20,000,000	20,000,000	2,193,158	15,985,576	16,038,216
Warburg Pincus Private Equity X, L.P.	\$ 13,917,733 <sup>1</sup>	\$ 50,000,000	50,000,000	-	30,431,419	47,482,403
			<u>519,427,949</u>	<u>57,623,747</u>	<u>370,483,949</u>	<u>457,711,421</u>

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

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2013

(expressed in United States dollars)

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

The committed capital and investments in Investment Vehicles at estimated fair value at December 31, 2012 are as follows:

Investment Vehicle		Commitment (source currency)	U.S. Dollar Commitment	Unfunded Commitment	Investment at Cost	Investment at Fair Value
Apax Europe VII-B, L.P.*	€	30,000,000	39,654,000	2,937,095	34,781,415	35,741,101
Blackstone Capital Partners V-AC, L.P.	\$	60,000,000	60,000,000	7,022,117	49,519,284	60,395,668
Carlyle Europe Partners III, L.P.*	€	50,000,000	66,090,000	17,174,524	51,281,732	48,242,098
Carlyle Partners V, L.P.	\$	70,000,000	70,000,000	19,298,057	47,663,415	50,314,244
CVC Capital Partners Asia Pacific III, L.P.	\$	20,000,000	20,000,000	4,177,328	13,965,628	17,521,245
Doughty Hanson & Co V, L.P.*	€	40,000,000	52,872,000	11,956,727	42,580,849	33,135,193
Fortress Investment Fund V	\$	25,000,000	25,000,000	121,997	24,876,584	19,251,913
KKR Asian Fund, L.P.	\$	35,000,000	35,000,000	7,546,000	24,204,391	38,437,880
PAI Europe V-2, L.P.*	€	7,500,000	9,913,500	2,399,384	7,940,701	8,316,906
Thomas H.Lee Parallel Fund VI, L.P.	\$	50,000,000	50,000,000	14,171,760	32,267,942	40,545,291
TPG Asia V, L.P.	\$	20,000,000	20,000,000	3,041,145	15,570,025	15,426,703
Warburg Pincus Private Equity X, L.P.	\$	50,000,000	50,000,000	1,050,000	41,108,147	48,455,809
			<u>498,529,500</u>	<u>90,896,134</u>	<u>385,760,113</u>	<u>415,784,051</u>

\*This investment is made via CPELP II Guernsey.

Commitments represent the aggregate commitments by the Partnership to each Investment Vehicle, in the actual currency and U.S. dollars, as at December 31, 2013 and 2012. Unfunded commitments represent the remaining, undrawn funds 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, 2013 is \$515,335,168 (2012: \$506,680,185) 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.

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2013

(expressed in United States dollars)

### 4. FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

The following table analyses within the fair value hierarchy the Partnership's other financial assets and liabilities where the carrying value approximates fair value.

2013		Level 1	Level 2	Level 3
<b>Financial assets</b>				
	Cash and cash equivalents	\$ -	56,083,886	-
	Other assets		2,000	
		\$ -	56,085,886	-
<b>Financial liabilities</b>				
	Operational fees payable	-	1,450,941	-
	Other liabilities	-	132,419	-
		\$ -	1,583,360	-
<hr/>				
2012		Level 1	Level 2	Level 3
<b>Financial assets</b>				
	Cash and cash equivalents	\$ -	36,748,606	-
		\$ -	36,748,606	-
<b>Financial liabilities</b>				
	Operational fees payable	-	1,370,333	-
	Other liabilities	-	342,188	-
		\$ -	1,712,521	-

### 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 (2012: \$438,506,500) has been called as of December 31, 2013 and recorded as contributions to the Partnership. Limited partners' capital interests are not redeemable and cannot be transferred except at the discretion of the General Partner.

As at December 31, 2013, the Partnership has distributed \$74,804,050 (2012: \$25,794,500) to limited partners. In certain circumstances, limited partners may be required to repay distributions previously made by the Partnership so that the Partnership is able to meet obligations imposed by the Investment Vehicles.

### 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.

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2013

(expressed in United States dollars)

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

In the event that net income of the Partnership is less than the Operational Fee at the end of each financial year, any deficiency may be paid to the General Partner as an interest free loan. In no circumstances shall the interest free loan be recoverable from the General Partner. The unallocated Operational Fee will only be allocated to the General Partner through the statement of changes in partners' capital in any financial year where the Partnership generates sufficient net income to extinguish the unallocated portion (or parts thereof).

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, 2013 and 2012, no performance fees were earned by the General Partner.

### 7. ADMINISTRATION FEE

On January 8, 2013 the Partnership appointed 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 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.

Prior to January 8, 2013, the administration of the Partnership was delegated to Citi Hedge Fund Services, Ltd.

### 8. INVESTMENT MANAGER

Pursuant to an investment management agreement, 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. OVERDRAFT FACILITY

The Partnership has secured an overdraft facility with Coutts & Co Ltd ("Coutts Bank"), in the amount of \$30,000,000 (2012: \$30,000,000). The overdraft facility was renewed on December 23, 2012 and the Partnership agreed to an arrangement fee of 0.5% (2012: 0.5%) per annum to reflect the cost of renewing the overdraft facility. Interest on the daily cleared balance is charged at Coutts Bank's U.S. dollar funding rate plus 1.5% (2012: 1.5%) and amounts borrowed are repayable within three months from the date of the drawing. In addition, Coutts Bank may set-off amounts deposited by the Partnership in other Coutts Bank accounts against any amounts payable under this facility. The total aggregate amount outstanding on the facility at any time must be covered by a level of at least 150% of the uncalled capital commitment of the Partnership. At December 31, 2013 and 2012, there was no amount outstanding on this facility.

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2013

(expressed in United States dollars)

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### 10. RELATED PARTIES

The following balances and transactions were with related parties:

	2013	2012
<b><u>Liabilities</u></b>		
Operational fee payable	\$ 1,450,941	\$ 1,370,333
Payable to General Partner	16,489	16,400
<b><u>Expenses</u></b>		
Directors' fees	15,160	13,990
<b><u>Allocation of partners' capital</u></b>		
Operational Fee	5,642,547	5,400,724

The General Partner and the Investment Manager are related by virtue of common control by Aberdeen Asset Management PLC.

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

### 11. MANAGEMENT FEES TO INVESTMENT VEHICLES

Certain Investment Vehicles charge management fees in addition to the committed amounts or via direct payments to the relevant Investment Vehicle's investment manager. To the extent this has occurred, the fees have been recorded in the statement of operations as management fees to Investment Vehicles.

### 12. 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 and subsequent 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 board of directors of 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.

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2013

(expressed in United States dollars)

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### 12. RISK MANAGEMENT (continued)

#### (a) Market risk (continued)

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.

##### **Interest rate risk**

At December 31, 2013 and 2012 cash and cash equivalents, which are repriced daily, are the Partnership's only interest bearing financial assets.

The Partnership is exposed to direct cash flow interest rate risk on the amounts borrowed under the overdraft facility described in note 9. As amounts are borrowed via a short term overdraft facility and are repaid soon after, the exposure to interest rate risk is not considered to be significant.

##### **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, 2013 the Partnership's net exposure to fluctuations in foreign exchange rates converted into U.S. dollars was \$147,466,983 (2012: \$125,435,298), which represents 28.8% (2012: 27.8%) of partners' capital.

##### **Sensitivity analysis**

At December 31, 2013, 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 \$1,474,670 (2012: \$1,254,353). 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, 2013 and 2012, none of the instruments were exchange traded.

# COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II

## Notes to Financial Statements (continued)

December 31, 2013

(expressed in United States dollars)

### 12. RISK MANAGEMENT (continued)

#### (b) Credit risk (continued)

The amount of credit exposure is represented by the carrying amount of each financial instrument in the statement of assets, liabilities and partners' capital. Bank accounts are held with Coutts Bank, and the Partnership is subject to credit risk to the extent that this institution may be unable to fulfill its obligations to repay the amount owed. The General Partner considers the possibility that the entity will fail to meet its obligations to be remote.

Other than outlined above, there were no significant concentrations of credit risk to counterparties at December 31, 2013 or 2012.

#### (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. The General Partner manages liquidity risk by calling down on limited partners' commitments to seek to meet the Partnership's commitments to its Investment Vehicles. The General Partner has arranged the overdraft facility described in note 9 to assist with timing mismatches.

The Partnership is accordingly exposed to liquidity risk on commitments due from limited partners. Under the terms of the Agreement, any limited partner in default must pay interest to the Partnership on the outstanding balance at a rate of 3-month U.S. \$ LIBOR plus 4% per annum. Furthermore, the General Partner may limit the rights of the limited partner or cause the limited partner to forfeit their rights completely and thereby lose any right of repayment on amounts previously contributed. As at December 31, 2013, the interest receivable from defaulting partners is \$Nil (2012: \$Nil).

#### (d) Level 3 financial instruments

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

	2013	2012
Balance at beginning of year	\$ 415,784,051	\$ 376,507,252
Investment during year	43,512,821	42,979,091
Distributions during year	(92,356,990)	(48,736,753)
Net realised gain during year	33,568,005	21,056,906
Movement in unrealised gain during year	50,336,036	19,659,423
Movement in unrealised foreign exchange gain during year	6,867,498	4,318,132
	\$ 457,711,421	\$ 415,784,051

Net realised gains and movements in unrealised gains are recognised in the statement of operations.

# **COUTTS PRIVATE EQUITY LIMITED PARTNERSHIP II**

## **Notes to Financial Statements (continued)**

**December 31, 2013**

*(expressed in United States dollars)*

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### **12. RISK MANAGEMENT (continued)**

#### **(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), administration fee (note 7), and overdraft facility (note 9).