

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

ASX: USF

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 \$2.14¹ per unit (at 31 December 2016 it was \$2.17¹ per unit).

The Fund is a long-term investor and seeks to make investments in a tax-effective manner. If tax at 35% on estimated underlying investment values were to be recognised, the estimated unaudited net asset backing after tax as at 31 March 2017 would be \$2.10¹ per unit.

US Select Private Opportunities Fund, L.P. (LP), has committed US\$69.8 million across nine private investment funds, all focused on small-to-mid-market private investment opportunities.

At 31 March 2017, US\$57.5 million (or 82.7% of total funds committed to the LP), had been called by the LP. The Fund's proportionate share of this is approximately US\$49.2 million (an 85.5% share).

During the quarter, the LP received seven drawdown requests and two capital returns for a total net consideration of \$0.7 million.

FUND PERFORMANCE

AS AT 31 MARCH 2017	3 MONTHS	6 MONTHS	1 YEAR	2 YEARS PA	3 YEARS PA	SINCE INCEPTION PA ³
Unit price return²	-4.1%	-1.9%	3.2%	5.4%	9.9%	8.3%
NTA return²	-1.4%	3.9%	9.0%	8.1%	12.9%	9.8%

Notes:

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

2. Total returns are inclusive of distributions.

3. Inception date August 2012.

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 IV, L.P.	Health care, business services and industrial services	\$5.0	\$3.9
Encore Consumer Capital Fund II, L.P.	Non-discretionary consumer products	\$10.0	\$9.2
FPC Small Cap Fund I, L.P.	Lower-middle market, service-oriented companies	\$4.0	\$2.7
Incline Equity Partners III, L.P.	Manufacturing, value-added distribution and business services	\$10.0	\$7.7
KarpReilly Capital Partners II, L.P.	Apparel & branded consumer products, retail, restaurants	\$10.0	\$8.8
Peppertree Capital Fund IV, L.P.	Telecommunication infrastructure companies	\$3.0	\$2.8
Prometheus Partners IV, L.P.	Quick service restaurants	\$4.8 ²	\$4.3 ²
Trivest Fund V, L.P.	Manufacturing, distribution, business services, consumer	\$10.0	\$5.4
U.S. Select Direct Private Equity (US), L.P.	Invests in a direct portfolio of select private companies alongside leading, specialist private investment funds	\$13.0	\$10.9
		\$69.8	\$55.7

Notes:

1. The Fund has an 85.5% interest in the LP. Cordish Private Ventures and US Select Private Opportunities Fund GP, LLC contributed the remaining amount based on their proportional shares. Numbers may not add due to rounding.
2. The LP received a final distribution from Prometheus Partners IV, L.P. on 30 June 2016 and has no remaining capital with this fund.

UNDERLYING FUND ACTIVITY

DFW Capital Partners IV, L.P. DFW sold Triple-I Holdings, distributing US\$1,454,059 to US Select I.

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

FPC Small Cap Fund I, L.P. No material investment activity during the quarter.

Incline Equity Partners III, L.P. Incline sold Dorner Holding Corp., distributing US\$1,492,010 to US Select I. Incline made an additional investment in Hartland Controls Holding Corp.

KarpReilly Capital Partners II, L.P. KarpReilly made an additional investment in FitLife Foods.

Peppertree Capital Fund IV, L.P. Peppertree invested in Telesite, which provides wireless site development, design, deployment and engineering services to commercial wireless carriers.

<http://www.telesitetower.com/>

Trivest Fund V, L.P. Trivest invested in a leading provider of travel nurse and leadership professional services to post-acute care facilities. The Company provides critical operating personnel on a temporary basis to these facilities, including nursing home administrators, directors of nursing, and Minimum Data Set (MDS) coordinators. The transaction has not yet been announced, so we are not able to disclose the name or website at this time.

US Select Direct Private Equity (US), L.P. US Select Direct committed additional capital to J America to help fund the add-on acquisition of Top of the World (TOW). TOW is a leading supplier of collegiate headwear in the US.

<http://towcaps.com/>

About the Fund

US Select Private Opportunities Fund (**Fund**) was formed in June 2012 to invest in US Select Private Opportunities Fund, 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 US, 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 GP, LLC as Investment Manager of US Select Private Opportunities Fund (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.