Chronicle Wealth

# Chronicle Special Opportunities LP Investor Report

as of June 30, 2023

# Executive Summary

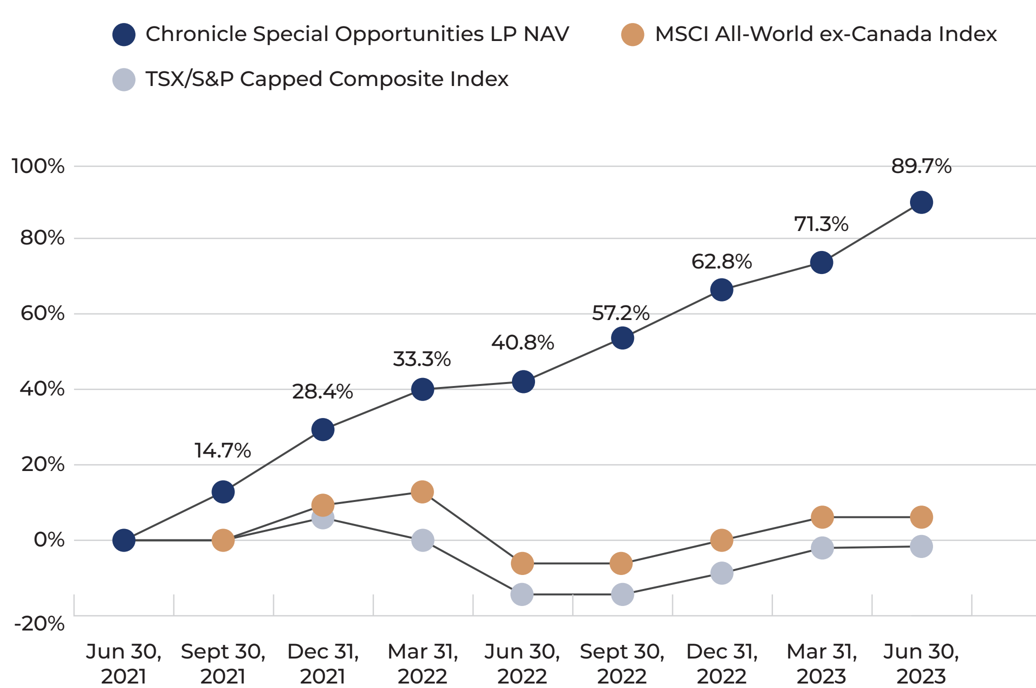
Chronicle Special Opportunities LP is a unique evergreen investment vehicle designed to provide access to high returning private equity opportunities. The Fund is only available to clients of Chronicle Investments.

We are pleased to provide you with an update on the Chronicle Special Opportunities LP ("the Fund") for the 12-month period ending June 30, 2023. Since we launched the Fund two years ago, we have been excited by the opportunity the Fund has created to access top tier private equity opportunities for our clients.

These opportunities have born fruit, with the Fund returning +89.7% over its first two years, well ahead of our target returns for the strategy. And while we are very proud of the Fund's returns, we would be remiss to not also focus on its unique evergreen structure, which we believe provides clients with a number of benefits over a traditional private equity fund commitment. These include better diversification, improved liquidity, and the ability to seamlessly reinvest capital when distributions are received.

For the 12 months ended June 30, 2023, the Chronicle Special Opportunities LP delivered a total return of +34.8%, following a +40.8% return in its first 12 months. These returns have significantly outpaced comparable public equity markets, while at the same time, exhibiting far less quarterly volatility.

### Total Quarterly Returns Since June 30, 2021[1]




[1] Please note that the Fund produces audited financial statements at the conclusion of its fiscal year end (December 31). Results for interim periods are unaudited.

# Highlights From The Past 12 Months

In addition to the Fund's strong returns, we are also pleased to share the following highlights from the past 12 months.

### First Exit

In late 2021, the Fund made a commitment to a US-based private equity firm focused on middle market industrial transactions that was raising their first fund.

At the time of our commitment, this fund had already completed two transactions, both of which had realized significant earnings growth over the short period of time following their acquisition by the private equity firm. The earnings growth of these two businesses was a major underpinning of our underwriting this commitment and substantially de-risked the investment while providing a very visible driver of future returns.

Subsequent to our commitment, both of these businesses have continued their impressive earnings growth and in early 2023, the private equity firm elected to sell the first of these two businesses at an attractive gain. We estimate the Fund's net cash-on-cash return on our share of this business was 4.0x our capital in less than one year, providing proceeds for the Fund to recycle into other attractive opportunities.

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### Capital Deployment From Anchor Investment

In the fall of 2021, we made what remains the largest single commitment in the Fund to a Canadian lower middle market-focused private equity firm that was raising their fourth fund. In the third and fourth quarter of 2022, the firm began deploying this fund, completing four acquisitions that account for roughly one third of our total commitment.

**In aggregate, these first acquisitions are off to a strong start and this investment began to contribute to Fund returns in the second quarter of 2023 after moving through the typical J-curve associated with private equity fund investments.**

### Fund Line Of Credit And Foreign Exchange Hedging

In the middle of 2022, we secured a line of credit for the Fund from a Tier 1 Canadian bank. As the number of investments in the Fund has grown, the line of credit has enabled us to materially reduce the frequency of capital calls that the Fund would have to make from investors, saving on operational expenses and client transaction costs. In July of 2023, we also implemented a program to partially hedge the Fund's US dollar exposure with the same Canadian bank.

Given a majority of the Fund's investments are denominated in US dollars, we felt that a partial hedge was a prudent decision. We have locked in a portion of the Fund's US dollar exposure at a more favourable rate than the dollar's long term average, while still providing us with future flexibility.

### 8th Fund Investment

In July 2023, we closed on the 8th investment in the Fund, a commitment to a US-based private equity firm that is focused on special situation investments in the lower middle market.

Like several of our prior investments, this firm has already closed on multiple investments in its fund, which we view favourably as this both reduces the J-curve associated with primary fund commitments, while also providing visibility to future returns.

# Fund Overview

Chronicle Special Opportunities LP is a unique evergreen investment vehicle designed to provide access to private equity opportunities with the potential to provide higher returns than traditional capital market securities.  The Fund is only available to clients of Chronicle Investments.

Investors have the opportunity to make a commitment to the Fund twice per year (on June 30th and December 31st).  As capital is required for private equity opportunities, it is drawn on a pro rata basis from all investors with outstanding funding commitments. Our objective is to get investors fully invested on these commitments over a period of approximately three years.

Since launching in June of 2021, the Fund has received total client commitments of $59.2mm.

**Cumulative Client Capital Commitments To The Fund**

June 2023

$59.2mm

December 2022

$56.8mm

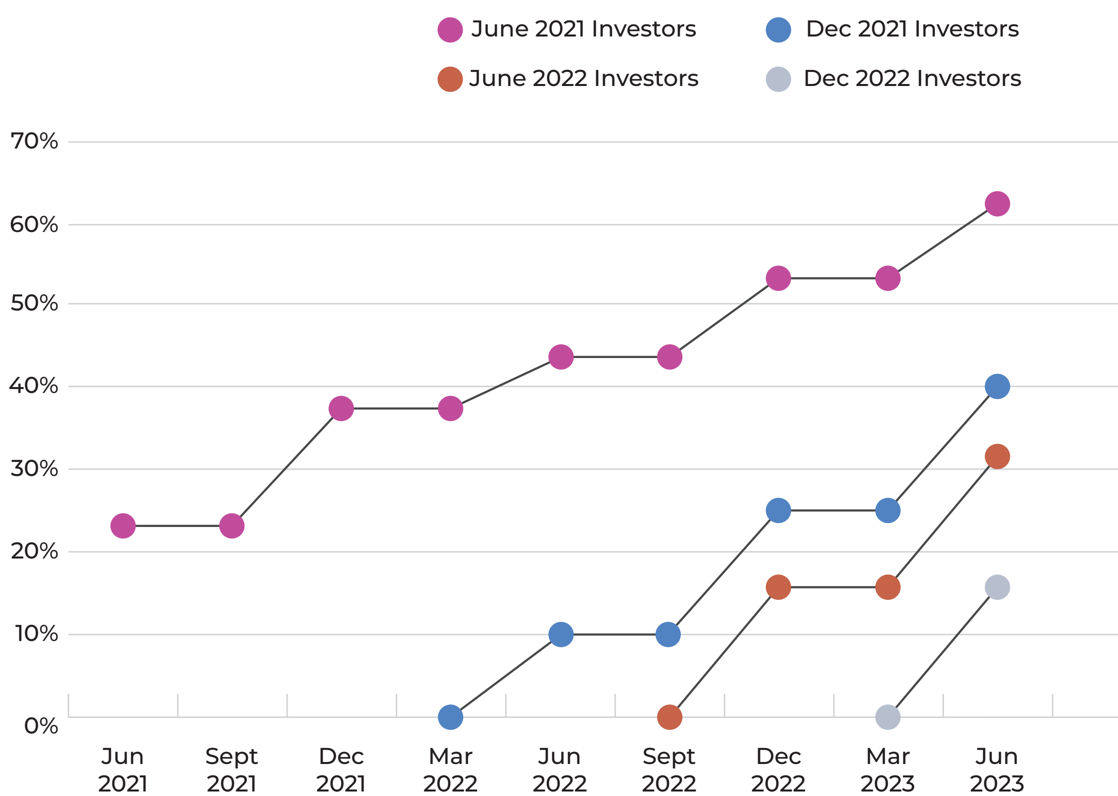
June 2022

$53.2mm

To date, the first tranche of investors in the Fund (June 2021 commitments) have had 62.5% of their capital commitment called.  The second tranche of investors in the Fund (December 2021 commitments) have had 40% of their capital commitment called.

The third tranche of investors in the Fund (June 2022 commitments) have had 33% of their capital called. The fourth tranche of investors in the Fund (December 2022 commitments) have had 18% of their capital called.

**Percentage Of Client Capital Commitments Drawn**



# Fund Strategy

The Fund's investment approach is to target private equity opportunities in the traditional buyouts space[2]. The Fund's primary focus is on middle market and lower middle market established businesses generating strong cash flows.

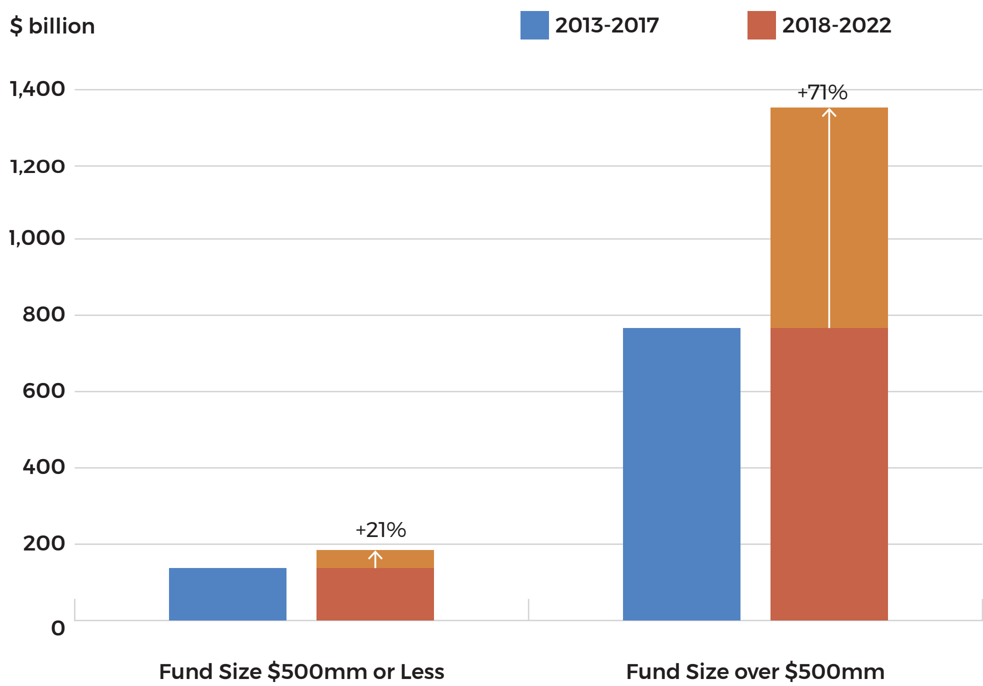
We find this sector of the market to be particularly attractive as medium size companies have typically not received institutional attention and, they often have operational inefficiencies.

As a result, there are significant opportunities for private equity firms to purchase such businesses inexpensively, drive operational improvement and increase business valuation. From 2018 to 2022, private equity firms that focused on acquiring US lower middle market businesses (defined as under a $500 million fund size), saw the amount of capital they raised increase at less than a third of the rate than those focused on larger cap businesses when compared to the prior five year period[3].

As a result, we believe there will be less competition for the acquisition of lower middle market business than larger cap businesses. As these businesses grow, they should benefit at time of exit from the demand of larger private equity firms who are flush with capital that needs to be deployed.

[2] While the focus is traditional buyouts, the Fund does have some small indirect exposure to Venture Capital through its secondaries and liquid evergreen fund investments.
[3] Source: PitchBook Q4 2022 US PE Breakdown.

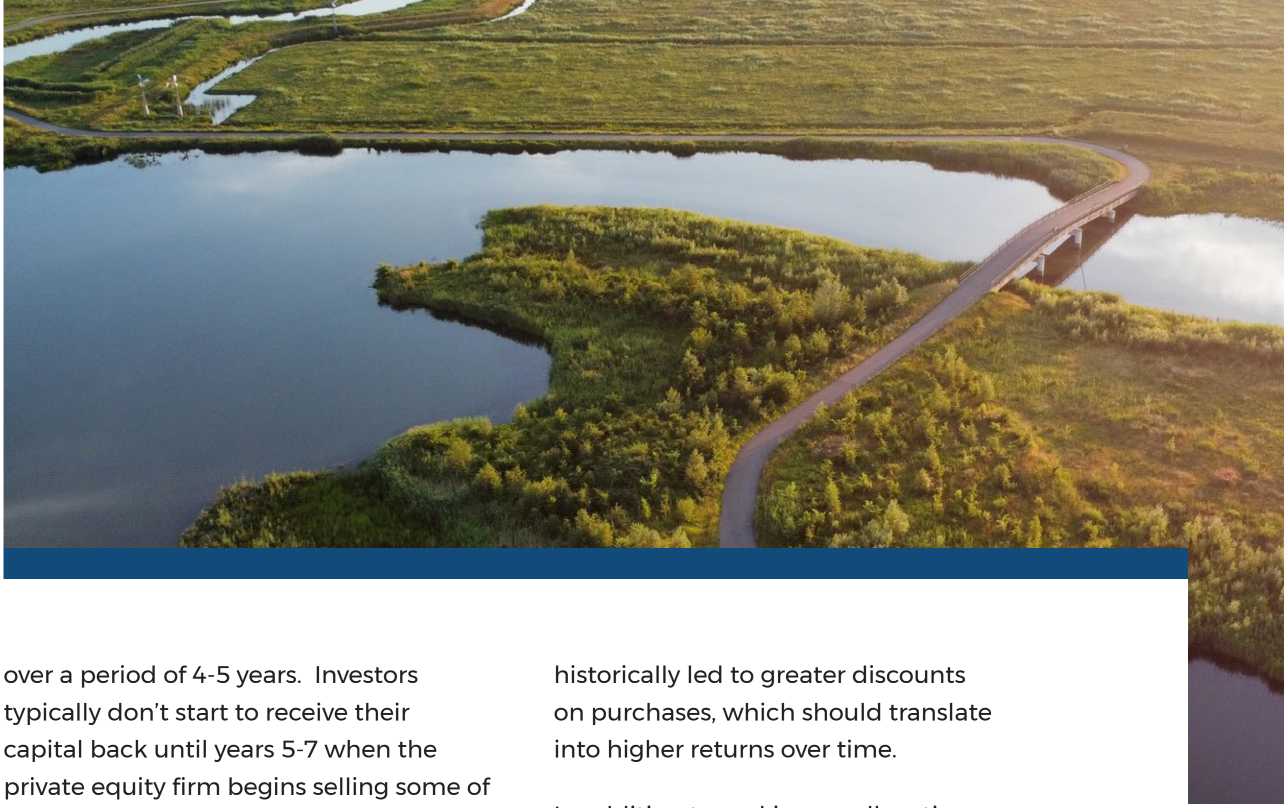
**Cumulative US Private Equity Fundraising ($bn)**




While lower middle market and middle market firms are increasingly representing a smaller share of the private equity market, there still remains no shortage of lower middle market and middle market firms coming to market, providing us with ample opportunities to find truly exceptional managers within our sweet spot. For context, in the US, from 2017-2022, there were over 1,700 lower middle market-focused funds raised[4]. And while a good portion of these funds will not meet our diligence criteria for various reasons, it still provides an exceptional hunting ground from which to source opportunities.

In addition to this focus on lower middle market and middle market traditional buyouts, in the Fund's first year we also made an allocation to the private equity secondaries market. Most private equity investors make an investment in the asset class via what is known as a primary commitment – that is, a private equity firm raises a pool of capital from investors, which the firm then invests

[4] Source: PitchBook Q4 2022 US Pe Breakdown. Lower middle market is defined as funds $500 million or less.



over a period of 4-5 years. Investors typically don't start to receive their capital back until years 5-7 when the private equity firm begins selling some of their portfolio companies, and in many cases, all of the capital may not be fully returned and the Fund wound down until years 11-12. In some cases, however, investors may desire or require liquidity prior to this point. If this occurs, their only option to sell their holding is to approach a secondary fund, who may negotiate to buy their position, typically at a healthy discount to its current value.

We believe that there are several advantages to making an allocation to secondaries strategies, particularly in the early years of our Fund, as the secondaries strategies typically see faster capital deployment, deliver a healthy level of diversification, and their return profile is complementary to that of traditional primary commitments[5]. Similar to our view on traditional private equity, we also prefer the smaller end of the secondaries market as it is less efficient, which has historically led to greater discounts on purchases, which should translate into higher returns over time.

In addition to making an allocation to the secondaries space, we also made an early allocation to a diversified, liquid private equity strategy managed by one of the world's preeminent private equity investment firms.

Our intention with this investment was to provide some early diversification to the Fund while providing us capital to fund future commitments from our other investments. This approach has played out nicely as the investment has delivered strong returns, which we have realized as we scaled back the investment to fund other investments.

5 Traditional private equity funds have a more back-end weighted return profile, while secondaries funds, because of the initial discount that they are purchasing assets at, tend to have a more front-end weighted return profile.

Since launching, the Fund has made the following commitments to eight private equity opportunities in Canada and the United States:

| | | Percentage of Total Commitments |
|---|---|---|
| 1. | A Canadian-based private equity fund focused on North American middle market opportunities in the consumer, healthcare, and financial services sectors | 8% |
| 2. | A US-based private equity fund focused on small secondaries transactions globally | 17% |
| 3. | A liquid, evergreen investment vehicle that provides diverse exposure to a number of private equity opportunities globally[6] | 7% |
| 4. | A private equity firm focused on Canadian lower middle market opportunities in traditional industries | 23% |
| 5. | A US-based private equity firm focused on middle market opportunities in the industrials sector | 12% |
| 6. | A US-based private equity firm focused on small, niche secondaries transactions in the US and Europe | 16% |
| 7. | A direct investment in a private-equity managed company operating a network of medical aesthetics practices located throughout Canada and the United States. | 3% |
| 8. | A US-based private equity firm focused on special situation investments in the lower middle market[7] | 13% |

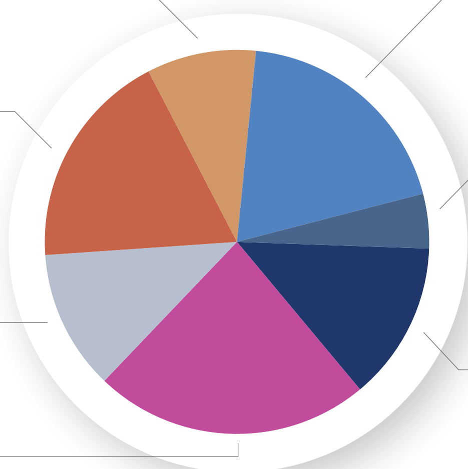
Note: Based on a foreign exchange rate of 1.32 as of June 30, 2023. Percentages may not add to 100% due to rounding.

[6] Based on the market value of this position as of June 30, 2023
[7] The closing for this commitment occurred on July 7, 2023

# Current Fund Investment Portfolio

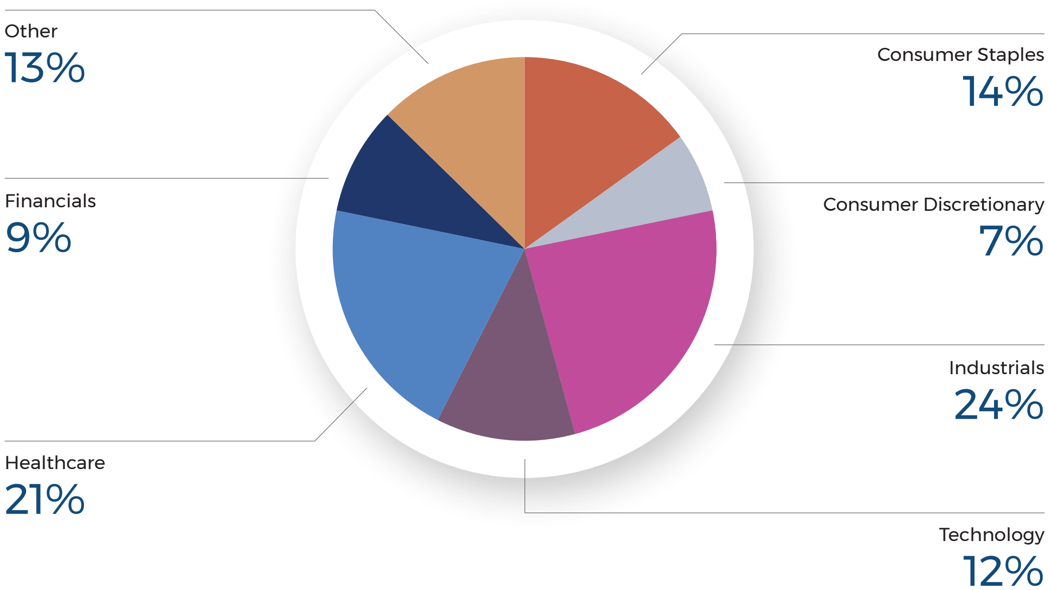
As of June 30th, the Fund had invested total called capital of $30.5 million while its Net Asset Value had grown to $44.8mm[6]. This Net Asset Value was diversified across a number of investments including:

### Breakdown Of Fund Net Asset Value As of June 30, 2023



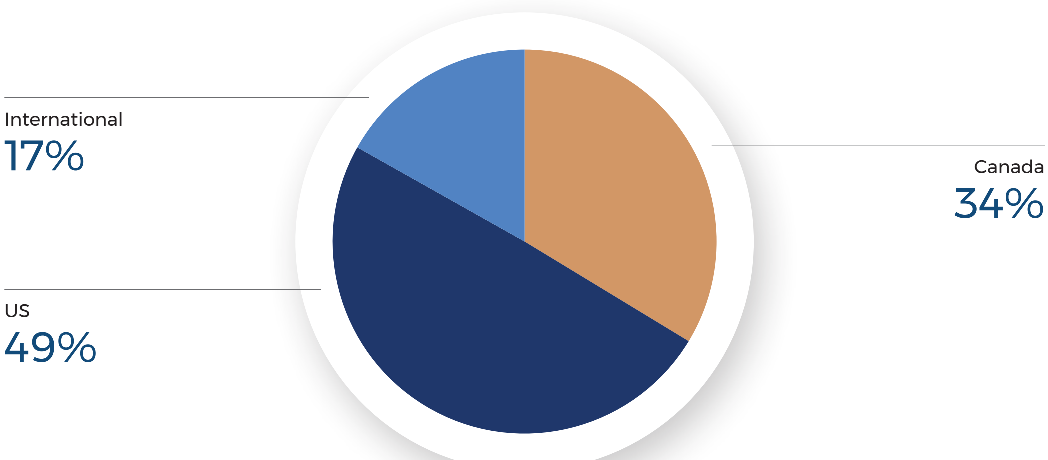

[8] Total called capital and invested capital figures are pro forma for $5.9 million capital call that took place on June 30th.

**Estimated Fund Exposure By Sector As Of June 30, 2023**




From a geographic perspective, our Fund remains focused on North American opportunities, with a bias towards US investments over Canadian ones given the depth of opportunities in that market. Over time, we expect that this exposure to the US market should remain for this reason.

**Estimated Exposure As Of June 30, 2023**

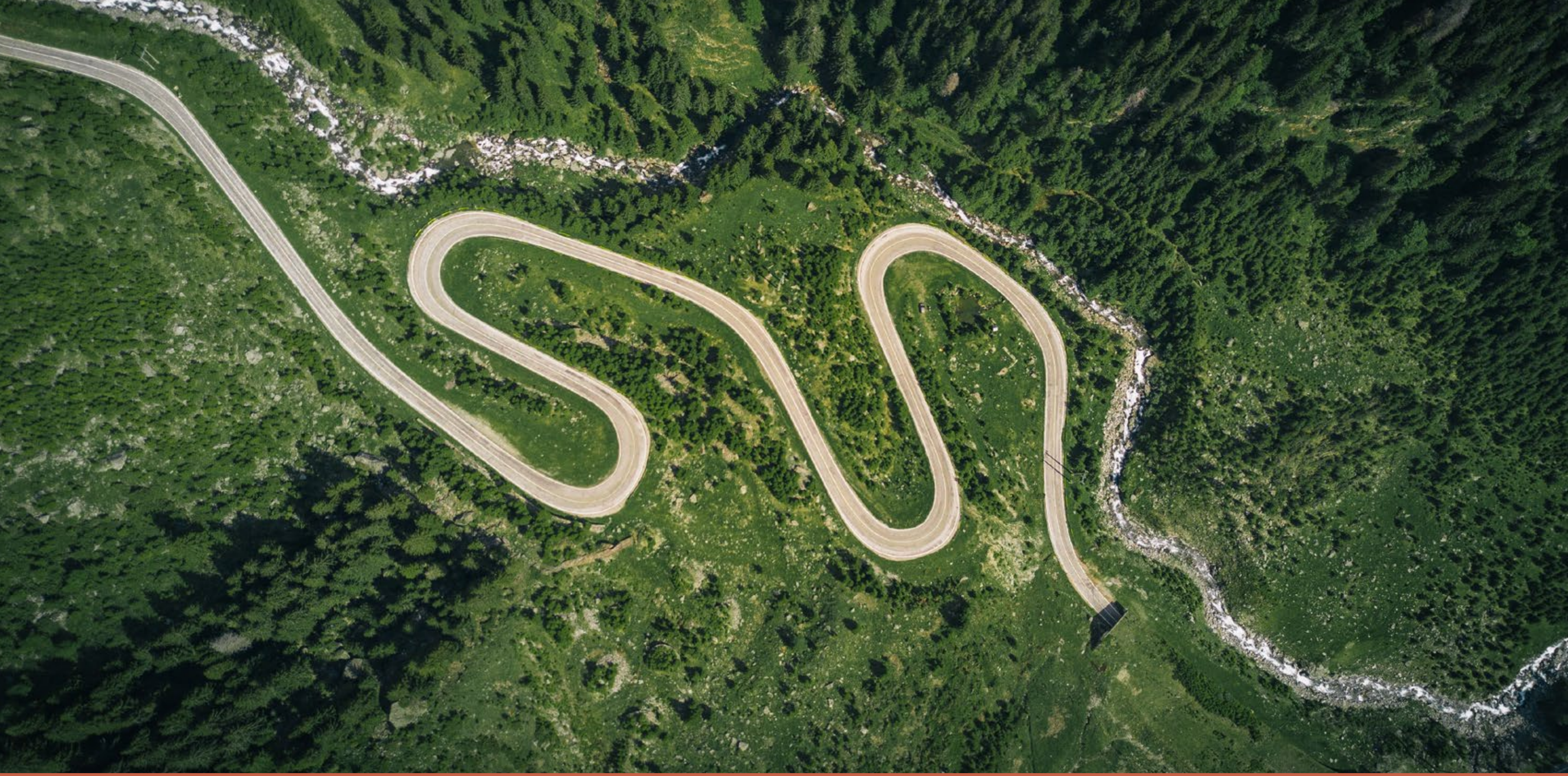


# Looking Ahead

We continue to be very excited by the range of opportunities that we are seeing, particularly in the US lower middle market.  As interest rates have moved higher, valuations have come down for many assets, which should lead to attractive vintage years for those funds that have dry powder to deploy into this market.  In addition, the current market environment has created even more headwinds for smaller firms looking to fundraise.  As a result, the fundraising process has been elongated for all but a small handful of firms with exceptional track records, differentiated approaches, and most importantly a diversified existing investor base.

As a consequence, we are seeing many high-quality teams with differentiated approaches and seasoned assets, creating potentially attractive risk/reward dynamics for investors who come in near the end of these fundraising processes.

For those of you who are investors in Chronicle Special Opportunities LP, we want to thank you for your support in our vision to build a truly differentiated private equity investment vehicle. For those of you who are not yet investors,
we encourage you to reach out to one of our Advisors to learn more about this Fund and our investment platform



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