

US SELECT PRIVATE OPPORTUNITIES FUND III (FUND) QUARTERLY UPDATE FOR PERIOD ENDING 31 MARCH 2017

ASX: USP

Private investment market commentary

After a steady climb from the US election in November 2016 (circa 2,100) to an-all time high at the beginning of March 2017 (circa 2,400), the S&P 500 Index has drifted marginally lower during March, but remained strong, settling on March 31 at 2,363. The recent strength in public markets was driven largely by President Trump's election but it has also been supported by an increase in consumer confidence. In March, the Conference Board Consumer Confidence Index (CCI) jumped 9.5 points to 125.6, the highest reading since December 2000, signalling a growing optimism in the short-term outlook for business, jobs and personal income. This measure typically closely correlates to the unemployment rate in the Labour Department's employment report. The unemployment rate declined to a near 10-year low of 4.5 per cent, creating relatively little slack in the market. While, nonfarm payrolls increased by 98,000 jobs in March (i.e., the fewest since May 2016) job growth still averaged 178,000 per month in Q1. The overall numbers underscore the labour market's strength, despite the stumble in March.

As mentioned in the prior update, 2016 showed strong results for private equity fundraising. As noted by Bain in their 2017 Global Private Equity Report, 2017, distributions for the asset class have outpaced contributions since 2011. During the first half of 2016, the ratio of distributions to contributions stood at 1.9x¹, meaning that on average globally, for every \$1 an investor had in private equity, they received a return of almost \$2. Given the capital that has been returned and the success of the asset class, 2017 fundraising is expected to continue the strong trajectory of prior years. According to Preqin, private equity fundraising is off to a strong start in 2017. Globally, in Q1 2017, 175 private equity funds reached a final close, raising a combined US\$89.4 billion in global commitments².

Both Preqin and Bain reported that global buyout deal activity declined during 2016, largely driven by consistently high asset valuations. Preqin's Q1 2017 private equity reports highlighted a marginally slower quarter for fundraising and deals. During Q1 2017, the aggregate value of private equity backed deals was US\$53.4 billion. For North America, private equity backed deals were worth US\$25.2 billion in aggregate, meaningfully lower than the US\$28.1 billion reported by Preqin in Q1 2016. According to Preqin, there were 394 private equity backed exits globally worth, US\$47.9 billion in aggregate. This was down slightly from Q1 2016 when we saw 397 exits worth US\$54.9 billion. Private equity backed exits in North America accounted for well more than half of the value, with 188 exits worth US\$25.3 billion in aggregate. Preqin did not break down this number by region for the prior year^{2,3}.

During Q1 2017, the Australian dollar (AUD) traded between 0.7184 and 0.7731, ending the year at 0.7629 against the US dollar (USD).

Notes:

1. Source: Bain & Company, Global Private Equity Report, 2017.
2. Source: Preqin, Q1 2017 Fundraising Update.
3. Source: Preqin, Q1 2017 Buyout Deals and Exits.

Fund activity and portfolio

FUND UPDATE

The estimated unaudited net tangible asset value before withholding tax on unpaid distributions at 31 March 2017 was \$1.50¹ per unit (at 31 December 2016 was \$1.58¹ per unit).

US Select Private Opportunities Fund III, L.P. (**LP**), has committed US\$57.5 million across eight private investment funds, all focused on small-to mid-market private investment opportunities.

At 31 March 2017, US\$13.0 million (or 17.8% of total funds committed to the LP), had been called by the LP. The Fund's proportionate share of this is approximately US\$9.4 million (a 72.5% share).

During the quarter, the LP received five drawdown requests and a capital return for a total net consideration of \$1.9 million.

During the quarter, the LP committed US\$5 million to Growth Street Partners I, L.P. This Fund is focused on investments in growing software (SaaS) and technology enabled service companies. More information on this Fund can be found at <http://growthstreetpartners.com/>.

Following month end, Walsh & Company Asset Management as trustee for Cordish Dixon III Australian Wholesale Fund (CDW III), a newly formed wholesale investment fund, announced the intention to commit approximately US\$12 million into the US Select Private Opportunities Fund III L.P. (**Limited Partnership**).

CDW III intends to invest alongside the Fund and other existing investors into the Limited Partnership. The Fund's total USD commitment into the Limited Partnership will remain unchanged.

This new commitment is expected to enhance the Limited Partnership's scale and investment diversification. The Limited Partnership will continue to pursue a multi-manager strategy targeting US-based small-to-mid-market private investment funds.

Following this intended commitment by CDW III to the Limited Partnership, the Limited Partnership will have received total commitments of approximately US\$85 million, including US\$53 million from US Select Private Opportunities Fund III.

Note:

1. Source: Walsh & Company Investments Limited. Historical performance is not a guarantee of the future performance of the Fund.

SUMMARY OF THE UNDERLYING FUNDS AT 31 MARCH 2017

UNDERLYING FUND	INDUSTRY FOCUS	LP COMMITMENT TO UNDERLYING FUNDS (US\$ MILLION) ¹	NET CAPITAL DRAWDOWN (US\$ MILLION)
DFW Capital Partners V, L.P.	Health care, business services and industrial services	\$7.5	\$2.0
Elephant Partners Fund I, L.P.	Consumer internet, mobile and software companies	\$5.0	\$2.2
Encore Consumer Capital Fund III, L.P.	Food and consumer products	\$7.5	\$1.2
Gemspring Capital Fund I, L.P.	Lower middle-market companies	\$10.0	\$0.3
Growth Street Partners I, L.P.	Growth and software businesses	\$5.0	\$0.0
Incline Equity Partners IV, L.P.	Lower middle-market companies	\$7.5	\$0.0
PeakSpan Capital Fund I, L.P.	Growth and software businesses	\$5.0	\$1.1
Trive Capital Fund II, L.P.	Strategically viable, but under-resourced, middle-market companies	\$10.0	\$4.0
		\$57.5	\$10.8

Note:

1. The Fund has a 72.5% interest in the LP Cordish Private Ventures, US Select Private Opportunities Fund III GP, LLC and its partner contributed the remaining amount based on their proportional shares. Numbers may not add due to rounding.

UNDERLYING FUND ACTIVITY

DFW Capital Partners V, L.P. No material investment activity during the quarter.

Elephant Partners Fund I, L.P. Elephant invested additional capital in KnowBe4.

Elephant invested in the operator of an online comparison marketplace for financial products, including mortgages, credit cards, auto insurance, home insurance and savings accounts. The transaction has not yet been announced, so we are not able to disclose the name or website of the company at this time.

Encore Consumer Capital Fund III, L.P. No material investment activity during the quarter.

Gemspring Capital Fund I, L.P. No material investment activity during the quarter.

Growth Street Partners I, L.P. No material investment activity during the quarter.

<http://growthstreetpartners.com/>

Incline Equity Partners IV, L.P. No material investment activity during the quarter.

PeakSpan Capital Fund I, L.P. PeakSpan invested in Kenna Security, a risk and vulnerability intelligence platform that correlates external internet breach data, exploit data, and zero-day threat intelligence with internal vulnerability scan data so organisations can focus on fixing the most critical problems. Kenna processes over 10 billion vulnerabilities a day against internet breach data for its users.

www.kennasecurity.com

Trive Capital II Trive invested in Lucky Bucks, an operator of digital skill-based gaming terminals in Georgia, US. Lucky Bucks assembles, distributes, owns and operates over 700 gaming terminals in over 140 locations throughout Georgia, each of which is fully-licensed and governed by the Georgia State Lottery.

Trive invested in NxEdge in June 2016. The deal was not publicly announced at the time, so details of the investment were not disclosed. NxEdge provides vertically-integrated solutions to the semiconductor market. As an advanced equipment components supplier, NxEdge offers custom solutions including machining, anodizing and plating, advanced engineering coatings, fluoropolymer coatings, cleanings and assembly. In Q1 2017, Trive invested additional capital in NxEdge.

<http://www.nxedgeinc.com>

Trive returned additional capital from the GreenHunter sale distributing US\$332,123 to US Select III.

About the Fund

US Select Private Opportunities Fund III (**Fund**) was formed in July 2016 to invest in US Select Private Opportunities Fund III, L.P. (**LP**). The Fund invests in the LP in partnership with Cordish Private Ventures, LLC, the private investment arm of the Cordish family of Baltimore, Maryland, USA.

The Fund pursues a multi-manager strategy, investing as a limited partner in small-to-medium sized private investment funds in the United States, using the experience and relationships of the Cordish family in that market. The US Select Private Opportunities Fund Series represent unique vehicles for Australian retail investors to access attractive small, nimble US private investment funds that have historically outperformed their larger counterparts.

The underlying fund managers are focused on proven investment strategies in specialised areas. They pursue investments in operating businesses with proven revenues and operating profits, take a hands-on approach to their investments in those businesses and only utilise leverage judiciously.

Disclaimer

This Quarterly Update (**Update**) has been prepared by US Select Private Opportunities Fund III GP, LLC as Investment Manager of US Select Private Opportunities Fund III (**Fund**). An investment in the Fund is subject to various risks, many of which are beyond the control of the Investment Manager and the Fund. The past performance of the Fund is not a guarantee of the future performance of the Fund. This Update contains statements, opinions, projections, forecasts and other material (**forward looking statements**), based on various assumptions. Those assumptions may or may not prove to be correct. None of the Investment Manager and the Fund, their officers, employees, agents, analysts nor any other person named in this Update makes any representation as to the accuracy or likelihood of fulfilment of the forward looking statements or any of the assumptions upon which they are based. This Update may contain general advice. Any general advice provided has been prepared without taking into account your objectives, financial situation or needs. Before acting on the advice, you should consider the appropriateness of the advice with regard to your objectives, financial situation and needs, and consider obtaining advice from a financial advisor. You should obtain a copy of the relevant PDS or offer document before making any decisions to purchase the product.