

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

US Select Private Opportunities Fund II (USG)

Listed Managed Investments

September 2016 Quarterly Review

WHO IS IIR?

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- 3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.
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Rating



LMI Type

Listed investment trust

Investment Area

US

Investment Assets

Private equity funds & Private companies

Investment Sectors

Diversified

Key Investment Information

Price (\$) as at 30 November 2016	2.20
Market cap (\$M)	121.4
Shares on issue (M)	55.2
Shares traded (\$M p.a)	2.3
12-month L/H (\$)	2.10/2.57
Listing date	April 2013

Fees

Management Fee (% p.a)*	2.33
Performance incentives (%)	na

* Investment manager fee of 2.0% plus 0.33% responsible entity fee.

Pre-tax NTA Performance Analytics (including dividends)

	S&P 500 Index AUD\$	
	1 Yr	3 Yr (p.a.)
Excess Per. (%)	-11.76	-6.68
TE (%)	13.85	11.74

Benchmark returns are purely pre-tax, whereas LIC (pre-tax NTA) returns incorporate realised capital gains tax and therefore understate portfolio performance to a degree.

Dividend Yield

	%
FY14	na
FY15	na
FY16	6.61uf

COMPANY OVERVIEW

USG is the second issue of a listed investment trust investing in the US Select Private Opportunities Fund, LP II (*the Fund*), a Cayman Islands based fund that invests in a portfolio of boutique private equity funds in the US. The trust has an ~87% interest in the Fund, with Cordish Private Ventures, LLC owning the remaining interest. US Select Private Opportunities Fund II, GP has appointed Dixon Asset Management USA Inc as the Investment Manager and Cordish Services (an affiliate of Cordish Private Ventures, LLC) to provide administrative services. The Investment Manager has appointed an Advisory Board to assist with the investment selection. The trust was listed in April 2013, raising \$61m, with an additional \$22.2m raised in June 2014. Given the underlying funds are based in the US, investors will be subject to foreign exchange movements. The trust does not intend to hedge the currency exposure but reserves the right to do so in the future. The underlying investments will charge a management fee on the capital committed and a performance fee. USG does not disclose these fees publicly. The Fund will have a life of approximately ten years from the time the capital was fully committed with the underlying funds having five years to invest the capital and then five years to exit. The Fund will return capital when the underlying funds exit their investments.

INVESTMENT OBJECTIVE

The trust seeks to provide Australian investors access to a portfolio of boutique US private equity investments, offering a family office style of investing, a style of investment typically not available to retail investors. The Fund has developed a relationship with the principals of Cordish Private Ventures, LLC, to provide them with advice and access to global private equity funds. The Fund seeks to generate capital growth over a 5-10 year period.

STYLE AND PROCESS

The trust has a fund of fund investment approach, whereby the Investment Team and Advisory Board select a portfolio of private equity funds. The Investment Manager focuses on those funds that have an established history of successful private equity investments. We note that the Manager may look at newly established managers that have a proven track record at other firms. The Manager uses its industry contacts and experience in the industry to identify investment opportunities. The Portfolio Manager is responsible for undertaking the due diligence on potential investments, which focuses on: 1) deal sourcing and acquisition discipline; 2) track record in management of investments; 3) track record in executing acquisitions to grow investments; and 4) exit execution.

PORTFOLIO CHARACTERISTICS

The portfolio capital is fully committed across 12 investments. The capital drawn down by the underlying funds at 30 September 2016 was US\$53.0M, or 54.1% of the underlying commitment, up from 51.0% at 30 June 2016. The remainder of the capital is held in cash. Underlying funds have five years to invest the committed capital and five years to exit investments.

INDEPENDENT INVESTMENT RESEARCH COMMENTS

USG provides investors access to a portfolio of boutique US private equity funds with a focus on the small-to mid sized market. The portfolio value (pre-tax NTA plus dividends) fell 0.5% over the September quarter compared with a benchmark rise of 0.5%. The fund has underperformed the benchmark over both one and three year periods. In part this reflects the fact that the capital has only been partially allocated throughout the trust's history. We also note that returns from private equity investments can be lumpy. We compare the performance of the trust to the S&P 500 Index (AUD) given the Manager believes private equity will outperform listed equities over the long-term. The Portfolio Manager and Advisory Board are highly experienced in private equity and financial markets, but key man risk is high with the Portfolio Manager the only dedicated person to the Fund. Annual fees associated with the trust are high, but unlike its peers, USG does not charge a performance fee. The fees associated with the underlying funds are also high, but in line with industry standards.

Investment Limitations

- 1) The Fund can only invest in private investment funds and interests in private companies.
- 2) No more than 33% of the gross value of the portfolio can be invested in an individual fund.
- 3) No more than 25% of the gross value of the portfolio can be invested in funds whose primary objective is to invest outside the US.
- 4) The Fund cannot invest in funds that primarily focus on emerging market investments.
- 5) No more than 25% of the portfolio can be invested in venture capital funds.

BOARD OF DIRECTORS

Alex MacLachlan	Executive Chairman
Tom Kline	Executive Director
Tristan O'Connell	Executive Director

ADVISORY BOARD

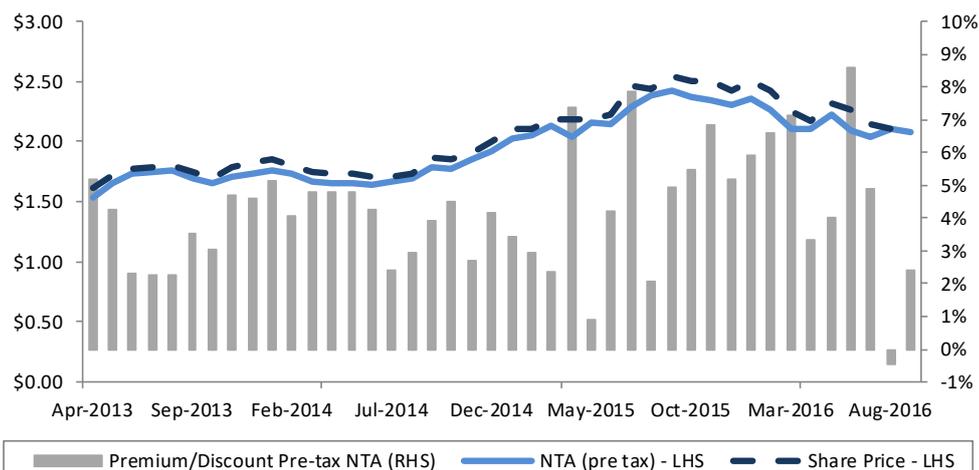
Jonathan Cordish	Alan Dixon
Margaret Cordish	Maximilian Walsh

USG's Portfolio

Fund	Industry Focus	Committed Capital US\$m	Capital Drawdown US\$m
Blue Point Capital Partners III, LP	Engineering, industrial & distribution companies	5.0	2.1
Chicago Pacific Founders Fund, LP	Healthcare services & senior living companies	7.5	2.4
DFW Capital Partners IV, LP	Lower middle market companies	5.0	3.8
High Road Capital Partners Fund II, LP	Middle market building companies	7.5	2.6
Main Post Growth Capital, LP	Consumer, business services & industrial	7.5	1.6
NMS Fund II, LP	Healthcare, consumer products & specialised business services	6.5	3.5
RFE Investment Partners VIII, LP	Companies in leading market positions	8.0	6.3
Staple Street Capital Partners II, LP	Lower middle market companies with operational, balance or process complexities	8.0	1.1
Tengram Capital Partners Gen2 Fund, LP	Branded consumer product and retail	10.0	8.5
Tower Arch Partners I, LP	Family & entrepreneur-owned companies	8.0	2.9
Trive Capital Fund I, LP	Under-resourced middle market companies	10.0	6.6
U.S. Select Direct Private Equity (US), LP	Co-investment in private equity companies	15.0	11.4
		98.0	53.0

Source all figures: USG/Independent Investment Research/IRESS.
All data as at 30 September 2016 unless otherwise specified.

NTA & Share Price Performance



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system.

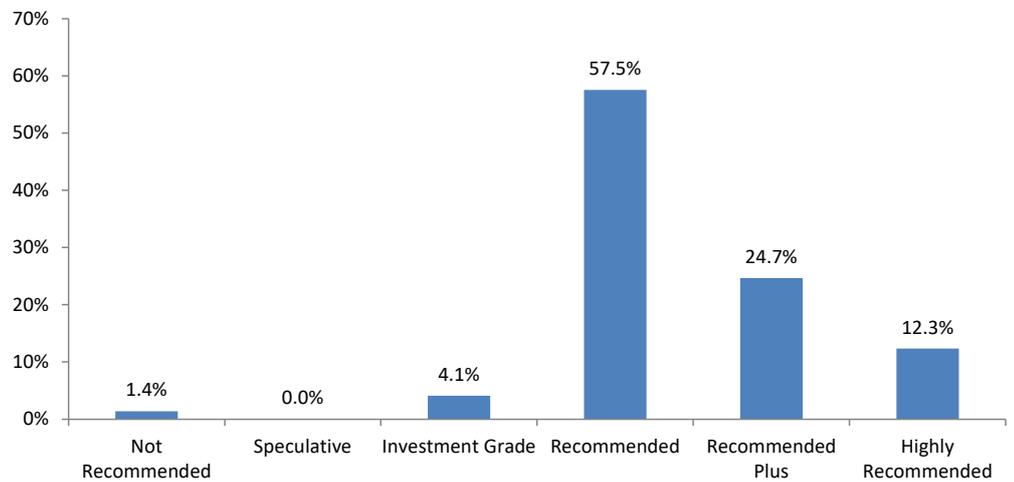
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
<p>Highly Recommended</p> 	<p>83 and above</p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p>Recommended +</p> 	<p>79–82</p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p>Recommended</p> 	<p>60–78</p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p>Not Recommended</p> 	<p><60</p> <p>This rating indicates that IIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. The product provides some unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off and should generate risk adjusted returns in line with stated investment objectives. However, concerns over one or more features mean that it may not be suitable for most investors.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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