

## **US SELECT PRIVATE OPPORTUNITIES FUND (FUND)**

### **QUARTERLY UPDATE FOR PERIOD ENDING 31 MARCH 2015**

**ASX: USF**

#### **Private investment market commentary**

Q1 2015 saw continued improvement in the US economy with unemployment below 6% for the first time since July 2008 and increasing business investment figures. Although GDP growth finishing 2014 at 2.2%, stronger figures are forecast in 2015 (5% to 6%), pointing towards an accelerating economy.

During the quarter, 634 deals were completed in the US exceeding US\$100 billion; however this represented a 30% decrease in deal count and 26% decrease in capital from the same period last year.

Our underlying managers' average Earnings Before Interest, Tax and Depreciation (EBITDA) multiple is significantly below the industry average and 40% below public markets, as calculated by the S&P 500 Index. While we are early in the private investment cycle, it is encouraging to see our underlying managers' abilities to acquire quality assets at reasonable valuations and progress continuously across the portfolio. We believe the Fund is well positioned for growth and valuation creation in its underlying investments.

#### **Fund activity and portfolio**

##### **FUND UPDATE**

The estimated unaudited net tangible asset value before withholding tax on unpaid distributions at 31 March 2015 was \$2.02\* per unit (31 December 2014 was \$1.82\* per unit).

Through US Select Private Opportunities Fund, L.P. (LP), the Fund is 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 made a US\$10 million capital call to fund investment and operating expenses. At 31 March 2015, US\$47.5 million (or 68.3% of total funds committed to the LP) had been called, and the Fund's proportionate share of this is approximately US\$40.6 million (an 85.5% share).

During the quarter, the LP received seven drawdown requests for a total net consideration of US\$4.9 million. At 31 March 2015, net drawdown requests from underlying investments were approximately US\$32.8 million (or 47.1% of total commitments).

\*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 MARCH 2015

UNDERLYING FUND	INDUSTRY FOCUS	LP COMMITMENT (US\$ MILLION) <sup>1</sup>	NET LP CAPITAL DRAWDOWN (US\$ MILLION)
<b>DFW Capital Partners IV, L.P.</b>	Health care, business services and industrial services	\$5.0	\$2.2
<b>Encore Consumer Capital Fund II, L.P.</b>	Non-discretionary consumer products	\$10.0	\$6.8
<b>FPC Small Cap Fund I, L.P.</b>	Lower-middle market, service-oriented companies	\$4.0	\$1.8
<b>Incline Equity Partners III, L.P.</b>	Manufacturing, value-added distribution and business services	\$10.0	\$4.4
<b>KarpReilly Capital Partners II, L.P.</b>	Apparel & branded consumer products, retail, restaurants	\$10.0	\$4.9
<b>Peppertree Capital Fund IV, L.P.</b>	Telecommunication infrastructure companies	\$3.0	\$0.9
<b>Prometheus Partners IV, L.P.</b>	Quick service restaurants	\$4.8	\$3.1
<b>Trivest Fund V, L.P.</b>	Manufacturing, distribution, business services, consumer	\$10.0	\$2.8
<b>U.S. Select Direct Private Equity (US), LP</b>	Invests in a direct portfolio of select private companies alongside leading, specialist private investment funds	\$13.0	\$5.9
		<b>\$69.8</b>	<b>\$32.8</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. Numbers may not add up due to rounding.

## Underlying fund activity

**Encore Consumer Capital Fund II, L.P. (Encore)** In March, Encore made a minority investment in Colorado-based company Thanasi Foods. Thanasi is markets flavoured sunflower and pumpkin seed products under the BIGS brand and smoked meat snacks under the Duke's brand. BIGS is known for flavour innovation with a sunflower seed product line-up that includes Vlasic Dill Pickle, Stubb's Smokey Sweet Bar-B-Q, and Hidden Valley Ranch. Duke's is known for small batch smoked meats (jerky, steak strips and sausage sticks) crafted from natural ingredients. ([www.thanasi.com/](http://www.thanasi.com/))

In March, Encore acquired Full Sail Brewing. Based in Oregon, Full Sail Brewing produces a wide range of beers, including ales, lagers, and pilsners, under its Full Sail and Session brand names. Full Sail is one of the original US craft brewers and was named '2014 Craft Brewer of the Year' by Beverage World Magazine. The Company operates in the domestic beer category, specifically the craft sector, with competitors that include Sam Adams, New Belgium, Deschutes, Sierra Nevada and Lagunitas. The craft beer category continues to gain share from domestic brewers and imports, currently maintaining an 11% volume share, up from 4% in 2008. ([www.fullsailbrewing.com/](http://www.fullsailbrewing.com/))

**Incline Equity Partners III, L.P. (Incline)** In March, Incline and US Direct made an initial investment in AFC Holdings, Inc. Based in Ohio, AFC Holdings is a value-added distributor and provider of inventory management services for 'C-Parts', used by original equipment manufacturers in their production assembly process. ([www.afcholdings.com/](http://www.afcholdings.com/))

**U.S. Select Direct Private Equity (US), LP (US Direct)** In February, US Direct invested in Paint Nite, LLC. Paint Nite is a group events business primarily focused on organising social painting events in markets throughout the US. US Direct partnered with Highland Consumer Fund, a consumer-focused private equity firm based in Cambridge Massachusetts to acquire a minority interest in the business. ([www.paintnite.com](http://www.paintnite.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 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 employ moderate and judicious amounts of leverage.