

US SELECT PRIVATE OPPORTUNITIES FUND (FUND)

QUARTERLY UPDATE FOR PERIOD ENDING 31 DECEMBER 2014

ASX: USF

Private equity market commentary

2014 emerged as one of the strongest exit environments for private equity funds ever, with over US\$400 billion in total value transacting during the year. The record levels of exit activity are leading many limited partners to re-invest those funds back into the asset class, and 2015 is expected to be another strong year for fundraising. While purchase price multiples and leverage levels remain elevated, our managers have seen a turn in the market over the past three months and expect pricing in the smaller private investment market to normalise in the year ahead.

The US economy is predicted to grow around 3% in 2015, its fastest pace in a decade. Economists across the spectrum expect further acceleration in consumer spending due to lower unemployment and plunging oil prices, as well as a strengthening housing market.

The most critical unknown for the US economy in 2015 will be whether the Federal Reserve finally begins to raise the federal funds rate, which it has locked at 0.25% or less since the end of 2008. With the economy seemingly on solid footing and GDP growth expected to continue to rise above trend, many members in the rate-setting Federal Open Markets Committee are calling for the funds rate to reach 1.25% to 1.50% by the end of 2015. If a Fed hike does occur, it may affect growth, inflation and exchange rates around the world and could potentially put a damper on the optimistic projections for 2015 and beyond.

Fund activity and portfolio

FUND UPDATE

The estimated unaudited net tangible asset value before withholding tax on unpaid distributions at 31 December 2014 was \$1.82* per Unit (30 September 2014 was \$1.69* per Unit).

Through US Select Private Opportunities Fund, L.P. (LP), the Fund is fully committed to 9 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 7 drawdown requests and 2 capital returns for a total net consideration of US\$0.9 million. At 31 December 2014, net drawdown requests from underlying investments were approximately US\$27.8 million (or 40.0% of total commitments).

At 31 December 2014, US\$37.5 million (or 53.9% of total funds committed) to the LP had been called. The Fund's proportionate share of this is approximately US\$32.1 million (an 85.5% share).

* 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 2014

| UNDERLYING FUND | INDUSTRY FOCUS | LP COMMITMENT (US\$ MILLION) ¹ | NET LP CAPITAL DRAWDOWN (US\$ MILLION) |
|---|--|--|--|
| DFW Capital Partners IV, L.P. | Health care, business services and industrial services | \$5.0 | \$2.2 |
| Encore Consumer Capital Fund II, L.P. | Non-discretionary consumer products | \$10.0 | \$4.4 |
| FPC Small Cap Fund I, L.P. | Lower-middle market, service-oriented companies | \$4.0 | \$1.8 |
| Incline Equity Partners III, L.P. | Manufacturing, value-added distribution and business services | \$10.0 | \$3.4 |
| KarpReilly Capital Partners II, L.P. | Apparel & branded consumer products, retail, restaurants | \$10.0 | \$4.9 |
| Peppertree Capital Fund IV, L.P. | Telecommunication infrastructure companies | \$3.0 | \$0.9 |
| Prometheus Partners IV, L.P. | Quick service restaurants | \$4.8 | \$3.1 |
| Trivest Fund V, L.P. | Manufacturing, distribution, business services, consumer | \$10.0 | \$2.8 |
| U.S. Select Direct Private Equity (US), LP | Invests in a direct portfolio of select private companies alongside leading, specialist private investment funds | \$13.0 | \$4.4 |
| | | \$69.8 | \$27.8 |

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. Numbers may not add up due to rounding.

Underlying fund activity

Incline Equity Partners III, L.P. (Incline) In December, Incline made an initial investment in BCI Burke Company, LLC. Headquartered in Fond du Lac, Wisconsin, BCI Burke is the leading manufacturer of commercial playground equipment and site amenities. Since 1920, BCI Burke has been leading the way with exciting and innovative playgrounds, park and site amenities and sport products (www.bciburke.com).

Trivest Fund V, L.P. (Trivest) In December, Trivest closed on its investment in Responsive Data Solutions, the first add-on acquisition for current underlying investment Advanced Discovery. Responsive Data is a respected provider of litigation support services and technical solutions to law firms and corporate legal departments of all sizes. The Company offers a flexible and diverse suite of services, including forensics, e-discovery processing, review database hosting, technology-assisted review and trial preparation, along with paper and print discovery services (www.advanceddiscovery.com/responsive-data-solutions-rds).

Peppertree Capital Fund IV, L.P. (Peppertree) In December, Peppertree called an additional 6% of total capital to fund tower developments and acquisitions at its existing portfolio companies.

U.S. Select Direct Private Equity (US), LP In December, U.S. Select Direct Private Equity (US), LP co-invested US\$950,000 into Recovery Ways alongside Chicago Pacific Founders. Recovery Ways is a leading addiction recovery business based in Salt Lake City, Utah, that currently operates two JACHO (Joint Commission of Accredited Healthcare Organisation) certified addiction recovery centers (46 total residential beds) as well as a newly opened 26-bed recovery living facility. In addition to residential treatment services and recovery living, the Company also offers its patients Partial Residential Treatment, Intensive Outpatient Programs, and Outpatient treatment support services, all of which can be provided in person in a group setting or through the Company's innovative "TeleHealth" delivery model (www.recoveryways.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.