

# US Select Private Opportunities Fund III

ARSN 612 132 813

## Appendix 4D: Half-Year Report

For the period from 5 May 2016 (Date of Registration) to 30 September 2016

### Results for announcement to the market

The information on this report should be read in conjunction with announcements made by the Fund.

This is the first half-year report prepared for the Fund since registration on 5 May 2016. Walsh & Company Investments Limited, as Responsible Entity of the Fund, has been granted relief from the requirement to comply with subsection 323D(5) of the Corporations Act 2001 (Act) in respect of the first half-year of the Fund, the effect of which is to treat the period from 5 May 2016 to 30 September 2016 as the first half-year.

	Period from 5 May to 30 September 2016 (\$)	Half-year to 30 September 2015 (\$)	Change from previous period (\$)	Change from previous period (%)
Revenue from ordinary activities	46,935	n/a	n/a	n/a
Loss from ordinary activities after tax attributable to unitholders	(2,267,770)	n/a	n/a	n/a
Net loss from ordinary activities after tax attributable to unitholders	(2,267,770)	n/a	n/a	n/a
Basic loss per unit	(9.77 cents)	n/a	n/a	n/a
Diluted loss per unit	(9.77 cents)	n/a	n/a	n/a

### Commentary on results

On 20 July 2016, the Fund raised \$76,845,472 from the issue of 48,028,420 fully paid ordinary units.

The Fund invests in US small to mid-market private investment funds through its capacity as a Limited Partner of the US Select Private Opportunities Fund LP, III (LP), registered in the Cayman Islands. As at 30 September 2016, the Fund committed a total of US\$53 million to the LP, of which US\$7.3 million was called.

Revenue from ordinary activities of the Fund for the period comprised entirely of interest income. Total comprehensive loss for the period was \$2,267,770. This was primarily made up of a foreign exchange loss of \$1,841,984 and a fair value movement loss of \$346,398 incurred on the Fund's investment in the LP.

The focus of the Fund is to deliver long term capital growth, so at this stage the Responsible Entity believes that the net tangible assets for the Fund is the key measure of performance rather than revenue or profitability.

As at 30 September 2016, the Fund had net assets of \$72,029,669, representing a net tangible asset per unit of \$1.50.

No distributions were paid or declared during the period from 5 May 2016 to 30 September 2016.

## **Results for announcement to the market (continued)**

### ***Events subsequent to the reporting date***

There were no matters or circumstances that have arisen since the end of the reporting period that will significantly affect the Fund's operations, the result of those operations or the state of affairs in future financial years.

### ***Other information***

This report is based on the half-year financial report which has been subject to review by an independent auditor. The independent auditor's review report forms part of the Half-Year Financial Report.

All documents comprise the information required by Listing Rule 4.2A.3.

### ***Attachments forming part of Appendix 4D***

Attachment 1 – Half-Year Financial Report, including Directors' Report.

Half Year Financial Report, including Director's Report.

A handwritten signature in black ink, appearing to read 'Alex MacLachlan', with a stylized flourish at the end.

**Alex MacLachlan**

*Chairman of Walsh & Company Investments Limited, Responsible Entity*

29 November 2016

# **US Select Private Opportunities Fund III**

**ARSN 612 132 813**

**Half-Year Financial Report for the period 5 May 2016 (Date of  
Registration) - 30 September 2016**

## **US Select Private Opportunities Fund III**

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**30 September 2016**

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**US Select Private Opportunities Fund III**  
**Report to unitholders**  
**30 September 2016**

Dear Unitholders,

Welcome to the inaugural half-year report for US Select Private Opportunities Fund III (**Fund**) for the period from 5 May 2016 (date of registration) to 30 September 2016.

**Overview**

The Fund enjoyed a highly successful initial five months of operation. The Fund accepted over \$76.8 million of initial applications and subsequently committed US\$53.0 million to US Select Private Opportunities Fund III, L.P. (**LP**). The LP completed its initial close with US\$73.1 million of total committed capital with Cordish Private Ventures and the Dixon Associates PE III Wholesale Fund committing, in aggregate, \$20.0 million to the LP.

US Select Private Opportunities Fund III GP, LLC (**the Investment Manager**) is pleased to announce after thorough due diligence, including multiple follow-up meetings, detailed document reviews and legal and regulatory diligence, the LP has committed, to-date, a total of US\$45 million (or 61.6% of total committed capital) in six leading private investment funds, all focused on small-to-mid-market private investment opportunities. The LP expects to make further commitments over the coming year.

As at 30 September 2016, US\$10.0 million (or 13.7% of the LP's total committed capital) had been called. The Fund's proportionate share of this is approximately US\$7.3 million (a 72.5% share).

At 30 September 2016, net drawdown requests from underlying investments were approximately US\$6.3 million (or 14.8% of the LP's commitments to underlying funds).

At 30 September 2016, the Fund had net assets of \$72,029,669, representing \$1.50 per unit.

**Underlying fund information**

**DFW Capital Partners V, L.P. (US\$7.5 million of capital committed)**

DFW Capital Partners is a leading private equity firm, focused exclusively on the lower middle market. The firm has extensive expertise in acquiring and growing companies in healthcare, business services and industrial services industries. Investments typically present strong customer relationships, have recurring revenue streams and a competitive advantage through proprietary technology, but are in need of organisational change and/or succession planning solutions.

Investment Activity:

DFW invested in Lighting Retrofit International (LRI), a leading provider of comprehensive services for energy and water efficiency projects. The Company provides design, engineering, project management, analysis and monitoring for energy efficiency projects primarily in the Federal and MUSH (Municipalities, Universities, Schools and Hospitals) markets.

**Elephant Partners Fund I, L.P. (US\$5.0 million of capital committed)**

Co-founded in 2015 by Jeremiah Daly and Andy Hunt, both of who worked for Highland Capital Partners, Elephant Partners focuses on investing in consumer internet, mobile and software companies.

Investment Activities:

Elephant invested in Homepolish, an online marketplace connecting top-quality interior designers to consumers and businesses in search of design services.

Elephant also invested in KnowBe4, the industry-leading security awareness training and integrated phishing platform. KnowBe4 helps IT teams manage the problem of social engineering, training users to recognise red flags by utilising a robust platform of tools.

**US Select Private Opportunities Fund III**  
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The most recent investment made by Elephant was Scopely, a mobile game publishing platform. Scopely, the leading touchscreen entertainment network, creates top grossing genre-defining games for both casual and core gamers with world-class development partners.

**Encore Consumer Capital Fund III, L.P. (US\$7.5 million of capital committed)**

Encore Consumer Capital is a private investment firm focused on investing in food and consumer products manufacturing and marketing companies. Encore works closely with its operating executives to identify new investment opportunities and drive portfolio company performance.

Investment Activity:

Encore invested in LORAC, a leading prestige colour cosmetics brand founded by celebrity makeup artist Carol Shaw. LORAC is an authentic Hollywood-inspired brand with high-quality, gentle formulations across all colour cosmetic categories.

**Gemspring Capital Fund I, L.P. (US\$10.0 million of capital committed)**

Gemspring Capital is a private equity firm specializing in lower middle market companies. Gemspring targets companies headquartered in the United States and Canada with strong competitive positions within a sustainable market niche that will benefit from their expertise and partnership.

Gemspring Capital I Fund, with an initial capital closing date in September 2016, had not made any underlying investment.

**PeakSpan Capital Fund I, L.P. (US\$5.0 million of capital committed)**

PeakSpan invests in growth stage companies that sell enterprise software in the US. These companies serve the full spectrum of buyers from very small businesses to large enterprises. The two founders have a combined 25+ years of investment experience investing in growth and software businesses.

Investment Activities:

PeakSpan invested in Cyara, a global market-leading provider of an omni-channel customer experience testing and monitoring platform. Cyara looks to optimise the performance of contact centres by using an approach called the Customer Experience Innovation Lifecycle. Cyara's platform supports global customers with combined revenues of approximately US\$3 trillion and is utilised by the world's most recognisable global brands.

PeakSpan also invested in MindTouch, a leading software solution for customer success/engagement management, helping companies create smarter customers to accelerate the sales cycle and drive product adoption. MindTouch is a new category of software that converts user manuals into a modern digital experience.

**Trive Capital Fund II, L.P. (US\$10.0 million of capital committed)**

Trive is a private investment fund that is focused on acquiring strategically viable, but under-resourced middle-market companies with the potential for value creation through operational improvement. Trive excels in complex situations, including but not limited to family-owned businesses, corporate carve-outs and distressed transactions, in which speed and certainty are generally a priority.

Investment Activities:

Trive successfully exited its debt investment in GreenHunter Resources as part of the company's restructuring deal. GreenHunter Resources, a provider of water management solutions to operators in unconventional oil and natural gas shale resource plays, has been successfully restructured and will be operated going forward as FQ Disposal LLC.

Trive invested in Iowa Northern, a company that operates short-line railroads that primarily serve customers in the grain, fertiliser and specialty chemical markets.

**US Select Private Opportunities Fund III**  
**Report to unitholders**  
**30 September 2016**

Trive also invested in NxEdge, a company that provides vertically integrated solutions to the semiconductor market. As an advanced equipment component supplier focusing on etch and CMP tools, NxEdge offers custom solutions including machining, anodisation, advanced engineering coatings, fluoropolymer coatings and cleanings.

I would like to thank Unitholders for their continued support as we look to further enhance Australian investors' exposure to small-to-mid-market US-based private investment firms.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'Alex MacLachlan', with a stylized flourish at the end.

**Alex MacLachlan**

*Chairman of Walsh & Company Investments Limited*

**29 November 2016**

The Board of Directors  
Walsh & Company Investments Limited  
as Responsible Entity for:  
US Select Private Opportunities Fund III  
Level 15, 100 Pacific Highway  
NORTH SYDNEY NSW 2060

29 November 2016

Dear Board Members

### **US Select Private Opportunities Fund III**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of the Responsible Entity of US Select Private Opportunities Fund III.

As lead audit partner for the review of the financial statements of US Select Private Opportunities Fund III for the financial half-year period from 5 May 2016 to 30 September 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Michael Kaplan  
Partner  
Chartered Accountants



**US Select Private Opportunities Fund III**  
**Directors' report**  
**30 September 2016**

The directors of Walsh & Company Investments Limited (Walsh & Co.), the Responsible Entity of the US Select Private Opportunities Fund III (the Fund), present their report together with the condensed financial statements of the Fund for the period from 5 May 2016 (date of registration) to 30 September 2016.

**ASIC Relief**

Walsh & Company Investments Limited, as Responsible Entity of US Select Private Opportunities Fund III, has been granted relief from the requirement to comply with subsection 323D(5) of the Corporations Act 2001 (Act) in respect of the first half-year of the Fund, the effect of which is to treat the period from 5 May 2016 to 30 September 2016 as the first half-year. ASIC granted relief by an order under section 340(1) of the Act on 29 September 2016.

**Directors**

The directors of the Responsible Entity at any time during or since the end of the financial period are listed below:

- Alex MacLachlan
- Tristan O'Connell
- Tom Kline

Directors have been in office since the start of the financial period to the date of this report unless otherwise stated.

**Principal activities and significant changes in nature of activities**

The principal activity of the Fund during the half-year was investing in small-to-mid-market private investment funds and privately held companies with a predominate focus in the US. There were no significant changes in the nature of these activities.

**Review and results of operations**

The loss for the Fund after providing for income tax amounted to \$2,267,770.

The key components of this result included a \$346,398 fair value movement loss incurred on the Fund's investment in the LP and a \$1,841,984 foreign exchange movement loss during the period. As at 30 September 2016, the Fund had net assets of \$72,029,669, representing \$1.50 per unit.

The Fund has invested in a limited partnership, US Select Private Opportunities Fund III, L.P. (LP) which, in turn, invests in small-to-medium-sized private investment funds. The LP has committed capital across six underlying private investment funds which focus on a range of industries including health care, business services, software businesses, and food and consumer products. For the period from 5 May 2016 to 30 September 2016, these underlying private investment funds made drawdown requests on the LP to fund their investments, management fees and operating expenses. Net drawdown requests made by the underlying private investment funds since inception to the end of the period totalled US\$6.3 million.

The Fund has committed capital of US\$53.0 million, representing an interest of 72.5% in the LP. The Fund's proportionate share of the total capital called as at 30 September 2016 was US\$7.3 million (or \$9.5 million).

**Distributions**

There were no distributions paid, recommended or declared during the current financial period.

**Events subsequent to the reporting period**

No matter or circumstance has arisen since 30 September 2016 that has significantly affected, or may significantly affect the Fund's operations, the results of those operations, or the Fund's state of affairs in future financial years.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

**US Select Private Opportunities Fund III**  
**Directors' report**  
**30 September 2016**

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



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Alex MacLachlan  
Chairman of Walsh & Company Investments Limited, Responsible Entity

29 November 2016

**US Select Private Opportunities Fund III**  
**Condensed statement of profit or loss and other comprehensive income**  
**For the period ended 30 September 2016**

	<b>Note</b>	<b>30 September 2016 \$</b>
<b>Revenue</b>	3	46,935
Foreign exchange loss		(1,841,984)
Fair value movements of equity investments	4	(346,398)
<b>Expenses</b>		
Management and administration fees	8	(82,131)
Listing fees		(9,016)
Accounting and audit fees		(18,000)
Share registry fees		(890)
Legal, compliance costs and due diligence		(16,189)
Other expenses		(97)
<b>Loss before income tax expense</b>		(2,267,770)
Income tax expense		-
<b>Loss after income tax expense for the period attributable to the owners of US Select Private Opportunities Fund III</b>		(2,267,770)
Other comprehensive income for the period, net of tax		-
<b>Total comprehensive loss for the period attributable to the owners of US Select Private Opportunities Fund III</b>		<u>(2,267,770)</u>
		<b>Cents</b>
Basic loss per unit	7	(9.77)
Diluted loss per unit	7	(9.77)

*The above condensed statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**US Select Private Opportunities Fund III**  
**Condensed statement of financial position**  
**As at 30 September 2016**

	<b>Note</b>	<b>30 September 2016 \$</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents		65,640,103
Receivables		158,033
Prepayments		27,045
Total current assets		<u>65,825,181</u>
<b>Non-current assets</b>		
Other financial assets	4	<u>9,108,722</u>
Total non-current assets		<u>9,108,722</u>
<b>Total assets</b>		<u>74,933,903</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables		65,108
Due to US Select Private Opportunities Fund III, LP		<u>2,839,126</u>
Total current liabilities		<u>2,904,234</u>
<b>Total liabilities</b>		<u>2,904,234</u>
<b>Net assets</b>		<u><u>72,029,669</u></u>
<b>Equity</b>		
Unit capital	5	74,297,439
Accumulated losses		<u>(2,267,770)</u>
<b>Total equity</b>		<u><u>72,029,669</u></u>

*The above condensed statement of financial position should be read in conjunction with the accompanying notes*

**US Select Private Opportunities Fund III**  
**Condensed statement of changes in equity**  
**For the period ended 30 September 2016**

	<b>Unit capital \$</b>	<b>Retained earnings \$</b>	<b>Total equity \$</b>
Balance at 5 May 2016	-	-	-
Loss after income tax expense for the period	-	(2,267,770)	(2,267,770)
Other comprehensive income for the period, net of tax	-	-	-
	<hr/>	<hr/>	<hr/>
Total comprehensive loss for the period	-	(2,267,770)	(2,267,770)
Issued capital (note 5)	76,845,472	-	76,845,472
Issue costs (note 5)	(2,548,033)	-	(2,548,033)
	<hr/>	<hr/>	<hr/>
Balance at 30 September 2016	<u>74,297,439</u>	<u>(2,267,770)</u>	<u>72,029,669</u>

*The above condensed statement of changes in equity should be read in conjunction with the accompanying notes*

**US Select Private Opportunities Fund III**  
**Condensed statement of cash flows**  
**For the period ended 30 September 2016**

	<b>Note</b>	<b>30 September 2016 \$</b>
<b>Cash flows from operating activities</b>		
Interest income received		28,618
Net payments to suppliers		<u>(227,976)</u>
Net cash used in operating activities		<u>(199,358)</u>
<b>Cash flows from investing activities</b>		
Payment for investments		<u>(6,615,994)</u>
Net cash used in investing activities		<u>(6,615,994)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of units	5	76,845,472
Payment of issue costs	5	<u>(2,548,033)</u>
Net cash from financing activities		<u>74,297,439</u>
Net increase in cash and cash equivalents		67,482,087
Cash and cash equivalents at the beginning of the financial period		-
Effects of exchange rate changes on cash and cash equivalents		<u>(1,841,984)</u>
Cash and cash equivalents at the end of the financial period		<u><u>65,640,103</u></u>

*The above condensed statement of cash flows should be read in conjunction with the accompanying notes*

**US Select Private Opportunities Fund III**  
**Notes to the condensed financial statements**  
**30 September 2016**

**1. General information**

US Select Private Opportunities Fund III (the Fund) is a Managed Investment Scheme registered and domiciled in Australia. The principal activities of the Fund are to invest in small-to-mid-market private investment opportunities in the United States of America (US), through its capacity as a Limited Partner of the US Select Private Opportunities Fund III, L.P. (LP) registered in the Cayman Islands.

The Fund was registered on 5 May 2016. Accordingly, the condensed financial statements cover the interim half-year reporting period from the date of the Fund's registration to 30 September 2016.

It is recommended that this half year financial report be read in conjunction with any public announcements made by the Fund during the period.

**(i) Statement of compliance**

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134: 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standards IAS 34 'Interim Financial Reporting'.

The condensed financial statements were authorised for issue by the board of directors of the Responsible Entity of the Fund on 29 November 2016.

The half-year report does not include notes of the type normally included in an annual report. The following is a summary of the material accounting policies adopted by the Fund in the preparation of the half-year financial report.

**(ii) Basis of preparation**

The condensed financial statements have been prepared on an accrual basis and are based on historical cost with the exception of financial assets, which are measured at fair value. All amounts are presented in Australian dollars unless otherwise noted.

**US Select Private Opportunities Fund III**  
**Notes to the condensed financial statements**  
**30 September 2016**

**1. General information (continued)**

(iii) Summary of significant accounting policies

The following accounting policies have been adopted in the preparation and presentation of the financial report.

a. Foreign currencies

The functional and presentation currency of the Fund is Australian dollars. This is based on an assessment that the primary economic environment in which the Fund operates is Australia.

Transactions in foreign currencies are initially recorded in Australian dollars by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies that are outstanding at the reporting date are retranslated at the rate of exchange ruling at the Statement of Financial Position date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences arising on translation are recognised in profit or loss in the period in which they arise.

b. Financial instruments

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the Fund becomes a party to the contractual provisions of the instrument. The Fund has early adopted AASB 9 Financial Instruments, which was issued in December 2014. AASB 9 includes requirements for the classification and measurement of financial assets.

(i) Financial assets

When financial assets are recognised initially, they are measured at fair value plus, in the case of financial assets not at fair value through profit and loss, directly attributable transaction costs.

Financial assets are subsequently measured at amortised cost using the effective interest rate method only if the following conditions are met, otherwise they are measured at fair value:

1. where a financial asset is held within a business model for the objective to collect contractual cash flows; and
2. contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The effective interest rate method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability.

The Interest held by the Fund in the Limited Partnership (refer to (c) below) does not meet the conditions to satisfy subsequent measurement at amortised cost, and is therefore measured at fair value.

Gains and losses on all financial assets at fair value are recognised in profit or loss.

(ii) Financial liabilities

Financial liabilities are classified as derivative and non-derivative instruments as appropriate. The Fund determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value.

Non-derivative instruments are subsequently measured at amortised cost using the effective interest rate method. Derivative liabilities are subsequently measured at fair value.



**US Select Private Opportunities Fund III**  
**Notes to the condensed financial statements**  
**30 September 2016**

**1. General information (continued)**

(iii) Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged or cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(iv) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal (or most advantageous) market at balance date under current market conditions. Fair value is determined based on the bid price for all quoted investments in an active market. Valuation techniques are applied to determine the fair value for all unlisted securities and securities in markets that are not active. The unlisted partnership investment held by the Fund is valued using a 'proportionate' value method based on the proportion of the total net asset value of the partnership in which the Fund has an interest at balance date.

c. Interest in Limited Partnership

The Fund has entered into a partnership arrangement with Cordish Private Ventures, with a primary strategy of investing in US small-to-mid-market private investment funds. The partnership has been structured through a limited partnership vehicle – US Select Private Opportunities Fund III, L.P. (LP), in which the Fund has an 72.5% interest. The interest held by the Fund is regarded as a financial asset which is recorded at fair value. Subsequent changes in fair value are presented in profit or loss.

Distributions of capital or income received from the LP are recorded against the investment account, reflecting the fact that such amounts would previously have been included in the investment account either through capital contributions made or through fair value movements recognised in respect of unrealised capital or operating profits relating to the underlying investments.

d. Impairment of assets

The directors of the Responsible Entity assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, an estimate is made of the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount through profit or loss.

No impairment assessment is performed in respect of the Interest in the Limited Partnership, where fair value changes are recorded in profit or loss.

e. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

**US Select Private Opportunities Fund III**  
**Notes to the condensed financial statements**  
**30 September 2016**

**1. General information (continued)**

f. Receivables

Receivables are financial assets with a contractual right to receive fixed or determinable payments that are not quoted in an active market. Receivables are recorded at amounts due less any impairment losses.

g. Taxes

(i) Income tax

Under current Australian income tax laws, the Trust is not liable to pay income tax provided it is not a corporate unit trust or public trading trust and its distributable income for each income year is fully distributed to security holders, by way of cash or reinvestment.

The Fund may be liable to pay income tax in the United States of America (USA) dependent on the structure of private investment funds in which the Limited Partnership (LP) invests and in turn the structure of the underlying investments made by the private investment funds. Rates of tax will vary dependant on the source of income derived.

A deferred tax liability is recognised (at the likely rate of tax in the USA) based on the difference between the fair value and tax cost base of certain underlying investments in respect of which an economic interest is held by the Fund and on which income tax will be payable in the USA on realisation of such investments.

(ii) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Where fees are stated to be exclusive of GST and GST is payable on any fee, the fee will be increased by an amount equal to the GST payable.

Cash flows are included in the Statement of Cash Flows on a gross basis, except for the GST component of cash flows arising from investing and financing activities which are disclosed as operating cash flows.

The Fund qualifies for reduced input tax credits at a minimum rate of 55%.

h. Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured.

(i) Interest income

Interest income is recognised in profit or loss using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

**US Select Private Opportunities Fund III**  
**Notes to the condensed financial statements**  
**30 September 2016**

**1. General information (continued)**

i. Provisions

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

j. Trade and other payable

Trade and other payables are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods or services. The balance is unsecured and is recognised as a current liability with the amount being normally paid within 30 days of recognition of the liability.

k. Earnings per unit

Basic earnings per unit is calculated by dividing the profit or loss attributable to unitholders by the weighted average number of units outstanding during the financial period. Diluted earnings per unit is the same as there are no potential dilutive ordinary units.

l. Unit capital

(i) Ordinary units

Ordinary units are classified as equity. Issued capital is recognised at the fair value of the consideration received by the Fund. Incremental costs directly attributable to the issue of ordinary units are recognised as a deduction from equity.

(ii) Distributions to unitholders

Distributions payable are recognised in the reporting period in which the distributions are declared, determined, or publicly recommended by the Board of the Responsible Entity on or before the end of the financial period, but not distributed at balance date.

m. Critical accounting estimates and judgements

In the application of the Fund's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Accounting policies which are subject to significant accounting estimates and judgements include 'financial asset' classification of the interest held by the Fund in the Limited Partnership (refer note 4 (iii)), fair value determination of the interest held by the Fund in the Limited Partnership (refer note 4 (iv)), and selection of Australian dollars as the functional currency of the Fund.

**2. Operating segment**

The Fund operates a single reportable segment, that being the business of investing in small-to-mid-market private investments in the United States of America through its interest in a Limited Partnership.

The Responsible Entity of the Fund is the Chief Operating Decision Maker (CODM) for the purpose of resource allocation and assessing performance of the operating segment.

Revenue, profit or loss, assets, liabilities and other financial information reported and monitored by the CODM of the single identified segment are reflected in the condensed financial statements and notes to the condensed financial statements of the Fund.

**US Select Private Opportunities Fund III**  
**Notes to the condensed financial statements**  
**30 September 2016**

**3. Revenue**

	<b>30 September 2016 \$</b>
Interest income	<u>46,935</u>

**4. Non-current assets - other financial assets**

(i) Equity investment constituting interest in Limited Partnership (LP) - at fair value:

	<b>30 September 2016 \$</b>
US Select Private Opportunities Fund III, LP (LP)	<u>9,108,722</u>

	<b>30 September 2016 \$</b>
(ii) Reconciliation	
Balance at the beginning of the period	-
Capital invested - at cost	9,455,120
Movement in fair value through profit or loss*	<u>(346,398)</u>
Balance at the end of the period	<u>9,108,722</u>

\* - included in the 'movement in fair value' amount of \$346,398 is an unrealised foreign exchange translation gain component of \$8,633. This amount is also net of the Fund's 72.5% share of management fees paid by the LP to the General Partner of the LP, totalling \$90,959 (refer to note 8).

(iii) Fund's interest in assets and liabilities of LP

The 72.5% economic interest held by the Fund is not represented by voting rights or other power vested in the Fund to make decisions relating to the assets and liabilities of the LP. As is common practice with Limited Partnership arrangements, the General Partner of the LP is considered to be the party who holds the existing rights to direct the relevant activities of the LP, including the acquisition and disposal of investments.

The Fund's 72.5% interest in US Select Private Opportunities Fund III, L.P. at 30 September 2016 is represented by its proportionate interest in the LP's assets and liabilities as follows:

	<b>30 September 2016 \$</b>
Cash	1,218,467
Investment in US private investment funds recorded at fair value	5,627,283
Due from members	<u>2,262,972</u>
Net assets	<u>9,108,722</u>

**4. Non-current assets - other financial assets (continued)**

*(iv) Valuation*

Valuation technique adopted

The fair value of the Fund's interest in the LP is determined using a 'proportionate' value method based on the Fund's 72.5% interest held in the total net asset values of the LP.

The LP holds investments predominately in US private investment funds, and it (the LP) adopts a similar fair value measurement basis, based on the proportionate interest it holds in the most recent reported total net asset values of the respective investment funds. There is up to a three month difference between the Fund's reporting date and the date of the most recent reported net assets of the investment funds. The investment funds themselves invest typically in US unlisted equity investments, the fair values of which are determined periodically based on market valuation techniques, which may involve methods and unobservable inputs such as price/earnings analysis or discounted cash flow techniques.

The fair value of the Fund's interest in the LP is therefore ultimately based on the market valuation techniques adopted by the investment funds in the measurement of their underlying unlisted equity investments. The fair value is also subject to foreign exchange translation impacts arising from translating the USD denominated interest in the LP to AUD at each balance date.

*Investment risks*

As noted above, the LP has invested in underlying private investment funds in the US market who have in turn invested in a portfolio of private equity investments. Because of the absence of any liquid trading market for these types of investments, it may take longer to liquidate these investments than would be the case for marketable securities and accordingly the value obtained on realisation may differ materially to the estimated fair values at balance date. The fair values assigned by the investment funds are based on a range of factors, including but not limited to the price at which the investments were acquired, the nature of the investments, private and public company comparables used to determine enterprise value, and other techniques using unobservable market inputs such as price/earnings multiples and discounted cash flow models. As such, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material. These differences would directly impact the value of the interest held by the LP in the underlying investment funds and consequently the value of the interest held by the Fund in the LP. In addition, further investment valuation uncertainty arises as a result of a time lag of up to three months between the Fund's reporting date and the date of the most recent reported net assets of the private investment funds. Estimation uncertainty also arises in relation to likely US tax obligations the Fund will incur in connection with realisation of recorded fair value movements.

*Inter-relationship between significant unobservable inputs and fair value measurement*

The inter-relationship between the significant unobservable inputs and fair value measurements is such that the higher the growth rates or earnings multiples adopted by the investment funds, the higher the resultant fair value determination of the underlying equity investments, and therefore ultimately the higher the fair value of the Fund's investment in the LP. Since neither the Fund itself, nor the LP, has access to the underlying detailed equity investment valuations performed by the US investment funds, it is unable to assess the sensitivity of fair value determinations to changes in underlying unobservable inputs. However, at the Fund level, a 5% change (increase/decrease) in the carrying value of the LP's interest held in the underlying US investment funds would result in a \$281,364 impact (increase/decrease) in the carrying value of the Fund's investment in the LP. A 5% increase in the AUD/USD exchange rate would decrease the value of the Fund's investment in the LP by \$433,749. Conversely, a 5% decrease would increase the value of the Fund's investment by \$479,406. Refer to note 1(m) for further details regarding investment risks and estimation uncertainty applied in the determination of the fair value of the underlying unlisted equity investments to which the Fund is exposed.

*(v) Capital commitments*

As at 30 September 2016, the Fund has made capital commitments totalling US\$53.0 million to the LP, of which US\$7.3 million has been called at balance date.

As at 30 September 2016, the Fund has uncalled capital commitments of US\$45.7 million (or \$59.6 million) outstanding to the LP. The capital commitments can be called at any time in the future.

**US Select Private Opportunities Fund III**  
**Notes to the condensed financial statements**  
**30 September 2016**

**4. Non-current assets - other financial assets (continued)**

The uncalled capital commitments referred to above were converted at the period end exchange rate of 0.7664.

**5. Equity - unit capital**

	<b>30 September 2016</b>	
	<b>Units</b>	<b>\$</b>
Ordinary units - fully paid	<u>48,028,420</u>	<u>74,297,439</u>

*Movements in ordinary unit capital*

<b>Details</b>	<b>Date</b>	<b>Units</b>	<b>Issue price</b>	<b>\$</b>
Balance	5 May 2016	-		-
Fully paid ordinary units	20 July 2016	48,028,420	\$1.60	76,845,472
Issue costs	20 July 2016	<u>-</u>		<u>(2,548,033)</u>
Balance	30 September 2016	<u>48,028,420</u>		<u>74,297,439</u>

All issued units are fully paid. The holders of ordinary units are entitled to one vote per unit at meetings of the Fund and are entitled to receive distributions declared from time to time by the Responsible Entity.

**6. Equity - distributions**

There were no distributions paid, recommended or declared during the current financial period.

**7. Earnings per unit**

	<b>30 September 2016 \$</b>
Loss after income tax attributable to the owners of US Select Private Opportunities Fund III	<u>(2,267,770)</u>
	<b>Number</b>
Weighted average number of ordinary units used in calculating basic earnings per unit	<u>23,208,364</u>
Weighted average number of ordinary units used in calculating diluted earnings per unit	<u>23,208,364</u>
	<b>Cents</b>
Basic loss per unit	(9.77)
Diluted loss per unit	(9.77)

There are no adjustments on the basic earnings per unit for the calculation of diluted earnings per unit and there are no transactions that would significantly change the number of ordinary units at the end of the reporting period.

**8. Related party disclosures**

Disclosures relating to key management personnel are set out in note 10.

**US Select Private Opportunities Fund III**  
**Notes to the condensed financial statements**  
**30 September 2016**

**8. Related party disclosures (continued)**

*Management fees*

The Responsible Entity's duties include establishing the Fund's compliance plan and procedures and monitoring against regulatory and legislative requirements, the issuance of disclosure documents, the appointment and monitoring of external service providers to the Fund and overall administration of the Fund.

For these services, the Responsible Entity charged management fees of 0.33% per annum (exclusive of GST) on the gross asset value of the Fund. This is comprised of the Responsible Entity Fee of 0.08% per annum and Administration Fee 0.25% per annum. Management fees are paid to the Responsible Entity monthly in advance.

The total management fees paid to the Responsible Entity for the period from 5 May 2016 to 30 September 2016 was \$49,887, exclusive of GST. There were no outstanding management fees as at 30 September 2016.

*Fund administration fees*

Australian Fund Accounting Services Pty Limited, a wholly-owned subsidiary of the Dixon Advisory Group Pty Limited, the parent of the Responsible Entity, provides fund administration services to the Fund under an agreement with the Responsible Entity. These services include net asset valuation, management accounting, statutory reporting, capital management and taxation. Total fund administration fees paid or payable for the period from 5 May 2016 to 30 September 2016 were \$30,000, exclusive of GST.

*Investment manager fees*

US Select Private Opportunities Fund III, L.P. (LP), in which the Fund holds an 72.5% interest, is required to pay its Investment Manager, US Select Private Opportunities Fund III, GP, being an entity associated with the Responsible Entity, for acting on behalf of the limited partnership to acquire, manage and transact on partnership interests within the scope of the limited partnership agreement, a fee equivalent to 1% per annum of the total funds committed by the partners to the LP. The fee is payable quarterly in advance from the funds of the LP. The total fees paid or payable during the period from 5 May 2016 to 30 September 2016 amounted to \$125,461 (US\$94,353). The Fund's 72.5% interest equates to \$90,959. This fee is recorded in the books of the LP.

**9. Fair value measurement**

*Fair value*

The fair value of financial assets and financial liabilities approximate their carrying values at the reporting date.

The table below analyses recurring fair value measurements for financial assets and financial liabilities. The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation techniques used. The different levels are defined as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets of liabilities
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>30 September 2016</b>				
<i>Financial assets carried at fair value</i>				
Other financial assets - equity investment constituting interest in US Select Private Opportunities Fund III, LP	-	-	9,108,722	9,108,722
Total assets	-	-	9,108,722	9,108,722

The Fund recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the transfer has occurred. There were no transfers between levels during the period from 5 May 2016 to 30 September 2016.

**9. Fair value measurement (continued)**

Details of the determination of level 3 fair value measurements including the valuation technique adopted and the key underlying unobservable inputs used are set out in note 4.

The Fund has established a control framework with respect to measurement and assessment of fair values. This framework includes a sub-investment committee that has overall responsibility for analysing the performance and fair value movements of underlying US investment fund holdings during each reporting period.

**10. Key management personnel**

*Directors*

Alex MacLachlan, Tristan O'Connell and Tom Kline are directors of the Responsible Entity, Walsh & Company Investments Limited, and are deemed to be key management personnel.

The key management personnel do not receive compensation from the Fund or from the Responsible Entity directly for their management function performed for the Fund.

**11. Events after the reporting period**

No matter or circumstance has arisen since 30 September 2016 that has significantly affected, or may significantly affect the Fund's operations, the results of those operations, or the Fund's state of affairs in future financial years.



**US Select Private Opportunities Fund III**

**Directors' declaration**

**30 September 2016**

In the opinion of the directors of the Responsible Entity:

- the financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with the Accounting Standards;
- the attached financial statements and notes give a true and fair view of the Fund's financial position as at 30 September 2016 and of its performance for the financial period from 5 May 2016 to 30 September 2016; and
- there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors of the Responsible Entity made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the directors



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Alex MacLachlan

Chairman of Walsh & Company Investments Limited, Responsible Entity

29 November 2016

## **Independent Auditor's Review Report to the Unitholders of US Select Private Opportunities Fund III**

We have reviewed the accompanying half-year financial report of US Select Private Opportunities Fund III ("the Fund"), which comprises the condensed statement of financial position as at 30 September 2016, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the period from 5 May 2016 to 30 September 2016, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Responsible Entity of the Fund as set out on pages 8 to 22.

### *Directors' Responsibility for the Half-Year Financial Report*

The directors of the Responsible Entity of the Fund are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of US Select Private Opportunities Fund III's financial position as at 30 September 2016 and its performance for the period from 5 May 2016 to 30 September 2016; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of US Select Private Opportunities Fund III, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Auditor's Independence Declaration*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Responsible Entity of the Fund, would be in the same terms if given to the directors as at the time of this auditor's review report.

## *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of US Select Private Opportunities Fund III is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Fund's financial position as at 30 September 2016 and of its performance for the period from 5 May 2016 to 30 September 2016; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



Michael Kaplan  
Partner  
Chartered Accountants  
Sydney, 29 November 2016

**US Select Private Opportunities Fund III**  
**Directory**  
**30 September 2016**

The Fund's units are quoted on the official list of Australian Securities Exchange (**ASX**).  
**The ASX code is USP**

**US Select Private Opportunities Fund III**

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