McGregor Asset Consulting

INVESTMENT REVIEW
June, 2016

US Select Private Opportunities Fund III
Proposed ASX Code: USP

Managed by

Walsh & Company Investments Limited

Prepared by

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This investment review has been prepared by McGregor Asset Consulting Pty Ltd for the Directors of Walsh & Company Investments Limited

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Disclosure of Interest

McGregor Asset Consulting Pty Ltd (ABN 77 136 057 415) nor any of its directors have any financial interest neither in the US Select Private Opportunities Fund III nor in any persons or companies associated with the project. The reader of this report should read it in its entirety.

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Walsh & Company Investments Limited

Fund reviewed: **US Select Private Opportunities Fund III**

Review: **June 2016**

McGregor Asset Consulting Opinion:

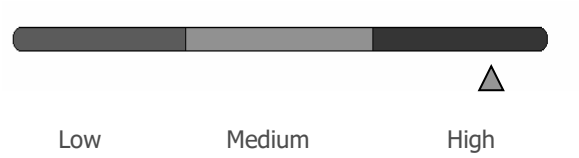
Corporate Strength	1	2	**3**	**4**	5
People	1	2	**3**	**4**	5
Investment Process	1	2	3	**4**	5
Product Features	1	2	**3**	**4**	5
McGregor Rating*	1	2	**3**	**4**	5

* Definitions for McGregor Asset Consulting Ratings can be found in Appendix 2 of the report

McGregor Asset Consulting has issued the US Select Private Opportunities Fund III (Fund) a rating of 4, indicating that it believes the manager can consistently exceed its investment objectives over the recommended investment horizon of 10 years.

Risk Profile – US Select Private Opportunities Fund III:

Risk to capital



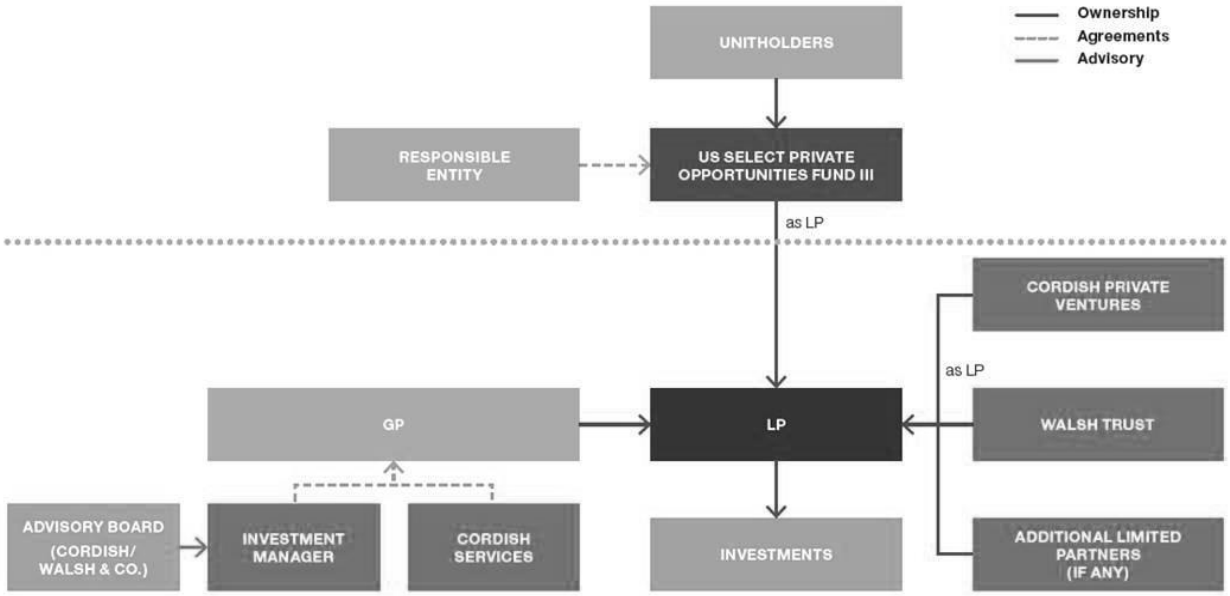
Overview of Offering

The US Select Private Opportunities Fund III is a newly created Investment Trust seeking to list on the ASX. The Trust is seeking to raise a minimum of $25 million and up to a maximum of $80 million as a Listed Investment Trust.

Offer Price:	$1.60 per Unit
Proposed ASX code:	USP
Closing Date:	The Offer is expected to close on 12th July 2016 and units expected to start trading on ASX on 27th July 2016.
Co-Manager: (Broker)	Taylor Collison Limited The Offer is not being underwritten

NTA:	The fund's NTA on listing is expected to be $1.55. The Responsible Entity has agreed to pay for certain fees and costs of the Offer to ensure that the pro forma NTA per unit is not less than $1.55.
Management Fees:	The Investment Manager is to receive an annual management fee of 1.0% pa (plus GST) of the total funds committed by limited partners to the Fund. Refer Page 9 for detailed breakdown of fees including RE fees and ongoing fees
Adviser Fee:	Advisers may receive 1.57% (inc GST) on applications
Investment Manager:	Dixon Asset Management USA, Inc
Investment Timeframe:	The Fund does not have a set investment term. Private Equity investing should be viewed over at least a ten year timeframe. The investment process needs to allocate funds to the underlying managers and then over a period of time investments are made and then allowed to mature before being exited. The investment manager has been able to commence the allocation process due to Cordish family and Dixon Advisory and associates committing a combined US$20 million to the strategy.
Key People:	**Jonathan Cordish**, Chairman of the Advisory Board. Jonathan is President of Cordish Private Ventures. **David Cordish**, Advisory Board member. David is Chairman of The Cordish Companies a family office headquartered in Baltimore. **John Martin**, Advisory Board member. John is a corporate adviser and is currently a senior partner with corporate advisory firm Aquasia based in Australia. **Alan Dixon**, Advisory Board member. Alan is CEO of Dixon Advisory USA. **Jonathan Sinex**, a principal of Cordish Private Ventures is responsible for managing all private equity opportunities in his role with the Investment Manager for Fund I and Fund II and related entities. He is to undertake this role for the Fund. **Alex MacLachlan**, Chairman of the Responsible Entity and an investment professional. Alex is CEO of Walsh & Company Group Pty Limited.
Investment Advisory Agreement:	The Investment Manager has an exclusive agreement to manage the Fund for an initial 10year period. Thereafter, one year periods need to be approved.

US Select Private Opportunities Fund III Structure



Responsible Entity
Walsh and Company Investments Limited is the Responsible Entity of the Trust.

Private Equity Investment Approach
The Trust is seeking to provide investors access to Private Equity investments in the US via partnering with an experienced US based family office investor, Cordish Private Ventures, LLC that provide exposure to top tier private investment managers (five funds have been committed to) typically reserved for institutions and high net worth families. As well, the Investment Manager intends to identify a number of direct private equity investment opportunities. Private investment managers are expected to represent 70-80% of the fund and 20-30% applied to direct investment opportunities.

The Investment Manager has a strong performance record in Private Equity investment with two existing ASX listed Private Equity funds managed in partnership with Cordish Private Ventures. Fund I, ASX code USF and Fund II, ASX code USG provide investors with confidence of an experienced and successful approach to managing Private Equity.

Both Dixon Advisory and associates and the Cordish family have committed to co-investing in the strategy. US$5 million by Dixon Advisory and associates and US$15 million by Cordish. McGregor Asset Consulting considers the co-investment and track record of the first two funds to be very positive for the success of the Fund as the alignment of interest with investors is strong.

Key strengths identified during the research review include:

Strong alignment of interest
There is a strong alignment of interest between the manager and investors in the Fund. The Cordish family is the founder, owner and manager of The Cordish Companies, of which Cordish Private Ventures is their private investment arm. Following the Offer the Cordish family agreed to commit US$15 million to the Fund. This amount invested is likely to ensure the manager remains focussed and motivated on meeting their investment objectives.

Corporate strength
The Cordish family is the founder, owner and manager of The Cordish Companies, and through Cordish Private Ventures have agreed to partner with Walsh & Company, to jointly control the GP, similar to the structure of the previous US Select Private Opportunities Fund I and II. The Cordish Companies, a fourth generation US-based family business is one of the largest real estate developers in the world that employs over 6000 staff, and owns and manages over 60 million square feet of commercial, hotel, and residential development. The business is highly profitable with a strong reputation, providing a high degree of stability and confidence.

A related entity of the Dixon Advisory Group (inclusive of Walsh & Company) is the Investment Manager for the Fund and the Dixon Advisory Group is also profitable. The business employs more than 350 staff and assists trustees to invest approximately $6 billion in capital. Walsh & Company is the funds management arm of Dixon Advisory Group and manages approximately $2.5 billion of client assets under management. They are also profitable in their own right. Corporate strength, through the partnership with Cordish Private Ventures, which is a part of The Cordish Companies, is a key strength of the Fund. Should this partnership deteriorate then the Fund's rating is likely to be susceptible to a downgrade.

Investment team and Advisory Board
Jonathan Cordish is President of Cordish Private Ventures and has over 20 years of investment experience in private equities, while Jonathan Sinex has 12 years of investment experience, with prior experience gained at Goldman Sachs and Bear Stearns. Both are members of the Cordish family and have been investing their own capital using an investment strategy, which is consistent with the investment strategy to be implemented by the Fund. McGregor Asset Consulting considers both members to be quality investment specialists with strong relationships with the private equity sector.

In addition, the Investment Manager has established an Advisory Board, with Jonathan Cordish as Chairman. The Advisory Board comprises the most senior executives from Dixon Advisory, Walsh & Company and Cordish Private Ventures. In addition a corporate adviser, John Martin is a member. The aim is to improve dialogue between partners and to provide them with expert advice, including portfolio and investment strategy. McGregor Asset Consulting strongly supports this initiative, in particular when investing in private investments, and when a partnership is involved.

Proven performance track record
Walsh & Company, with Cordish Private Ventures as the investment specialists has previously launched Fund I and II of the US Select Private Opportunities Fund series. These Funds have commenced well and have exceeded their investment objectives, to date. Furthermore, of the five managers committed to for Fund III, three of the underlying managers were in Fund I and II and as indicated by Cordish Private Ventures more are anticipated to come back to market shortly to raise more capital. Below is the performance of US Select Private Opportunities Fund I and II:

Period	1 year (% p.a.)	3 years (% p.a.)	Since inception (% p.a.)
US Select Private Opportunities Fund I (USF)	10.6	12.4	11.3
US Select Private Opportunities Fund II (USG)	6.4	11.7	13.8

Performance calculated on monthly NTA basis to 31st May 2016

The manager being able to access a number of existing underlying managers already in USPOF I and II also provides an opportunity for the Investment Manager to deploy capital quickly and efficiently for investors in USPOF III, and reduce the lag time associated with initially investing in private equity businesses. Private equity investments can take several years to be identified, coupled with an initial outlay of costs, to implement strategic and managerial changes before benefits are accrued and realised. Investing in funds part way, or through implementing these changes reduces the time before investors begin to receive benefits.

Trust structure
The Trust is to be listed on the ASX as a listed investment trust. Private equity funds are typically long term investments that are unlisted and illiquid. The Trust being listed addresses the liquidity issue, making the offering more attractive to retail investors, allowing them to trade at their discretion. This is a significant advantage over traditional unlisted private equity funds as investors are able to access this asset class with liquidity.

Multi-manager investment process
A fundamental bottom-up approach is adopted with the multi-manager segment representing approximately 70-80% of the Fund and the direct investment portion representing 20-30%. The manager intends on investing in 8 – 10 underlying private equity managers and 10-12 direct investments assuming maximum subscription. The predominately multi-manager approach increases considerably the diversification within the Fund and reduces the overall risk. Private equity is a volatile asset class where the risks are high, even more so when investments are in small-to-mid market private businesses.

The multi-manager structure reduces this risk as it allows the Fund to gain exposure to many smaller positions in companies as well as diversify across multiple managers with specialist skills in various industries to manage the assets.

Lower gearing levels
The Fund adopts a more traditional approach to private equity, focussing on acquiring businesses at sensible valuations with the intention of growing earnings and selling them for a profit. The Fund's chosen underlying managers' use less debt than most private equity firms. This has been the situation in USPOF I and II, with gearing levels being well below peers. Gearing enhances returns when investments rise but also enhances losses when investments fall. Given the high risks already inherent in this asset class, McGregor Asset Consulting prefers managers that use lower levels of gearing.

Opportunity to diversify investment returns
The Fund invests with US small-to-mid market private equity managers that are normally not accessible to retail investors. Private equity investments have historically demonstrated low correlation with public equities and have tended to outperform most asset classes in difficult economic times because of its low correlation. Therefore, the Fund may be used for diversification benefits when blended with other managers, such as global listed equity managers.

Key risks/weaknesses identified during the research review include:

Fees
Fees are high although this is not uncommon for private equity funds. Initial investors are required to pay a one-off Structuring & Arranging Fee of 1.5675% and a Handling Fee of 1.5675% (inc GST and net of RITC). Excluding these initial costs, the ongoing costs for the Fund are capped at a maximum of 3.3446% per annum and a performance fee of 10% is also charged once the hurdle rate of 8% per annum is achieved in USD terms. However, the underlying managers may provide fee offsets and rebates which would reduce the ongoing fees charged by underlying managers.

McGregor Asset Consulting would prefer this performance fee be charged, if at all on any outperformance above 8% per annum, in AUD terms. Investors need to be aware that they may pay performance fees on returns generated in USD terms, yet have these returns eroded due to unfavourable currency movements, when converted to AUD.

Currency risk
The Fund invests in US private companies, which are US dollar denominated investments and are subject to currency risk. The investment manager adopts a fully unhedged approach to managing the US based assets, indicating that Australian investors may have returns eroded should the AUD rise relative to the USD. However, currency may also be a tailwind for Australian investors.

Gearing
Whilst gearing levels have been lower than peers for Fund 1 and II, the underlying managers used by USPOF do gear the assets, which come with additional risks. As mentioned above, gearing accelerates losses during periods of stress.

Trade at a discount
Investors need to be aware the Fund is listed and may trade at a discount to the NTA, in particular during extreme economic conditions. Historically, US Select Private Opportunities Fund I and II have traded at a premium to its NTA, however this could change on any unfavourable news or sentiment about the Fund's assets or the economic environment.

Long term investments
The nature of private equity investments are long term and require investors to be patient. Private equity investments made by private equity funds are generally held for a lengthy duration, potentially up to 10 years before being realised. Any gains from these investments are only realised when the company is sold, indicating that distributions are likely to be irregular and lumpy in nature.

Downturn in the US economy
Private equity investments should be considered high risk investments, which are exposed to the strength of the US economy. Should the US economy suffer a sizable down turn in conditions, then returns from private equity investments may also suffer, and may result in investors losing capital. The Fund is also US centric and does not diversify across other countries or regions, adding greater risk and dependence on the US economy having to perform.

In addition, the manager targets small-to-mid market US private equity investments, typically with revenue less than US$100 million, but mostly less than US$50 million. This is likely to further add greater downside risk to investors returns should the US economy suffer a sharp down turn.

McGregor Asset Consulting Overview:

About the Fund

The US Select Private Opportunities Fund series (USPOF) was first established in 2012 to provide investors with the opportunity to benefit from a family office style of investment focused on small and mid-market private equity investment opportunities in the US. To bring this opportunity to Australian investors, Walsh & Company Group (Walsh & Co) have partnered with Cordish Private Ventures (CPV), the private investment funds arm of The Cordish Companies. The Cordish Companies is a fourth generation US-based family business with a successful history of investing in US private equity markets.

The first fund in the series, US Select Private Opportunities Fund I, was listed in August 2012 and raised US$60 million, while the second fund in the series, US Select Private Opportunities Fund II, was listed in April 2013 and raised US$83 million. US Select Private Opportunities Fund III (the Fund)is the third fund in the series and represents a continuation of the strategy common to Fund I and Fund II.

The Fund's investments will be made through a Limited Partnership to be known as the U.S. Select Private Opportunities Fund III, L.P. (LP), which has been established in the Cayman Islands. The General Partner of the LP, with responsibility for selecting and managing investments of the LP is U.S. Select Private Opportunities Fund III GP, LLC (GP), a Delaware limited liability company, which is owned by DGP Inc. (a member of the same group as Walsh & Co) and two affiliates of Cordish Private Ventures. Accordingly, the Responsible Entity will have no control over the underlying investments undertaken by the GP on behalf of the LP, subject to the investment restrictions.

Private equity funds are typically unlisted and illiquid investments that require a long-term investment horizon. Individual investments made by private equity funds are generally held for a lengthy duration, potentially up to 10 years before being realised. Any gains from these investments are only realised when the company is sold, indicating that distributions are likely to be irregular and lumpy in nature. Private equity investments are also a higher risk asset class than traditional equities, with greater potential for capital loss. To address the issue of illiquidity, Walsh & Co intends on listing the Fund on the Australian Stock Exchange (ASX).

McGregor Asset Consulting supports this initiative, as it makes the offering more attractive and suitable to retail investors. However during periods of stress, such as extreme economic conditions or if unfavourable issues surrounding some of the underlying investments become known, investors need to be mindful that the listed investment vehicle may trade at a sizable discount to its NTA valuation.

Similar to Fund I and II, the Fund is targeting an 8% p.a. net return, in USD. Their investment strategy is to invest in US small-to-mid-market private equity funds, through predominantly a multi-manager structure, with a small component being direct investments. Small-to-mid market private equity managers who specialise in particular industries are specifically targeted as the manager believes they acquire smaller firms at lower valuation multiples to listed equities, and their larger private equity counterparts.

A fundamental bottom-up approach is adopted with the multi-manager segment representing approximately 70-80% of the Fund and the direct investment portion representing 20-30%. The manager intends on investing in 8 – 10 underlying private equity managers and 10-12 direct investments, and has indicated they have made commitments to five underlying managers, with three of these managers already in USPOF I and II.

McGregor Asset Consulting favours the predominately multi-manager approach adopted as it increases considerably the diversification within the Fund and reduces the overall risk. Private equity is a volatile asset class where the risks are high, even more so when investments are in small-to-mid market private businesses. The multi-manager structure reduces this risk as it allows the Fund to gain exposure to many smaller positions in companies as well as diversify across multiple managers with specialist skills in various industries to manage the assets.

USPOF targets those small private equity managers who invest in private equity businesses that generate revenue between USD$1million and $100 million on an annual basis. This represents approximately 90% of US companies, with approximately 85% of businesses generating revenue of less than USD$50 million per year. USPOF screens for small underlying private equity funds with less than USD$500 million, with the average fund size of their underlying managers in Fund I and II currently around USD$250 million. The premise of targeting smaller US private equity funds is they are more likely to acquire smaller firms at lower valuation multiples to listed equities. For USPOF I and II, USPOF's private equity managers purchased smaller private companies at a 40% to 50% discount to the average of the S&P 500 public listed companies.

USPOF also adopts a traditional approach to private equity, focussing on acquiring businesses at a discount with the intention of growing earnings and selling them for a profit. As a result USPOF's managers' focus on generating operational value rather than financially engineering returns, and uses less debt than most private equity firms. This

has been the situation in USPOF I and II, with gearing levels being well below peers. Gearing enhances returns when investments rise but also enhances losses when investments fall. Given the high risks already inherent in this asset class, McGregor Asset Consulting prefers managers that use lower levels of gearing.

The Fund invests in US private companies, which are US dollar denominated investments. Therefore, Australian investors in the Fund are exposed to currency risk, as the manager adopts a fully unhedged approach. Whilst the Fund is targeting an 8% return in USD, investors need to be aware that returns may be eroded considerably due to the AUD rising relative to the USD.

Fees and charges
Tabled below is the fee structure for the Fund:

Initial Costs:	
Structuring & Arranging Fee	1.5675% (inclusive of GST and net of RITC)
Handling Fee	1.5675% (inclusive of GST and net of RITC)
Ongoing Costs:	
Responsible Entity Fee	0.0836% p.a. (inclusive of GST and net of RITC) of the Fund's gross asset value
Administration Fee	0.261% p.a. (inclusive of GST and net of RITC) of the Fund's gross asset value
General Partner Fee	1.0% p.a. of the total funds committed by limited partners to the LP
Underlying Fund Management Fee	2.0% p.a. of the total funds committed by the LP to underlying funds*
	*The Fund may be eligible for fee offsets and rebates which may reduce the effective fee charged by underlying funds
Performance Fee:	10% of the return achieved by the LP if a hurdle rate equal to a pre-tax return of 8% per annum (Hurdle Rate) in USD terms on all capital committed to the LP is achieved. McGregor Asset Consulting considers the Hurdle rate to be fair for investors in the current low interest rate environment.

Excluding the initial costs, which are a one off payment, payable after the close of the offer, the ongoing costs for the Fund are capped at a maximum of 3.3446% per annum. A performance fee of 10% is also charged once the hurdle rate of 8% per annum in USD terms is achieved. However, the underlying managers may provide fee offsets and rebates which would reduce the ongoing fees charged by underlying managers. These charges are high although not unusual for this asset class. Fundamental research on private businesses requires specialised skills, is labour intensive and expensive, relative to other asset classes. Typically analysts have limited, if any information and are usually required to analyse these businesses from first principles.

Once an investment is made, the manager then works with the Board and/or management to revise their strategic direction and implement a growth strategy. These functions add to the amount of resources required when investing in private business. McGregor Asset Consulting would prefer the performance fee be charged on outperformance above 8%, in AUD terms. Investors need to be mindful that they may pay performance fees on returns generated in USD terms, yet have these returns eroded due to unfavourable currency movements, when converted to AUD.

Investment team
McGregor Asset Consulting believes the investment team at Cordish Private Ventures, namely Jonathan Cordish and Jonathan Sinex, to be quality investment specialists within the private equity sector. Jonathan Cordish is President of Cordish Private Ventures and has over 20 years of investment experience in private equities, while Jonathon Sinex has 12 years of investment experience, with prior experience gained at Goldman Sachs and Bear Stearns. Jonathan Cordish and Jonathan Sinex are both responsible for overseeing the underlying private equity managers, and businesses where direct investments have been made.

Cordish Private Ventures is also part of The Cordish Companies, one of the largest property developers in the world, and have been investing their own capital using an investment strategy, which is consistent with the investment strategy to be implemented by the Fund. The team has launched Fund I and II of the US Select Private Opportunities Fund series and has proven track record of exceeding their investment objectives. In addition, the

Cordish family have co-invested in both USPOF I and II Funds, and will invest a further USD$15 million in this new offering. This establishes a strong alignment of interest between the manager and investors.

Using the Fund

The Fund is a private equity fund that invests in US domiciled small-to-mid market private businesses. The manager employs a fundamental, bottom-up approach predominantly within a fund-of-fund structure, although the manager also co-invests a small portion of the Fund directly into private businesses. Private equity funds are typically illiquid and high risk investments that involve the use of leverage. To make the offering more attractive to retail investors, the manager is listing the Trust on the ASX to accommodate liquidity requirements.

Private equity funds are categorised as alternative investments because of their characteristics. Therefore, the Fund is suitable for inclusion within an investor's growth portion of their diversified portfolio, preferably within their alternatives component. However, the Fund is listed and invests in US private businesses, and may also be blended with global listed equity managers for diversification benefits. Private equity returns have historically demonstrated low correlation with public equities and have tended to outperform most asset classes in difficult economic times because it its low correlation.

Investors should be aware the Fund is subject to equity risk and may experience periods of volatility and negative returns. McGregor Asset Consulting believes this type of Fund is most suitable for high risk profile investors with an investment horizon of up to ten years.

Key features:

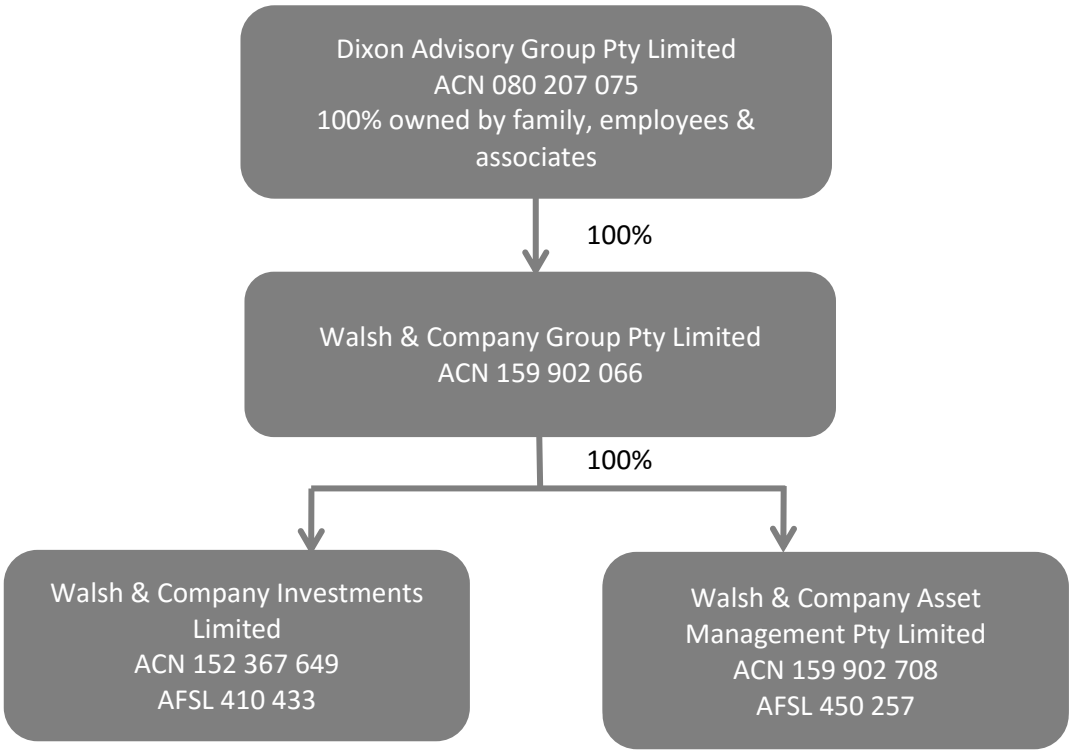
Responsible Entity	Walsh & Company Investments Limited
Investment Manager	Dixon Asset Management USA, Inc
Custodian	The Trust Company (Australia)
ASX Code	USP
Offer Closing Date	12th July 2016
Trading of Units Expected to Commence	27th July 2016
Target Offer Raise	A$25 million – A$80 million
Fund Type	US Private Equity
Offer Price per Unit	A$1.60
Minimum Application Amount	A$2000, 1,250 units
Investment Horizon	Longer term (10 years)
Distributions	Yearly, if any, but may make more regular distributions if appropriate
Initial Costs: Structuring & Arranging Fee Handling Fee	 1.5675% (inclusive of GST and net of RITC) 1.5675% (inclusive of GST and net of RITC)
Ongoing Costs: Responsible Entity Fee Administration Fee General Partner Fee Underlying Fund Management Fee	 0.0836% p.a. (inclusive of GST and net of RITC) 0.261% p.a.(inclusive of GST and net of RITC) 1.0% p.a. of the total funds committed by limited partners to the LP 2.0% p.a. of the total funds committed by the LP to underlying funds* *The Fund may be eligible for fee offsets and rebates which may reduce the effective fee charged by underlying funds
Performance Fee	10% of the return achieved by the LP once a hurdle rate equal to a pre-tax return of 8% per annum (Hurdle Rate) in USD terms on all capital committed to the LP is achieved
NTA Valuation	Monthly
Investment Strategy	Fundamental, bottom-up, multi-manager with a direct co-investment
Target Return	8% per annum in USD
Cash limit	N/A (There is no limitation on the amount of cash that may be retained)
Currency	Unhedged
Risk profile	High

Ownership structure:

Walsh & Company Group Pty Limited
Walsh & Company Investments Limited is the issuer of units and the Responsible Entity of the US Select Private Opportunities Fund III (Fund), a multi-manager private equity fund with a small direct investment component. Walsh &Company Investments Limited holds an Australian Financial Services Licence (Number 410 433) and is experienced in the management of listed and unlisted investment funds. Walsh & Company Investments Limited is also part of the Walsh & Company Group Pty Limited.

Walsh & Co is a Sydney-based specialist global fund manager co-founded by Max Walsh in 2007. The company has approximately $2.5 billion of funds under management across a variety of asset classes including US private investments and residential property, fixed income, Australian commercial property, renewable energy infrastructure, Asian equities, emerging market equities and Australian equities. Walsh & Co believes that some of the best investment opportunities are often not readily accessible to investors. Therefore, the manager designs products that enable investors to access market segments that are often beyond reach, assisting them to build more diversified portfolios.

Walsh & Co also has an office in New York (Manhattan) and employs 29 staff within their funds management and corporate finance business. Of these, 13 are dedicated investment professionals. Below is an organisational chart showing the ownership structure of the investment manager and subsidiaries of the parent company:



Walsh & Co were formed out of Dixon Advisory, now Dixon Advisory Group Pty Ltd, which was founded by Daryl and Kate Dixon in 1986 to provide financial advice and superannuation support to Australians. In 2007 the funds management divisions, which later became Walsh & Company Asset Management and Walsh & Company Investments were established, and are 100% owned subsidiaries of the Group. Since their inception, Walsh & Co have launched 22 funds, most listed on the ASX. Where additional expertise is required, for example private equity, the manager has entered into a joint venture partnership with investment specialists in these fields.

This is the case with US Select Private Opportunities Fund III, where Walsh & Co entered into a joint venture with Cordish Private Ventures (CPV) for the US Select Private Opportunities Fund Series. The joint venture was established in August 2012, where the US Select Private Opportunities Fund I (ASX Code: USF) was first launched, followed by the second fund, US Select Private Opportunities Fund II (ASX Code: USG) being launched in April 2013. The Fund invests in private equity funds, co-invests directly into private businesses, and representatives of CPV assist with investment selection and management of the Fund.

Joint venture partner - Cordish Private Ventures
Cordish Private Ventures, is the private investment funds arm of The Cordish Companies, a fourth generation US-based family business with a long and successful experience investing in US private investment markets. The Cordish family is the founder, owner and manager of The Cordish Companies, and have agreed to partner with Walsh & Co, for U.S. Select Private Opportunities Fund III. Following the Offer the Cordish family agreed to commit US$15 million to the Limited Partnership.

McGregor Asset Consulting is highly supportive of the Cordish family co-investing in the Fund as it establishes a strong alignment of interest between the manager and investors. Furthermore, the amount of money invested is likely to ensure the manager remains focussed and motivated on meeting their investment objectives.

The Cordish Companies (previously The Cordish Company) is a U.S.-based real estate development and entertainment operating company with its headquarters in Baltimore, Maryland, USA. It was founded in 1910 by Louis Cordish, and in 1933, his son Paul L. Cordish joined the business and was an active participant for 70 years. In 1968, Paul's son David S. Cordish joined the firm. David S. Cordish currently serves as the company's chairman and CEO. As of 2016, all three of David's sons, Jonathan, Blake, and Reed, serve as Executives of The Cordish Companies.

The Cordish Companies has six divisions:

1. Real estate development;
2. Live! Districts;
3. Gaming and hospitality;
4. Sports anchored development;
5. Entertainment management; and
6. International urban planning and development.

The Cordish Companies employs over 6000 staff and is widely recognised as one of the leaders in the US in the field of entertainment development and its own operation of entertainment venues, restaurants, live performance, and gaming. The Company owns and manages over 60 million square feet of commercial, hotel, and residential development, and have been awarded seven Urban Land Institute (ULI) Awards for Excellence for positively impacting the cities in which they develop.

Jonathan Cordish is President of Cordish Private Ventures and has been managing the investments of Cordish Private Ventures for over 15 years. Cordish Private Ventures is the private investment arm of The Cordish companies, which employs a total of 5 staff. Jonathan is also actively involved in all aspects of Cordish Services, as its Executive Chairman. Prior to Cordish Private Ventures, Jonathan was a Vice President and Partner at Riggs Capital Partners, a private equity firm based in Washington, D.C. Jonathan is also Chair of the Advisory Board of the Investment Manager for the Fund.

Cordish Private Ventures has experience investing its own capital using an investment strategy, which is generally consistent with the investment strategy to be implemented by the Fund and has, and continues to drive the investment decision making process for Fund I and Fund II, through the respective underlying LP. A significant portion of the Fund's underlying investments are targeted to be with managers with whom Cordish Private Ventures has either previously successfully invested or has an established relationship.

Profitability:
The Cordish Company, of which Cordish Private Ventures is a part of, is one of the largest real estate developers in the world. The company encompass four generations of privately-held, family ownership and is entering its eleventh decade since first being established. As the firm is privately owned, audited financial information is not made available to the public. However, McGregor Asset Consulting has been advised that Cordish Companies is highly profitable, which it believes to be accurate.

The Dixon Advisory Group (inclusive of Walsh & Company) employs more than 350 staff across their offices in Sydney, Melbourne Canberra, Brisbane and New York. In addition, Dixon Advisory supports 8,000 plus SMSF trustees and assists these trustees to invest approximately $6 billion in capital. Alongside clients, Dixon Advisory employees and their families and friends invest $200 million. Walsh & Co manages approximately $2.5 billion of client assets across global equities, residential and commercial property, private equity, fixed income and sustainable and social investments.

Similarly, Dixon Advisory Group does not make their financial accounts publically available, although it has been communicated that Dixon Advisory Group and their funds management division, Walsh & Co are both profitable. McGregor Asset Consulting believes this to be accurate.

Resources and investment related service providers:
Dixon Asset Management USA, Inc operates as the investment manager for the Fund while Walsh & Company Investments operates as the Responsible Entity. The Walsh & Company Group Company employs a total of 29 staff within the funds management and corporate advisory business. Of these, 13 are dedicated investment professionals.

Investment professionals for Walsh & Co's US-based funds are Cordish Private Ventures, who are located in the US. Cordish Private Ventures predominantly adopts a fund-of-fund approach, although they select their own direct investments as well. The key decision makers/investment professionals within CPV are Jonathan Cordish and Jonathan Sinex. Jonathan Sinex is a member of the investment team for the US Select Private Opportunities Fund series and has been seconded from his position of Principal of CPV, to provide investment management services to the investment manager.

McGregor Asset Consulting believes the level of resourcing at Walsh & Company Investments Limited to be adequate to perform their duties as Responsible Entity for the Fund and oversee the management by CPV of the assets. Walsh & Co has successfully overseen and managed listed and unlisted funds since 2007, and is experienced in their duties and responsibilities.

To allow the business to focus of their core competencies, Walsh & Co outsources certain functions to external service providers, where superior capabilities and/or competitive advantage exist to assist in day-to-day operations and management of operational risk. Listed below are the following functions outsourced to external providers:

Fund administration:
- Share registry – shareholder register maintenance and handling of investor enquiries related to the Company's funds. The majority of the Company's share registries are handled by Boardroom; and
- Fund Accounting – accounting for the Company's funds are provided by a wholly owned subsidiary of the Dixon Advisory Group, Australian Fund Accounting Services.

Settlement:
- Settlement functions are undertaken by a number of external providers including Morgans, UBS and Macquarie Bank.

Auditor:
- Auditing of both Walsh & Co and the funds are undertaken by audit partners, which include KPMG, Deloitte and William Buck.

Custody:
- Custodian services are provided by The Trust Company (Australia).

IT support:
- Select IT support services (such as computer support) across the Dixon Advisory Group are provided by CentreRed IT.

Legal:
- Barnett Law, Watson Mangioni, Minter Ellison, Blank Rome.

Tax advisory:
- Deloitte, Moore Stephens

The Investment Manager is responsible for selecting and managing the assets. The Fund adopts a fund-of-fund investment approach, combined with direct private equity investments, which represents approximately 20-30% of the total assets of the Fund. CPV comprises five employees, with Jonathan Cordish and Jonathan Sinex the key decision makers for the Fund. Whilst the investment team is small, McGregor Asset Consulting believes it is adequately resourced to monitor and manage the assets due to their fund-of-fund approach.

A fund-of-fund approach significantly reduces the amount of resources required to manage assets, compared to managing the assets directly. However, the manager does take on the role of managing assets directly although it is a relatively small portfolio, comprising approximately 10 -12 direct equity investments. This is not likely to over stretch their resources so that the manager is unable to perform their core function of selecting, managing and monitoring underlying private equity managers.

Overall, McGregor Asset Consulting believes the quality of the administration and external service providers is of a high standard. The external service providers used by Walsh & Co tend to be known and well-regarded. As

Responsible Entity, Walsh & Company Investments Limited are ultimately responsible for ensuring compliance with the law and with the conditions of its AFS licence, even where activities are outsourced to third parties. Any substantial functions outsourced to third party service providers are governed by formal arms-length binding legal arrangements, with Walsh & Company Investments Limited monitoring the effectiveness of their service providers via meetings of their Compliance Committee.

In addition, a compliance plan (corporate governance charter) is undertaken for each trust managed by Walsh& Company Investments Limited which sets out the systems, policies and procedures which define the way the trust is governed. The plan also establishes a system for monitoring and evaluating the objectives, ensuring the trust operates in a manner which is consistent with the trust's interested members. The Compliance Committee of each trust reviews the compliance plan in light of the above objectives on at least an annual basis.

Investment process:

Investment objective:
The Fund's investment objectives are to provide investors with:

1. Exposure to a portfolio of investments in small and mid-market private investment funds predominantly focused in the US; and
2. Capital growth over a five to ten-year investment horizon.

The Fund is targeting an 8% p.a. return in USD similar to that of US Select Private Opportunities Fund I and US Select Private Opportunities Fund II.

Investment philosophy:
The investment strategy of the USPOF series is to target US small-to-mid-market private equity investment funds, seeking to replicate CPV's investment strategy of focusing on this investment niche. Walsh & Co believes that private equity investments offer superior long-term returns relative to public market asset classes such as listed equities and that, within the private equity investment universe, smaller and more nimble private equity investment funds tend to outperform their larger counterparts.

Smaller US private equity funds tend to acquire smaller firms at lower valuation multiples to listed equities. Although USPOF III does not have a restriction on the acquisition valuation range of its underlying investment managers, the manager expects the average Enterprise Value to EBITDA multiple acquisition to be significantly below the equivalent average US public company multiple. Acquiring businesses at lower valuation multiples provides a higher initial yield and may offer scope for higher investment returns over the long run through both earnings growth and multiple expansion as the business develops.

Supporting their philosophy, the manager has sourced numerous market studies conducted over long periods of time, which confirm that the average long-term returns from private investments have consistently outperformed public equities. Further, these studies also point to the outperformance of small-to-mid-market private equity investment funds over larger private equity investment funds.

Investment strategy and style:
Small-to-mid-market private equity investment funds typically offer selective access to investors, while the better performing small and mid-market private equity funds are particularly difficult to access because they are usually oversubscribed, and new clients are rarely accepted. Therefore, the manager has partnered with CPV, a specialist private equity manager who has longstanding relationships and previous investment experience with numerous US-based small-to-mid-market private equity funds.

The Fund invests in US private companies and the assets are US dollar denominated investments. The manager adopts a fully unhedged approach, which means Australian investors in the Fund are exposed to currency risk, and will have returns eroded when the AUD rises relative to the USD. This also becomes a tailwind when the AUD falls relative to the USD.

CPV, its affiliates and Jonathan Cordish with the LP, has already assisted the USPOF series in gaining access to successful managers in this segment. Access to the experience and networks of the Cordish Family Office is of great benefit to the Fund, and the continued partnership with CPV is considered to be of critical importance to McGregor Asset Consulting.

Having specialist investment expertise and relationships are paramount within the private equity sector. Walsh & Co has already established a partnership with CPV, which dates back to 2012. So far, this partnership has been successful and considered a strength of the Fund compared to peers, who may initially be establishing relationships to launch such a fund. In addition, Cordish Private Ventures is part of The Cordish Companies, one of the largest property developers in the world, which is likely to further increase relationships and access to potentially new deals.

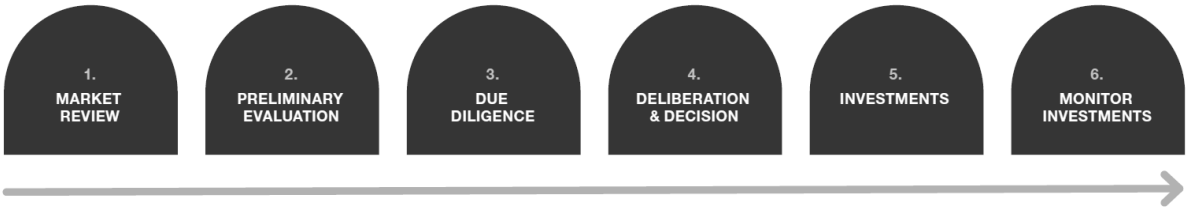
The manager estimates there are currently around 165 private equity investment funds raising capital in USPOF III's target geography, strategy and size. Within this universe are a number of top quartile private equity funds currently looking to raise new funds in 2016. Within the small-to-midmarket segment of this asset class there are target investment opportunities which tend to be less efficiently priced than their larger counterparts. This coupled with access to quality private investment funds presents USPOF III with a good opportunity to earn attractive returns.

The Fund's investment approach combines both a multi-manager component with a direct investment component, where the manager themselves sources and construct a portfolio of private equity investments. The manager's investment style is fundamental, bottom-up with the multi-manager segment representing approximately 70% - 80% of the portfolio and the direct investment portion representing 20% - 30%.Purchasing businesses at sensible

multiples, utilising prudent levels of leverage and applying consistent value creation strategies is the basis of the manager's investment approach.

Investment and research process:
Private investments are primarily invested in unlisted companies at various stages of their development. They are typically a transformational, value-added, active investment strategy. Private investments involve a range of investments in companies ranging from those looking for start-up capital, to those needing expansion capital, and buying-out completely existing companies.

Private investments are often in the form of direct equity and returns are typically realised in large part when the underlying companies in the investment funds are sold or listed on a stock exchange. Therefore, research and due diligence on private investment managers and track record is critical to achieving superior returns. McGregor Asset Consulting believes the manager's due diligence on underlying private equity managers and companies is thorough and that their investment process is logical. There are six stages that the manager employs in their investment process, which are displayed in the diagram below:



A further explanation on each of the six stages of the manager's investment process is detailed below:

1. **Market review –**The manager's investment process begins with a review of the market, involving identification of small-to-mid-market private equity investment fund managers that are raising money and the timing of their fund raising.

2. **Preliminary evaluation –**applies four broad investment criteria:
    - Suitable fit with USPOF III's investment strategy and target investment characteristics;
    - Performance record of the private investment fund manager and any previous investing experience with them;
    - Strength of the management team of the fund, including skills and experience in executing their strategy, and motivation and commitment of key people; and
    - Structure of the private investment fund and fit with USPOF III's desire to maximise after tax-returns.
3. **Due diligence –** due diligence is undertaken on the potential investment including:
    - Management team expertise, including their track record in private equity investments and experience as business operators;
    - Quality of the fund's business model, including business plans, financial analysis and appropriateness of proposed management fees;
    - Ability to support future investments and provide assistance in company growth – value-adding strategies;
    - Investment sourcing and structuring experience;
    - Reporting and investment validation processes;
    - Exit experience and strategy
4. **Deliberation and decision** – investment opportunity is considered in the context of the portfolio and investment strategy, and a decision to invest is made subject to final negotiation of investment documentation.
5. **Investment** – the manager may negotiate specific terms with the private equity fund manager and structure its holding in the opportunity accordingly
6. **Monitor investments** – Part of the ongoing investment process is to monitor all investments and foster a close involvement with the private equity fund managers through regular visits and investment updates. Once a commitment is made the manager remains apprised of the fund's investment activities, the overall risk levels of the fund, ongoing integrity of the fund manager's investment strategy, staff turnover and market environments.

When screening the universe for possible underlying private equity managers, the manager selection process is a mix of qualitative and quantitative factors. The manager utilises the Preqin intelligent data platform to track over

500 funds in their database. Preqin's suite of private equity tools and services provide a view of the private equity industry and in addition to fund performance provides information on fund raising, deals and fund types for all managers. In addition to their quantitative tracking of qualifying managers, the manager conducts their own manager review meetings to gain a more thorough understanding of the business.

McGregor Asset Consulting believes the Fund's research and due diligence process on the selection of underlying managers, and companies they invest directly in, is rigorous and that their investment process is repeatable. CPV has more than 15 years of successful investment experience and a proven track record. Adding to confidence in the manager's research and investment approach is the USPOF I and II series of funds, which both have a solid performance track record since being launched.

The USPOF III Fund is expected to access a number of underlying investments already in USPOF I and II, with a handful (five already indicated by the Fund with a total commitment of USD$33 million) of their managers coming back to market to raise more capital. This provides an opportunity for the Fund to deploy capital quickly and efficiently for investors in USPOF III, and reduce the lag time associated with initially investing in private equity businesses. Typically, private equity investments can take several years to be identified, coupled with an initial outlay of costs, to implement strategic and managerial changes (possibly 3 to 4 years), before benefits are accrued and realised.

Investing in funds that are part way, or through implementing these changes reduces the time before these benefits are received by investors. The manager estimates the lag time is likely to be reduced by half (1 ½ to 2 years) due to this process, indicating that investors will receive benefits from the Fund's assets considerably sooner. This reflects the importance of relationships and contacts within the private equity sector, and is an important consideration of the Fund.

Portfolio construction:
When building the Fund, the manager diversifies across managers, strategy types, industry exposure and geographic location. The manager maintains a short-list of preferred private equity managers that are grouped according to fund type. This allows the manager to readily blend managers for inclusion in the final portfolio. Specific to USPOF III, the manager intends on blending approximately eight to ten private equity managers with a direct private equity portfolio, managed by the manager comprising ten to twelve companies.

In accordance with their investment philosophy, the manager targets small private equity managers who invest in private equity businesses that generate revenue between USD$1 and $100 million on an annual basis. This represents approximately 90% of the US private market, with 85% of businesses generating revenue of less than USD$50 million per year. Typically, the manager focuses on investing in small underlying private equity funds with less than USD$500 million, with the average fund size of their underlying managers currently around USD$250 million.

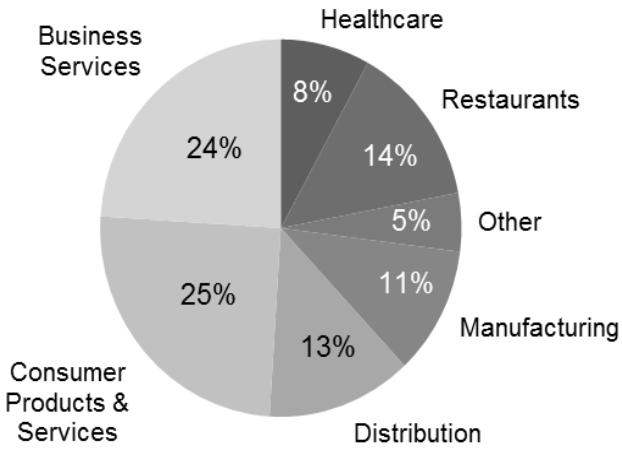
Smaller US private equity funds tend to acquire smaller firms at lower valuation multiples to listed equities. Whilst USPOF III does not have a restriction on the acquisition valuation range of its underlying investment managers, the manager expects the average Enterprise Value to EBITDA multiple acquisition to be significantly below the equivalent average US public company multiple.

For USPOF I and II, the manager's private equity managers purchased smaller private companies at a discount of 40% to 50% to the average of the S&P 500 public listed companies. Acquiring businesses at lower valuation multiples provides a higher initial yield and may offer scope for higher investment returns over the long run through both earnings growth and multiple expansion as the business develops.

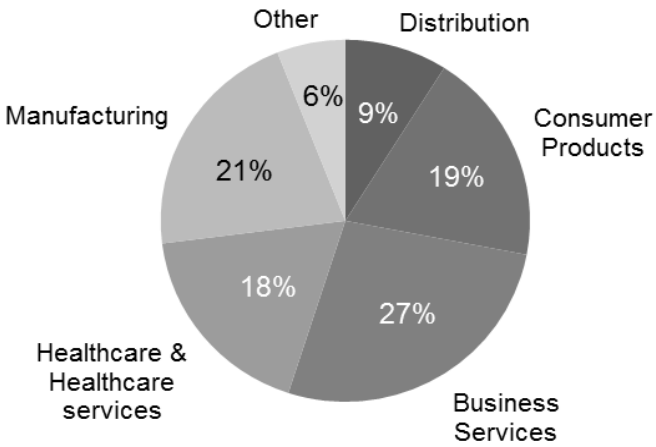
Due to the nature of private equity investing, capital is typically committed at the beginning of the investment to each underlying manager, invested as per their specific mandate and harvested as investments are realised. For USPOF III, the multi-manager segment is expected to represent approximately 70% - 80% of the Fund while the direct investment portion represents the remaining component. The manager diversifies across managers who specialise in specific industries and sectors, and across the types of private equity investments. Below are the stated target weights of the different types of private equity investments for the Fund, and the industry sector allocations for USPOF I and II:

Fund Type	Target weighting (%)
Buy-out	60-70
Growth equity	20-30
Special situations	10-15

Fund I



Fund II



Portfolio risk management techniques:
Risk management is of high importance when investing in private equity assets. McGregor Asset Consulting believes the manager is well aware of the risks and is taking the necessary steps to ensure these risks are understood and reduced where possible. Thorough research and due diligence conducted by specialist and experienced private equity analysts on underlying private equity managers, and individual companies is considered the most crucial component in reducing risk and the potential of capital loss.

CPV are specialists private equity managers and have been conducting research and due diligence on private equity managers and companies for more than 15 years. Their research is thorough, and has led to a solid performance track record. Their understanding of the private equity market is also considered to be strong. CPV's portfolio

construction process is predominately a blend of specialist private equity managers across various sectors, investment types and industries.

Adopting a fund-of-fund structure materially reduces the level of risk through increased diversification across industries, sectors, investment types and the number of holdings. The manager also invests directly in companies and constructs their own portfolio, which holds between 10 to 12 direct investments. The manager diversifies across industries however the concentrated nature does increase the level of risk. This component is likely to account for 15% to 30% of the Fund and only represents a small portion.

To understand, monitor and entrench themselves in the decision making process, an Advisory Board has been established, consisting of executives nominated by Walsh & Co and CPV. The aim is to provide it with expert advice, including portfolio and investment strategy. Jonathan Cordish is Chair the Advisory Board and has committed to serving on the Advisory Board for a minimum of five years. In addition USPOF III, through the LP, will have access to the full-time services of Jonathan Sinex, a Principal of CPV. Jonathan Sinex has been seconded to the investment managers of the USPOF series since inception of the first fund in 2012. Appendix 1 contains further details of the composition of the Advisory Board for the Fund.

McGregor Asset Consulting strongly supports the establishment of an Advisory Board, which is considered highly important for communication when partnerships are formed. Private equity typically involves buying into private companies and working with, or changing, management to grow the business for sale at a later date. As information is not broadly available, communication and the tracking of the progress and performance of these underlying managers and businesses becomes increasingly important.

The Advisory Board is designed to fulfil this void between Walsh & Co and CPV, and between the manager and the underlying managers and businesses. A representative of the manager is placed on Boards or advisory committees of most underlying managers, and businesses they have invested in, and through the Advisory Boards the manager is able to understand possible conflicts and effectively communicate any progress and developments so that all parties are informed.

Underlying managers are also subject to ongoing monitoring via a variety of formal processes, which include review meetings, manager reporting, audited half-yearly and annual valuations and financial statements. To further ensure that risk is adequately managed, the manager has defined risk constraints for the Fund. For example, USPOF III through the LP may not:

- Make any investment other than acquiring a limited partnership interest in private equity funds;
- Invest more than 25% of the aggregate capital commitment of the LP in any one private equity fund. The only exception to this is investments for the purpose of direct investment, where the aggregate limit is 33%;
- Invest more than 15% of the aggregate capital commitment of the LP in any private equity fund whose primary objective is to invest in companies located, or that conduct their principal business outside of the US; and
- Invest in any private equity funds whose primary investment objective is to invest in companies located in, or that conduct their principal business in emerging markets.

Overall, McGregor Asset Consulting believes risk management is an integral part of the manager's investment process and has gained comfort that the manager has adequate risk controls in place. The Cordish family investing USD $15 million of their own capital in the Fund and Dixon Advisory Group, committed to contribute USD$5 million establishes a strong alignment of interest between the portfolio managers and clients. This strong alignment of interest adds further comfort that risk is likely to be appropriately managed.

Appendix 1

US Select Private Opportunities Fund III Management and Advisory Board:

	**David Cordish - Member of advisory board** **• Chairman & CEO of The Cordish Companies** **• The Cordish Companies is one of the oldest and largest privately held development companies in the US** **•50 years development and investing experience** **•BA (JHopkins), JD (Maryland), MLA (JHopkins)**
	**Jonathan Cordish - Chairman of advisory board** **• President of Cordish Private Ventures** **• Previously Vice President and Partner at Riggs Capital Partners** **• Over 15 years' experience investing in private equity and venture capital** **• 20+ years investment experience** **•BA (Brandeis Univ.); MBA (Wharton)**
	**Alan Dixon - Member of advisory board** **• MD and CEO of Dixon Advisory USA, Inc.** **• Previously worked for various investment banks including ABN AMRO and Ord Minnet** **•20+years investment experience** **•BCom (ANU), CA**
	**John Martin - Member of advisory board** **• Senior Partner with corporate advisory firm Aquasia** **• Previously a Partner with PWC, Head of NAB Advisory and Joint Head of Credit Markets at RBS/ABN Amro** **• Also worked as an economist at the Reserve Bank of Australia** **•25 years investment experience** **•BEc (Hons)(Syd)**

	**Alex MacLachlan - Chairman of the Responsible Entity** **• CEO Walsh & Co** **• Previously Head of Energy, Australasia, for UBS AG** **• Advised on more than $100 billion of mergers and acquisitions and capital market transactions** **• 20+ years investment experience** **•BA (Cornell); MBA (Wharton)**
	**Jonathan - Sinex Investment professional** **• Principal of Cordish Private Ventures** **• Over 12 years' of investing, finance and operating experience including at Goldman Sachs** **•12 years investment experience** **•BA (Middlebury College); MBA (Univ. of Virginia)**

Note: Jonathan Sinex – Principal, Cordish Private Ventures and Alex MacLachlan CEO Walsh & Co are not members of the Advisory Board.

Appendix 2:

Definitions of McGregor Asset Consulting Ratings:

5 McGregor Asset Consulting strongly believes the manager will consistently exceed its investment objectives
4 McGregor Asset Consulting believes the manager will consistently exceed its investment objectives
3 McGregor Asset Consulting believes the manager can meet its investment objectives
2 McGregor Asset Consulting believes the manager cannot consistently meet its investment objectives
1 McGregor Asset Consulting believes the manager has significant issues that will affect their ability to meet their investment objectives