

# US SELECT PRIVATE OPPORTUNITIES FUND

## QUARTERLY UPDATE FOR PERIOD ENDING 30 JUNE 2014

**ASX: USF**

### Private equity market commentary

While the revised estimate of US gross domestic product for the first three months of 2014 came in slightly lower than expected (-2.9%), largely driven by lower-than-expected health care spending, recent data suggests growth is rebounding considerably in the second quarter, with significant improvements in home and auto sales and residential construction. Total non-farm payroll employment in the US increased by 288,000 in June and the unemployment rate declined to 6.1%, its lowest level in five years. Many leading economists believe Q1 was an aberration and not representative of the strengthening underlying trend in US growth, and are now projecting Q2 2014 GDP to increase by approximately 4% and total 2014 growth to be in the 3% range.

### Fund activity and portfolio

#### FUND UPDATE

Through US Select Private Opportunities Fund, LP (LP), the Fund is fully committed across nine private investment funds for a total consideration of US\$69.8 million, all focused on small-to-mid-market private investment opportunities.

During the quarter, the LP received seven drawdown requests and one capital return, for a total net consideration of US\$2.3 million. At 30 June 2014, the Fund's managers had called approximately US\$23.1 million, or 33.2% of total commitments.

The NTA at 30 June 2014 was \$1.57\* per Unit (31 March 2014 was \$1.64\* per Unit).

#### SUMMARY OF THE UNDERLYING FUNDS AT 30 JUNE 2014

UNDERLYING FUND	INDUSTRY FOCUS	LP COMMITMENT (US\$ MILLION) <sup>1</sup>	NET LP CAPITAL DRAWDOWN (US\$ MILLION)
<b>DFW Capital Partners IV</b>	Health care, business services and industrial services	\$5.0	\$1.9
<b>Encore Consumer Capital II</b>	Non-discretionary consumer products	\$10.0	\$3.1
<b>Fort Point Capital Small Cap Fund I</b>	Lower-middle market, service-oriented companies	\$4.0	\$1.2
<b>Incline Equity Partners III</b>	Manufacturing, value-added distribution and business services	\$10.0	\$2.6
<b>KarpReilly II</b>	Apparel & branded consumer products, retail, restaurants	\$10.0	\$4.8
<b>Peppertree Capital Fund IV</b>	Telecommunication infrastructure companies	\$3.0	\$0.1
<b>Prometheus Partners IV</b>	Quick service restaurants	\$4.8	\$3.7

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

UNDERLYING FUND	INDUSTRY FOCUS	LP COMMITMENT (US\$ MILLION) <sup>1</sup>	NET LP CAPITAL DRAWDOWN (US\$ MILLION)
<b>Trivest Fund V</b>	Manufacturing, distribution, business services, consumer	\$10.0	\$2.2
<b>U.S. Select Direct Private Equity (US), L.P.</b>	Invests in a direct portfolio of select private companies alongside leading, specialist private investment funds	\$13.0	\$3.4
<b>Total<sup>2</sup></b>		<b>\$69.8</b>	<b>\$23.1</b>

Note 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.

Note 2: Numbers may not add up due to rounding.

## Underlying fund activity

**Trivest Fund V, L.P. (Trivest)** completed recapitalisation of Northfield Industries, LLC, a rapidly growing founder-owned manufacturer and distributor of precision-machined components for the agricultural and industrial equipment markets. Trivest also made an investment in Columbus Recycling, a leading provider of ferrous and non-ferrous metal recycling services with five facilities located in Mississippi and Tennessee.

**DFW Capital Partners IV, L.P. (DFW)** completed an equity investment in Fleetwash Holdings, LLC. Fleetwash is the nation's leading provider of mobile truck washing and facility cleaning services.

**Peppertree Capital Fund IV, L.P. (Peppertree)** began operations during the quarter and capital was called to fund management fees, partnership expenses, and fund organisational expenses.

## Additional information on underlying funds

### PROMETHEUS PARTNERS IV, L.P.

Prometheus Partners (Prometheus) is a leader in investing in nationally franchised restaurant businesses. Their newest fund will use the partners' niche expertise in investing in, operating and managing top-tier nationally franchised restaurant brands. Prometheus Partners IV will focus exclusively on top tier brands: Taco Bell, Pizza Hut and International House of Pancakes (IHOP). With over 15 years of experience, Prometheus Partners has built a highly successful track record of acquiring underperforming franchise businesses at attractive valuations, applying proven management strategies and operational techniques and generating scale economies to improve performance and margins.

Website: [prometheuspartners.com](http://prometheuspartners.com)

### TRIVEST FUND V, L.P.

Trivest Partners, L.P. (Trivest) focuses on well-run family/founder-owned businesses that are seeking to transition ownership and have never had access to institutional funds. Trivest has operated in the small and mid-market space for more than 30 years and has developed a proprietary strategy and database for sourcing attractive investments. Trivest has completed 170 transactions for a total value of US\$4.6 billion. The businesses targeted by Trivest range across a number of sectors and are typically located in southeast US. Once acquired, Trivest takes steps to drive additional growth and undertake operational improvements to realise efficiencies.

Website: [trivest.com](http://trivest.com)

### KARPREILLY CAPITAL PARTNERS II, L.P.

KarpReilly, LLC (KarpReilly) is a private investment firm founded by principals Allan Karp and Chris Reilly, whose primary mission is to partner with premier small to mid-size consumer growth companies and help them achieve their long-term vision. The firm targets businesses in the apparel and branded consumer products, retail, restaurant and building products sectors.

Website: [karpreilly.com](http://karpreilly.com)

The principals have one of the strongest track records investing in consumer-facing businesses and have invested in, sat on the boards of and nurtured some of the leading success stories in the industry, including:

**Retail:** Dollar Tree Stores, Bob's Discount Furniture, Ollie's Bargain Outlet

**Restaurants:** Mimi's Café, Café Rio, Miller's Ale House, Habit Burger Grill

**Apparel:** Charlotte Russe, Tommy Bahama, Trina Turk

**Consumer Products:** Targus Group, Norcraft Companies.

### ENCORE CONSUMER CAPITAL II, L.P.

Encore Consumer Capital (Encore) is an innovative private equity firm built specifically to help consumer products companies grow. They invest exclusively in leading companies in this sector and use the experience and network of their operating partners at Encore Associates to accelerate their growth. The firm's target sectors include: food and beverage, personal care, household products, pet products and food service products.

Website: [encoreconsumercapital.com](http://encoreconsumercapital.com)

### INCLINE EQUITY PARTNERS III, L.P.

Incline Equity Partners (Incline) is a private equity firm founded in 2011 by three managing principals who previously founded and managed PNC Equity Partners, the private equity investment arm of PNC Bank. These principals, Jack Glover, Wali Bacdayan and Justin Bertram, worked together for 14 years at PNC Equity Partners, managing two successful funds before forming Incline as an independent company.

Incline makes private equity investments of US\$10 million to US\$25 million in leveraged buyouts, recapitalisations and large minority financings of lower-middle-market growth companies in the United States with enterprise values between US\$25 million and US\$100 million. Incline's particular focus is on companies in specialised light manufacturing, value-added distribution and outsourced business and industrial services. In each of Incline's core business sectors, it targets specific business models which leverage both their operations-focused approach and operating partner network.

Website: [inclineequity.com](http://inclineequity.com)

### U.S. SELECT DIRECT PRIVATE EQUITY (US), L.P.

U.S. Select Direct Private Equity (US), L.P. (US Direct) has been established with the sole purpose of investing in a direct portfolio of select private companies alongside leading, specialist private investment funds, a strategy commonly referred to as co-investing.

US Direct provides a platform through which the investors can access attractive co-investment opportunities within the LP's target market of small and mid-market private investments. Co-investing enables the LP to accelerate its deployment of capital, thereby enhancing returns and cash flows, better tailor its investment exposures and reduce investment management fees. The LP's investment in US Direct is consistent with its investment mandate.

Co-investing is an increasingly competitive and sought-after segment of the private investment market. By building a specialist co-investment platform and leveraging existing relationships with leading private investment managers, US Direct will be well placed to access highly coveted co-investment opportunities.

### DFW CAPITAL PARTNERS IV, L.P.

DFW Capital Partners IV, L.P. (DFW IV) was established by DFW Capital Partners (DFW) to raise up to US\$175 million in capital commitments to invest in lower-middle-market health care, business services and industrial services companies that are undergoing ownership transitions. DFW was formed in Teaneck, New Jersey, in 1983 and is currently led by Keith Pennell and four other managing directors who have all worked together in some capacity for the past 10 years.

DFW's investment strategy is to generate significant long-term capital appreciation by building leading companies in select, high-growth service sectors primarily located in the mid-Atlantic and Eastern regions of the US. The firm focuses exclusively

on control investments in lower-middle-market companies with US\$10 million or less of earnings before interest, taxes, depreciation and amortisation (EBITDA), which DFW believes can benefit from its proven ability to institute the people and processes needed to unlock growth. DFW seeks to acquire lower-middle-market service companies at reasonable multiples that are undergoing a significant strategic or structural change where its proven value creation blueprint can transition, professionalise and build such companies to achieve higher revenue and EBITDA growth.

Website: [dfwcapital.com](http://dfwcapital.com)

#### **FORT POINT CAPITAL SMALL CAP FUND I, L.P.**

Fort Point Capital, LLC (Fort Point) is raising capital to invest in lower-middle-market, service-oriented companies in the US and Canada, typically with US\$3 to US\$10 million of EBITDA at acquisition. Fort Point is led by Brooke Ablon and Paul Lipson (Principals), who have considerable private equity experience and a demonstrated track record.

Consistent with the Principals' previous experience, Fort Point's investment focus is centred on service-oriented business models. Fort Point believes these companies are more likely to possess sustainable competitive advantages that lead to critical investment characteristics such as growth, high margins, stable customer relationships and strong, predictable cash flow.

From a sourcing perspective, Fort Point proactively focuses on less competitive opportunities, using theme-based, proprietary research designed to identify growing businesses in targeted industries, as well as a systematic direct calling effort focused on the small business broker network, accountants, attorneys and operators. The Principals' efforts are enhanced by a management advisory board, primarily consisting of the Principals' previous portfolio company CEOs as well as industry specialists with whom they have worked in the past. These individuals provide additional personal and professional networks that augment investment origination.

Website: [fortpointcapital.com](http://fortpointcapital.com)

#### **PEPPERTREE CAPITAL FUND IV, L.P.**

Peppertree Capital Management, Inc. (Peppertree Capital) is a private equity fund manager focused on growth equity, recapitalisation and buyout opportunities, primarily in telecommunication infrastructure companies. Its principals have founded and/or invested in 16 communication infrastructure companies since 1997. The existing three funds are currently invested in 14 communication infrastructure portfolio companies.

Peppertree Capital Fund IV, L.P. (Peppertree Fund IV) is an opportunity to invest in a portfolio of communication infrastructure companies – one of the most predictable, liquid and fast growing sectors in the economy and one where a single opportunity to invest, let alone several, is rare. It is anticipated a significant portion of Peppertree Fund IV's capital will be invested in the existing communication infrastructure portfolio companies.

Website: [peppertreecapital.com](http://peppertreecapital.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 invested 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 fund-of-funds 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 Fund represents a unique vehicle for Australian retail investors to access attractive smaller, nimble US private investment funds that have historically outperformed their larger counterparts.

The underlying funds 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 employ moderate and judicious amounts of leverage.