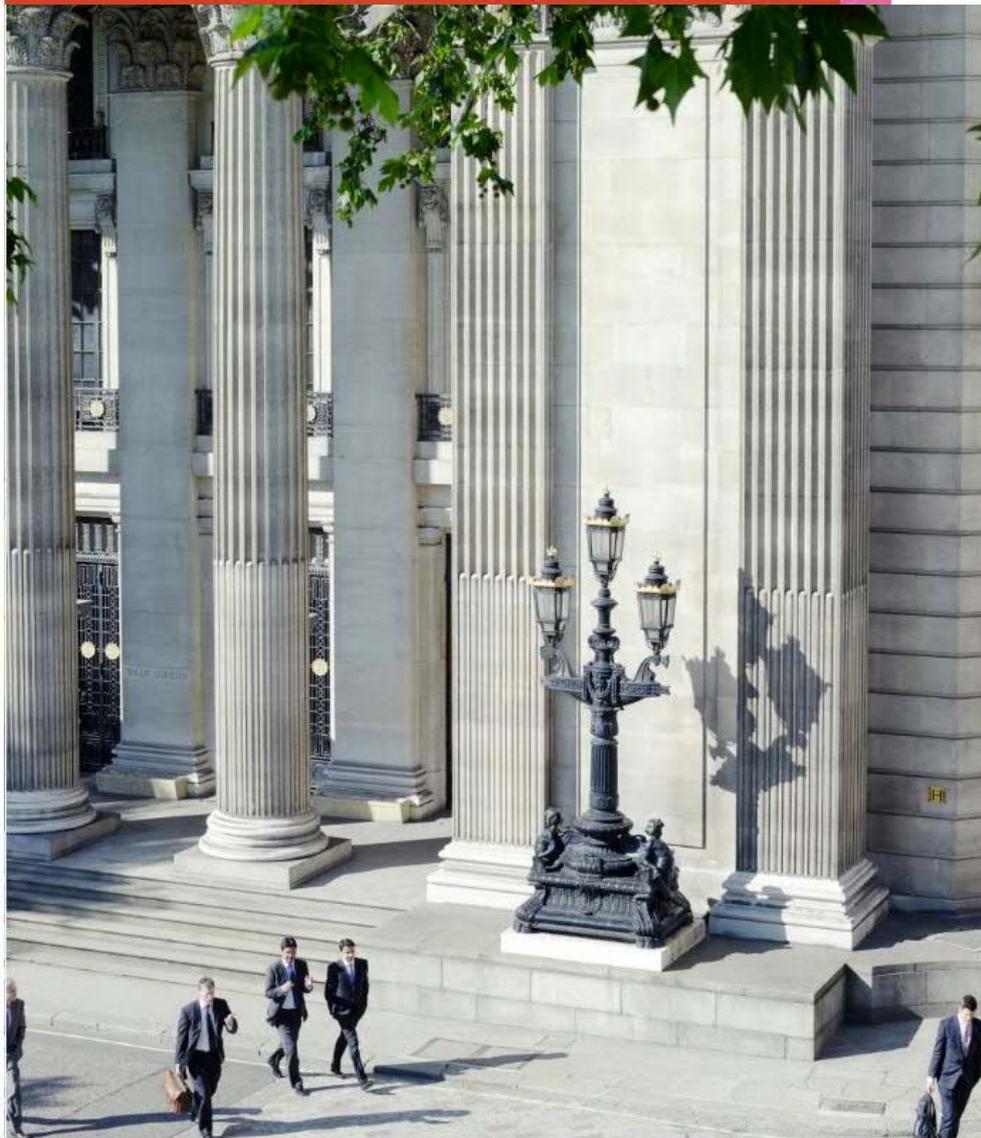


***Illustrative IFRS  
financial statements  
2017***  
**Private Equity Funds**

Staying informed  
2017







## **Illustrative IFRS financial statements 2017 – Private equity funds**

# Illustrative IFRS financial statements 2017 – Private equity funds

This publication provides an illustrative set of financial statements, prepared in accordance with International Financial Reporting Standards (IFRS), for a fictional private equity limited partnership ('ABC Private Equity LP' or the 'Partnership').

ABC Private Equity LP is an existing preparer of IFRS financial statements; IFRS 1, 'First-time adoption of IFRS', is not applicable. Guidance on financial statements for first-time adopters of IFRS is available at [www.pwc.com/ifrs](http://www.pwc.com/ifrs). ABC Private Equity LP is not traded in a public market. ABC Private Equity LP's investment objectives are to seek medium- to long-term growth by investing directly in private unlisted companies with high growth potential. The Partnership is tax transparent. It classifies all of its investments as 'fair value through profit or loss' (FVTPL) and does not apply hedge accounting. The investments are mainly denominated in Euros, US dollars and British pounds. The Partnership's functional and presentation currency is the Euro. The resulting foreign currency exposure is reduced by the use of foreign exchange derivatives.

This publication is based on the requirements of IFRS standards and interpretations for the financial year beginning on 1 January 2017.

None of the standards that apply for the first time in 2017 required changes to the disclosures or accounting policies in this publication. However, readers should consider whether any of the standards that are mandatory for the first time for financial years beginning 1 January 2017 could affect their own accounting policies. Appendix IV contains a full list of these standards (including those that have only a disclosure impact) as well as a summary of their key requirements.

Amendments to IAS 7 'Statement of Cash Flows' became effective for annual periods beginning on or after 1 January 2017. These amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The adoption of these amendments has had no material impact on ABC Private Equity LP (refer to commentary detail in note 2.1) other than as disclosed in Note 10. Appendix VI has been updated to provide further guidance on the requirements of these amendments.

Appendix XIV has been added this year to the Illustrative IFRS financial statements 2017 – Investment funds and provides illustrative disclosures required if ABC Private Equity LP had early adopted IFRS 9 'Financial instruments' for the financial year beginning 1 January 2017.

The Partnership is presented as an Investment Entity in accordance with IFRS 10. As a result, the Partnership does not consolidate any subsidiaries unless they provide investment related services. Subsidiaries which are incorporated for the purpose of holding the underlying investments (the so-called portfolio companies) on behalf of the Partnership, are not consolidated. These investment holding companies have very narrow objectives and operations, setup primarily to hold investments in portfolio companies and providing a vehicle for the onward sale of a portfolio investment. No portfolio companies are consolidated, regardless of the level of holding as the Partnership meets the definition of an Investment Entity and instead, fair values these portfolio companies through its holdings in its investment holding subsidiary companies. There is only one controlled portfolio company ('controlled subsidiary investment') as at the period-end date of these financial statements.

Other items that management may choose (or, in certain jurisdictions, be required) to include in documents containing financial statements, such as a General Partner's/Directors' Report or operating and financial review, are not illustrated here.

We have attempted to create a realistic set of financial statements for a private equity limited partnership. Certain types of transaction have not been included, as they are not relevant to the Partnership's operations. The example disclosures for some of these additional items and transactions – such as disclosures relevant for private equity fund of funds, and private equity funds with significant leverage – have been included in Appendix I and Appendix II, respectively.

Certain other topics – such as funds without puttable instruments, funds with puttable instruments classified as equity and segment reporting in accordance with IFRS 8 – have been included in the PwC publication *Illustrative IFRS financial statements 2017 – Investment funds* (see Appendix II, III, VII, VIII, IX, XII and XIV for detailed cross-references for topics that may also be relevant to private equity funds that have been included in this other publication in the 'Illustrative' series). This has been included in Appendix III.

The illustrative disclosures should not be considered the only acceptable form of presentation. The form and content of each reporting entity's financial statements are the responsibility of the entity's management. Alternative presentations to those proposed in this publication may be equally

acceptable if they comply with the specific disclosure requirements prescribed in IFRS. The entity's management is also responsible for providing disclosures that may be required by the relevant legal and regulatory requirements of the governing jurisdiction in which the entity operates.

These illustrative financial statements are not a substitute for reading the standards and interpretations themselves or for professional judgement as to fairness of presentation. They do not cover all possible disclosures that IFRS requires, nor do they take account of any specific legal framework. Further specific information may be required in order to ensure fair presentation under IFRS. We recommend that readers also refer to the most recent IFRS disclosure checklist publication. Additional accounting disclosures may be required in order to comply with local laws and/or stock exchange regulations.

### **Format**

The references in the left-hand margin of the financial statements represent the paragraph of the standard in which the disclosure or other requirements appears – for example, '8p40' indicates IAS 8 paragraph 40. The reference to IFRS appears in full – for example 'IFRS13p6' indicates IFRS 13 paragraph 6. The designation 'DV' (disclosure voluntary) indicates that the relevant standard encourages, but does not require, the disclosure. These financial statements also include disclosures that may represent best practice.

Additional notes and explanations are shown in commentary boxes and footnotes. The extent of disclosure required depends on the extent of the entity's use of financial instruments and of its exposure to risk.

All amounts that are shown in brackets are negative amounts.

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(All amounts in Euro thousands unless otherwise stated)

# **ABC Private Equity LP financial statements**

## **31 December 2017**

## Content

Statement of financial position.....	1
Statement of comprehensive income – by nature of expense.....	2
Statement of changes in net assets attributable to the partners.....	3
Statement of cash flows .....	4
Notes to the financial statements.....	5
1 General information .....	5
2 Summary of significant accounting policies .....	6
3 Financial risk management .....	19
4 Critical accounting estimates and judgements .....	40
5 Interest income .....	42
6 Other net changes in fair value on financial assets at fair value through profit or loss .....	42
7 Derivative financial instruments .....	42
8 Cash and cash equivalents.....	42
9 Financial assets at fair value through profit or loss.....	43
10 Borrowings.....	47
11 Carried interest.....	48
12 Net assets attributable to the partners.....	49
13 Net assets attributable to the partners (recognising non-recourse within legal structure) .....	50
14 Related party transactions .....	50
15 Subsequent events .....	51
Independent auditor’s report .....	52
Appendix I – Private equity funds that invest in other investment funds.....	53
Note – Summary of accounting policies (extracts) .....	53
Note – Financial risks (extracts).....	53
Note – Critical accounting estimates and judgements (extracts).....	59
Notes – Financial risk (extracts).....	59
Appendix II – Private Equity ‘fund of funds’ with significant leverage .....	63
Appendix III – Appendices with useful information in other illustrative financial statements.....	66
Appendix IV – New Standards and amendments.....	67
About PwC’s Asset Management practice.....	74

## Statement of financial position

		<b>As at 31 December</b>		
<b>1p54, 60, 113</b>		<b>Note</b>	<b>2017</b>	<b>2016</b>
	<b>ASSETS</b>			
<b>1p60</b>	<b>Non-current assets</b>			
<b>1p54(d), IFRS7p8(a)</b>	Financial assets at fair value through profit or loss	9	728,246	488,140
	<b>Total non-current assets</b>		<b>728,246</b>	<b>488,140</b>
<b>1p60, 66</b>	<b>Current assets</b>			
<b>1p54(d), IFRS7p8(a)</b>	Financial assets at fair value through profit or loss	7, 9	110	70
<b>1p54(d), IFRS7p8(c)</b>	Carried interest clawback	11, 14	3,426	–
<b>1p54(h), IFRS7p8(c)</b>	Other receivables		653	2,196
<b>1p54(d)</b>	Other assets	3	300	–
<b>1p54(i)</b>	Cash and cash equivalents	8	17,093	64,040
	<b>Total current assets</b>		<b>21,582</b>	<b>66,306</b>
	<b>TOTAL ASSETS</b>		<b>749,828</b>	<b>554,446</b>
	<b>LIABILITIES</b>			
<b>1p60, 69</b>	<b>Current liabilities</b>			
<b>1p54(m), IFRS7p8(f)</b>	Carried interest	11, 14	–	7,100
<b>1p54(k), (l) IFRS7p8(f)</b>	Other payables and accrued expenses		4,284	3,315
	<b>Total current liabilities</b>		<b>4,284</b>	<b>10,415</b>
<b>1p60</b>	<b>Non-current liabilities</b>			
<b>1p54(m), IFRS7p8(f)</b>	Borrowings	10	36,849	33,164
	<b>Total non-current liabilities excluding net assets attributable to the partners</b>		<b>36,849</b>	<b>33,164</b>
<b>32IE32</b>	<b>NET ASSETS ATTRIBUTABLE TO THE PARTNERS</b>	<b>12</b>	<b>708,695</b>	<b>510,867</b>
	<b>Represented by:</b>			
<b>1p54(m)</b>	Net assets attributable to the partners (recognising non-recourse within legal structure)	13	714,203	510,867
	Adjustment for difference in net assets attributable to partners between consolidated basis and recognition of non-recourse within legal structure	13	(5,508)	–

The notes on pages 5 to 51 are an integral part of these financial statements.

## Statement of comprehensive income<sup>1</sup> – by nature of expense

1p81, 82, 83, 85, 102, 113		Notes	Year ended 31 December	
			2017	2016
<b>1p82(a)</b>	<b>Income</b>			
<b>1p85</b>	Interest income	5	3,018	2,112
<b>18p35(b)(v)</b>	Dividend income		4,167	4,375
<b>IFRS7p20 (a)(i)</b>	Other net changes in fair value of financial assets at fair value through profit or loss	6	16,025	115,582
<b>1p85</b>	Net foreign currency gains or losses on cash and cash equivalents <sup>2</sup>		717	(565)
<b>1p85</b>	<b>Total net income</b>		<b>23,927</b>	<b>121,504</b>
	<b>Expenses</b>			
<b>1p85, 1p99</b>	Carried interest <sup>3</sup> (recovery/(expense))	11, 14	10,526	(895)
	Management fee	14	(22,500)	(22,500)
	Legal and professional expenses	14	(1,000)	(1,103)
	Transaction costs		(532)	(400)
	Other operating expenses		(3,398)	(3,634)
	<b>Total operating expenses</b>		<b>(16,904)</b>	<b>(28,532)</b>
	<b>Operating profit</b>		<b>7,023</b>	<b>92,972</b>
<b>1p85</b>	<b>Finance costs</b>			
<b>1p82(b)</b>	Interest expense		(2,210)	(1,389)
	Net foreign exchange gains/(losses) on borrowings <sup>2</sup>		(667)	410
<b>1p85, 32p35, 40</b>	<b>Total finance costs</b>		<b>(2,877)</b>	<b>(979)</b>
	<b>Profit before tax</b>		<b>4,146</b>	<b>91,993</b>
<b>1p82(d)</b>	Withholding tax on dividend income		(325)	(648)
<b>32IE32, 1p85, 32p35</b>	<b>Increase in net assets attributable to the partners from operations<sup>4, 5</sup></b>		<b>3,821</b>	<b>91,345</b>

The notes on pages 5 to 51 are an integral part of these financial statements.

- 1- IAS 1 'Presentation of financial statements', allows a choice of presenting all items of income and expense recognised in a period either (a) in a single statement of comprehensive income, or (b) in two statements comprising (i) a separate income statement, which displays components of profit or loss, and (ii) a statement of comprehensive income, which begins with profit or loss and displays components of other comprehensive income. ABC Private Equity LP has elected to use the single statement approach.
- 2 - Foreign currency gains and losses are only disclosed for cash and cash equivalents because there are no other financial assets and liabilities that are not accounted for at fair value through profit or loss, upon which foreign currency gains or losses have arisen during the period.
- 3\_ See note 2.10 and 4.5 for further information on carried interest.
- 4\_ 1p82(g) requires the disclosure of each component of 'other comprehensive income'. Other comprehensive income comprises items of income and expenses (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs. ABC Private Equity LP has no other comprehensive income. All income and expenses had previously been reported in the income statement. Other comprehensive income for an investment entity can include available-for-sale valuation adjustments and valuation adjustments on cash flow hedges.
- 5- The Partnership's contributed capital from the partners is classified as a financial liability in accordance with IAS 32 and presented as 'Net assets attributable to the partners' in the statement of financial position (see Note 2.11). 'Increase/(decrease) in net assets attributable to the partners from operations' in this instance represents the Partnership's finance cost related to that liability. Distributions of current period income may be presented separately under finance costs.

## Statement of changes in net assets attributable to the partners<sup>1</sup>

1p6, 106, 113	Year ended 31 December						
	Notes	2017			2016		
		General partner	Limited partners	Total	General partner	Limited partners	Total
Net assets attributable to the partners at 1 January		10,217	500,650	<b>510,867</b>	6,914	338,789	<b>345,703</b>
<i>Capital contributions</i>		5,722	312,200	<b>317,922</b>	3,413	167,255	<b>170,668</b>
<i>Distributions</i>		(2,050)	(121,865)	<b>(123,915)</b>	(1,937)	(94,912)	<b>(96,849)</b>
Net increase in capital transactions		3,672	190,335	<b>194,007</b>	1,476	72,343	<b>73,819</b>
Increase in net assets attributable to the partners from operations		69	3,752	<b>3,821</b>	1,827	89,518	<b>91,345</b>
<b>Net assets attributable to the partners at 31 December</b>	12	13,958	694,737	<b>708,695</b>	10,217	500,650	<b>510,867</b>

The notes on pages 5 to 51 are an integral part of these financial statements.

1- This statement of changes in net assets attributable to the partners provides relevant and useful information to the reader corresponding to the requirements of IAS 1 and is therefore considered best practice. We believe this presentation to disclose the movements in the liability being the net assets attributable to the partners is an acceptable method of presenting the 'capital' movements. There are no other balances or movements of relating to equity in either period.

## Statement of cash flows

		Year ended 31 December		
1p113		Notes	2017	2016
<b>7p10, 18(a), 21</b>	<b>Cash flows from operating activities</b>			
<b>7p15</b>	Purchase of financial assets		(404,136)	(105,294)
<b>7p15</b>	Proceeds from sale of financial assets		179,703	98,119
<b>7p31</b>	Interest received		2,200	2,090
<b>7p31</b>	Dividends received		3,942	4,175
	Management fees paid	14	(22,500)	(22,500)
	Carried interest paid	11, 14	-	(5,678)
	Other operating expenses paid	14	(2,355)	(5,326)
	<b>Net cash outflow from operating activities</b>		<b>(243,146)</b>	<b>(34,414)</b>
<b>7p10, 21</b>	<b>Cash flows from financing activities</b>			
<b>7p17(c)</b>	Proceeds from loans and borrowings		20,000	4,010
<b>7p17(c)</b>	Repayment of loans		(16,315)	-
<b>7p31</b>	Interest paid		(2,210)	(1,689)
<b>7p17</b>	Capital contributions from partners	12	317,922	170,668
<b>7p17</b>	Distributions to partners	12	(123,915)	(96,849)
	<b>Net cash inflow from financing activities</b>		<b>195,482</b>	<b>76,140</b>
	<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(47,664)</b>	<b>41,726</b>
	Cash and cash equivalents at beginning of the year	8	64,040	22,879
<b>7p28</b>	Exchange gains/(losses) on cash and cash equivalents		717	(565)
	<b>Cash and cash equivalents at end of the year</b>	<b>8</b>	<b>17,093</b>	<b>64,040</b>

The notes on pages 5 to 51 are an integral part of these financial statements.

### *Commentary – Use of direct method*

This statement of cash flows has been prepared using the direct method. For an illustrative example of presentation in accordance with the indirect method, refer to the *Illustrative IFRS financial statements 2017 – Investment funds*.

# Notes to the financial statements

## 1 General information

- 1p138(a-b)** ABC Private Equity LP ('the Partnership') is a limited partnership established in Eurania by the Limited Partnership Agreement ('the LPA') dated 1 January 2010, as amended and restated by a deed of adherence dated 1 August 2012. The Partnership commenced operations on 1 January 2010 and will continue in existence until the later of (i) 31 December 2020, or (ii) one year after the date by which all investments of the Partnership have been liquidated. The Partnership may also be dissolved earlier, or its term may be extended for another two years by the general partner ('the General Partner'), with the approval of a majority of the limited partners' interests.
- 1p51(a-b)**
- 1p138(a)** The registered office and principal place of business of the Partnership is Path Way, Walking Go, Eurania. The General Partner of the Partnership is ABC General Partner Limited. The General Partner is responsible for the management, operation and administration of the affairs of the Partnership. The General Partner has delegated most of the day to day investment activities to ABC Capital Management Limited ('the Investment Adviser'). This includes but is not limited to the initial assessment and recommendation to the General Partner of potential investment acquisitions and exits; the day to day monitoring and interaction with the investment portfolio on behalf of the General Partner; creation of the fair value recommendations to the General Partner and certain investor relation activities of the Partnership. Whilst this delegation exists, the General Partner remains responsible for approving all actions taken as a result of these activities.
- 1p138(b)** The objectives of the Partnership are to generate significant medium- to long-term capital growth within a rigorous risk management framework. The Partnership aims to deliver these objectives by investing in a diversified investment portfolio of unlisted debt and equity securities of private companies operating predominately in Europe and the United States of America. Subsidiaries may be incorporated for the purpose of holding the underlying investments in which the Partnership may have controlling ('controlled subsidiary investment') and non-controlling interests.
- Investments are made to provide financing to help start, develop or transform privately owned companies that demonstrate the potential for significant growth. In addition to providing financing, the General Partner may provide introductions, industry expertise or other assistance to help companies grow their business. Investments can take the form of seed financing, venture capital, management/leveraged buyouts, mezzanine financing and distressed debt investments.
- The Partnership's capital is represented by the net assets attributable to the partners. See Note 2.11 'Net assets attributable to the partners' for further details with respect to the treatment of the Partnership's capital as a financial liability.
- The Partnership's interests are not traded in a public market, nor does the Partnership file its financial statements with a regulatory organisation for the purpose of issuing any class of instrument in a public market.<sup>1</sup>
- 10p17** The financial statements were authorised for issue by the General Partner on 1 February 2018.

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1- If instruments are traded in a public market or when the financial statements are filed with a securities commission or other regulatory organisation for the purpose of issuing any class of instrument in a public market, IFRS 8, 'Operating segments', would be applicable.

## 2 Summary of significant accounting policies

**1p117(b), 119** The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**1p112(a)**      **2.1 Basis of preparation**

**1p16, 117(a)** The financial statements of ABC Private Equity LP have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the General Partner to exercise its judgement in the process of applying the Partnership's accounting policies and making any estimates. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Partnership's financial statements are fairly presented. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

**8p28**      *(a) Standards and amendments to existing standards effective 1 January 2017<sup>1</sup>*

Amendments to IAS 7, 'Statement of Cash Flows' became effective for annual periods beginning on or after 1 January 2017. These amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The changes in liabilities arising from financial activities as required by the Amendments to IAS 7 are disclosed in Note 10.

There are no other standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2017 that have a material effect on the financial statements of the Partnership.<sup>1</sup>

*Commentary – Standards and amendments to existing standards effective 1 January 2017*

*i) Disclosure initiative – Amendments to IAS 7*

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Partnership classifies its net assets attributable to partners as financial liabilities in accordance with IAS 32.

The amendments state that one way to fulfil the disclosure requirement is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Where an entity discloses such a reconciliation the amendments require the entity to provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the statement of cash flows.

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1- New or revised accounting standards and interpretations only need to be disclosed if they resulted in a change in accounting policy which had an impact in the current year or could impact on future periods. There is no need to disclose pronouncements that did not have any impact on the entity's accounting policies and amounts recognised in the financial statements. ABC Private Equity LP has disclosed amendments that could have affected its accounting policies but doesn't mention standards that are not relevant to it. A complete list of standards and interpretations that apply for the first time to financial reporting periods commencing on or after 1 January 2017 is set out in Appendix IV.

The Partnership presents (i) a statement of changes in net assets attributable to partners which reconciles the opening and closing amounts based on capital transactions and the net increase/(decrease) in net assets attributable to partners from operations (ii) a statement of cash flows which discloses the cash movements resulting from operating activities and from capital transactions and (iii) a statement of comprehensive income which discloses the income and expenses that comprise the net increase/(decrease) in net assets attributable to partners from operations.

The financial statements of the Partnership also include qualitative disclosure which indicates how the net asset value attributable to partners is calculated.

The combination of the above disclosures and the disclosures as added in Note 10 is considered, in this instance, to be sufficient to address the requirements of the amendments in relation to financial liabilities other than borrowings.

Additional guidance can be found in Appendix VI of the Illustrative IFRS financial statements 2017 – Investment funds.

*ii) Amendments to IAS 12, 'Recognition of Deferred Tax Assets for Unrealised Losses*

These amendments became effective for annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. For funds that are subject to deferred tax, consideration should be made as to whether these amendments are relevant for disclosure.

**8p30**

*(b) New standards, amendments and interpretations effective after 1 January 2017 and have not been early adopted*

IFRS 9 'Financial Instruments' addresses the classification, measurement and derecognition of financial assets and liabilities. It replaces the multiple classification and measurement models in IAS 39 and is effective for reporting periods beginning on or after 1 January 2018.

Classification and measurement of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognised at fair value through profit or loss. An entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss (ECL) model.

On adoption of IFRS 9 the Partnership's investment portfolio will continue to be classified at fair value through profit or loss. Other financial assets which are held for collection will continue to be measured at amortised cost with no material impact expected from application of the new impairment model. As a result, the adoption of IFRS 9 is not expected to have a material impact on the Partnership's financial statements.

In addition to the above, a number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Partnership.

*(a) Investment entity*

- IFRS12p2, 9A** The Partnership has multiple unrelated investors and holds multiple investments. Ownership interests in the Partnership are in the form of limited partnership interests which are classified as liabilities under the provisions of IAS 32. The General Partner has determined that the Partnership meets the definition of an investment entity per IFRS 10 as the following conditions exist:
- (a) The Partnership has obtained funds for the purpose of providing investors with professional investment management services;
  - (b) The Partnership's business purpose, which was communicated directly to investors, is investing for capital appreciation and investment income; and
  - (c) The investments are measured and evaluated on a fair value basis.

*(b) Subsidiaries and consolidation*

- IFRS12p19C** The Partnership does not have any other subsidiaries other than those determined to be controlled subsidiary investments. Controlled subsidiary investments are measured at fair value through profit or loss and are not consolidated in accordance with IFRS 10. The fair value of controlled subsidiary investments is determined on a consistent basis to all other investments measured at fair value through profit or loss, and as described in the fair value estimation notes below.

A controlled subsidiary investment involves one holding company of which the Partnership has the power to govern the financial and operating policies, generally accompanying a shareholding of an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies. This holding company is a subsidiary that has been incorporated for the purpose of holding underlying investment on behalf of the Partnership. The holding company has no operations other than providing a vehicle for the acquisition, holding and onward sale of certain portfolio investment companies. The holding company is also reflected at its fair value, with the key fair value driver thereof being the investment in the underlying portfolio company investments that the holding company holds on behalf of the Partnership. The holding company requires no consolidation as the holding company is not deemed to be providing investment related services, as defined by IFRS 10.

Where the Partnership is deemed to have control over an underlying portfolio company either directly or indirectly and whether the control be via voting rights or through the ability to direct the relevant activities in return for access to a significant portion of the variable gains and losses derived from those relevant activities, the Partnership does not consolidate the underlying portfolio company instead, the Partnership reflects its investment at fair value through the profit or loss. The Partnership is directly invested into one such portfolio company.

*Commentary – Subsidiaries of an investment entity subsidiary*

If the investment entity is the parent of another investment entity (the subsidiary), the parent shall also provide the disclosures required by IFRS12p19B for investments that are controlled by its investment entity subsidiary. The disclosure may be provided by including, in the financial statements of the parent, extracts from the financial statements of the subsidiary that contain the above information [IFRS12p19C]. For the purpose of these illustrative financial statements, the controlled subsidiary investments are not investment entities and have no subsidiaries.

**IFRS12p19B**

**IFRS10p32**

The Amendments to IFRS 10, issued on 18 December 2014, clarify the application of the consolidation exception for investment entities and their subsidiaries.

The amendments to IFRS 10 clarify that the exception from preparing consolidated financial statements is available to intermediate parent entities which are subsidiaries of investment entities. The exception is available when the investment entity parent measures its subsidiaries at fair value.

The intermediate parent would also need to meet the other criteria for exception listed in IFRS 10.

The amendments to IFRS 10 clarify that an investment entity should consolidate a subsidiary which is not an investment entity and whose main purpose and activity is to provide services in support of the investment entity's investment activities.

However, the amendments confirm that if the subsidiary is itself an investment entity, the investment entity parent should measure its investment in the subsidiary at fair value through profit or loss. This approach is required regardless of whether the subsidiary provides investment-related services to the parent or to third parties.

**IFRS12p19D (b)** As at 31 December 2017, the Partnership controlled one investment directly and one investment through its ownership in a holding company.

**IFRS12p19E** The Partnership operates as an investment structure whereby the Partnership invests and commits to invest into various portfolio companies. Total invested capital made by the Partnership into the portfolio companies during the year ended 31 December 2017 was €404,136 (2016: €105,294). As at 31 December 2017 there were outstanding capital commitment obligations of €3,000 (2016: €2,500) with respect to specific portfolio company acquisitions and no amounts due to the portfolio companies for unsettled purchases.

**IFRS12p19D (a)** The Partnership primarily invests into the portfolio companies by purchasing, directly, the unlisted /private equity and debt securities of these unlisted private companies. The portfolio companies pay cash interest or accrue interest in-kind on the debt held by the Partnership and repay debt based on the terms of the respective agreements. Cash dividends may be paid based on the portfolio company's operating results and are at the discretion of the Board of Directors of the respective portfolio companies which are then paid up to the Partnership directly or through the relevant holding company. There are no amounts due or accrued for preferred dividend or in-kind returns based on any of the shareholder agreements.

**IFRS12p19F** Movements in the fair value of the Partnership's portfolio company and the existence of unfunded commitments may expose the Partnership to potential losses.

### *Commentary - Disclosures*

IFRS 12 introduces disclosures that are required for an investment entity. These required disclosures include the following:

- significant judgments and assumptions made in determining whether an entity has met the definition of an investment entity [IFRS12p9A];
- reasons for concluding that an entity is an investment entity in cases where one or more of the typical characteristics do not apply [IFRS12p9A];
- information on each unconsolidated subsidiary (name, country of incorporation, proportion of ownership interest held) [IFRS12p19B];
- restrictions on unconsolidated subsidiaries transferring funds to the investment entity and any current commitments or intentions of the investment entity to provide financial or other support to an unconsolidated subsidiary [IFRS12p19D];
- financial or other support provided to unconsolidated subsidiaries during the year, where there wasn't any contractual obligation to do so [IFRS12p19E]; and
- information about any controlled 'structured entities' (for example, any contractual arrangements to provide any financial or other support) including events or circumstances that would expose the reporting entity to a loss [IFRS12p19F].

The detailed disclosure requirements are contained in IFRS12p2, 9A – 9B and 19A – 19G.

IFRS 12 states that an investment entity need not provide the disclosures required by IFRS12p24 for an unconsolidated structured entity that it controls and for which it presents the disclosures required by paragraphs 19A-19G [IFRS12p25A].

**1p119** (c) *Associates*

**28p13, 11** An associate is an entity, including an unincorporated entity such as a partnership, over which the Partnership has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Investments that are held as part of the Partnership's investment portfolio are carried in the balance sheet at fair value even though the Partnership may have significant influence over those companies. This treatment is permitted by IAS 28, 'Investment in associates', which allows investments that are held by investment entities to be recognised and measured as at fair value through profit or loss and accounted for in accordance with IAS 39 and IFRS 13, with changes in fair value recognised in the statement of comprehensive income in the period of the change.

**1p119, IFRS7p21** **2.3 Foreign currency translation**

(a) *Functional and presentation currency*

**21p17, 9, 18 1p51(d)** The partners are mainly from Europe, and the contributions received and distributions paid to partners are denominated in Euros. The primary activity of the Partnership is to invest in a portfolio of unlisted debt and equity securities of unlisted private companies operating predominately in the Europe and the United States of America. The performance of the Partnership is measured and reported to the investors in Euros. The General Partner considers the Euro as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in Euros, which is also the Partnership's functional currency.

The presentation currency of the Partnership is the same as the functional currency of the Partnership.

**21p21, 28, 52(a)** (b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the balance sheet date.

Foreign exchange gains and losses arising from translation are included in the statement of comprehensive income.

**21p28** Foreign exchange gains and losses relating to cash and cash equivalents are presented in the statement of comprehensive income within 'net foreign currency gains or losses on cash and cash equivalents'.

**21p30** Foreign exchange gains and losses relating to the financial assets and liabilities carried at fair value through profit or loss are presented in the statement of comprehensive income within 'other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss'.

**1p119**      **2.4 Financial assets and financial liabilities at fair value through profit or loss**  
**IFRS7p21**

**39p9**      *(a) Classification*

Financial assets and financial liabilities are classified as held for trading or designated as at fair value through profit or loss by the General Partner at inception:

**39p9**      *(i) Financial assets and liabilities held for trading*

A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the short term; or if, on initial recognition, it is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorised as held for trading. The Partnership does not classify any derivatives as hedges in a hedging relationship.

**39p9,**      *(ii) Financial assets and liabilities designated at fair value through profit or loss at*  
**IFRS7B5(a)**      *inception*

Financial assets and liabilities designated at fair value through profit or loss at inception are financial instruments that are not classified as held for trading but are managed; their performance is evaluated on a fair value basis in accordance with the Partnership's documented investment strategy.

The Partnership's policy requires the Investment Adviser and the General Partner to evaluate the information about these financial assets and liabilities on a fair value basis (Note 3.3) together with other related financial information. Assets and liabilities in this category are classified as current assets and current liabilities if they are expected to be realised within 12 months of the balance sheet date. Those not expected to be realised within 12 months of the balance sheet date will be classified as non-current.

**39p9**      The General Partner has classified, at inception, all of the Partnership's investments in debt and equity securities, and derivatives, as financial assets or financial liabilities at fair value through profit or loss.

**IFRS7B5(c)**      *(b) Recognition, derecognition and measurement*

**IFRS7p21**      Regular purchases and sales of investments are recognised on the trade date – the date  
**39p16, 38,**      on which the Partnership commits to purchase or sell the investment. Financial assets  
**43**              at FVTPL are initially recognised at fair value. Transaction costs are expensed as  
                    incurred in the statement of comprehensive income and are discussed further in Note  
                    2.14.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Partnership has transferred substantially all risks and rewards of ownership.

**39p39**      Financial liabilities are derecognised when they are extinguished – that is, when the obligation specified in the contract is discharged or cancelled or expires.

**39p46, 55**      Subsequent to initial recognition, all financial assets at FVTPL are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within 'other net changes in fair value of financial assets at fair value through profit or loss' in the period in which they arise.

**IFRS7  
AppxB5(e)** Dividend income from financial assets at FVTPL is recognised in the statement of comprehensive income within dividend income when the Partnership's right to receive payments is established. Interest income on debt securities at FVTPL is recognised in the statement of comprehensive income within interest income using the effective interest rate method.

*(c) Fair value estimation*

**IFRS13p91,  
70** Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets traded in active markets<sup>1</sup> (such as publicly traded derivatives and equity securities publicly traded on a stock exchange) are based on quoted market prices at the close of trading on the reporting date<sup>2</sup>. On the behalf of the General Partner, the Investment Adviser monitors trade prices and volumes taking place a few days before and after the year-end date, in order to assess whether the trade prices used at each valuation date are representative of fair value.

If a significant movement in fair value occurs subsequent to the close of trading up to midnight in a particular stock exchange on the year end date, valuation techniques will be applied to determine the fair value. A significant event is any event that occurs after the last market price for a security, close of market or close of the foreign stock exchange, but before the Partnership's valuation time, that materially affects the integrity of the closing prices for any security, instrument, currency or securities affected by that event so that they cannot be considered 'readily available' market quotations<sup>3</sup>.

**IFRS13p61,  
93(d)** Fair values for unlisted equity securities are determined by the General Partner using valuation techniques. Such valuation techniques may include earnings multiples (based on the budget earnings or historical earnings of the issuer and earnings multiples of comparable listed companies) and discounted cash flows (based on the expected future cash flows discounted at an appropriate discount rate). The Partnership adjusts the valuation model as deemed necessary for factors such as non-maintainable earnings, seasonality of earnings, market risk differences in operations relative to the peer multiples etc. The valuation techniques also consider the original transaction price and take into account the relevant developments since the acquisition of the investments and other factors pertinent to the valuation of the investments, with reference to such rights in connection with realisation, recent third-party transactions of comparable types of instruments, and reliable indicative offers from potential buyers. In determining fair value, the General Partner may rely on the financial data of investee portfolio companies and on estimates by the management of the investee portfolio companies as to the effect of future developments. Although the General Partner uses its best judgement, and cross-references results of primary valuation models against secondary models in estimating the fair value of investments, there are inherent limitations in any estimation techniques. Whilst the fair value estimates presented herein attempt to present the amount the Partnership could realise in a current transaction, the final realisation may be different as future events will also affect the current estimates of fair value. The effect of such events on the estimates of

- 
- 1- The existence of published price quotations in an active market is the best evidence of fair value and, when they are available, they are used to measure fair value. The phrase 'quoted in an active market' means that quoted prices are readily and regularly available from an exchange, dealer, broker, industry Partnership, pricing service or regulatory agency. Those prices represent actual and regularly occurring market transactions on an arm's length basis that are not distressed sales. The price can be taken from the principal market or, in the absence of a principal market, the most advantageous market [IFRS13p16]. The quoted market price cannot be adjusted for transaction costs [IFRS13p25]. The quoted market price cannot be adjusted for 'blockage' factors [IFRS13p69].
  - 2- If investments are restricted, i.e. they are a particular class of instrument with a restriction in the terms of that class or issued with a restriction, that restriction is relevant in determining the fair value of investments. However, if the restriction is part of a separate agreement between the buyer and seller and the shares are identical to other shares with no such restriction that restriction is not relevant to the valuation of the securities.
  - 3- If a 'significant event' (for example, corporate action, corporate or regulatory news, suspension of trading, natural disaster, market fluctuations) occurs, the General Partners should consider whether the valuation model would reflect a more current value of the securities held by the Partnership.

fair value, including the ultimate liquidation of investments, could be material to the financial statements.

**IFRS13p11, 93(d)** The Partnership's valuation technique for unlisted debt instruments is the net present value of estimated future cash flows based on a discounted cash flow model. The discount rate used by the Partnership is based on the risk-free rate of the economic environment in which portfolio companies operate and is adjusted with other factors such as liquidity, credit and market risk factors. Similar to the earnings multiples model, cash flow used in the discount cash flow model is based on projected cash flows or earnings of the portfolio companies.

Where portfolio investments are held through subsidiary holding companies, the net assets of the holding company are added to the value of the portfolio investment being assessed to produce the fair value of the holding company held by the Partnership.

Forward contracts are contractual obligations to buy or sell financial instruments on a future date at a specified price established over the counter. Forward contracts are valued based on the difference between agreed price of selling or buying the financial instruments on a future date and the price quoted on the year end date for selling or buying the same or similar financial instruments.

### *Commentary*

IFRS 13 explains how to measure fair value for financial reporting. It does not require fair value measurements in addition to those already required or permitted by other IFRSs and is not intended to establish valuation standards or affect valuation practices outside financial reporting.

IFRS 13 is the result of the work by the IASB and the FASB to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with IFRSs and US generally accepted accounting principles ('US GAAP'). IFRS 13 has therefore achieved a great level of consistency with US GAAP. IFRS 13 also aims to create a single location that contains the requirements for measuring fair value and for disclosing information about fair value measurements. These requirements were previously dispersed among several individual IFRSs, and in many cases did not articulate a clear measurement or disclosure objective.

According to IFRS13p70-71, if an asset or a liability measured at fair value has a bid price and an ask price (for example an input from a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances should be used to measure fair value regardless of where the input is categorised within the fair value. The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required. This IFRS does not preclude the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

In cases where an entity manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks), or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy, IFRS 13 allows an exception that permits an entity to measure the fair value of a group of financial assets and financial liabilities based on the price that would be received to sell a net long position (that is, an asset) for a particular risk exposure or to transfer a net short position (that is, a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions.

An entity should therefore measure the fair value of the group of financial assets and financial liabilities consistently with how market participants would value the net risk exposure at the measurement date [IFRS13p48-49]. IFRS 13 allows use of this exception only in cases where the entity provides information on that basis about the group of financial assets and financial liabilities to the entity's key management personnel. These illustrative financial statements do not include any such assets or liabilities with offsetting risk positions.

**1p119,  
IFRS7p21**

## **2.5 Receivables**

**39p43,  
46(a), 63,  
IFRS7B5(f)**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are recognised initially at fair value. They are subsequently measured at amortised cost using the effective interest rate method, less cumulative impairment loss, if any.

### *Commentary*

For entities qualify as financial counterparty in accordance with European Market Infrastructure Regulation<sup>1</sup> (“EMIR”), consider to include the following description to describe receivable amounts attributable to cash paid in relation to variation margin balances:

Receivables may include variation margin balances paid to counterparties on derivative liability positions, which are due back from those counterparties on settlement of the derivatives.

**39AG93**

An impairment loss is established when there is objective evidence that the Partnership will not be able to collect all amounts due to be received. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are considered indicators that the amount to be received is impaired. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**39p9**

The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument – or, when appropriate, a shorter period – to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the General Partner estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

As at 31 December 2017 and 2016, the carrying amounts of the receivables approximate their fair values.

**1p119  
IFRS7p21**

## **2.6 Offsetting financial instruments**

**32p42,  
AG38B**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The current legally and contractually enforceable right to offset must not be contingent on a future event. Furthermore, it must be legally and contractually enforceable in (i) the normal course of business; (ii) the event of default; and (iii) the event of insolvency or bankruptcy of the Partnership and all of the counterparties.

<sup>1</sup> With effect from 1 March 2017, qualifying financial counter parties are required to commence the posting of margin collateral for variation margin balances higher than the defined thresholds in accordance with EMIR.

**1p119**      **2.7 Cash and cash equivalents**  
**IFRS7p21**

**7p6, 7, 45,**      Cash and cash equivalents include cash on hand, demand deposits, other short-term  
**46**              highly liquid investments with original maturities of three months or less<sup>1</sup>, and bank  
                     overdrafts.

*Commentary*

For entities qualify as financial counterparty in accordance with EMIR, consider to include the following description to describe cash amounts attributable to cash received in relation to variation margin balances:

Cash and cash equivalents may include unrestricted variation margin balances received from counterparties as collateral on derivate asset positions, which are due back to those counterparties on settlement of the derivative.

As at 31 December 2017 and 2016, the carrying amounts of cash and cash equivalents approximate their fair values.

**1p119**      **2.8 Borrowings**  
**IFRS7p21**

**39p43, 47**      Borrowings are recognised initially at fair value, plus directly attributable transaction costs and are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowing using the effective interest method.

**1p60, 61**      Borrowings are shown as current liabilities unless the Partnership has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

As at 31 December 2017 and 2016, the carrying amounts of borrowings approximate their fair values.

**1p119**      **2.9 Payables and accrued expenses**  
**IFRS7p21**

**39p43, 47**      Payables and accrued expenses are recognised initially at fair value and subsequently stated at amortised cost.

*Commentary*

For entities qualify as financial counterparty in accordance with EMIR, consider to include the following description to describe payable amounts attributable to cash received in relation to variation margin balances:

Payables and accrued expenses may include variation margin balances received as cash from counterparties on derivative asset positions, which are payable back to those counterparties on the settlement of the derivatives.

As at 31 December 2017 and 2016, the carrying amounts of payables and accrued expenses approximate their fair values.

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1- Only non-restricted margin accounts should be included as part of cash and cash equivalents.

**1p119**  
**IFRS7p21**

## 2.10 Carried interest expense/recovery (and carried interest clawback)

**39p9**

In accordance with the LPA, the General Partner is entitled to receive a share of the realised profits of the Partnership, otherwise referred to as the General Partner's carried interest. The General Partner may receive its share of realised investment gains on a deal-by-deal basis throughout the life of the Partnership. In accordance with the terms and conditions of the LPA, the carried interest due to or from the General Partner is calculated annually at the reporting date, taking into account the required performance conditions and distribution arrangements of the Partnership as a whole, as explained in Note 2.15. The change in carried interest due to the General Partner during the year is included as 'Carried interest (expense)/recovery' in the statement of comprehensive income and is further described in Note 2.15. An expense results from increase in carried interest due to the General Partner, and a recovery of previously expensed carried interest results from decrease in carried interest due to the General Partner at the reporting date.

Carried interest is measured at amortised cost and calculated based on the fair value of the investments of the Partnership as measured at the reporting date. Where the calculation indicates that the performance conditions would have been achieved and distribution arrangements have been met were the investments realised at their fair values, carried interest is accrued. Carried interest is equal to the General Partner's hypothetical share of profits, taking into account the cash already distributed from the Partnership and amount of divestment proceeds receivable. Therefore, based on the calculation described above, the Partnership recognises a financial liability based on the estimated fair value of its assets at the balance sheet date. Carried interest is paid when the particular payment distribution arrangements as set out in the LPA are met. The performance conditions are further explained in Note 2.15.

Carried interest clawback represents the amount of carried interest already paid to the General Partner that would be due back to the Partnership from the General Partner should the investments be realised at their fair values as presented at the reporting date. The clawback receivable is measured at amortised cost and is calculated as the (i) the cumulative amount of carried interest that would be due to the General Partner, applying the Partnership's capital calls and distributions to date and the fair value of investments at the year end (as described above) as the theoretical total carried interest distribution at that date, less (ii) cumulative amount of carried interest previously distributed to the General Partner, only to the extent of the amount by which (ii) is greater than (i). This clawback amount may be recovered by the Partnership by (i) offsetting this amount against future realised gains attributed to the General Partner as additional carried interest, or by (ii) repayment of any distributed carried interest from the General Partner back to the Partnership, in accordance with the terms of the LPA.

**1p119**  
**IFRS7p21**

## 2.11 Net assets attributable to the partners

**32p18**

Net assets attributable to the partners is classified as a financial liability, due to a finite life and contractual payment provisions to each of the partners within the LPA.

Net assets attributable to partners is carried at amortised cost consistent with other amounts classified as borrowings.

**1p119**      **2.12 Interest income and dividend income**  
**IFRS7p21**

**18p30(a)**      Interest income is recognised on a time-proportion basis using the effective interest method. It includes interest income from cash and cash equivalents and on debt securities at FVTPL.

**18p30(c)**      Dividend income from financial assets at FVTPL is recognised in the statement of comprehensive income statement when the Partnership's right to receive payments is established.

**1p119**      **2.13 Legal and professional expenses**  
**IFRS7p21**

Legal and professional expenses are costs incurred on a regular basis for fees paid for regulatory bodies and fees paid to agents for carrying out the duties on behalf of the Partnership for regulatory and compliance purpose. These costs are immediately recognised in statement of comprehensive income as an expense.

**1p119**      **2.14 Transaction costs**  
**IFRS7p21**

Transaction costs are legal and professional fees incurred to structure a deal to acquire the Partnership's investments designated as financial assets at fair value through profit or loss. They include upfront fees and commissions paid to agents, advisers, brokers and dealers and due diligence fees. Transaction costs, when incurred, are immediately recognised in statement of comprehensive income as an expense.

**1p119**      **2.15 Distributions**  
**IFRS7p21**

Distribution of net assets attributable to the partners and repayment of funded committed capital are shown in the statement of changes in net assets attributable to the partners.

**32p35, 40**      In accordance to the LPA, distributions are allocated pro rata in accordance with each partner's capital commitment until the partners have received aggregate distributions equalling the sum of (i) contributed capital and (ii) preferred return of 8% per annum, compounded annually on unreturned contributed capital.

Subsequent distributions are allocated 80% to the General Partner and 20% to the Limited Partners until the General Partner has received aggregate distributions equalling 20% of net cash flow from partnership investments (the 'catch-up amount').

All remaining distributions above the catch-up amount will be allocated (i) 20% to the General Partner, and (ii) 80% to the Limited Partners pro-rata in accordance with each partner's capital commitment. The 20% payable to the General Partner represents their carried interest. This carried interest amount is contractually agreed in the LPA; in substance, it represents compensation to the General Partner for portfolio management services provided to the Partnership. It is therefore deemed an expense to the Partnership recognised within 'Carried interest (expense)/recovery' in the statement of comprehensive income.

Losses will be allocated in a manner designed appropriately to reverse on a cumulative basis payments previously made as carried interest. Such reversals are disclosed as carried interest clawback, as detailed in Note 2.10.

**1p119**  
**IFRS7p21**

## **2.16 Taxation**

The Partnership is domiciled in Eurania. Under the current laws of Eurania, there is no income, estate, corporation, capital gains or other taxes payable by the Partnership. Any other tax liability arising on the activities of the Partnership will be borne by the individual partners.

The Partnership currently incurs only withholding tax imposed by certain countries on dividend income, which is recorded gross of withholding tax with withholding tax being shown as a separate item in the statement of comprehensive income. The General Partner has assessed the risk of specific identifiable uncertain tax positions as low and as a result has identified no matters that require further disclosures in the financial statements.

**1p119**  
**IFRS7p21**

## **2.17 Unfunded committed capital**

**39IN5**

Unfunded committed capital from the partners is not presented in the statement of financial position, as unfunded committed capital represents a loan commitment that is not within the scope of IAS 39 *Financial instruments: Recognition and measurement*.

**1p119**  
**IFRS7p21**

## **2.18 Transfers between levels of the fair value hierarchy**

**IFRS13p95**

Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period.

### 3 Financial risk management

#### IFRS7p33 3.1 Financial risk factors

**IFRS7p31** The objective of the Partnership is to achieve medium to long-term capital growth through investing in a selection of unlisted private companies operating mainly in Europe and the United States of America.

The Partnership's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and other price risk), credit risk and liquidity risk. The Partnership uses derivative financial instruments to moderate certain risk exposures.

#### IFRS7p33 3.1.1 Market risk

##### IFRS7p33(a-b) (a) Price risk

The Partnership's investments and derivative financial instruments are susceptible to market price risk arising from uncertainties about future values of those instruments. The Partnership's Investment Adviser provides the General Partner and Partnership with investment recommendations. The Investment Adviser's recommendations are reviewed and approved by the General Partner before the investment decisions are implemented. To manage the market price risk, the Investment Adviser, as engaged by the General Partner to do so, reviews the performance of the portfolio companies on a monthly basis and is in regular contact with the management of the portfolio companies for business and operational matters. Results of these reviews are reported to the General Partner regularly.

In accordance with the Partnership's policy, the performance of investments held by the Partnership is monitored by the Investment Adviser on a monthly basis and is reported, assessed and reviewed by the General Partner on a quarterly basis.

The Partnership's investment restrictions prohibit it from investing more than 30% of its committed contributions into any one company.

As at 31 December, the fair value of financial assets exposed to price risk were as follows:

IFRS7p8(a), 34	Fair value					
	2017			2016		
The following instruments are subject to direct price risk:	USA	Euro-zone	UK	USA	Euro-zone	UK
<b>Financial assets designated at fair value through profit or loss subject to general price risk</b>						
Equity securities not traded in an active market designated at fair value through profit or loss	119,022	155,126	53,457	17,467	280,074	74,756

The following instruments are not subject to direct price risk:						
<b>Financial assets held for trading subject to foreign currency risk</b>	<b>USA</b>	<b>Euro-zone</b>	<b>UK</b>	<b>USA</b>	<b>Euro-zone</b>	<b>UK</b>
Forward foreign exchange contracts	-	110	-	-	70	-
<b>Financial assets designated at fair value through profit or loss subject to interest rate risk</b>	<b>USA</b>	<b>Euro-zone</b>	<b>UK</b>	<b>USA</b>	<b>Euro-zone</b>	<b>UK</b>
Debt securities not traded in an active market designated at fair value through profit or loss	255,784	109,214	35,643	7,398	65,215	43,230
<b>Total financial assets at fair value through profit or loss</b>	<b>374,806</b>	<b>264,450</b>	<b>89,100</b>	<b>24,865</b>	<b>345,359</b>	<b>117,986</b>
<b>Other assets – cash held on escrow account (Note (a))</b>	<b>300</b>	-	-	-	-	-

Note (a): As part of the disposal terms of K Limited, 20% of the sale price was deposited into an escrow account, held in trust by a third party, and will be released, subject to certain conditions being met, on 31 July 2017. This cash in escrow has been recognised during the year by the Partnership and no impairment provision has been made, as it is the opinion of the General Partner that the full amount will be received as all restriction conditions have been fulfilled.

Aa at 31 December 2017, the Partnership's market risk is affected by changes in the level or volatility of market rates, such as foreign exchange rates and interest rates, or prices, such as equity prices. Movements in foreign currency rates and interest rates are covered in paragraph (b) and (c) respectively.

#### **IFRS7p40**

As at 31 December 2017, the impact on the net assets attributable to the partners due to a 6.5% (2016: 7%) change in the Partnership's benchmark used to measure the performance of the Partnership's listed equity securities including the effect of movements in foreign currency exchange rates on equity prices, using historical correlation between the return of the Partnership's portfolio of listed equities compared to the return of the Partnership's benchmark, with all other variables held constant, would be €895 (2016: nil). Regression analysis has been used to estimate the historical correlation; it uses historical information consisting of 60 monthly data points. The historical correlation may not be representative of the future correlation, and the impact of actual performance may be materially different than the one presented above.

The impact on net assets attributable to the partners arising from increasing/decreasing the comparable multiples used in the Partnership's valuation of equity securities not traded in active markets is disclosed in Note 3.3.

**IFRS7p33** (a-b) *(b) Foreign exchange risk*

The Partnership holds assets (both monetary and non-monetary) denominated in currencies other than the functional currency (the Euro). It is therefore exposed to currency risk, as the value of the financial instruments denominated in other currencies will fluctuate due to the changes in exchange rates. On behalf of the General Partner, the Investment Adviser manages the net position of the monetary and non-monetary positions in each foreign currency by using external currency forward contracts.

In accordance with the Partnership's policy, the Investment Adviser monitors the Partnership's currency- position, including monetary and non-monetary items, on a monthly basis; the General Partner reviews it on a quarterly basis.

As at 31 December, the foreign currency exchange rates applied were as follows:

	<b>31 December 2017</b>	<b>31 December 2016</b>
US dollar	1.1145	1.2155
British pound	0.7281	0.7825

Foreign currency risk, as defined in IFRS 7 *Financial instruments: Disclosures*, arises as the value of recognised monetary assets and monetary liabilities denominated in other currencies fluctuate due to changes in foreign exchange rates. IFRS 7 *Financial instruments: Disclosures* considers the foreign exchange exposure relating to non-monetary assets and liabilities to be a component of market price risk not foreign currency risk. However, the General Partner monitors the exposure on all foreign-currency-denominated assets and liabilities. The table below provides the analysis of foreign currency exposure between monetary and non-monetary items in order to meet the requirements of IFRS 7 *Financial instruments: Disclosures*.

The Partnership manages its exposure to foreign exchange movements (both monetary and non-monetary) by using forward foreign exchange contracts. However, the Partnership does not adopt any hedge accounting policies.

The table below summarises the Partnership's assets and liabilities, monetary and non-monetary, which are denominated in a currency other than the Euro.

**IFRS7p34** **Amounts presented in equivalent amounts of Euro thousands with original currency as stated:**

	<b>USD'000 2017</b>	<b>USD'000 2016</b>	<b>GBP'000 2017</b>	<b>GBP'000 2016</b>
<b>As at 31 December</b>				
<b>Assets</b>				
Cash at bank (monetary)	5,761	10,611	5,898	10,821
Financial assets at fair value through profit or loss – equity securities (non-monetary)	119,022	17,467	53,457	74,756
Financial assets at fair value through profit or loss – debt securities (monetary)	255,784	7,398	35,643	43,230
Other assets (monetary)	138	–	55	–

	USD'000 2017	USD'000 2016	GBP'000 2017	GBP'000 2016
<b>Liabilities</b>				
Net statement of financial position exposure	380,100	35,066	94,324	128,274
Less nominal value of forward exchange contract (monetary)	-	-	(42,356)	(18,954)
<b>Net currency exposure</b>	<b>380,100</b>	<b>35,066</b>	<b>51,968</b>	<b>108,320</b>

**IFRS7p40, IFRS7IG36** As at 31 December 2017, had the exchange rate between the US dollar and the Euro increased or decreased by 10% compared to actual rate of 1.1145 as of 31 December 2017 (2016: 1.2155) with all other variables held constant, the increase or decrease respectively in net assets attributable to the partners from operations would amount to approximately €38,010 (2016: €3,507), of which €26,108 (2016: €1,760) is attributable to monetary items<sup>1</sup>. This would have been mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated financial assets at fair value through profit or loss.

As at 31 December 2017, had the exchange rate between the British pound and the Euro increased or decreased by 8% compared to actual rate of 0.7281 as of 31 December 2017 (2016: 0.7825) with all other variables held constant, the increase or decrease respectively in net assets attributable to the partners from operations would amount to approximately €4,157 (2016: €8,666), of which €119 (2016: €2,765) are attributable to monetary items. This would have been mainly as a result of foreign exchange gains/losses on translation of British pound-denominated financial assets at fair value through profit or loss.

**IFRS7p33 (a-b)** (c) *Interest rate risk*

The Partnership is subject to cash flow interest rate risk due to fluctuations in the prevailing levels of market interest rates. All debt instruments included in the category financial assets at fair value through profit or loss and all borrowings have floating interest rates.

The table below summarises the Partnership's exposure to interest rate risks. It includes the Partnership's assets and liabilities at fair values, categorised by the earlier of contractual re-pricing or maturity dates.

<b>IFRS7p34</b>	<b>Up to 1 month</b>	<b>1 -12 months</b>	<b>12 months to 3 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>As at 31 December 2017</b>					
<b>Assets</b>					
Financial assets at fair value through profit or loss	-	85,666	314,975	327,715	728,356
Carried interest clawback	-	-	-	3,426	3,426
Other receivables and prepayments	653	-	-	-	653
Other assets	-	-	-	300	300
Cash and cash equivalents	17,093	-	-	-	17,093
<b>Total assets</b>	<b>17,746</b>	<b>85,666</b>	<b>314,975</b>	<b>331,441</b>	<b>749,828</b>

<sup>1</sup> Non-monetary sensitivity analysis is voluntary. In accordance with IFRS 7B23, currency risk does not arise from financial instruments that are non-monetary.

<b>Liabilities</b>	<b>Up to 1 month</b>	<b>1 -12 months</b>	<b>12 months to 3 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
Borrowings	–	–	36,849	–	36,849
Other payable and accrued expenses	–	–	–	4,284	4,284
Net assets attributable to the partners	–	–	–	708,695	708,695
<b>Total liabilities</b>	<b>–</b>	<b>–</b>	<b>36,849</b>	<b>712,979</b>	<b>749,828</b>

**As at 31 December 2016**

<b>Assets</b>	<b>Up to 1 month</b>	<b>1 -12 months</b>	<b>12 months to 3 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
Financial assets at fair value through profit or loss	–	24,329	91,514	372,367	488,210
Other receivables and prepayments	2,196	–	–	–	2,196
Cash at bank	64,040	–	–	–	64,040
<b>Total assets</b>	<b>66,236</b>	<b>24,329</b>	<b>91,514</b>	<b>372,367</b>	<b>554,446</b>

	<b>Up to 1 month</b>	<b>1 -12 months</b>	<b>12 months to 3 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>Liabilities</b>					
Borrowings	–	–	33,164	–	33,164
Carried interest	–	–	–	7,100	7,100
Other payable and accrued expenses	–	–	–	3,315	3,315
Net assets attributable to the partners	–	–	–	510,867	510,867
<b>Total liabilities</b>	<b>–</b>	<b>–</b>	<b>33,164</b>	<b>521,282</b>	<b>554,446</b>

**IFRS7p40, IG36**

As at 31 December 2017, had interest rates changed by 25 basis points (2016: 35 basis points) with all other variables remaining constant, the increase/decrease in net assets attributable to the partners from operations for the year would amount to approximately €1'069 (2016: €1'052). The sensitivity of net assets attributable to the partners to movements in interest rates is higher in 2017 than in 2016 because of a further drawdown of the loan.

The Partnership has direct exposure to interest rate changes on the valuation and cash flows of its interest bearing assets and liabilities. However, it may also be indirectly affected by the impact of interest rate changes on the earnings of certain companies in which the Partnership invests, and the impact on the valuation that use interest rates as an input in the valuation model, such as the discounted cash flow models used in the valuation of unlisted investments. Therefore, the above sensitivity analysis may not indicate the total effect on the Partnership's net assets attributable to the partners of future movements in interest rates.

**IFRS7p33(b)**

In accordance with the Partnership's policy, the Investment Adviser monitors the Partnership's overall interest sensitivity on a monthly basis, and the General Partner reviews it on a quarterly basis with reference to market interest rates of 3- month US T-bills and Euribor.

**IFRS7p33 3.1.2 Credit risk**

**IFRS7p33(a)** The Partnership takes on exposure to credit risk, which is the risk that one party will cause a financial loss for the other party by failing to discharge an obligation. The Partnership is exposed to the risk of non-payment of debt instrument, other receivable balances or the interest due on loans given to portfolio companies.

**IFRS7p34(c)** The Partnership has no significant concentration of credit risk. Cash transactions are limited to financial institutions with credit rating of AA/Aa or higher, as rated by the rating agency Ratings Plc. All debt investments represent private debt investments executed in accordance with the investment objectives of the Partnership.

**IFRS7p36(b-c)**

The Partnership assesses all counterparties, including its partners, for credit risk before contracting with them. The Partnership's maximum exposure to credit risk is detailed in the table below. The Partnership does not include any collateral or other credit risk enhancers, which may reduce the Partnership's exposure.

As at 31 December, the maximum exposure to credit risk is the carrying amounts of the respective financial assets set out below.<sup>1</sup>

<b>IFRS7p36(a), 34</b>	<b>2017</b>	<b>2016</b>
Carried interest clawback	3,426	–
Other receivables	653	2,196
Forward foreign exchange contracts	110	70
Cash and cash equivalents	17,093	64,040
Debt investments	400,641	115,843
Other assets	300	–
<b>Total</b>	<b>422,223</b>	<b>182,149</b>

**IFRS7p36(c)** The Partnership provides loans to private companies, which are represented as debt instruments. No collateral is received from the underlying companies. The credit quality of these investments is based on the financial performance of the individual portfolio company. For those assets that are not past due, it is believed that the risk of default is low, and the capital repayments and interest payments will be made in accordance with the agreed terms and conditions. No terms or conditions have been renegotiated during the reporting period (2016: nil).

**IFRS7p36(d)** As at 31 December 2017, the financial assets held by the Partnership are not past due or impaired (2016: nil).

**IFRS7p9(c)** The change of the credit quality is reflected in the fair value of the instrument. For the year ended 31 December 2017, unrealised losses of €886 (2016: €1,016) are attributable to changes in credit risk of these debt instruments. As at 31 December 2017, total accumulated unrealised gains amounting to €9,293 are recognised for debt instruments (2016: €533).

**IFRS7p33(b)** In accordance with the Partnership's policy, the Investment Adviser monitors the Partnership's credit position on a monthly basis; the General Partner reviews it on a quarterly basis.

<sup>1</sup> The IFRS 7 amendment, 'Financial instruments: Disclosures', contained in the IASB's annual improvement project published in May 2012, states that disclosure of the amount that best represents the maximum exposure to credit risk is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk.

### 3.1.3 Liquidity risk

**IFRS7p33(a-b), 39(c)** Liquidity risk is the risk that the Partnership may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Partnership has the ability to borrow in the short term to ensure settlement of investment transactions. This serves as a bridging facility until capital contributions have been received from the limited partners. The Partnership's ability to borrow will be subject to certain limitations, including that the total amount of all borrowings outstanding at any time will not exceed the level of (i) 20% of the total commitments, or (ii) the amount of the undrawn commitments at such time. The Partnership's exposure to liquidity risk is detailed in the table below.

The Partnership may periodically invest in equity and debt securities and derivative contracts traded over the counter or that are not traded in an organised market and may be illiquid. As a result, the Partnership may not be able to liquidate quickly its investments in these instruments at an amount close to their fair value in order to meet significant unplanned liquidity requirements, or be able to respond to specific events such as deterioration in the creditworthiness of any particular issuer. As at 31 December 2017, the Partnership held €713,754 in investments that it considered to be illiquid (2016: €488,210).

**IFRS7B11E** The Partnership manages its liquidity risk by a combination of (i) contractual uncalled committed capital, which can be called with 14 days notice and used to fund investments and pay management fees, and (ii) maintaining cash levels to fund short-term operating expenses.

The following table illustrates the expected liquidity of assets held and undrawn capital commitments<sup>1</sup>:

<i>As at 31 December 2017</i>	<b>Undrawn capital commitments</b>	<b>Less than 1 month</b>	<b>1-12 months</b>	<b>More than 12 months</b>
<b>Total assets and undrawn capital commitments</b>	428,502	1,000	20,582	728,246
<i>As at 31 December 2016</i>				
<b>Total assets and undrawn capital commitments</b>	746,424	-	66,306	488,140

The amounts in the table are the contractual undiscounted cash flows.

**IFRS7p39(a-b)** The table below analyses the Partnership's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Unfunded capital commitments to investee companies represent the maximum amount and can be called on demand. The amounts in the table are the contractual undiscounted cash flows. At present the Partnership has no immediate plans to exit any of its positions in its portfolio of investments. When the General Partner is of the view that the disposal of certain investments is relatively certain; the associated net assets attributable to the partners, in so far as they may be distributed, will be disclosed in the appropriate liquidity category as noted below.

1- IFRS 7 pB11E states that an entity should disclose a maturity analysis of financial assets it holds for managing liquidity risk if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. It is acceptable to present this analysis in narrative format or tabular format.

Careful consideration must be given to the nature of assets held when categorizing within liquidity buckets. For instance, emerging market debt instruments may have a different liquidity profile from developed market debt instruments.

	On demand	Less than 1 year	Between 1 and 3 years	More than 3 years	Total
<b>As at 31 December 2017</b>					
<b>Liabilities</b>					
Borrowings	–	–	36,849	–	36,849
Other payables and accrued expenses	–	4,284	–	–	4,284
Net assets attributable to the partners	–	–	–	708,695	708,695
<b>Total liabilities</b>		<b>4,284</b>	<b>36,849</b>	<b>708,695</b>	<b>749,828</b>
<b>Total unfunded capital commitments to investee companies</b>	<b>1,177</b>	–	–	–	<b>1,177</b>

	On demand	Less than 1 year	Between 1 and 3 years	More than 3 years	Total
<b>As at 31 December 2016</b>					
<b>Liabilities</b>					
Borrowings	–	–	33,164	–	33,164
Carried interest	–	7,100	–	–	7,100
Other payable and accrued expenses	–	3,315	–	–	3,315
Net assets attributable to the partners	–	–	–	510,867	510,867
<b>Total liabilities</b>	–	<b>10,415</b>	<b>33,164</b>	<b>510,867</b>	<b>554,446</b>
<b>Total unfunded capital commitments to investee companies</b>	<b>14,321</b>	–	–	–	<b>14,321</b>

### *Commentary – Liquidity risk disclosures*

#### Expected maturity vs contractual maturity

Amended IFRS 7p39(b) states: ‘the maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows’. When more relevant, the information will be presented based on expected maturities rather than contractual maturities.

### *Commentary - Risk disclosures required by IFRS 7*

In preparing financial risk disclosures required by IFRS 7, ‘Financial instruments: disclosures’, careful thought and judgement must be applied. IFRS 7 requires an entity to disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period [IFRS7p31]. IFRS 7 also requires an entity to disclose its objectives, policies and processes for managing the risk and the methods used to measure the risk [IFRS7p33(b)].

## 1p134, 135 3.2 Capital risk management

The capital of the Partnership is represented by the net assets attributable to the partners. The Partnership's objective when managing the capital is to safeguard the ability to continue as a going concern in order to provide returns for partners and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Partnership. In order to maintain or adjust the capital structure, the General Partner may call unfunded commitment from the partners or distribute funds to the partners.

The General Partner monitors capital on the basis of the value of net assets attributable to the partners.

## 3.3 Fair value estimation

**IFRS13p91, 93** The Partnership is required to classify, for disclosure purposes, fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Partnership can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs that have been applied in valuing the respective asset or liability.

### *Commentary – IFRS 13*

The overall disclosure objective of IFRS 13 is for an entity to disclose information that helps users of its financial statements assess both of the following:

- For assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques, inputs and areas of significant judgement and estimate applied in developing those measurements; and
- For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.
- Where Level 1 quoted prices are used and adjusted, the respective asset or liability is shown as Level 2 in the fair value hierarchy.

Recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position in particular circumstances.

In the vast majority of cases, it can be expected that a private equity fund would only have recurring fair value measurements on its statement of financial position.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety should be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

For details of the fair value estimation, see Note 2.4(c).

**IFRS13p93 (a), (b)** The determination of what constitutes ‘observable’ requires significant judgement by the Partnership. The Partnership considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market.

The following table analyses within the fair value hierarchy the Partnership’s financial assets (by class) measured at fair value as at 31 December 2017<sup>1</sup>.

All fair value measurements disclosed are recurring fair value measurements<sup>2</sup>.

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets held for trading:				
– Derivatives	–	110	–	110
Financial assets designated at fair value through profit or loss at inception:				
– Equity securities	14,492	–	313,113	327,605
– Debt securities	–	–	400,641	400,641
– Unfunded committed capital to investee companies <sup>3</sup>	–	–	–	–
<b>Total assets measured at fair value</b>	<b>14,492</b>	<b>110</b>	<b>713,754</b>	<b>728,356</b>

The following table analyses within the fair value hierarchy the Partnership’s financial assets (by class) measured at fair value at 31 December 2016:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets held for trading:				
– Derivatives	–	70	–	70
Financial assets designated at fair value through profit or loss at inception:				
– Equity securities	–	–	372,297	372,297
– Debt securities	–	–	115,843	115,843
– Unfunded committed capital to investee companies	–	–	–	–
<b>Total assets measured at fair value</b>	<b>–</b>	<b>70</b>	<b>488,140</b>	<b>488,210</b>

1- Valuation hierarchy disclosures must be given by class of asset and liability measured at fair value [IFRS13p93]. The concept of disclosure by ‘class’ existed prior to IFRS13; however, the standard provides further clarification on what should be considered in determining appropriate classes of assets and liabilities. Factors to consider would be the nature, characteristics and risks of the asset or liability, as well as the level of the fair value hierarchy in which the measurement is categorised. Greater disaggregation of classes may be needed for Level 3 due to the degree of uncertainty and subjectivity [IFRS13p94].

2- This table follows the illustrative guidance in IFRS13pIE60.

3- The unfunded capital commitments to purchase further equity in portfolio investments are classified as derivative financial instruments in accordance with IAS39p4(b).

*Commentary – classes of assets*

IFRS13p94 states that an entity should determine appropriate classes of assets on the basis of the nature, characteristics and risks of the asset; and the level of the fair value hierarchy within which the fair value measurement is categorised. The number of classes may need to be greater for fair value measurements categorised within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. An entity should provide information sufficient to permit reconciliation to the line items presented in the statement of financial position.

All disclosure requirements of IFRS13p93, which are dealt with in the remainder of this note, are required to be made by class of assets.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active listed equities. The Partnership does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources<sup>1</sup> supported by observable inputs are classified within Level 2. These include over-the-counter derivatives and quoted securities where there is a transfer restriction that is a characteristic of the quoted securities themselves rather than that of the Partnership.

Investments classified within Level 3 make use of significant unobservable inputs in deriving fair value, as they trade infrequently. As observable prices are not available for these securities, the Partnership has used valuation techniques to derive the fair value.

**IFRS13p61,  
67**

Investments classified within Level 3 consist of private equity and private debt positions. The main inputs into the Partnership's valuation models for these private equity and debt investments include:

- a) For private equity valuation models - EBITDA multiples (based on the budgeted EBITDA or most recent EBITDA achieved on rolling 12 months basis of the issuer and equivalent corresponding EBITDA multiples of comparable listed companies), quality of earnings assessments, assessments of 3<sup>rd</sup> party external debt, marketability discounts, cost of capital adjustments and probabilities of default. The Partnership also considers the original transaction prices, recent transactions in the same or similar instruments and completed third-party transactions in comparable companies' instruments and adjusts the model as deemed necessary.
- b) For private debt valuation models – discount rates, market risk premium adjustments to the discount rate, cost of capital and probabilities of default and cash flow forecasts. The Partnership also considers original transaction price, recent transactions in the same or similar instruments and completed third-party transactions in comparable instruments and adjusts the model as deemed necessary.

**IFRS13p93  
(g)**

In order to assess Level 3 valuations per the Partnership's policy, the Investment Adviser reviews the performance of the portfolio investee companies on a monthly basis and is regularly in contact with the management of the portfolio companies in order to make assessments of business and operational matters which are considered in the valuation process. Where appropriate, the Investment Adviser also tracks peer company multiples, recent transaction results and credit ratings for similar instruments and companies.

<sup>1</sup> In cases where partnerships utilise broker quotes to assess valuation, it is important to identify whether the quotes are binding and executable or indicative and not executable. Binding quotes would support a level 2 classification; however, if a quote is just indicative, this may result in level 3.

The valuations are prepared by the relevant team of the Investment Adviser and are reviewed on a monthly basis by the Investment Adviser's valuation committee, who reports and makes recommendations to the General Partner on a quarterly basis in line with the quarterly valuations that are provided to investors. This valuation committee considers the appropriateness of the valuation model itself, the significant and key inputs as well as the valuation result using various valuation methods and techniques generally recognised as standard within the industry. The valuation technique is selected and calibrated on acquisition of the underlying portfolio companies. In determining the continued appropriateness of the chosen valuation technique, the valuation committee may perform back-testing to consider the various models' actual results and how they have historically aligned to actual market transactions.\*\* As a result of this process, the valuation committee may recalibrate the valuation techniques appropriately. The General Partner is responsible for considering the recommendations put forward by the Investment Adviser's valuation committee and for approving the fair values reported on a quarterly basis and at the financial period end.

*Commentary – Level 3 valuation process*

\*\*For valuation measurements categorised within Level 3 of the fair value hierarchy, an entity is required to disclose a description of the valuation process used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period) [IFRS13p93(g)]. To satisfy this requirement, the illustrative example provided in IFRS 13 states that an entity might disclose information, such as the group within the entity that decides the entity's valuation policies and procedures, to whom that group reports, the frequency and methods for calibration, back testing and other testing procedures of pricing models, etc. [IFRS13pIE65].

**IFRS13p93  
(d), (h)**

In determining the valuation recommended to the General Partner for the Partnership's equity instruments, the Investment Adviser utilises comparable trading multiples in arriving at the valuation for private equity. In accordance with the Partnership's policy, the Investment Adviser determines appropriate comparable public company/ies based on industry, size, developmental stage, revenue generation and strategy. The Investment Adviser then calculates a trading multiple for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by its earnings before interest, taxes, depreciation and amortisation (EBITDA). The trading multiple is then adjusted for discounts/premiums with regards to such considerations as illiquidity and other differences, advantages and disadvantages between the Partnership's portfolio company and the comparable public companies based on company-specific facts and circumstances.

In determining the valuation recommended to the General Partner for the Partnership's debt instruments, the Investment Adviser utilises the net present value of estimated future cash flows based on a discounted cash flow model. For the discount rates used, the Investment Adviser assesses first the risk premium to the appropriate risk-free rate of the economic environment in which the portfolio companies operate. The discount rate is adjusted for such matters as liquidity differences, credit and market risk factors. The estimated future cash flows are then discounted using the discount rate determined. Cash flows used in the discounted cash flow model are based on projected cash flows or earnings of the portfolio companies.

The tables below present those investments in portfolio companies whose fair values are recognised in whole or in part using valuation techniques based on assumptions that are not supported by prices or other inputs from observable current market transactions in the same instrument and the effect of changing one or more those assumptions behind the valuation techniques adopted based on reasonable possible alternative assumptions.

**31 December 2017**

Description	Fair value at 31 Dec 2017	Valuation Technique	Unobservable Inputs	Weighted average input *	Reasonable possible shift +/- (absolute value)	Change in Valuation +/-
<b><i>EQUITY SECURITIES</i></b>						
<i>United States of America</i>						
Consumer Goods	55,689	Comparable trading multiples	EBITDA multiple	10.3x	1	5,406/(5,406)
			Discount for lack of marketability	2.5%	2.5%	1,427/(1,427)
Financial Services	63,333	Comparable trading multiples	EBITDA multiple	12.1x	0.5	2,617/(2,617)
			Discount for lack of marketability	20%	7.5%	5,937/(5,937)
<i>Euro Zone</i>						
Technology	19,080	Comparable trading multiples	EBITDA multiple	15.3x	2.1	2,618/(2,618)
			Discount for lack of marketability	25%	5%	1,272/(1,272)
Healthcare	15,750	Comparable trading multiples	EBITDA multiple	6.7x	0.7	1,646/(1,646)
			Discount for lack of marketability	10%	5%	875/(875)
Consumer Goods	69,583	Comparable trading multiples	EBITDA multiple	5.3x	0.4	5,252/(5,252)
			Discount for lack of marketability	5%	1%	732/(732)
Financial Services	36,221	Comparable trading multiples	EBITDA multiple	11x	0.8	2,634/(2,634)
			Discount for lack of marketability	15%	2.5%	1,065/(1,065)
<i>United Kingdom</i>						
Healthcare	36,570	Comparable trading multiples	EBITDA multiple	9.5x	1	3,849/(3,849)
			Discount for lack of marketability	10%	2%	813/(813)
Financial Services	16,887	Comparable trading multiples	EBITDA multiple	10x	2	3,377/(3,377)
			Discount for lack of marketability	15%	6%	1,192/(1,192)
<b><i>DEBT SECURITIES</i></b>						
<i>United States of America</i>						
Consumer Goods	227,891	Discounted cash flows	Cost of capital	6.2%	1%	2,378/(2,378)
			Probability of default	7%	2%	755/(755)
Healthcare	10,001	Discounted cash flows	Cost of capital	8.3%	1%	333/(333)
			Probability of default	10%	1%	75/(75)
	17,892	Discounted cash flows	Cost of capital	11.2%	2.5%	512/(512)

(All amounts in Euro thousands unless otherwise stated)

Financial Services			Probability of default	12%	3%	835/(835)
<i>Euro Zone</i>						
Technology	108,993	Discounted cash flows	Cost of capital	13.1%	2%	1,725/(1,725)
			Probability of default	13%	3%	987/(987)
Healthcare	221	Discounted cash flows	Cost of capital	4.5%	0.5%	22/(22)
			Probability of default	4%	0.5%	7/(7)
<i>United Kingdom</i>						
Healthcare	18,756	Discounted cash flows	Cost of capital	5.1%	0.7%	211/(211)
			Probability of default	2%	1%	145/(145)
Financial Services	16,887	Discounted cash flows	Cost of capital	12.1%	1%	164/(164)
			Probability of default	4%	1%	88/(88)

**31 December 2016**

Description	Fair value at 31 Dec 2016	Valuation Technique	Unobservable Inputs	Weighted average input *	Reasonable possible shift +/- (absolute value)	Change in Valuation +/-
<b><i>EQUITY SECURITIES</i></b>						
<i>United States of America</i>						
Consumer Goods	12,180	Comparable trading multiples	EBITDA multiple	6.4x	2	3,806/(3,806)
			Discount for lack of marketability	7.5%	1.5%	197/(197)
Financial Services	5,287	Comparable trading multiples	EBITDA multiple	5.5x	1.5	1,442/(1,442)
			Discount for lack of marketability	15%	2.5%	155/(155)
<i>Euro Zone</i>						
Technology	38,592	Comparable trading multiples	EBITDA multiple	21x	3	5,513/(5,513))
			Discount for lack of marketability	15%	3%	1,362/(1,362)
Healthcare	150,070	Comparable trading multiples	EBITDA multiple	6.3x	0.7	16,674/(16,674)
			Discount for lack of marketability	10%	5%	8,337/(8,337))
Consumer Goods	53,688	Comparable trading multiples	EBITDA multiple	4.1x	0.2	2,618/(2,618)
			Discount for lack of marketability	7%	1%	584/(584)
Financial Services	37,724	Comparable trading multiples	EBITDA multiple	11.3x	1	3,338/(3,338)
			Discount for lack of marketability	15%	2.5%	1,109/(1,109)
<i>United Kingdom</i>						

Healthcare	37,086	Comparable trading multiples	EBITDA multiple	9.5	1	3,849/(3,849)
			Discount for lack of marketability	10%	2%	813/(813)
Financial Services	37,670	Comparable trading multiples	EBITDA multiple	10	2	3,377/(3,377)
			Discount for lack of marketability	15%	6%	1,192/(1,192)
<b>DEBT SECURITIES</b>						
<i>United States of America</i>						
Consumer Goods	3,699	Discounted cash flows	Cost of capital	6.3%	1%	187/(187)
			Probability of default	10%	3%	98/(98)
Financial Services	3,699	Discounted cash flows	Cost of capital	11%	1%	299/(299)
			Probability of default	9%	2.5%	89/(89)
<i>Euro Zone</i>						
Technology	65,215	Discounted cash flows	Cost of capital	13%	2%	1,011/(1,011)
			Probability of default	11%	3%	555/(555)
<i>United Kingdom</i>						
Healthcare	22,315	Discounted cash flows	Cost of capital	4%	0.7%	313/(313)
			Probability of default	1%	0.5%	72/(72)
Financial Services	20,915	Discounted cash flows	Cost of capital	9.1%	1%	147/(147)
			Probability of default	3%	1%	66/(66)

**IFRS 13p93(h), (i)** The change in valuation disclosed in the above table shows the relative increase or decrease in the input variables deemed to be subjected to the most judgement and estimate and the respective impact on the fair value presented in these financial statements. For equity securities, increases in the EBITDA multiple and control premium inputs would each lead to an increase in estimated value. However an increase in the discount for lack of marketability would lead to a decrease in value. For debt securities, increases in cost of capital and probability of default would both lead to a decrease in estimated value\*\*.

No interrelationships between unobservable inputs used in the Partnership's valuation of its level 3 equity investments have been identified. However for Level 3 debt securities a change in the assumption used for the probability of default is expected to be accompanied by a directionally similar change in the cost of capital\*\*\*.

#### *Commentary – Level 3 disclosure*

*\*For fair value measurements categorised within Level 3 of the fair value hierarchy, quantitative information about the significant unobservable inputs used in the fair value measurement should be provided.*

*An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (for example, when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure, an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity [IFRS13p93(d)].*

*This needs to be presented in addition to the sensitivity analysis.*

*\*\*A narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement [IFRS13p93(h)(i)].*

*\*\*\*If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement ([IFRS13p93(h)(i)].*

The following table presents the transfers between levels for the year ended 31 December 2017:

	Level 1	Level 2	Level 3
Transfers between level 1 and 3:			
<b>Equity Securities</b>			
<b>France</b>			
– Technology	582	-	(582)

The equity securities transferred out of Level 3 relate to ordinary shares of BB Limited. BB Limited has completed its initial public offering (IPO) and has been actively traded since 22 November 2017. The ordinary shares are not subject to lock-up or any other sale restriction and their fair value is determined based on quoted market prices as described in Note 2.4. At the same time the Partnership invested a further €26,000, part of which was funded through the borrowing disclosed in Note 10. Since the IPO, the share price of BB Limited has reduced significantly and the position is valued at €14,492 at the year end.

There were no transfers between levels for the year ended 31 December 2016.

Transfers are deemed to have occurred between the levels when the underlying information or price used to value the asset or liability has become more or less dependent on observable market data, as set out before in distinguishing between the Level 1, 2 and 3 fair value hierarchy of the Partnership.

**IFRS13p95** Transfers between levels of the fair value hierarchy, for the purpose of preparing the above table, are deemed to have occurred at the beginning of the reporting period.\*

### *Commentary – Transfers*

An entity should disclose the amounts of any transfers between levels of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred. Transfers into each level should be disclosed and discussed separately from transfers out of each level [IFRS13p93(c), 93(e)(iv) and IFRS13p95].

\* The policy with regard to the timing of the recognition of transfers should be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following [IFRS13p95]:

- The date of the event or change in circumstances that caused the transfer.
- The beginning of the reporting period.
- The end of the reporting period.

**IFRS13p93(e)** The following table presents the movement in level 3 instruments for the year ended 31 December 2017 by class of financial instrument:

	<b>Consumer Goods</b>	<b>Technology</b>	<b>Health-care</b>	<b>Financial services</b>	<b>Total 2017</b>
<b><i>Equity Securities</i></b>					
Opening balance	65,868	38,592	187,156	80,681	372,297
Purchase/addition	56,521	-	-	41,262	97,783
Sales/reduction	-	-	(141,088)	(22,394)	(163,482)
Transfers to Level 1	-	(582)	-	-	(582)
Gains/(losses) recognised in statement of comprehensive income:					
– Other net changes in fair value of financial assets at fair value through profit or loss	2,883	(18,930)	6,252	16,892	7,097
<b>Closing balance</b>	<b>125,272</b>	<b>19,080</b>	<b>52,320</b>	<b>116,441</b>	<b>313,113</b>
<b><i>Debt Securities</i></b>					
Opening balance	3,699	65,215	22,315	24,614	115,843
Purchase/addition	243,327	41,000	30,220	14,692	329,239
Sales/reduction	-	-	-	-	-
Gains/(losses) recognised in statement of comprehensive income:					
– Other net changes in fair value of financial assets at fair value through profit or loss	(19,135)	2,778	(23,557)	(4,527)	(44,441)
<b>Closing Balance</b>	<b>227,891</b>	<b>108,993</b>	<b>28,978</b>	<b>34,779</b>	<b>400,641</b>
<b>Total net gains or (losses) for Level 3 assets held at the end of the reporting period and included in other net changes in fair value on financial assets at fair value through profit or loss</b>	<b>(8,118)</b>	<b>7,839</b>	<b>48,129</b>	<b>62,595</b>	<b>110,445</b>

The following table presents the movement in level 3 instruments for the year ended 31 December 2016 by class of financial instrument:

	<b>Consumer Goods</b>	<b>Technology</b>	<b>Health-care</b>	<b>Financial services</b>	<b>Total 2016</b>
<b><i>Equity Securities</i></b>					
Opening balance	90,493	108,892	174,593	56,186	430,164
Purchase/addition	13,498	7,387	28,201	17,833	66,919
Sales/reduction	(48,937)	(69,456)	-	(44,804)	(163,197)
Transfers to Level 1	-	-	-	-	-
Gains/(losses) recognised in statement of comprehensive income:					
– Other net changes in fair value of financial assets at fair value through profit or loss	10,814	(8,231)	(15,638)	51,466	38,411
<b>Closing balance</b>	<b>65,868</b>	<b>38,592</b>	<b>187,156</b>	<b>80,681</b>	<b>372,297</b>
<b><i>Debt Securities</i></b>					
Opening balance	1,429	22,385	17,315	12,844	53,973
Purchase/addition	2,320	19,870	4,937	8,379	35,506
Sales/reduction	-	-	-	-	-
Gains/(losses) recognised in statement of comprehensive income:					
– Other net changes in fair value of financial assets at fair value through profit or loss	(50)	22,960	63	3,391	26,364
<b>Closing Balance</b>	<b>3,699</b>	<b>65,215</b>	<b>22,315</b>	<b>24,614</b>	<b>115,843</b>
<b>Total net gains or (losses) for Level 3 assets held at the end of the reporting period and included in other net changes in fair value on financial assets at fair value through profit or loss</b>	<b>8,134</b>	<b>24,123</b>	<b>27,434</b>	<b>42,333</b>	<b>102,024</b>

***Commentary – Level 3 assets and liabilities held at year end***

IFRS 13 clarifies that for Level 3 positions, the amount of the total gains or losses for the period included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period, and the line item(s) in profit or loss in which those unrealised gains or losses are recognised, should be disclosed [IFRS13p93(f)].

**IFRS13p97**

Assets and liabilities not carried at fair value but for which fair value is disclosed

The following table analyses within the fair value hierarchy the Partnership's assets and liabilities (by class) not measured at fair value at 31 December 2017 but for which fair value is disclosed<sup>1</sup>:

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total balance</b>
Carried interest clawback	–	–	3,426	3,426
<b>Total</b>	–	–	<b>3,426</b>	<b>3,426</b>
<b>Liabilities</b>				
Carried interest	–	–	–	–
Borrowings	–	–	31,451	31,451
Net assets attributable to partners	–	–	714,093	714,093
<b>Total</b>	–	–	<b>745,544</b>	<b>745,544</b>

The following table analyses within the fair value hierarchy the Partnership's assets and liabilities (by class) not measured at fair value at 31 December 2016 but for which fair value is disclosed:

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total balance</b>
Carried interest clawback	–	–	–	–
<b>Total</b>	–	–	–	–
<b>Liabilities</b>				
Carried interest	–	–	7,100	7,100
Borrowings	–	–	33,500	33,500
Net assets attributable to partners	–	–	510,531	510,531
<b>Total</b>	–	–	<b>551,131</b>	<b>551,131</b>

The assets and liabilities included in the above tables are carried at amortised cost, and their carrying values are a reasonable approximation of fair value except for the borrowings as discussed below.

As at 31 December 2017, the fair values of the drawdown on the loan facility and the borrowings on BB Limited were €16,959 and €14,492 respectively (2016: €33,500 and nil). The main adjustment for difference in the fair value results from non-recourse on BB Limited within its legal holding structure. Level 3 is deemed to be the most appropriate categorisation for borrowings.

The fair value of net assets attributable to the partners is calculated based on the net difference between total assets and all other liabilities of the Partnership. The net assets attributable to the partners disclosed on the statement of financial position represent net assets that would be distributed in accordance with the LPA in a theoretical liquidation scenario, at values reflected in the financial statements (Note

1- For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, IFRS13p97 requires the entity to disclose the level within the fair value hierarchy which the fair value measurement would be categorised and a description of the valuation technique and the inputs used in the technique.

12). Level 3 is deemed to be the most appropriate categorization for net assets attributable to partners considering that the Partnership is a closed ended fund for which no trading activity takes place in its limited partnership interests.

*Commentary – Assets and liabilities not carried at fair value but for which fair value is disclosed*

For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity should disclose the level within the fair value hierarchy within which the fair value measurement would be categorised and a description of the valuation technique and the inputs used in the technique [IFRS13p97].

The example the IASB used for this requirement is the case in which a financial instrument that is measured at amortised cost in the statement of financial position is required to disclose its fair value per IFRS 7. Whilst in this example the Partnership has presented short term receivables and payables in its IFRS 13 hierarchy disclosures, in our view this is not mandatory, as IFRS 7p29(a) does not require disclosures of their fair value. The entity should disclose the fact that these current receivables and payables are carried at values that reflect a reasonable approximation of their fair value.

*Commentary – Derivatives and risk disclosures*

When making the required IFRS 7 risk disclosures illustrated above, careful thought must be given to the risk exposures created by the various derivative instruments that the Partnership may hold. For most derivatives, the notional or contract value of the instrument would determine the total risk exposure. These exposures need to be incorporated into the respective quantitative disclosures and sensitivity analysis where applicable.

**1p134, 135** **3.4 Offsetting and amounts subject to master netting arrangements and similar agreements**

As at 31 December 2017 and 2016, the Partnership was subject to master netting arrangements (typically one per counterparty) with one or more derivative counterparties as specified in the tables below. All of the derivative assets and liabilities of the Partnership are held with these counterparties. No margin balance maintained by the Partnership for the purpose of providing collateral on derivative positions.

**IFRS7p13C** The following tables present the Partnership's financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements. The tables are presented by type of financial instrument.

## Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements:

	A	B	C=A-B	D		E=C-D
				Related amounts not set-off in the statement of financial position		
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set-off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	D(i) and D(ii) Financial Instruments	D(ii) Cash collateral	Net amount
Description						
2017: Derivative assets	120	10	110	-	-	110
2016: Derivative assets	90	20	70	-	-	70

Amounts in D(i) and D(ii) above relate to amounts subject to set-off that do not qualify for offsetting under (B) above. This includes (i) amounts which are subject to set-off against the asset or liability disclosed in 'A' which have not been offset in the audited statement of financial position, and (ii) any financial collateral (including cash collateral), both received and pledged.

**IFRS7p13E,  
B50***Commentary*

For entities qualify as financial counterparty in accordance with EMIR, consider to include the following description in table header:

D(i) and D(ii) Financial Instruments (including variation margin balances receivable).

The Partnership and its counterparties have elected to settle all transactions on a gross basis however, each party has the option to settle all open contracts on a net basis in the event of default of the other party. Per the terms of the master netting agreement, an event of default includes the following:

- Failure by a party to make payment when due;
- Failure by a party to perform any obligation required by the agreement (other than payment) if such failure is not remedied within 30 days after notice of such failure is given to the party;
- Bankruptcy of a party.

*Commentary – Offsetting and amounts subject to master netting arrangements and similar agreements*

The illustrative disclosure provided above is minimal and deals with a non-complex arrangement. For further detailed guidance and illustrative disclosure on the Amendments to IFRS 7, 'Disclosures – Offsetting financial assets and financial liabilities', refer to Appendix XII in the Illustrative IFRS financial statements 2017 – Investment Funds.

## 4 Critical accounting estimates and judgements

### 1p122, 125 4.1 Critical accounting estimates and judgements

The Partnership makes estimates and assumptions that affect the reported amounts of assets and liabilities in the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### 4.2 Fair value of investments not quoted in an active market

The fair values of securities that are not quoted in an active market are determined by using valuation techniques, primarily earnings multiples, discounted cash flows and recent comparable transactions. The models used to determine fair values are validated and periodically reviewed by the General Partner. The inputs in the earnings multiples models include observable data, such as earnings multiples of comparable companies to the relevant portfolio company, and unobservable data, such as forecast earnings for the portfolio company. In discounted cash flow models, unobservable inputs are the projected cash flows of the relevant portfolio company and the risk premium for liquidity and credit risk that are incorporated into the discount rate. However, the discount rates used for valuing equity securities are determined based on historic equity returns for other entities operating in the same industry for which market returns are observable. Management uses models to adjust the observed equity returns to reflect the actual debt/equity financing structure of the valued equity investment.

Models are calibrated by back-testing to actual results/exit prices achieved to ensure that outputs are reliable.

#### 4.3 Fair value of derivative financial instruments

The Partnership may, from time to time, hold other financial instruments that are not quoted in active markets, such as over-the-counter derivatives. Fair values of such instruments are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel, independent of the party that created them.

Models use observable data, to the extent practicable. However, areas such as volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The determination of what constitutes 'observable' requires significant judgement by the Partnership. The Partnership considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

#### 4.4 Functional currency

The General Partner considers the Euro to be the currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The Euro is the currency in which the Partnership measures its performance and reports its results, as well as the currency in which it receives subscriptions from its investors. This determination also considers the competitive environment in which the Partnership is compared to other European private equity funds.

#### 4.5 Carried interest and clawback

The accounting for carried interest is a critical judgment. Carried interest and carried interest clawback are calculated based on the General Partner's hypothetical share of profits taking into account the cash already distributed from the Partnership and the amount of divestment proceeds receivable or to be received upon disposal (indicated by the fair value of the investments at the year-end date) as estimated by the General Partner. The total carried interest eventually distributed to the General Partner over the life of the Partnership may be significantly different from the carried interest reported at the reporting date.

#### 4.6 Investment entity status

In determining the Partnership's status as an investment entity in accordance with IFRS 10, the General Partner considered the following:

- a) The Partnership has raised the commitments from a number of investors in order to raise capital to investment in private equity investments and to provide the investors management services with respect to these private equity investments;
- b) The Partnership intends to generate capital and income returns from its private equity investments which will, in turn, be distributed in accordance with the LPA to the partners; and
- c) The Partnership evaluates its private equity investments' performance on a fair value basis, in accordance with the policies set out in these financial statements.

Although the Partnership met all three defining criteria, the General Partners has also assessed the business purpose of the Partnership, the investment strategies for the private equity investments, the nature of any earnings from the private equity investments and the fair value models. The General Partner made this assessment in order to determine whether any additional areas of judgement exist with respect to the typical characteristics of an investment entity versus those of the Partnership.

##### *Commentary – Critical judgements made with respect to the designation as an 'investment entity'*

An entity should disclose, in accordance with both IFRS 10 and IFRS 12, any areas of significant judgement made by management in determining whether or not the amendments of IFRS 10 apply to an entity or not.

It should be kept in mind that the exemption from consolidating subsidiaries by an investment entity is *mandatory*, i.e. if an entity meets the three defining criteria of an investment entity as set out in IFRS 10, it **must not** prepare consolidated IFRS financial statements.

If, in determining whether or not an entity is an investment entity, judgement is made over the typical characteristics of an investment entity as set out in IFRS 10 (i.e. more than one investment, more than one investor, unrelated investors and ownership interests that are generally in a separate legal entity and represent equity interests in that entity), disclosure should be made of the characteristics over which judgement has been made, the significant criteria assessed and managements' conclusion thereon.

## 5 Interest income

		2017	2016
<b>IFRS7p20(b) DV</b>	Cash and cash equivalents	3,018	2,112
	<b>Total interest income</b>	<b>3,018</b>	<b>2,112</b>

## 6 Other net changes in fair value on financial assets at fair value through profit or loss

		2017	2016
<b>IFRS7p20 (a)(i)</b>	Designated at fair value through profit or loss	15,985	115,567
	Held for trading at fair value through profit or loss	40	15
	<b>Total change in fair value of financial assets</b>	<b>16,025</b>	<b>115,582</b>
	Realised gains on investments	46,974	90,639
	Realised losses on investments	(1,077)	(2,054)
	Realised gains on forward foreign exchange contracts	140	295
	Unrealised gains on investments	81,561	61,006
	Unrealised losses on investments	(111,613)	(34,319)
	Unrealised gains on forward foreign exchange contracts	40	15
	<b>Total change in fair value of financial assets</b>	<b>16,025</b>	<b>115,582</b>

## 7 Derivative financial instruments

**IFRS7p31** In order to mitigate the currency risk, the Partnership holds forward foreign exchange contracts. The notional principal amounts of the outstanding forward foreign currency contracts at 31 December 2017 were €42,356 (2016: €18,954).

## 8 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with original maturity of less than 90 days:

		2017	2016
<b>7p45</b>	Cash at bank	17,093	64,040

## 9 Financial assets at fair value through profit or loss

IFRS7p6, 7, 8(a) 34, 1p77, 112(c)	2017						2016			
	Description	Sector	%	No. of shares/ face value (000's)	Cost	Fair value	%	No. of shares/ face value (000's)	Cost	Fair value
<b>Belgium</b>										
	<i>A limited</i>	Consumer Goods								
	Shares		15%	41,000	33,717	29,921	15%	41,000	33,717	18,088
	<b>Total Belgium</b>				<b>33,717</b>	<b>29,921</b>			<b>33,717</b>	<b>18,088</b>
<b>France</b>										
	<i>BB Limited</i>	Technology								
	Ordinary Shares		7%	2,500	7,068	14,492	5%	1,220	450	582
	<i>CC Limited</i>	Healthcare								
	Shares		9%	300	12,620	3,937	75%	2,500	74,454	88,011
	<i>B Limited</i>	Financial Services								
	Ordinary Shares		4%	2,102	29,610	36,221	4%	2,102	29,610	37,724
	<b>Total France</b>				<b>49,298</b>	<b>54,650</b>			<b>104,514</b>	<b>126,317</b>
<b>Germany</b>										
	<i>C Limited</i>	Technology								
	Ordinary Shares		66%	6,600	15,540	19,080	66%	6,600	15,540	38,010
	Loan Notes		N/A	108,000	108,000	108,993	N/A	67,000	67,000	65,215
	<b>Total C Limited</b>				<b>123,540</b>	<b>128,073</b>			<b>82,540</b>	<b>103,225</b>
	<i>D Limited</i>	Healthcare								
	Ordinary Shares		0%	1,005	1,309	5,513	5%	44,000	57,316	56,180
	Loan Notes		N/A	220	220	221	-	-	-	-
	<b>Total D Limited</b>				<b>1,529</b>	<b>5,734</b>			<b>57,316</b>	<b>56,180</b>
	<b>Total Germany</b>				<b>125,069</b>	<b>133,807</b>			<b>139,856</b>	<b>159,405</b>

(All amounts in Euro thousands unless otherwise stated)

Description	Sector	%	No. of shares/ face value (000's)	Cost	Fair value	%	No. of shares/ face value (000's)	Cost	Fair value
<b>Ireland</b>									
<i>E Limited</i>	Consumer Goods								
Ordinary Shares		14%	21,000	3,115	22,962	14%	21,000	3,115	21,156
<i>F Limited</i>	Consumer Goods								
Ordinary Shares		11%	12,000	5,890	16,700	11%	12,000	5,890	14,444
<b>Total Ireland</b>				<b>9,005</b>	<b>39,662</b>			<b>9,005</b>	<b>35,600</b>
<b>Italy</b>									
<i>G Limited</i>	Healthcare								
Ordinary Shares		3%	846	1,200	6,300	14%	4,340	6,156	5,879
<b>Total Italy</b>				<b>1,200</b>	<b>6,300</b>			<b>6,156</b>	<b>5,879</b>
<b>United Kingdom</b>									
<i>H Limited</i>	Financial Services								
Ordinary Shares		12%	1,180	15,010	9,288	12%	1,180	15,010	10,531
Loan Notes		N/A	8,250	10,022	5,910	N/A	8,250	10,022	10,192
<b>Total H Limited</b>				<b>25,032</b>	<b>15,198</b>			<b>25,032</b>	<b>20,723</b>
<i>I Limited</i>	Healthcare								
Ordinary Shares		16%	12,161	22,412	29,256	23%	17,123	31,555	26,555
Loan Notes		N/A	10,000	13,589	12,379	N/A	10,000	13,589	12,123
<b>Total I Limited</b>				<b>36,001</b>	<b>41,635</b>			<b>45,144</b>	<b>38,678</b>
<i>X Limited</i>	Healthcare								
Ordinary Shares		8%	897	4,258	7,314	8%	897	4,258	10,531
Loan Notes		N/A	4,500	6,222	6,377	N/A	4,500	6,222	10,192
<b>Total X Limited</b>				<b>10,480</b>	<b>13,691</b>			<b>10,480</b>	<b>20,723</b>
<i>Y Limited</i>	Financial Services								
Ordinary Shares		5%	2,180	3,496	7,599	18%	7,980	22,568	27,139
Loan Notes		N/A	6,500	9,875	10,977	N/A	6,500	9,875	10,723
<b>Total Y Limited</b>				<b>13,371</b>	<b>18,576</b>			<b>32,443</b>	<b>37,862</b>
<b>Total UK</b>				<b>84,884</b>	<b>89,100</b>			<b>113,099</b>	<b>117,986</b>

(All amounts in Euro thousands unless otherwise stated)

Description	Sector	%	No. of shares/ face value (000's)	Cost	Fair value	%	No. of shares/ face value (000's)	Cost	Fair value
<b>USA</b>									
<i>J Limited</i>	Financial Services								
Ordinary Shares		51%	5,091	43,562	63,333	25%	2,032	2,300	5,287
Loan Notes		N/A	20,000	18,793	17,892	N/A	5,000	4,101	3,699
<i>Total J Limited</i>				<i>62,355</i>	<i>81,225</i>			<i>6,401</i>	<i>8,986</i>
<i>K Limited</i>	Consumer Goods								
Ordinary Shares		38%	2,657	56,521	31,019	-	-	-	-
Loan Notes		N/A	175,000	175,000	152,687	-	-	-	-
<i>Total K Limited</i>				<i>231,521</i>	<i>183,706</i>			-	-
<i>L Limited</i>	Consumer Goods								
Ordinary Shares		33%	6,333	7,382	24,670	33%	6,333	7,382	12,180
Loan Notes		N/A	2,800	72,828	75,204	N/A	120	4,501	3,699
<i>Total L Limited</i>				<i>80,210</i>	<i>99,874</i>			<i>11,883</i>	<i>15,879</i>
<i>M Limited</i>	Healthcare								
Loan Notes		N/A	30,000	30,000	10,001	-	-	-	-
<b>Total USA</b>				<b>404,086</b>	<b>374,806</b>			<b>18,284</b>	<b>24,865</b>
<b>Total non-current financial assets at fair value through the profit or loss</b>				<b>707,259</b>	<b>728,246</b>			<b>425,631</b>	<b>488,140</b>
Forward Foreign Exchange Contracts (Note 7)				-	110			-	70
Unfunded Capital commitments to portfolio investee companies				-	-			-	-
<b>Total current financial assets at fair value through the profit or loss</b>				-	<b>110</b>			-	<b>70</b>
<b>Total financial assets at fair value through the profit or loss</b>				<b>674,204</b>	<b>728,356</b>			<b>425,631</b>	<b>488,210</b>

*Commentary – Financial assets at fair value through profit or loss*

The analysis of financial assets at fair value through profit or loss is prepared in accordance with the requirements of IFRS 7, IFRS 10, IFRS 12 and IFRS 13 respectively.

An entity should disclose information that enables users of its financial statements to evaluate the significance of the financial assets in understanding entity's financial position and performance.

The disclosure requirements out in IFRS 12 require that an entity to disclose information that enables users of its financial statements to evaluate both the nature of, and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 also requires that an entity prepares information that enables users to understand the nature and extent of its interests in unconsolidated structured entities; and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities. Disclosures in unconsolidated investment subsidiaries are likely to be the same as that for structured entities.

In addition, IFRS 13 requires significant disclosures over investments included within level 3 of the fair value hierarchy.

These notes serve to provide the users additional clarity over the investment positions which are significant to evaluating the performance of the Partnership against its objective of investment management and monitoring against fair value. They also address a number of the disclosure requirements set out in IFRS 12.

There may be a number of ways in which an entity could disclose this information as it may not be practicable to follow the recommended format. Consideration needs to be given to the disclosure requirements set out in IFRS 7, IFRS 12 and IFRS 13 when considering the disclosures required with respect to private equity portfolios.

## 10 Borrowings

	Loan facility from DEF Bank	<b>2017</b> Borrowing on BB Limited	Loan facility from DEF Bank	<b>2016</b> Borrowing on BB Limited
Borrowings as at 1 January	33,164	–	29,154	–
Proceeds	–	20,000	4,010	–
Repayments	(16,315)	–	–	–
<b>Borrowings as at 31 December</b>	<b>16,849</b>	<b>20,000</b>	<b>33,164</b>	–

**IFRS7p31** The Partnership obtained a €50 million loan facility from DEF Bank in February 2011. The loan facility expires in December 2019. As at 31 December 2017, the loan facility has been drawn down to €16.849 million (2016: €33.164 million). The agreed interest rate is Euribor +5 basis points.

**IFRS7p14** As at 31 December 2017, the Partnership had borrowings of €20,000 (2016: Nil) to finance the purchase of the additional Ordinary Shares of BB Limited. Shares have been pledged as a security until repayment of the loan facility.

As at 31 December 2017, the fair values of the drawdown on the loan facility and the borrowings were €16,959 and €14,492 respectively (2016: €33,500 and €nil).

**IFRS7p18, 1** *Commentary – Disclosures on borrowings*

Disclosures on borrowings should include details of collateral pledged and financial covenants, details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable, the carrying amount of the loans payable in default at the reporting date, and whether the default was remedied or the terms of the loans payable were renegotiated before the financial statements were authorised for issue.

## 11 Carried interest

	<b>2017</b>	<b>2016</b>
<b>Carried interest net at 1 January</b>	7,100	11,883
Carried interest paid to the GP	–	(5,678)
Carried interest repaid by the GP	–	–
Carried interest expense/(recovery)	(10,526)	895
<b>(Clawback receivable)/Carried interest net at 31 December</b>	<b>(3,426)</b>	<b>7,100</b>
	<b>2017</b>	<b>2016</b>
Total accumulated carried interest at 31 December	8,777	19,303
Total accumulated carried interest paid at 31 December*	(12,203)	(12,203)
<b>(Clawback receivable)/Carried interest at 31 December</b>	<b>(3,426)</b>	<b>7,100</b>

\*Carried interest of €6,525 has been paid to the GP prior to 31 December 2014.

Carried interest is the General Partner's share of the realised profits of the Partnership. As the Partnership has met the performance condition set out in the LPA, the Partnership recognises a financial liability based on the fair value of its assets at the balance sheet date, as if the investments were realisable at these fair values. The General Partner's carried interest is equal to the hypothetical share of profits, taking into account the cash already distributed from the Partnership and amount of divestment proceeds receivable. Carried interest is paid in accordance with the distribution arrangements set out in the LPA. If applicable, carried interest is credited back to the statement of comprehensive income for any potential clawback of previously paid carried interest, based on the investments as if they were realised at their fair values.

### *Commentary – Carried interest clawback receivable*

Despite the positive performance of the Partnership, these Financial Statements include a carried interest clawback receivable balance for illustrative purposes.

## 12 Net assets attributable to the partners

**1p79-80,  
134-135** The table below gives details about the partners' capital since inception.

	<b>General Partner</b>	<b>Limited Partners</b>	<b>Total</b>
<b>2017</b>			
Committed capital	30,000	1,470,000	1,500,000
Cumulative capital contributions	25,078	1,260,620	1,285,698
Cumulative capital repayments	(16,391)	(815,588)	(831,979)
Cumulative net capital contributions	8,687	445,032	453,719
Cumulative net unrealised gains	(381)	(18,682)	(19,063)
Cumulative net realised gains	6,010	294,523	300,533
Cumulative other net expense	(358)	(26,136)	(26,494)
<b>Total net assets attributable to partners</b>	<b>13,958</b>	<b>694,737</b>	<b>708,695</b>
<b>2016</b>			
Committed capital	30,000	1,470,000	1,500,000
Cumulative capital contributions	19,356	948,420	967,776
Cumulative capital repayments	(14,161)	(693,903)	(708,064)
Cumulative net capital contributions	5,195	254,517	259,712
Cumulative net unrealised gains	1,278	62,611	63,889
Cumulative net realised gains	4,035	197,701	201,736
Cumulative other net expenses	(291)	(14,179)	(14,470)
<b>Total net assets attributable to partners</b>	<b>10,217</b>	<b>500,650</b>	<b>510,867</b>

### 13 Net assets attributable to the partners (recognising non-recourse within legal structure)

**1p134, 135** Where the Partnership leverages investments, borrowings are carried at amortised cost by the Partnership. Where contractual arrangements and/or the use of holding companies give lenders of such borrowings no recourse to the assets of the Partnership, and the borrowings are of an amount more than the fair value of the assets leveraged, there may be a difference between the net assets attributable to the partners disclosed on the statement of financial position and net assets that would be distributed in accordance with the LPA in a theoretical liquidation scenario (due to the assumption that the holding company would be liquidated for €nil instead of for its negative net assets).

As disclosed in Notes 10 and 9 respectively, the borrowings on BB Limited are €20,000 (2016: Nil), while the fair value of the investment in BB Limited is €14,492 (2016: €582). Due to the lenders having no recourse to the assets of the Partnership, the General Partner has assessed that the fair value of the borrowing is the amount of collateral to which the lenders have recourse, that is €14,492 (2016: €582). The adjustment between net assets attributable to partners under IFRS and the net assets attributable to partners recognising the non-recourse nature of lending under the legal structure of the Partnership is €5,508 (2016: Nil).

### 14 Related party transactions

**24p9, 14, 18-19** Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

ABC General Partner Limited, the General Partner its directors and key management, is a related party of the Partnership, being responsible for the financial and operating decisions of the Partnership. The General Partner has no holding company.

The General Partner is entitled to receive a management fee equal to 1.5 % of the aggregate of commitments, reduced to the extent that the General Partner or any respective related party are in receipt of any fees related to the Partnership's activities. After the investment period expiry date (five years since the date of establishment of the Partnership), the management fee will be reduced to 2% of aggregate acquisition cost of investments as determined at the investment period expiry date, as reduced by the acquisition cost of investments that have been realised or permanently written off at the beginning of the relevant accounting period. For its services as General Partner, ABC General Partner Limited received a management fee for the year ended 31 December 2017 of €22,500 (2016: €22,500). The balance due to the General Partner as at 31 December 2017 is nil (2016: Nil).

The carried interest due to the General Partner is disclosed in Note 11. There was no carried interest paid to the General Partner in 2017 (2016: €5,678). As at 31 December 2017, the Partnership had a receivable balance of €3,426 (2016: payable balance of €7,100).

A director of the General Partner, ABC General Partner Limited, is also the board member and a shareholder of JKL Limited. Affiliates of JKL Limited provide ongoing administrative services and tax advice to the Partnership. For the year ended 31 December 2017, €1'230 (2016: €1'155) was charged and is included in "Other operating expenses". The balance due to the JKL Limited as at 31 December 2017 is nil (2016: Nil).

**24p14** As disclosed in Note 9, the Partnership has several associates and subsidiaries. These are therefore related parties. There were no transactions between the Partnership and any of the associate or subsidiary other than the transactions in the shares of these to unconnected third parties.

## 15 Subsequent events

- 10p21** On 13 January 2017, equity securities of C Limited were listed on the Country A Stock Exchange. The carrying amount as at 31 December 2017 was €62 per share. The offering price that was achieved at the IPO when selling the shares to new investors amounted to €65 per share. ABC Private Equity LP sold 30% of its holding on the first day of listing. The remaining stake in C Limited is subject to a lock-up period of 24 months.

## **Independent auditor's report**

To the partners of ABC Private Equity LP

The audit report will be provided by the entity's auditor upon completion of the audit of the financial statements. As the wording of the report is likely to differ from country to country, we have not included an illustrative report in this publication.

### **Independent auditor's report**

#### **ISA700**

#### *Form and content of audit report*

Standards and guidance on the preparation of reports on audits conducted in accordance with international auditing standards are given in International Auditing Standard ISA 700 *Forming an Opinion and Reporting on Financial Statements*.

## Appendix I – Private equity funds that invest in other investment funds

This appendix illustrates some of the additional disclosures that may be provided for private equity funds holding investments in other private equity funds. The amounts used in these disclosures are for illustration purposes only and are not meant to correspond to the amounts used in the primary statements and accompanying note disclosures.

### Note – Summary of accounting policies (extracts)

#### Financial assets and financial liabilities at FVTPL

##### **IFRS 13p91** *Valuation of investments in other private equity funds*

The Partnership's investments in other private equity funds ('Investee Funds') are subject to the terms and conditions of the respective Investee Fund's offering documentation. The investments in Investee Funds are primarily valued based on the latest available financial information provided by their General Partners. The Investment Advisor, under instruction from the General Partner of the Partnership, reviews the details of the reported information obtained from the Investee Funds and considers: (i) the valuation of the Investee Fund's underlying investments; (ii) the value date of the net asset value (NAV) provided; (iii) cash flows (calls/distributions) since the latest value date; and (iv) the basis of accounting and, in instances where the basis of accounting is other than fair value, fair valuation information provided by the Investee Fund's General Partner. If necessary, adjustments to the NAV are made to the various Investee Funds to obtain the best estimate of fair value. Other net changes in fair value on financial assets and financial liabilities at FVTPL in the statement of comprehensive income include the change in fair value of each Investee Fund during the period.

### Note – Financial risks (extracts)

#### Fair value estimation (risk note extracts)

**IFRS13p91** As at 31 December 2017, 100% (2016: 100%) of financial assets at fair value through profit or loss comprise investments in Investee Funds that have been fair valued in accordance with the policies set out above. The Investee Funds are not publicly traded; prior to maturity, an exit can only be made by the Partnership through a sale of its investment and commitment in an Investee Fund through a secondary market. As set out in the LPA, the Partnership's objective is to acquire investments with the intention to recover the capital invested through distributions received from the Investee Funds funded through their realisation of their private equity, debt or infrastructure investment positions. As a result, the carrying values of the Investee Funds may be significantly different from the values ultimately realised on an exit via a secondary market sale.

All of the Investee Funds in the investment portfolio are managed by investment managers who are compensated by the respective Investee Funds for their services. Such compensation generally consists of a commitment/investment based management fee and a performance based incentive fee which is accounted for at an underlying Investee Fund level. Such compensation is reflected in the valuation of the Partnership's investment in each of the Investee Funds.

The Investee Funds are not traded on an active market, and their fair value is determined using valuation techniques. The value is primarily based on the latest available financial/capital account statement of the Investee Fund's as reported by the General Partner of the Investee Fund. The Partnership may make adjustments to the value based on considerations such as: the underlying investments of the Investee Funds, the value date of the net asset value provided, cash flows since the last value

date, geographic and sector exposures, market movements and the basis of accounting of the underlying Investee Funds.

**IFRS13p93(b)** IFRS 13 requires the Partnership to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Partnership can access at the measurement date;

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs that have been applied in valuing the respective asset or liability.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety should be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability

**IFRS13p93(b)** The following table analyses within the fair value hierarchy the Partnership's financial assets measured at fair value at 31 December 2017:

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total balance</b>
Financial assets at fair value through profit or loss:				
– Investee Funds – private equity	–	–	322,567	322,567
– Investee Funds – private debt	–	–	325,943	325,943
– Investee Funds – private infrastructure	–	–	189,322	189,322
<b>Total</b>	–	–	<b>837,832</b>	<b>837,832</b>

The following table analyses within the fair value hierarchy the Partnership's financial assets measured at fair value at 31 December 2016:

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total balance</b>
Financial assets at fair value through profit or loss:				
– Investee Funds – private equity	–	–	233,984	233,984
– Investee Funds – private debt	–	–	289,351	289,351
– Investee Funds – private infrastructure	–	–	218,330	218,330
<b>Total</b>	–	–	<b>741,665</b>	<b>741,665</b>

Level 3 is comprised of Investee Funds held by the Partnership that are not quoted in active markets<sup>1</sup>. In determining the fair value of its Investee Funds, the Partnership relies on the valuation as reported in the latest available financial statements and/or capital account statements provided by the Investee Fund's general partner, unless the Partnership is aware of reasons that such a valuation may not be the best approximation of fair value. In such cases, the Partnership reserves the right to assign a fair value to such investments which differs from the one reported by the Investee Fund's general partner. These differences may arise because a number of reasons including but not limited to:

- a) The report received from the Investee Fund's general partner may be non-coterminous with the Partnership's reporting date;
- b) The report received by the Investee Fund's general partner may be based on principles that are not aligned with the fair value principles set out in IFRS 13 or that of the Partnership; and
- c) The Investment Adviser and General Partner of the Partnership may have other observable or unobservable data that would indicate that amendments are required to particular portfolio company investment fair values presented in the report from Investee Fund's general partner.

The Investment Adviser is responsible for monitoring the performance of the underlying Investee Funds and reporting such performance to the General Partner. Where the information provided by the underlying Investee Fund's general partner is not considered appropriate by the Investment Adviser and General Partner, the Investment Adviser will make amendments to the NAV obtained as noted above in order to recommend a carrying value that more appropriately reflects the fair value at the Partnership reporting date. The General Partner receives such recommendations from the Investment Adviser and is responsible for approving the final valuation of the underlying investee fund positions.

In determining the continued appropriateness of the chosen valuation technique, the Investment Adviser performs back testing to ascertain the appropriateness of the fair value determined by reference to the capital account statements for the reporting date of the Partnership (where the capital account statements used previously was non-coterminous with the year-end of the Partnership), to the financial statements of the underlying Investee Fund (where these financial statements are coterminous) or to the actual realisation proceeds achieved by the underlying Investee Fund when it disposes of its underlying portfolio company investments.

The tables below present those Investee Funds whose fair values are recognised in whole or in part using valuation techniques (based on assumptions that are not supported by prices or other inputs from observable current market transactions) as noted above. The unobservable inputs which significantly impact the fair value have been presented. The NAV reflects input being the value advised by the Investee Fund's general partner and the Fair Value Adjustments reflect the input being the adjustments made by the General Partner of the Partnership on advice of the Investment Adviser, as discussed above.

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<sup>1</sup>- Investee Funds quoted in an active market would be classified in Level 1. They would consist mostly of daily traded funds for which there is sufficient evidence of transactions taking place on a regular basis and trading prices are readily available.

(All amounts in Euro thousands unless otherwise stated)

**31 December 2017**

<b>Description</b>	<b>Fair value at 31 Dec 2017 (€000's)</b>	<b>Average Committed Capital<sup>1</sup> (€m's)</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Weighted average input *</b>	<b>Reasonable possible shift +/- (%)</b>	<b>Change in Valuation +/-</b>
<b>Fund Investments</b>							
<b>United States of America</b>							
Private Equity	235,092	303	NAV - Adjusted	NAV	N/A	5%	11,755/(11,755)
	-9,403			Fair Value Adjustments	N/A	2%	188/(188)
Private Debt	201,387	287	NAV - Adjusted	NAV	N/A	4%	8,055/(8,055)
	-8,055			Fair Value Adjustments	N/A	1%	81/(81)
Private Infrastructure	109,131	265	NAV - Adjusted	NAV	N/A	7%	7,639/(7,639)
	-6,548			Fair Value Adjustments	N/A	2.1%	138/(138)
<b>Europe</b>							
Private Equity	100,915	227	NAV - Adjusted	NAV	N/A	10%	10,091/(10,091)
	-4,037			Fair Value Adjustments	N/A	2%	81/(81)
Private Debt	135,316	165	NAV - Adjusted	NAV	N/A	3%	4,059/(4,059)
	-2,705			Fair Value Adjustments	N/A	0.5%	14/(14)
Private Infrastructure	92,276	175	NAV - Adjusted	NAV	N/A	8%	7,382/(7,382)
	-5,537			Fair Value Adjustments	N/A	4%	222/(222)

<sup>1</sup>- Average committed capital reflects the average size of the underlying funds by reference to the original total committed capital of the underlying Investee Funds.

**31 December 2016**

Description	Fair value at 31 Dec 2017 (€000's)	Average Committed Capital <sup>1</sup> (€m's)	Valuation Technique	Unobservable Inputs	Weighted average input *	Reasonable possible shift +/- (%)	Change in Valuation +/-
<b>Fund Investments</b>							
<b>United States of America</b>							
Private Equity	198,385	240	NAV - Adjusted	NAV	N/A	6%	11,903/(11,903)
	-9,919			Fair Value Adjustments	N/A	2.5%	248/(248)
Private Debt	190,100	198	NAV - Adjusted	NAV	N/A	3%	5,703/(5,703)
	-7,604			Fair Value Adjustments	N/A	2%	152/(152)
Private Infrastructure	116,187	140	NAV - Adjusted	NAV	N/A	9%	10,457/(10,457)
	-4,648			Fair Value Adjustments	N/A	3%	139/(139)
<b>Europe</b>							
Private Equity	46,925	78	NAV - Adjusted	NAV	N/A	10%	4,692/(4,692)
	-1,407			Fair Value Adjustments	N/A	1%	14/(14)
Private Debt	109,036	136	NAV - Adjusted	NAV	N/A	3%	3,271/(3,271)
	-2,181			Fair Value Adjustments	N/A	1%	22/(22)
Private Infrastructure	112,412	139	NAV - Adjusted	NAV	N/A	8%	8,993/(8,993)
	-5,621			Fair Value Adjustments	N/A	3%	169/(169)

<sup>1</sup>- Average committed capital reflects the average size of the underlying funds by reference to the original total committed capital of the underlying Investee Funds.

The changes in investments measured at fair value for which the Partnership has used Level 3 inputs to determine fair value as of 31 December, 2017 are as follows:

<b>IFRS13p93 (e)</b>	<b>Investee Funds – equity</b>	<b>Investee Funds – debt</b>	<b>Investee Funds – infra- structure</b>	<b>Total balance</b>
<b>Financial assets at fair value through profit or loss</b>				
Beginning balance	233,984	289,351	218,330	741,665
Purchases/capital calls	129,435	49,065	29,043	207,543
Distributions received	(41,741)	(13,449)	(57,439)	(112,629)
Total gains/(losses) recognised in other changes in fair value on financial assets at fair value through profit or loss	889	976	(612)	1,253
<b>Total</b>	<b>322,567</b>	<b>325,943</b>	<b>189,322</b>	<b>837,832</b>
Total net gains or (losses) for Level 3 assets held at the end of the reporting period and included in other net changes in fair value on financial assets at fair value through profit or loss	<b>15,321</b>	<b>6,222</b>	<b>11,214</b>	<b>32,757</b>

The changes in investments measured at fair value for which the Partnership has used Level 3 inputs to determine fair value as of 31 December, 2016 are as follows:

<b>Financial assets at fair value through profit or loss</b>	<b>Investee Funds – equity</b>	<b>Investee Funds – debt</b>	<b>Investee Funds- infra- structure</b>	<b>Total balance</b>
Beginning balance	179,184	245,614	237,399	662,197
Purchases/capital calls	87,990	55,443	17,789	161,222
Distributions received	(34,980)	(12,984)	(37,439)	(85,403)
Total gains/(losses) recognised in other changes in fair value on financial assets at fair value through profit or loss	1,790	1,278	581	3,649
<b>Total</b>	<b>233,984</b>	<b>289,351</b>	<b>218,330</b>	<b>741,665</b>
Total net gains or (losses) for Level 3 assets held at the end of the reporting period and included in other net changes in fair value on financial assets and at fair value through profit or loss	<b>10,111</b>	<b>1,098</b>	<b>(3,232)</b>	<b>7,977</b>

**IFRS13p93  
(c), (e)** There were no transfers between Level 3 and Levels 1 and 2 during the year ended 31 December 2017 (2016: none).

## Note – Critical accounting estimates and judgements (extracts)

**1p122, 125** The Partnership makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Fair value of investments in other funds

The fair value of investments in Investee Funds that are not quoted in an active market is primarily valued based on the latest available financial information provided by their general partners. The Investment Advisor, under instruction from the General Partner of the Partnership, reviews the details of the reported information and may make adjustments to the reported NAV based on considerations such as:

- (i) the valuation of the Investee Fund's underlying investments;
- (ii) the value date of the net asset value (NAV) provided;
- (iii) cash flows (calls/distributions) since the latest value date; and
- (iv) the basis of accounting and, in instances where the basis of accounting is other than fair value, fair valuation information provided by the Investee Fund's general partner. If necessary, adjustments to the NAV are made to the various Investee Funds to obtain the best estimate of fair value. Other net changes in fair value on financial assets and financial liabilities at FVTPL in the statement of comprehensive income include the change in fair value of each Investee Fund during the period.

The models used to determine fair values are validated and periodically reviewed by the Investment Advisor, under instruction from the General Partner of the Partnership. The carrying values of the Investee Funds may be significantly different from the values ultimately realised on an exit via a secondary market sale.

## Notes – Financial risk (extracts)

### IFRS7p33 Note - Price risk (extracts)

Other market price risk arises from the Partnership's investments in Investee Funds, whose valuation is based on the valuation of the underlying companies of those Investee Funds. The Partnership invests in such financial assets in order to take advantage of their long-term growth. All investments present a risk of loss of capital. The Investment Advisor moderates this risk through careful selection and recommendation to the General Partner of Investee Funds within specified limits. All of the Investee Funds and their underlying investments are subject to the risks inherent in their industries. Moreover, established markets do not exist for these holdings, and they are therefore considered illiquid.

#### (i) Primary commitments

The Partnership makes commitments to a diversified portfolio of private equity, private debt and private infrastructure funds, managed by managers with a strong track record. The Partnership diversifies its portfolio of Investee Funds across managers, underlying industries, countries and investment stages.

The Investment Adviser follows a rigorous investment due diligence process prior to making an investment recommendation to the General Partner. In making investment recommendations on which the General Partners bases its decision, the Investment Adviser considers both qualitative and quantitative criteria in the areas of financial performance, business strategy, tax and legal compliance, such as financial information obtained through the General Partners of the underlying Investee Funds through on-site visits, interviews and questionnaires together with information gathered from external sources. Prior to entering into an investment agreement,

gathered information is confirmed through reference checks or through the Investment Advisers' standing data and experience.

*(ii) Secondary purchases of interests in private funds*

The Partnership also makes commitments to Investee Funds through secondary market transactions. Where these are new investments, the due diligence process followed is consistent to the one described above. However, in most cases, the Partnership makes such commitments to Investee Funds, in which the Investment Adviser has already made commitments through other products the Investment Adviser advises and has experience with.

The Investment Adviser performs, under instruction of the General Partner, continuous monitoring of the Partnership's investments through an established ongoing monitoring process. The Investment Adviser monitors the performance of its investments using a look-through approach, where possible, to the underlying investments of its Investee Funds. The Investment Adviser monitors price movements in listed underlying investments, as well as company, industry, tax, regulatory and legal developments in countries of the unlisted underlying investments. The Investment Adviser uses such information in order to make estimates of the fair value of such companies, in cases where financial/capital account statements provided by the General Partner of the Investee Funds do not coincide with the reporting date.

The table below shows the exposure of the Partnership to various industry sectors based on the allocation of the underlying Investee Funds primary investment strategy and sectors of their underlying investments, where such information is available:

IFRS7p34	31 December			
	2017		2016	
	Fair value	% of net assets attributable to partners	Fair value	% of net assets attributable to partners
Consumer Goods	188,320	22	198,003	26
Financial	261,933	30	189,003	25
Health	120,330	14	132,002	17
Services	109,982	13	115,071	15
Technology	108,375	13	65,293	9
Utilities	48,892	6	42,293	5
<b>Total</b>	<b>837,832</b>	<b>98</b>	<b>741,665</b>	<b>97</b>

**IFRS7p33(c)** There were no significant changes in the Partnership's exposure to market price risk, or its management and measurement, during the period (2016: none).

**IFRS7p33(b)** The performance of investments held by the Partnership is monitored by the Partnership's Investment Adviser on a weekly basis and reported to and reviewed by the General Partner on a quarterly basis.

**IFRS7p34, 40** The Partnership checks its performance against the Listed Private Equity Index (LPX50), which it uses as its benchmark. This index covers the 50 largest private equity companies that fulfil certain liquidity constraints. The index is diversified across regions, investment and financing styles, and vintage years.

The annual volatility of the benchmark is calculated for the period from 1 January 2008 to the relevant period end by using monthly data. The below table shows a sensitivity analysis, where the fair value of the Partnership's financial assets held at fair value through profit or loss would increase or decrease, assuming their fair value fluctuates on the basis of the calculated volatility of the LPX50.

	<b>2017</b>	<b>2016</b>
Financial assets at fair value through profit or loss	837,832	741,665
Annual expected volatility	19%	23%
<b>Potential impact on statement of financial position and statement of comprehensive income</b>	<b>159,188</b>	<b>170,583</b>

**IFRS7p40** The Partnership is exposed to variety of market risk factors, which may change significantly over time. In addition, the Partnership's investments in private equity funds, which in turn invest also in private equity investments, may not be well represented by listed private equity companies included in the LPX50. Furthermore, historic volatility may not be representative of volatility in the future. As a result, a sensitivity analysis is deemed of limited explanatory value or may be misleading.

**IFRS7p33** Note – Liquidity risk (extracts)

The Partnership is committed and invested in other private funds that are not traded in an active market and are therefore considered illiquid. On the basis of the Partnership's commitments, the Investee Funds are able to call on such commitments from the Partnership with a notice period of 30 days. The amount of these calls may exceed the available cash and cash equivalents at any point in time. The General Partner manages the capital calls on the Partnership using short- and long-term cash-flow modelling in order to predict working capital shortfalls; it manages these shortfalls by further issuing capital calls to the Partners where necessary. It is the General Partner's intent to exit/ liquidate the Partnership's assets in an orderly manner prior to the Partnership reaching its maturity date. However, due to the illiquid nature of the Partnership's investments, there is possibility that management may encounter difficulties liquidating those assets and may only be able to do so at values significantly below their current carrying values.

Based on current short-term and long-term cash flow projections of the Partnership, it expects to be able to honour its calls from its commitments primarily from calls on commitments available to be made from the limited partners of the Partnership.<sup>1</sup>

**31 December 2017**

Description	Fair value at 31 Dec 2017 (€000's)	Total Commitment (€m's)	Uncalled Commitment (€m's)
<b>Fund Investments</b>			
<b>United States of America</b>			
Private Equity	225,689	303	88
Private Debt	193,333	287	69
Private Infrastructure	102,583	265	0
<b>Europe</b>			
Private Equity	96,878	227	63
Private Debt	132,610	165	35
Private Infrastructure	86,739	175	79

**31 December 2016**

Description	Fair value at 31 Dec 2016 (€000's)	Total Commitment (€m's)	Uncalled Commitment (€m's)
<b>Fund Investments</b>			
<b>United States of America</b>			
Private Equity	188,467	240	40
Private Debt	182,496	198	19
Private Infrastructure	111,539	140	15
<b>Europe</b>			
Private Equity	45,517	78	28
Private Debt	106,855	136	16
Private Infrastructure	106,791	139	12

<sup>1</sup> If the Partnership is running an over-commitment strategy, i.e. that the capital available to be called is insufficient on its own to meet future calls from the underlying investee funds, additional disclosures will be required to explain how this illiquidity risk is appropriately managed. An example is included in Appendix II.

## Appendix II – Private Equity ‘fund of funds’ with significant leverage

Private equity fund of funds may employ significant levels of leverage in order to manage an over-commitment strategy or to increase total returns. The use of leverage may give rise to additional risks for such funds. The additional disclosures that may be provided for private equity funds in these circumstances are illustrated below.

The amounts used in these disclosures are for illustration purposes only and are not meant to correspond to the amounts used in the primary statements and accompanying note disclosures.

### Note – Accounting policies (extracts)

#### 1p119 *Borrowings*

**IFRS7p21** Borrowings are recognised initially at fair value, net of transaction costs incurred.  
**39p43** They are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowing using the effective interest method.  
**39p47**

Fees paid on the establishment of credit facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

**1p69, 71** Borrowings are classified as current liabilities unless the Partnership has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

#### *Collateral*

**39IGD1, 37** Cash collateral provided by the Partnership is identified in the statement of financial position as ‘other receivables’ and is not included as a component of ‘cash and cash equivalents’. For collateral other than cash, if the party to whom the collateral is provided has the right by contract or custom to sell or re-pledge the collateral, the Partnership classifies that asset in its statement of financial position separately from other assets and identifies the asset as pledged collateral. Where the party to whom the collateral is provided does not have the right to sell or re-pledge, a disclosure of the collateral provided is made in the notes to the financial statements.

### Note – Borrowings (extracts)

**7p50** The Partnership has a credit facility for investment purposes of up to €100m with Bank DEF.  
The credit facility matures in 2018 and bears interest at the one-month GBP LIBOR rate plus 250 basis points.

**IFRS7p14** The borrowings are secured by certain financial assets at FVTPL equal to €30,000 (2016: €20,000). These pledged assets are included within ‘current financial assets at fair value through profit or loss’ in the consolidated statement of financial position.

*Note: The Partnership would then be required to disclose the terms and conditions related to this pledge, per IFRS7p14(b).*

**IFRS7p18,19** There have been no defaults nor breaches related to the credit facility during the year ended 31 December 2017 (2016: none).

**7p50 DV** The undrawn credit facility that may be available for future operating activities and to settle capital commitments is €83,151 as at 31 December 2017 (2016: €66,836). There are no restrictions on the use of this facility.

**IFRS7p25** The carrying value of the credit facility equals its fair value.

**Note – Financial risk management (extracts)**

*Financial risk factors*

**IFRS7p31** The Partnership may use leverage, such as credit facilities, in order to manage its working capital requirements under an over-commitment strategy or to increase the effect of any investment value changes on capital. While borrowing and leverage present opportunities for increasing working capital as well as total return, they have the effect of potentially increasing losses as well.

If the gains on financial assets made with borrowed funds are less than the costs of the leverage the value of the Partnership's net assets attributable to the partners will decrease. Any event that adversely affects the value of an investment by the Partnership would therefore be magnified to the extent leverage is employed. The cumulative effect of the use of leverage in a market that moves adversely to a leveraged investment could result in a substantial loss which would be greater than if leverage were not used.

**Note – Market risk (extracts)**

*Cash flow and fair value interest rate risk*

**IFRS7p33(a)** The Partnership uses significant leverage which increases the Partnership's interest costs. There is no guarantee that existing borrowing arrangements or other arrangements for obtaining leverage can be refinanced at rates as favourable to the Partnership as those rates available in the past.

The credit facility employed by the Partnership, incurs interest costs based on market variable rates. Increase in those market interest rates will cause an increase in the interest costs borne by the Partnership.

**Note – Liquidity risk (extracts)**

**IFRS7p33(a), 31** Liquidity risk arises where the Partnership may not be able to meet its obligations as and when they fall due for settlement. The Partnership's liquidity risk is further increased through the over-commitment strategy followed by the Partnership, where the Partnership hopes to fund certain of its commitments to investments through distributions received by the Partnership from its other investments. As unfunded commitments can be drawn at any time, the Partnership's over-commitment strategy could result inadequate liquidity of the Partnership to fund its investments or to pay other amounts payable by the Partnership.

**IFRS7p33(b)** The Investment Manager monitors the liquidity risk exposure of the Partnership on a quarterly basis, through the use of quantitative models. If through this monitoring a risk of insufficient funding is identified, the Investment Manager may take various measures such as (i) sale of investments on the secondary markets and (ii) drawdown on the credit facility in order to cover the Partnership's obligations.

(i) As the majority of the Partnership's investments are not traded regularly in an active market, the liquidation prices generated in such secondary market sales may significantly differ from the carrying value of those investments.

(ii) Although the Partnership has entered into a credit facility, there is no guarantee that existing arrangements for obtaining leverage will remain in place for the life of the Partnership. The Partnership's credit facilities are subject to a security interest in

favour of the relevant creditors and contain various financial and other covenants, including over-collateralisation tests, limitations on restricted payments and limitations on indebtedness. Such over-collateralisation tests limit the amount that can be borrowed by the Partnership to a calculated percentage of the fair value of the pledged financial assets and other collateral. If there were a decline in the fair value of the collateral pledged to the creditors under such facilities, the Partnership might be required to liquidate collateral assets in order to maintain compliance with the applicable financial covenants and might be prevented from making any distributions.

Following an event of default under such facilities, the creditors could direct sales of the collateral assets. The prices obtained in any such liquidation sales may not be sufficient to repay the Partnership's obligations under the facilities, in which case the Partnership would not have any remaining funds to distribute.

Further, as described in the 'borrowings' note to these financial statements, the Partnership has posted certain financial instruments as collateral against the credit facility. A decrease in fair value of such financial assets may result in the lender requiring the Partnership to post additional collateral or otherwise sell assets at a time when it may not be in the Partnership's best interest to do so. A failure of the Partnership to continue to post the required collateral could result in a disposition of Partnership's assets at times and prices that could be disadvantageous to the Partnership and could result in substantial losses having a material adverse effect on the Partnership. To the extent that a creditor has a claim on the Partnership, such claim would be senior to the rights of the partners.

**IFRS7p33(c)** There are no changes in the risk exposures of the Partnership, nor the Investment Adviser's processes related to liquidity risk management compared to 2016.

**IFRS7p34** The table below summarises the Partnership's exposure to liquidity risk as a result of its over-commitment strategy and collateral pledged against its credit facility:

	<b>2017</b>	<b>2016</b>
Unfunded commitments of the Partnership	(1,223,992 )	(1,254,993 )
Financial liabilities	(36,849 )	(33,164)
Available, undrawn credit facility	83,151	66,836
Unfunded commitments to the Partnership	422,992	598,336
Financial assets, less assets pledged as collateral	739,016	554,446
<b>Net liquidity surplus (shortfall)</b>	<b>(15,682 )</b>	<b>(68,539 )</b>

## **Appendix III – Appendices with useful information in other illustrative financial statements**

ABC Private Equity LP is considered a standard structure for private equity. Therefore, not all topics that might arise in private equity investment structures financial statements are included. The following list references information that is included in other illustrative financial statements:

& 'Statement of cash flows – indirect method' is addressed in the financial statements of the Illustrative IFRS financial statements 2017 – Investment funds.

& 'Fund whose shares are equity' is addressed in Appendix II to the Illustrative IFRS financial statements 2017 – Investment funds.

& 'Fund with puttable instruments reclassified from liabilities to equity' is addressed in Appendix III to the Illustrative IFRS financial statements 2017 – Investment funds.

& 'Segment reporting – multiple segments' is addressed in Appendix VII to the Illustrative IFRS financial statements 2017 – Investment funds.

& 'Segment reporting – single segment' is addressed in Appendix VIII to Illustrative IFRS financial statements 2017 – Investment funds.

& 'Investment Entities: Applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)' is addressed in Appendix X to the Illustrative IFRS financial statements 2017 – Investments funds.

& 'Investment fund with tax uncertainty' is addressed in Appendix IX to the Illustrative IFRS financial statements 2017 – Investment funds.

& 'Offsetting; Requirements and Disclosures under Amendments to IAS 32 and IFRS 7' is addressed in Appendix XII to the Illustrative IFRS financial statements 2017 – Investment funds.

& 'IFRS 9 'Financial instruments': Impact of early adoption' is addressed in Appendix XIV to the Illustrative IFRS financial statements 2017 – Investment funds.

## **Appendix IV – New Standards and amendments**

This appendix provides a summary of (a) new standards and amendments that are effective for the first time for periods commencing on or after 1 January 2017 (i.e. years ending 31 December 2017) and (b) forthcoming requirements, being standards and amendments that will become effective on or after 1 January 2017.

### **(a) New standards and amendments – applicable 1 January 2017**

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2017:

<b>Title</b>	<b>Key requirements</b>	<b>Effective Date<sup>21</sup></b>
<i>Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12</i>	<p>Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:</p> <ul style="list-style-type: none"><li>• A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.</li><li>• An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.</li><li>• Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.</li><li>• Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.</li></ul>	1 January 2017
<i>Disclosure Initiative – Amendments to IAS 7</i>	<p>Going forward, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences.</p> <p>Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.</p> <p>Entities may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities.</p> <p>The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.</p>	1 January 2017
<i>Annual improvements 2014-2016 cycle: Amendments to IFRS 12</i>	<p>The amendments clarify that the disclosure requirements of IFRS 12 apply to interests in entities that are classified as held for sale, except for the summarised financial information.</p>	1 January 2017

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<sup>21</sup> Applicable to reporting periods commencing on or after the given date.

## b) Forthcoming requirements

As at 30 September 2017, the following standards and interpretations had been issued but were not mandatory for annual reporting periods ending 31 December 2017. For more recent information please refer to our web site at [www.pwc.com/ifrs](http://www.pwc.com/ifrs).

<b>Title</b>	<b>Key requirements</b>	<b>Effective Date<sup>22</sup></b>
IFRS 9 Financial Instruments and associated amendments to various other standards	<p>IFRS 9 replaces the multiple classification and measurement models in IAS 39 <i>Financial instruments: Recognition and measurement</i> with a single model that has initially only two classification categories: amortised cost and fair value.</p> <p>Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if:</p> <p>a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest.</p> <p>All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognised at fair value.</p> <p>All fair value movements on financial assets are taken through the statement of profit or loss, except for equity investments that are not held for trading, which may be recorded in the statement of profit or loss or in reserves (without subsequent recycling to profit or loss).</p> <p>For financial liabilities that are measured under the fair value option entities will need to recognise the part of the fair value change that is due to changes in the their own credit risk in other comprehensive income rather than profit or loss.</p> <p>The new hedge accounting rules align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.</p> <p>IFRS 9 further introduced changes to the classification and measurement rules and a new impairment model. The changes introduce:</p> <ul style="list-style-type: none"><li>• a third measurement category (FVOCI) for certain financial assets that are debt instruments</li><li>• an expected credit loss (ECL) model which involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (eg trade receivables). On initial recognition, entities will record a day-1 loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.</li></ul>	1 January 2018

<sup>22</sup> Applicable to reporting periods commencing on or after the given date.

<p>IFRS 15 <i>Revenue from contracts with customers</i> and associated amendments to various other standards</p>	<p>The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue can be recognised:</p> <ul style="list-style-type: none"><li>• identify contracts with customers</li><li>• identify the separate performance obligation</li><li>• determine the transaction price of the contract</li><li>• allocate the transaction price to each of the separate performance obligations, and</li><li>• recognise the revenue as each performance obligation is satisfied.</li></ul> <p>Key changes to current practice are:</p> <ul style="list-style-type: none"><li>• Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.</li><li>• Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc) – minimum amounts must be recognised if they are not at significant risk of reversal.</li><li>• The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.</li><li>• There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few.</li><li>• As with any new standard, there are also increased disclosures.</li></ul> <p>These accounting changes may have flow-on effects on the entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications.</p> <p>Entities will have a choice of full retrospective application, or modified retrospective application with additional disclosures.</p>	<p>1 January 2018</p>
<p>IFRS 16 <i>Leases</i></p>	<p>IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.</p> <p>The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change. Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.</p> <p>The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.</p>	<p>1 January 2019</p> <p>Early adoption is permitted only if IFRS 15 is adopted at the same time.</p>
<p><i>Interpretation 22 Foreign Currency Transactions and Advance Consideration</i></p>	<p>The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.</p> <p>For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary</p>	<p>1 January 2018</p>

asset or liability arising from the advance consideration (the prepayment or deferred income/contract liability).

If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt.

Entities can choose to apply the interpretation:

- retrospectively for each period presented
- prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the interpretation is first applied, or
- prospectively from the beginning of a prior reporting period presented as comparative information.

*Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2*

The amendments made to AASB 2 in July 2016 clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. They also introduce an exception to the classification principles in AASB 2. Where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority, the whole award will be treated as if it was equity-settled provided it would have been equity-settled without the net settlement feature.

1 January 2018

Entities with the following arrangements are likely to be affected by these changes:

- equity-settled awards that include net settlement features relating to tax obligations
- cash-settled share-based payments that include performance conditions, and
- cash-settled arrangements that are modified to equity-settled share-based payments.

*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4*

In September 2016, the IASB published an amendment to IFRS 4 which addresses the concerns of insurance companies about the different effective dates of IFRS 9 Financial instruments and the forthcoming new insurance contracts standard. The amendment provides two different solutions for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level), and the 'overlay approach'. Both approaches are optional.

1 January 2018 or when the entity first applies IFRS 9

IFRS 4 (including the amendments) will be superseded by the forthcoming new insurance contracts standard. Accordingly, both the temporary exemption and the 'overlay approach' are expected to cease to be applicable when the new insurance standards becomes effective.

*Annual improvements 2014-2016 cycle*

The following improvements were finalised in December 2016:

1 January 2018

- IFRS 1 - deleted short-term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10 which are no longer relevant.
- IAS 28 - clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition.

<i>Transfers of Investment Property – Amendments to IAS 40</i>	<p>The amendments clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer.</p> <p>The list of evidence for a change of use in the standard was re-characterised as a non-exhaustive list of examples to help illustrate the principle.</p> <p>The Board provided two options for transition:</p> <ul style="list-style-type: none"><li>• prospectively, with any impact from the reclassification recognised as adjustment to opening retained earnings as at the date of initial recognition, or</li><li>• retrospectively - only permitted without the use of hindsight.</li></ul> <p>Additional disclosures are required if an entity adopts the requirements prospectively.</p>	1 January 2018
<i>Interpretation 23 Uncertainty over income tax treatments</i>	<p>This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.</p> <p>When there is uncertainty over income tax treatments, this Interpretation addresses:</p> <ol style="list-style-type: none"><li>a. whether an entity considers uncertain tax treatments separately;</li><li>b. the assumptions an entity makes about the examination of tax treatments by taxation authorities;</li><li>c. how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and</li><li>d. how an entity considers changes in facts and circumstances.</li></ol>	1 January 2019
<i>IFRS 17 Insurance Contracts</i>	<p>IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:</p> <ul style="list-style-type: none"><li>• discounted probability-weighted cash flows</li><li>• an explicit risk adjustment, and</li><li>• a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognised as revenue over the coverage period.</li></ul> <p>The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.</p> <p>An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.</p> <p>There is a modification of the general measurement model called the ‘variable fee approach’ for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity’s share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.</p> <p>The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.</p>	1 January 2021

Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28	<p>The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures.</p> <p>The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).</p> <p>Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's investors in the associate or joint venture. The amendments apply prospectively.</p> <p>** In December the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.</p>	n/a **
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## About PwC's Asset Management practice

The asset management industry faces challenging markets, new regulatory reform measures, and competition for clients and talent

All against a backdrop of heightened expectations from investors, regulators, industry partners, and other stakeholders. Our Asset Management partners and staff can assist in meeting these key industry challenges.

PwC helps organisations and individuals create the value they're looking for. We're a network of firms in 157 countries with more than 195,000 people who are committed to delivering quality in assurance, tax, and advisory services.

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### *Questions?*

PwC clients who have questions about this publication should contact their engagement partner. Engagement teams that have questions should contact members of the Asset Management team in Accounting Consulting Services.

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