



**Valar Global Fund III LP  
(a Delaware Limited Partnership)**

Financial Statements  
Year Ended December 31, 2018

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



EFTA00810312

**Valar Global Fund III LP**  
**(a Delaware Limited Partnership)**

---

Financial Statements  
Year Ended December 31, 2018

**Valar Global Fund III LP**  
**(a Delaware Limited Partnership)**

**Contents**

---

|  |         |
|--|---------|
| <b>Independent Auditor's Report</b>                    | 3       |
| <b>Financial Statements</b>                            |         |
| Statement of Assets, Liabilities and Partners' Capital | 5       |
| Schedule of Investments                                | 6 - 7   |
| Statement of Operations                                | 8       |
| Statement of Changes in Partners' Capital              | 9       |
| Statement of Cash Flows                                | 10      |
| Notes to Financial Statements                          | 11 - 20 |



One Bush Street  
Suite 1800  
San Francisco, CA 94104

## Independent Auditor's Report

To the General Partner of  
Valar Global Fund III LP  
(a Delaware Limited Partnership)

We have audited the accompanying financial statements of Valar Global Fund III LP (a Delaware Limited Partnership), which comprise the statement of assets, liabilities and partners' capital, including the schedule of investments, as of December 31, 2018, and the related statements of operations, changes in partners' capital, and cash flows for the year then ended, and the related notes to the financial statements.

### *The General Partner's Responsibility for the Financial Statements*

The General Partner is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by the General Partner, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Valar Global Fund III LP as of December 31, 2018, and the results of its operations, its changes in partners' capital, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

March 20, 2019

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

## **Financial Statements**

---

**Valar Global Fund III LP**  
**(a Delaware Limited Partnership)**

**Statement of Assets, Liabilities and Partners' Capital**  
**December 31, 2018**

---

|  |                       |
|--|-----------------------|
| <b>Assets</b>                                  |                       |
| Investments, at fair value (cost \$56,289,593) | \$ 167,590,032        |
| Cash   | 787,228               |
| Interest receivable                            | 15,300                |
| <b>Total Assets</b>                            | <b>\$ 168,392,560</b> |
| <hr/>  |                       |
| <b>Liabilities</b>                             |                       |
| Contributions received in advance              | \$ 525,000            |
| Due to affiliates                              | 4,668                 |
| <b>Total Liabilities</b>                       | <b>529,668</b>        |
| <hr/>  |                       |
| <b>Partners' Capital</b>                       |                       |
| Cumulative capital contributions               | \$ 61,486,320         |
| Syndication costs                              | (170,655)             |
| Cumulative net operating loss                  | (4,753,212)           |
| Net unrealized appreciation on investments     | 111,300,439           |
| <b>Total Partners' Capital</b>                 | <b>167,862,892</b>    |
| <b>Total Liabilities and Partners' Capital</b> | <b>\$ 168,392,560</b> |

---

*See accompanying notes to financial statements.*

**Valar Global Fund III LP**  
**(a Delaware Limited Partnership)**

**Schedule of Investments**  
**December 31, 2018**

|  | Geographic Classification* | Number of Shares | Privately Held Stock |               | Other |            | Total         |               | Unrealized Appreciation (Depreciation) |
|--|----------------------------|------------------|----------------------|---------------|-------|------------|---------------|---------------|--|
|  |                            |                  | Cost                 | Fair Value    | Cost  | Fair Value | Cost          | Fair Value    |  |
| Stash Financial, Inc. (f/k/a Collective Returns, Inc.) | United States              |                  |                      |               |       |            |               |               |  |
| Series B Preferred Shares                              |                            | 1,647,819        | \$ 10,200,000        | \$ 33,774,753 | \$ -  | \$ -       | \$ 10,200,000 | \$ 33,774,753 | \$ 23,574,753                          |
| Series A Preferred Shares                              |                            | 693,529          | 1,937,997            | 14,215,014    | -     | -          | 1,937,997     | 14,215,014    | 12,277,017                             |
| Series C Preferred Shares                              |                            | 217,494          | 2,692,576            | 4,457,896     | -     | -          | 2,692,576     | 4,457,896     | 1,765,320                              |
| Series D Preferred Shares                              |                            | 46,103           | 679,991              | 944,957       | -     | -          | 679,991       | 944,957       | 264,966                                |
| Olinda S.A.S (d/b/a Qonto)                             | France                     |                  |                      |               |       |            |               |               |  |
| Series A Ordinary Shares                               |                            | 26,165           | 5,378,771            | 34,043,516    | -     | -          | 5,378,771     | 34,043,516    | 28,664,745                             |
| Series Seed Ordinary Shares                            |                            | 6,351            | 344,546              | 8,263,343     | -     | -          | 344,546       | 8,263,343     | 7,918,797                              |
| N26 GmbH   | Germany                    |                  |                      |               |       |            |               |               |  |
| Preferred B Shares                                     |                            | 1,098            | 4,334,464            | 24,419,437    | -     | -          | 4,334,464     | 24,419,437    | 20,084,973                             |
| Octane Lending, Inc.                                   | United States              |                  |                      |               |       |            |               |               |  |
| Series A-III Convertible Preferred Stock               |                            | 1,562,226        | 8,473,658            | 12,460,760    | -     | -          | 8,473,658     | 12,460,760    | 3,987,102                              |
| Series B Convertible Preferred Stock                   |                            | 294,122          | 2,040,001            | 2,346,001     | -     | -          | 2,040,001     | 2,346,001     | 306,000                                |
| Common Stock   |                            | 129,127          | 516,508              | 1,029,954     | -     | -          | 516,508       | 1,029,954     | 513,446                                |
| Petal Card, Inc.                                       | United States              |                  |                      |               |       |            |               |               |  |
| Series A Preferred Shares                              |                            | 4,485,326        | 5,405,889            | 11,693,245    | -     | -          | 5,405,889     | 11,693,245    | 6,287,356                              |
| Series B Preferred Shares                              |                            | 652,090          | 1,699,999            | 1,699,999     | -     | -          | 1,699,999     | 1,699,999     | -                                      |
| Series B-1 Preferred Shares                            |                            | 161,325          | 378,517              | 420,574       | -     | -          | 378,517       | 420,574       | 42,057                                 |
| Common Stock   |                            | 78,100           | 70,532               | 203,607       | -     | -          | 70,532        | 203,607       | 133,075                                |
| Coya AG  | Germany                    |                  |                      |               |       |            |               |               |  |
| Series A Preferred Shares                              |                            | 11,914           | 4,422,963            | 7,927,383     | -     | -          | 4,422,963     | 7,927,383     | 3,504,420                              |
| Jetty National, Inc.                                   | United States              |                  |                      |               |       |            |               |               |  |
| Series A Preferred Shares                              |                            | 2,375,745        | 5,505,551            | 7,419,454     | -     | -          | 5,505,551     | 7,419,454     | 1,913,903                              |
| Spaceship Financial Services Pty Ltd                   | Australia                  |                  |                      |               |       |            |               |               |  |
| Series A1 Preferred Shares                             |                            | 20,878           | 521,876              | 599,550       | -     | -          | 521,876       | 599,550       | 77,674                                 |

*See accompanying notes to financial statements.*

**Valar Global Fund III LP**  
**(a Delaware Limited Partnership)**

**Schedule of Investments**  
**December 31, 2018**

|   | Geographic Classification* | Number of Shares | Privately Held Stock |                       | Other               |                     | Total                |                       | Unrealized Appreciation (Depreciation) |
|---|----------------------------|------------------|----------------------|-----------------------|---------------------|---------------------|----------------------|-----------------------|--|
|   |                            |                  | Cost                 | Fair Value            | Cost                | Fair Value          | Cost                 | Fair Value            |  |
| Brolly UK Technology Limited Series Seed Preferred Shares Convertible Notes | United Kingdom             | 592,449          | \$ 210,580           | \$ 216,478            | \$ -                | \$ -                | \$ 210,580           | \$ 216,478            | \$ 5,898                               |
|   |                            | -                | -                    | -                     | 237,575             | 216,512             | 237,575              | 216,512               | (21,063)                               |
| Peak Ventures Fund II, L.P. Limited Partnership Interests                   | United States              | -                | -                    | -                     | 374,000             | 374,000             | 374,000              | 374,000               | -                                      |
| Seed Platform, Inc. Simple Agreement for Future Equity                      | United States              | -                | -                    | -                     | 340,000             | 340,000             | 340,000              | 340,000               | -                                      |
| Symple, Inc. Simple Agreement for Future Equity                             | United States              | -                | -                    | -                     | 217,600             | 217,600             | 217,600              | 217,600               | -                                      |
| Mirror AI Inc. Convertible Notes  | United States              | -                | -                    | -                     | 170,000             | 170,000             | 170,000              | 170,000               | -                                      |
| Anduril Industries, Inc. Series Seed Preferred Stock                        | United States              | 123,143          | 68,000               | 68,000                | -                   | -                   | 68,000               | 68,000                | -                                      |
| Brat Inc. Series Seed Preferred Stock                                       | United States              | 83,563           | 67,999               | 67,999                | -                   | -                   | 67,999               | 67,999                | -                                      |
| <b>Total Investments, all in the technology industry</b>                    |                            |                  | <b>\$ 54,950,418</b> | <b>\$ 166,271,920</b> | <b>\$ 1,339,175</b> | <b>\$ 1,318,112</b> | <b>\$ 56,289,593</b> | <b>\$ 167,590,032</b> | <b>\$ 111,300,439</b>                  |
| <b>Percentage of Partners' Capital</b>                                      |                            |                  |                      | <b>99.05%</b>         |                     | <b>0.79%</b>        |                      | <b>99.84%</b>         |  |

\* As used herein, 'Geographic Classification' has the meaning given to it under applicable AICPA guidelines. For these purposes, 54.75% of Partners' Capital is classified in the United States, 25.20% in France, 19.27% in Germany, 0.36% in Australia and 0.26% in the United Kingdom.

See accompanying notes to financial statements.

**Valar Global Fund III LP**  
**(a Delaware Limited Partnership)**

**Statement of Operations**  
**Year Ended December 31, 2018**

---

|  |                      |
|--|----------------------|
| <b>Investment Income</b>   |                      |
| Interest income  | \$ 11,092            |
| <b>Expenses</b>  |                      |
| Management fee   | 1,826,250            |
| Professional fees  | 190,021              |
| General and administrative   | 88,279               |
| Total expenses before management fee waiver                        | 2,104,550            |
| Less: management fee waiver  | (142,080)            |
| Less: management fee reduction for syndication costs               | (63,000)             |
| <b>Total expenses after management fee waiver and reduction</b>    | <b>1,899,470</b>     |
| <b>Net Operating Loss</b>  | <b>(1,888,378)</b>   |
| <b>Unrealized Appreciation on Investments</b>                      |                      |
| Balance at beginning of year                                       | 25,240,354           |
| Balance at end of year   | 111,300,439          |
| <b>Net Change in Unrealized Appreciation on Investments</b>        | <b>86,060,085</b>    |
| <b>Net Increase in Partners' Capital Resulting from Operations</b> | <b>\$ 84,171,707</b> |

---

*See accompanying notes to financial statements.*

**Valar Global Fund III LP**  
**(a Delaware Limited Partnership)**  
**Statement of Changes in Partners' Capital**  
**Year Ended December 31, 2018**

|  | <b>General<br/>Partner</b> | <b>Limited<br/>Partners</b> | <b>Total</b>          |
|--|----------------------------|-----------------------------|-----------------------|
| <b>Partners' Capital, December 31, 2017</b>                                  | \$ 5,034,781               | \$ 67,739,704               | \$ 72,774,485         |
| Capital contributions  | 22,200                     | 10,957,500                  | 10,979,700            |
| Syndication costs  | -                          | (63,000)                    | (63,000)              |
| Net operating loss   | (2,680)                    | (1,885,698)                 | (1,888,378)           |
| Net change in unrealized appreciation on investments                         | 861,625                    | 85,056,380                  | 85,918,005            |
| Recapture of General Partner's deemed contributions -<br>priority allocation | 142,080                    | -                           | 142,080               |
| Carried interest reallocation  | 16,621,536                 | (16,621,536)                | -                     |
| <b>Partners' Capital, December 31, 2018</b>                                  | <b>\$ 22,679,542</b>       | <b>\$ 145,183,350</b>       | <b>\$ 167,862,892</b> |

*See accompanying notes to financial statements.*

**Valar Global Fund III LP**  
**(a Delaware Limited Partnership)**

**Statement of Cash Flows**  
**Year Ended December 31, 2018**

**Cash Flows from Operating Activities**

|  |               |
|--|---------------|
| Net increase in partners' capital resulting from operations  | \$ 84,171,707 |
| Adjustments to reconcile net increase in partners' capital resulting from operations to net cash used in operating activities: |               |
| Net change in unrealized appreciation on investments   | (86,060,085)  |
| Purchase of investments  | (5,257,083)   |
| Changes in operating assets and liabilities:   |               |
| Increase in interest receivable  | (8,500)       |
| Decrease in due to affiliates  | (4,890)       |

---

**Net Cash Used in Operating Activities** (7,158,851)

**Cash Flows from Financing Activities**

|  |             |
|--|-------------|
| Capital contributions, net of change in contributions received in advance and contributions receivable | 11,504,790  |
| Line of credit proceeds  | 2,090,000   |
| Line of credit repayments  | (6,090,000) |
| Syndication costs  | (63,000)    |

---

**Net Cash Provided by Financing Activities** 7,441,790

**Net Increase in Cash** 282,939

**Cash, beginning of year** 504,289

---

**Cash, end of year** \$ 787,228

**Supplemental Disclosures of Cash Flow Information**

|  |            |
|--|------------|
| Conversion of convertible notes and accrued interest to preferred shares | \$ 900,393 |
| Interest paid during the year  | \$ 17,655  |

*See accompanying notes to financial statements.*

**Valar Global Fund III LP**  
**(a Delaware Limited Partnership)**

**Notes to Financial Statements**

---

**1. The Partnership**

The accompanying financial statements include the accounts of Valar Global Fund III LP (the "Partnership"). The Partnership was organized as a Delaware limited partnership on July 1, 2016 (Commencement) to make investments in early-stage technology companies for long-term capital appreciation. The Partnership will continue until the tenth anniversary of the final closing date, unless extended in accordance with the limited partnership agreement (the "Agreement"), or by the election of the general partner. The general partner of the Partnership is Valar Ventures GP III LLC (the "General Partner"), a Delaware Limited Liability Company. Valar Ventures LLC (the "Management Company") serves as the management company of the Partnership.

If a limited partner informs the General Partner that it must abstain from any specific vote taken or consent granted by the limited partners under the Agreement or the Partnership Agreement of a parallel fund, such limited partner's interest shall be deemed not to be outstanding for purposes of such determination and such limited partner shall be excluded from such vote or consent.

***Allocation of Net Income or Net Loss***

The allocation of income and loss is performed in accordance with the executed Agreement. The allocation of ordinary income or ordinary loss, defined as all income received by the Partnership from investments of idle funds in short term securities, shall be allocated to the capital accounts of all partners in proportion to their respective partnership percentages. The allocations have been calculated and financial statements presented on a hypothetical liquidation basis, as prescribed by accounting principles generally accepted in the United States of America ("U.S. GAAP").

First, realized profits from sale or disposition of securities will be allocated to the General Partner equal to the aggregate amount of Fee Adjustments, as defined in the Agreement.

Remaining profits and losses will be allocated:

- a) Until the cumulative amount allocated to each limited partner is equal to 300% of such limited partner's capital commitment, 80% of the profits will be allocated to the partners in proportion to their respective partnership percentages and 20% to first restore any previously allocated contingent losses of the partners and the remaining profits shall be allocated to the General Partner.
- b) From and after the time that the cumulative amount allocated to each limited partner is equal to 300% of such limited partner's capital commitment, allocation of cumulative profits shall be made 75% to all partners in proportion to their respective partnership percentages and 25% to first restore any previously allocated contingent losses of the partners and the remaining profits shall be allocated to the General Partner, until the cumulative amount distributed to each limited partner is equal to 600% of such limited partner's capital commitment.
- c) From and after the time that the cumulative amount allocated to each limited partner is equal to 600% of such limited partner's capital commitment, allocation of cumulative profits shall be made 70% to all partners in proportion to their respective partnership percentages and 30% to first restore any previously allocated contingent losses of the partners and the remaining profits shall be allocated to the General Partner.

**Valar Global Fund III LP**  
**(a Delaware Limited Partnership)**

**Notes to Financial Statements**

---

Losses of the Partnership are allocated as follows:

- a) First, to the extent of the profits allocated as outlined above, items of loss shall be allocated in proportion to and in reverse order of such profit allocations.
- b) Any remaining items of loss shall be allocated 20% to the General Partner and 80% to all partners in proportion to their respective partnership percentages.

If after these allocations result in a balance of the General Partner that is less than the product of (i) the sum of the Adjusted Capital Account balances of all Partners multiplied by (ii) the quotient of (A) the sum of (x) the amount of the General Partner's capital contributions made in cash as of such time plus (y) aggregate allocations of net Profit to the General Partner pursuant to waived management fees divided by (B) the sum of (x) the amount of all of the Partners' capital contributions made in cash as of such time plus (y) aggregate allocations of net Profit to the General Partner pursuant to waived management fees, then an amount (the "Contingent Loss") shall be reallocated from the General Partner's capital account to all of the partners' capital accounts in proportion to their respective partnership percentage. There is no contingent loss balance at December 31, 2018.

***Distributions***

The General Partner may make a distribution of cash or marketable securities to the partners in proportion to their respective partnership percentages until each such partner has received distributions in an amount equal to such partner's aggregate capital contributions, less the net ordinary losses, if any, previously allocated to such partner.

First, to the partners in proportion to their respective partnership percentages until each such partner has received distributions in an amount equal to such partner's aggregate capital contributions less the net Ordinary Losses.

Second, until the cumulative amount distributed to each limited partner is equal to 300% of such limited partner's capital commitment, distributions shall be made 80% to all partners in proportion to their respective partnership percentages and 20% to the General Partner.

Third, from and after the time that the cumulative amount distributed to each limited partner is equal to 300% of such limited partner's capital commitment, distributions shall be made 100% to the General Partner until the General Partner has received aggregate distributions equal to 25% of the cumulative distributions.

Fourth, until the cumulative amount distributed to each limited partner is equal to 600% of such limited partner's capital commitment, distribution shall be made 75% to all partners in proportion to their respective partnership percentages and 25% to the General Partner.

Fifth, from and after the time that the cumulative amount distributed to each limited partner is equal to 600% of such limited partner's capital commitment, distributions shall be made 100% to the General Partner until the General Partner has received aggregate distributions equal to 30% of the cumulative distributions.

Any remaining distribution shall be made 70% to all partners in proportion to their respective partnership percentages and 30% to the General Partner.

**Valar Global Fund III LP**  
**(a Delaware Limited Partnership)**

**Notes to Financial Statements**

---

The General Partner may at any time waive a distribution of cash or marketable securities that would otherwise be made and instead make such distribution 100% to all partners in accordance with their respective partnership percentages; provided, however, that the Partnership may make subsequent distributions of cash to the General Partner to the extent of any such waived distribution at such times as the General Partner shall determine.

Whenever more than one type of marketable securities are being distributed in kind in a single distribution or whenever more than one class of marketable securities of a portfolio company are distributed in kind by the Partnership, each partner shall receive its ratable portion of each type, class or portion of such class of marketable securities distributed in kind (except to the extent that a disproportionate distribution is necessary to avoid distributing fractional shares).

Marketable securities distributed in kind shall be subject to such conditions and restrictions as the General Partner determines are legally required or appropriate. Whenever types or classes of Securities are distributed in kind, each partner shall receive its ratable portion of each type or class of securities distributed in kind.

Each partner shall be paid in cash after the end of each fiscal year during the term of the Partnership an amount equal to the net taxable income allocated to such partner as a result of such partner's ownership of an interest in the Partnership for the current fiscal year multiplied by the highest blended federal, state and local marginal income tax rate then applicable to an individual residing in any state applied by taking into account the character of the taxable income in question (i.e., long-term capital gains, ordinary income, etc.); provided, however, that the General Partner shall not be required to make any such distribution if the total amount to be distributed to all partners is less than \$1,000,000.

## **2. Significant Accounting Policies**

### ***Basis of Presentation***

The financial statements are presented in accordance with U.S. GAAP. The Partnership is an investment company and applies accounting and reporting guidance in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946, "Financial Services - Investment Companies."

### ***Use of Estimates***

U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

### ***Valuation of Investments at Fair Value - Definition and Hierarchy***

The Partnership follows the guidance in the Fair Value Measurements and Disclosures Topic of FASB ASC 820. Under this guidance, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

**Valar Global Fund III LP**  
**(a Delaware Limited Partnership)**

**Notes to Financial Statements**

---

In determining fair value, the Partnership uses various valuation approaches, as may be appropriate in the circumstance, including market, income and/or cost approaches. Investments are valued on a quarterly basis taking into consideration any changes, projections and assumptions, as well as any changes in economic and other relevant conditions. ASC 820 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset developed based on market data obtained from sources independent of the Partnership. Unobservable inputs are inputs that reflect the Partnership's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The valuations of the Partnership's investments are reviewed quarterly by the General Partner. The valuations are further tested by comparison to actual sales prices obtained on disposition of the investments. The fair value hierarchy is broken down into three levels based on the reliability of inputs as follows:

**Level 1** - Valuations based on unadjusted quoted prices in active markets for identical assets that the partnership has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

**Level 2** - Valuations based on inputs that are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

**Level 3** - Valuations based on inputs that are unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment and estimation.

The availability of valuation techniques and observable inputs can vary from instrument to instrument and is affected by a wide variety of factors, including, for example, the type of instrument, whether the instrument is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Partnership in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Partnership's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date.

**Valar Global Fund III LP**  
**(a Delaware Limited Partnership)**

**Notes to Financial Statements**

---

The valuation methodologies used to estimate the fair value the Partnership's classes of investments is described below:

*Investments in Portfolio Companies* - The General Partner primarily uses a market approach in estimating the fair values of its investments in portfolio companies. This approach usually includes referencing recent or pending transactions in the same or similar securities of the issuer. Investment carrying value may also be supported by reference to observable valuation measures for comparable companies, such as an enterprise value or acquisition value to revenue multiple, where unobservable data of the issuer is viewed in the context of a relevant range of comparable companies or transactions. Such information may be derived from unaudited input sources. In certain instances, the General Partner may use a combination of the market and income approaches for certain portfolio investments. The Partnership's investments may also be valued at cost for a period of time after an investment is made as the best indicator of fair value. Debt instruments are recorded at fair value using cost. In assessing portfolio investment companies for impairment, management considered these companies' product line portfolio, customers and related commercial agreements, labor agreements and other factors for which identifiable cash flows are largely independent.

The fair values of venture capital investments are determined by reference to multiple inputs, including: the original transaction price, recent transactions in the same or similar securities, completed or pending third-party transactions in the same or similar securities, subsequent rounds of financing by the issuer, recapitalization of the issuer, expected near term acquisition or merger of the issuer, significant changes in operating performance, financial ratios and cash flows of the issuer, historical and projected revenues, public market or private market transactions, valuations for comparable companies, information obtained from portfolio company 409A valuations, and other measures which, in many cases, are unaudited at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (e.g., multiplying a key performance metric of the investee company such as revenues by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. The fair value measurement of such investments does not include transaction costs that may have been capitalized as part of such investments' cost basis.

***Interest Income***

Interest income represents interest earned from bank interest and the Partnership's investments in debt instruments. Interest is recorded on an accrual basis.

***Taxes on Income***

The Partnership accounts for uncertainty in tax positions by determining whether a tax position of the Partnership is more likely than not to be sustained upon examination, including the resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial statements is reduced by the largest benefit that has a more likely than not position of being realized upon ultimate settlement with the relevant taxing authority.

**Valar Global Fund III LP**  
**(a Delaware Limited Partnership)**

**Notes to Financial Statements**

---

The Partnership files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Partnership is subject to examination by federal, state, local and foreign jurisdictions, where applicable. As of December 31, 2018, the tax years that remain subject to examination by the major tax jurisdictions (U.S. Federal and California State) under the statute of limitations are from 2016 forward.

The Partnership accrues all amounts under relevant tax laws as incurred. As of December 31, 2018, the General Partner has determined that the Partnership does not have a liability for uncertain tax positions nor did the Partnership incur a liability for interest and penalties. The General Partner does not anticipate any unrecognized tax benefits in the next twelve months that would result in a material change to the Partnership's financial position.

***Foreign Currency Transactions***

Investment securities and other assets and liabilities denominated in foreign currencies are revalued into U.S. dollar amounts at the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions.

The Partnership does not isolate the portion of the results of operations resulting from changes in foreign currency rates on investments from the fluctuations arising from changes in unrealized or realized gains and losses from investments.

***Recent Accounting Pronouncement***

In August 2018, the Financial Accounting Standards Board ("FASB") issued *Accounting Standards Update ("ASU") 2018-13- Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which includes amendments intended to improve the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removes, modifies and adds certain disclosure requirements and affects companies that are required to include fair value measurement disclosures.

For nonpublic entities, the disclosure for the changes in the unrealized gains and losses included in earnings for recurring Level 3 fair value measurements held at the end of the period are no longer required. In lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities.

The amendments in this update are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption for amendments that remove or modify disclosures are permitted and the Partnership has early adopted these amendments.

**3. Fair Value Measurements**

The Partnership's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. See Note 2 for a discussion of the Partnership's policies regarding this hierarchy.

**Valar Global Fund III LP**  
**(a Delaware Limited Partnership)**

**Notes to Financial Statements**

The following table presents the investments carried on the statement of assets, liabilities and partners' capital by level within the valuation hierarchy as of December 31, 2018.

|                          | Investments at Fair Value as of December 31, 2018 |             |                       |                       |
|--------------------------|---|-------------|-----------------------|-----------------------|
|                          | Level 1   | Level 2     | Level 3               | Total                 |
| Preferred stock          | \$ -  | \$ -        | \$ 165,038,359        | \$ 165,038,359        |
| Common stock             | -   | -           | 1,233,561             | 1,233,561             |
| Partnership interest*    | -   | -           | -                     | 374,000               |
| Other                    | -   | -           | 944,112               | 944,112               |
| <b>Total investments</b> | <b>\$ -</b>                                       | <b>\$ -</b> | <b>\$ 167,216,032</b> | <b>\$ 167,590,032</b> |

\*Under ASC 820, partnership interests presented in the table above are not required to be categorized within the fair value hierarchy, as fair value of these investments are determined using NAV as a practical expedient.

The following table includes a summary of activity for the year ended December 31, 2018 for investments classified within Level 3. The classification of an investment within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

|           | Preferred<br>Stock | Common<br>Stock | Other      | Total        |
|-----------|--------------------|-----------------|------------|--------------|
| Purchases | \$ 4,419,990       | \$ -            | \$ 837,093 | \$ 5,257,083 |

There were no transfers between Level 3, Level 2 or Level 1 investments during the year presented. At December 31, 2018, all Level 3 investments were valued based on most recent observable transaction price.

While the General Partner believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated, and these differences could be material to the financial statements.

#### **4. Management Fee**

The General Partner shall be compensated in cash, payable quarterly in advance, for services rendered to the Partnership by the payment in advance by the Partnership in cash to the General Partner on the first day of each fiscal quarter of a management fee. The management fee for each fiscal quarter shall be an amount equal to the aggregate limited partners' capital commitments as of the first day of each such quarter multiplied by 0.625%. The management fee otherwise payable by the Partnership to the General Partner shall be offset by one hundred percent (100%) of the amount of any cash or noncash compensation in the form of stock, options, warrants or other similar rights (net of the amount paid for any such stock or securities) paid as directors, consulting, management service, advisory, consultant, transaction, commitment, breakup or broken deal fees or similar fees to the General Partner, the Management Company, or the respective managing members or managers of such entities, during the immediately preceding quarter by or in connection with any company in which the Partnership holds an investment or any company in which the Partnership actively sought to invest but did not, net of any unreimbursed expenses of the General Partner or the Management Company, or the managing members or managers of such entities, provided, however, the foregoing shall not apply to any cash or non-cash compensation paid to any such parties by a company in which an "Affiliated Party" (as defined in the Agreement) or a member,

**Valar Global Fund III LP**  
**(a Delaware Limited Partnership)**

**Notes to Financial Statements**

---

employee or Affiliate thereof holds an investment as of the date hereof and by the amount of capital that the General Partner elected not to contribute in cash in the preceding quarter ("Fee Adjustment").

During the year ended December 31, 2018, total management fees were \$1,826,250, of which there was a (1) Fee Adjustment of \$142,080 as a result of the General Partner not contributing in cash 80% of its capital contributions of \$177,600 from October 1, 2017 to September 30, 2018 and (2) a management fee reduction of \$63,000 as a result of syndication costs for placement agent fees.

**5. Partners' Capital**

As of December 31, 2018, the Partnership had a total capital commitment of \$73,790,000, including the General Partner's capital commitment of \$740,000, of which a combined 84% has been called with \$61,486,320 funded into the Partnership.

**6. Commitments**

The Partnership agrees to indemnify, out of the assets of the Partnership only the General Partner, the Management Company, the members of the advisory committee, the tax matters partner and their respective managers, members, partners, principals, officers, employees, affiliates and agents to the fullest extent permitted by law for good faith actions taken on behalf of the Partnership. The Partnership is unable to develop an estimate of the maximum amount of potential future payments from the Partnership as a result of potential claims, but expects the risk of having to make significant indemnification payments to be remote.

**7. Related Parties**

The General Partner also provides management services to an affiliated fund, Valar Global Principals Fund III LP, which co-invests *pari passu* with the Partnership in the same portfolio companies the Partnership invests in.

Members or assignees of the General Partner serve as a member of the Board of Directors for certain portfolio companies of the Partnership as of December 31, 2018.

The Partnership has amounts due to related parties for payment of expenses on behalf of the Partnership in the normal course of business. As of December 31, 2018, \$4,668 is due to related parties.

**8. Line of Credit**

On August 3, 2016, the Partnership entered into a line of credit agreement with a major U.S. bank (the "Lender") that allowed the Partnership to borrow cash through August 3, 2019. The Lender has committed to provide up to the lesser of \$4,760,000 or 50% of callable capital less borrower's contingent obligations. The principal amount outstanding under the line shall accrue interest at a floating per annum rate equal to one half of one percentage point (0.50%) below the Wall Street Journal prime floating rate. The line of credit agreement contained certain nonfinancial covenants and the Partnership was in compliance with all covenants as of December 31, 2018. The outstanding balance at December 31, 2018 was \$0.

**Valar Global Fund III LP**  
**(a Delaware Limited Partnership)**

**Notes to Financial Statements**

---

**9. Risk Factors**

The Partnership's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The significant types of financial risks to which the Partnership is exposed include, but are not limited to market risk, illiquidity risk and other additional risks. Certain aspects of those risks are addressed below.

**Credit Risk** - In the normal course of business, the Partnership maintains its cash balances in financial institutions, which at times may exceed federally insured limits. The Partnership is subject to credit risk to the extent any financial institution with which it conducts business is unable to fulfill contractual obligations on its behalf. Management monitors the financial condition of such financial institutions and does not anticipate any losses from these counterparties.

**Market Risk** - The Partnership's investments are long-term and highly illiquid and there is no assurance that the Partnership will achieve investment objectives including targeted returns. Due to the illiquidity of the investments, valuation of the assets may be difficult, as there generally will be no established markets for these assets. As the Partnership's financial instruments are carried at fair value with fair value changes recognized in the statement of operations, all changes in market conditions will directly affect the net asset value of the Partnership.

**Illiquidity Risk** - Most of the portfolio companies in which the Partnership expects to make investments will initially be privately held. As a result there will be no readily available secondary market for the Partnership's interests in such portfolio companies, and those interests will be subject to legal restrictions on transfer. Therefore, there is no assurance that the Partnership will be able to realize liquidity for such investments in a timely manner, if at all.

**Foreign Currency Risk** - The Partnership may enter into transactions denominated in currencies other than its functional currency. Consequently, the Partnership may be exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that may have an adverse effect of the value of that portion of the Partnership's assets or liabilities denominated in currencies other than the functional currency.

**Industry Risk** - The Partnership focuses on investments in the technology industry. Thus, the performance of the Partnership will be closely linked to the performance of this industry and the Partnership could be severely impacted by adverse developments affecting this industry.

**Geographic Risk** - The Partnership has not adopted policies requiring that its portfolio companies be diversified in different geographic areas. If several Partnership investments are concentrated in one geographic area, the Partnership could be severely impacted by adverse developments affecting that geographic area.

**Technology Risk** - The technologies developed by the portfolio companies may not work.

**Valar Global Fund III LP**  
**(a Delaware Limited Partnership)**

**Notes to Financial Statements**

---

**10. Financial Highlights**

The Partnership is required to disclose financial highlights for the common interest in the Partnership (i.e. the limited partners' interest). These financial highlights consist of the operating expenses, priority allocation, carried interest reallocation and net operating loss ratios for the year ended December 31, 2018 and the net internal rate of return ("IRR") since inception of the limited partners, net of all fees and carried interest reallocation to the General Partner, through December 31, 2017 and 2018. The following summarizes the limited partners' financial highlights:

|   |         |
|---|---------|
| Net operating loss <sup>(1)</sup>   | (1.94%) |
| Total expenses before management fee waiver and deduction for syndication cost <sup>(1)</sup> | 2.16%   |
| Less: management fee waiver with respect to the General Partner's capital commitment          | (0.15%) |
| Less: deduction of syndication cost with respect to the General Partner's capital commitment  | (0.06%) |
| Net expenses after management fee waiver  | 1.95%   |
| Priority allocation   | 0.15%   |
| Carried interest reallocation   | 17.10%  |
| Total net expenses, priority allocation and carried interest reallocation                     | 19.20%  |
| Cumulative net IRR through December 31, 2017 <sup>(2)</sup>                                   | 52.02%  |
| Cumulative net IRR through December 31, 2018 <sup>(2)</sup>                                   | 72.76%  |

<sup>(1)</sup> The net operating loss, carried interest reallocation and expense ratios are computed as a percentage of quarterly weighted average limited partners' capital balance.

<sup>(2)</sup> The net IRR was computed based on the cash inflows (capital contributions), outflows (cash and stock distributions), and the ending limited partners' capital balance at the end of the year (residual value) of the limited partners' capital account as of each measurement date. The IRR is net of carried interest reallocation.

These financial highlights may not be indicative of the future performance of the Partnership.

**11. Subsequent Events**

The Partnership has evaluated subsequent events through March 20, 2019, the date the accompanying financial statements were available to be issued and did not note any items that would adjust the financial statements or require disclosure.