

US SELECT PRIVATE OPPORTUNITIES FUND (FUND) QUARTERLY UPDATE FOR PERIOD ENDING 31 DECEMBER 2016

ASX: USF

Private investment market commentary

Following prolonged United States (U.S.) election uncertainty, the U.S. stock market rallied strongly into year-end on expectations that Donald Trump's proposed economic policies will boost corporate earnings and the overall economy. While many experts had predicted a tumble for stocks in the wake of the election, the Dow Jones Industrial Average climbed approximately 8% between U.S. Election Day (8 November 2017) and 31 December 2016.

During Q4 2016, U.S. GDP came in at 1.9%. Overall, nonfarm payrolls in the U.S. increased by 135,000 in October and 204,000 in November. December came in at 156,000, below the market's consensus expectation of 178,000. However, across the year U.S. employment growth remained healthy, with 2.2 million jobs added in 2016.

Private equity fundraising remained robust for the year. Preqin reported 807 funds closed globally during 2016, raising a combined US\$345 billion (data as of 3 January 2017). As more data becomes available, Preqin notes these figures may rise as much as 10%, which would push the 2016 value beyond the post-financial crisis record of US\$384 billion, set in 2014. Notably, the capital was weighted toward larger funds and the average fund size in 2016 reached a record US\$476 million, surpassing the previous record of US\$446 million for funds closed in 2007.

During 2016, private equity backed a total of 3,985 deals globally, similar to the total number of deals completed in 2015; however, the value of these deals at US\$319 billion was significantly down from US\$424 billion in 2015. Total deal value had been on the rise since 2009 until this year. In North America, 2,137 private equity deals, totaling \$190 billion, were completed. By comparison, there were \$255 billion of private equity backed deals in 2015, a marked decrease in value year-over-year. Globally, private equity backed exits in 2016 were also down over the prior year, with 1,682 deals worth \$330 billion completed this year, compared with 1,859 worth \$431 billion in 2015. In North America, there were 798 private equity backed exits worth \$188 billion completed. Preqin did not break out this number by region for the prior year¹.

During the fourth quarter, the Australian dollar (AUD) traded between 71.76 and 77.62, ending the year at 72.08 against the USD.

Notes:

1. Source: Preqin

Fund activity and portfolio

FUND UPDATE

The estimated unaudited net tangible asset value before withholding tax on unpaid distributions at 31 December 2016 was \$2.17¹ per unit (30 September 2016 was \$2.06¹ 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 December 2016, 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 nine drawdown requests and one capital return for a total consideration of US\$2.2 million.

Notes:

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 DECEMBER 2016

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	\$4.2
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	\$8.0
KarpReilly Capital Partners II, L.P.	Apparel & branded consumer products, retail and restaurant sectors	\$10.0	\$8.7
Peppertree Capital Fund IV, L.P.	Telecommunication infrastructure companies	\$3.0	\$2.7
Prometheus Partners IV, L.P.	Quick service restaurants	\$4.8 ²	\$4.3 ²
Trivest Fund V, L.P.	Manufacturing, distribution, business services and consumer sectors	\$10.0	\$5.1
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	\$10.0
		\$69.8	\$54.9

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 made an additional investment in Theraplay.

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

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

Incline Equity Partners III, L.P. Incline invested in Midwest Industrial Rubber (MIR), a leading value-added supplier of lightweight conveyor belting and related components. Founded in 1980 and headquartered in St. Louis, Missouri, MIR specialises in custom design, engineering and fabrication for mission critical belting applications.

<http://www.mir-belting.com/>

KarpReilly Capital Partners II, L.P. KarpReilly made additional investments in Eureka, Salt & Straw and Patxi's.

Peppertree Capital Fund IV, L.P. No material investment activity during quarter.

Trivest Fund V, L.P. Trivest invested in Dauenhauer Plumbing.

The company is the largest plumbing services company in Kentucky and has earned a strong reputation in its market over the 58 years it has been in business. Completing over 30,000 service calls annually, Dauenhauer has built a loyal customer base by providing customers with quick and reliable plumbing services at a fair price at any hour of the day. For new installation, Dauenhauer's customer base is comprised of the largest developers in the Kentucky and Southern Indiana market which has exhibited positive population and demographic trends over the past 15 years.

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

US Select Direct Private Equity (US), L.P. No material investment activity during quarter.

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 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 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.