

US SELECT PRIVATE OPPORTUNITIES FUND II (FUND) QUARTERLY UPDATE FOR PERIOD ENDING 31 MARCH 2017

ASX: USG

Private investment market commentary

After a steady climb from the US election in November 2016 (circa 2,100) to an all-time high at the beginning of March 2017 (circa 2,400), the S&P 500 Index has drifted marginally lower during March, but remained strong, settling on March 31 at 2,363. The recent strength in public markets was driven largely by President Trump's election but it has also been supported by an increase in consumer confidence. In March, the Conference Board Consumer Confidence Index (CCI) jumped 9.5 points to 125.6, the highest reading since December 2000, signalling a growing optimism in the short-term outlook for business, jobs and personal income. This measure typically closely correlates to the unemployment rate in the Labour Department's employment report. The unemployment rate declined to a near 10-year low of 4.5 per cent, creating relatively little slack in the market. While, nonfarm payrolls increased by 98,000 jobs in March (i.e., the fewest since May 2016) job growth still averaged 178,000 per month in Q1. The overall numbers underscore the labour market's strength, despite the stumble in March.

As mentioned in the prior update, 2016 showed strong results for private equity fundraising. As noted by Bain in their 2017 Global Private Equity Report, 2017, distributions for the asset class have outpaced contributions since 2011. During the first half of 2016, the ratio of distributions to contributions stood at 1.9x¹, meaning that on average globally, for every \$1 an investor had in private equity, they received a return of almost \$2. Given the capital that has been returned and the success of the asset class, 2017 fundraising is expected to continue the strong trajectory of prior years. According to Preqin, private equity fundraising is off to a strong start in 2017. Globally, in Q1 2017, 175 private equity funds reached a final close, raising a combined US\$89.4 billion in global commitments².

Both Preqin and Bain reported that global buyout deal activity declined during 2016, largely driven by consistently high asset valuations. Preqin's Q1 2017 private equity reports highlighted a marginally slower quarter for fundraising and deals. During Q1 2017, the aggregate value of private equity backed deals was US\$53.4 billion. For North America, private equity backed deals were worth US\$25.2 billion in aggregate, meaningfully lower than the US\$28.1 billion reported by Preqin in Q1 2016. According to Preqin, there were 394 private equity backed exits globally worth, US\$47.9 billion in aggregate. This was down slightly from Q1 2016 when we saw 397 exits worth US\$54.9 billion. Private equity backed exits in North America accounted for well more than half of the value, with 188 exits worth US\$25.3 billion in aggregate. Preqin did not break down this number by region for the prior year^{2,3}.

During Q1 2017, the Australian dollar (AUD) traded between 0.7184 and 0.7731, ending the year at 0.7629 against the US dollar (USD).

Notes:

1. Source: Bain & Company, Global Private Equity Report, 2017.

2. Source: Preqin, Q1 2017 Fundraising Update.

3. Source: Preqin, Q1 2017 Buyout Deals and Exits.

Fund activity and portfolio

FUND UPDATE

The estimated unaudited net tangible asset value before withholding tax on unpaid distributions at 31 March 2017 was \$2.13¹ per unit (at 31 December 2016 was \$2.23¹ per unit).

The Fund is a long-term investor and seeks to make investments in a tax-effective manner. If tax at 35% on estimated underlying investment values were to be recognised, the estimated unaudited net asset backing after tax as at 31 March 2017 would be \$2.03¹ per unit.

US Select Private Opportunities Fund II, L.P. (LP) has committed US\$98.0 million across twelve private investment funds, all focused on small-to-mid-market private investment opportunities.

At 31 March 2017, US\$62.9 million (or 66.2% of total funds committed to the LP), had been called by the LP. The Fund's proportionate share of this is approximately US\$54.9 million (an 87.3% share).

During the quarter, the LP received nine drawdown requests and five capital returns for a total net consideration of US\$1.9 million.

FUND PERFORMANCE

AS AT 31 MARCH 2017	3 MONTHS	6 MONTHS	1 YEAR	2 YEARS PA	3 YEARS PA	SINCE INCEPTION PA ³
Unit price return²	-1.8%	1.4%	-0.5%	2.8%	9.6%	9.6%
NTA return²	-4.5%	2.4%	5.3%	3.5%	10.9%	10.5%

Notes:

1. Source: Walsh & Company Investments Limited. Historical performance is not a guarantee of the future performance of the Fund.
2. Total returns are inclusive of distributions.
3. Inception date April 2013.

SUMMARY OF THE UNDERLYING FUNDS AT 31 MARCH 2017

UNDERLYING FUND	INDUSTRY FOCUS	LP COMMITMENT TO UNDERLYING FUNDS (US\$ MILLION) ¹	NET CAPITAL DRAWDOWN (US\$ MILLION)
Blue Point Capital Partners III, L.P.	Invests in lower middle-market engineering, industrial and distribution companies	\$5.0	\$2.3
Chicago Pacific Founders Fund, L.P.	Invests in healthcare service delivery and senior living companies	\$7.5	\$2.7
DFW Capital Partners IV, L.P.	Health care, business services and industrial services	\$5.0	\$3.9
High Road Capital Partners Fund II, L.P.	Buying and building leading companies at the smaller end of the middle-market	\$7.5	\$3.1
Main Post Growth Capital, L.P.	Invests in lower middle-market growth companies in the consumer, business services and industrial growth sectors	\$7.5	\$2.0
NMS Fund II, L.P.	Healthcare, consumer products and specialised business services	\$6.5	\$4.0
RFE Investment Partners VIII, L.P.	Small market buyouts of companies in market leading positions	\$8.0	\$6.4
Staple Street Capital Partners II, L.P.	Invests in lower middle market companies with operational, balance sheet or process complexities	\$8.0	\$0.9
Tengram Capital Partners Gen2 Fund, L.P.	Branded consumer product and retail sectors	\$10.0	\$8.5
Tower Arch Partners I, L.P.	Invests in high-quality family and entrepreneur-owned companies	\$8.0	\$3.3
Trive Capital Fund I, L.P.	Strategically viable, but under-resourced, middle-market companies	\$10.0	\$6.7
U.S. Select Direct Private Equity (US), L.P.	Invests in a direct portfolio of select private companies alongside leading, specialist private investment funds	\$15.0	\$12.5
		\$98.0	\$56.3

Note:

1. The Fund has an 87.3% interest in the LP Cordish Private Ventures and US Select Private Opportunities Fund II GP, LLC, contributed the remaining amount based on their proportional shares. Numbers may not add due to rounding.

UNDERLYING FUND ACTIVITY

Blue Point Capital Partners III, L.P. Blue Point acquired Fire & Life Safety America, a provider of fire and life safety inspection, repair, monitoring, and installation services to national and regional customers. Headquartered in Richmond, Virginia, the company is one of the largest pure-play, non-union fire and life safety providers in the country with 16 branches across the Mid-Atlantic and South-East US.

<http://flsamericacom>

Blue Point made an additional investment in J America to fund the add-on acquisition of Top of the World (TOW). TOW is a leading supplier of collegiate headwear.

<http://towcaps.com/>

Blue Point made an additional investment in Premier Needle Arts to acquire Crafts Americana Group, a crafts store based in Vancouver, Washington and founded in 1990.

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

Chicago Pacific Founders Fund, L.P. Chicago Pacific invested in a leading provider of person-centred engagement. The company integrates the various hardware, software, media, ergonomic and adaptive components necessary to allow any person — regardless of background, physical or intellectual abilities — to use a computer with minimal frustration. The transaction has not yet been announced, so we are not able to disclose the name or website of the company at this time.

Chicago Pacific Founders made additional investments in the CPF Senior Living and Dental platforms.

DFW Capital Partners IV, L.P. DFW sold Triple-I Holdings, distributing US\$1,454,059 to US Select II.

High Road Capital Partners Fund II, L.P. No material investment activity during quarter.

Main Post Growth Capital, L.P. Main Post invested in Milk Makeup, an innovative beauty, skin care and hair care products available online and through brick-and-mortar retailers like Sephora, Urban Outfitters and Birchbox.

<https://milkmakeup.com/>

NMS Fund II, L.P. No material investment activity during the quarter.

RFE Investment Partners VIII, L.P. RFE distributed US\$339,222 to US Select II.

Staple Street Capital Partners II, L.P. No material investment activity during the quarter.

Tengram Capital Partners Gen2 Fund, L.P. No material investment activity during the quarter.

Tower Arch Partners I, L.P. No material investment activity during the quarter.

Trive Capital Fund I, L.P. Trive distributed US\$378,975 to US Select II.

US Select Direct Private Equity (US), L.P. US Select Direct committed additional capital to J America to help fund the add-on acquisition of TOW. TOW is a leading supplier of collegiate headwear in the United States.

<http://towcaps.com/>

About the Fund

US Select Private Opportunities Fund II (**Fund**) was formed in February 2013 to invest in US Select Private Opportunities Fund II, 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 US, 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 II GP, LLC as Investment Manager of US Select Private Opportunities Fund II (**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.