US SELECT PRIVATE OPPORTUNITIES FUND II

QUARTERLY INVESTMENT UPDATE

30 JUNE 2013

ASX: USG

Private Equity Market Commentary

Despite the optimistic outlook heading into 2013, the first half of the year has proven to be quite challenging for most US private investment managers. Debt financing continues to be cheap and readily available, with managers sitting on excess capital waiting to be deployed. However, preliminary analysis of deal flow in the second quarter indicates that it declined 14% from the previous quarter, with US$7.9 billion invested over 778 transactions. Notwithstanding this decline, analysts in the US private equity space anticipate that, once all data is compiled, deal flow count will increase by approximately 15% to be in line with the three previous quarters.[1]

Despite an apparent downturn on the deal-side, exits of investments saw a slight uptick in activity. Private investment firms exited 108 portfolio companies in the second quarter of 2013, totalling US$17.1 billion. While the prominent deals of Heinz Ketchup and Dell Computers captured the most media attention, deals of US$100 million or less continue to account for about two thirds of all transactions through the first half of 2013.[2]

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 fund-of-funds strategy, investing as a limited partner in small-to-medium-sized private investment funds in the United States, using the experience and relationships of the Cordish family in that market. The Fund represents a unique vehicle for Australian retail investors to access attractive smaller, nimble US private investment funds that have historically outperformed their larger counterparts.

The underlying funds are focused on proven investment strategies in specialised areas. They pursue investments in operating businesses with proven revenues and operating profits, take a hands-on approach to their investments in these businesses, and employ moderate and judicious amounts of leverage.

Fund Activity and Portfolio

The Investment Manager is pleased to report that the LP enjoyed a highly successful first quarter of operation. The Investment Manager made four commitments, totalling US$40 million in LP capital (approximately 59%), all focused on investing in US-based small-to-mid-market private investment opportunities. The Fund has a very active investment pipeline and is currently undertaking due diligence with a number of additional managers. The Investment Manager anticipates that most of the remaining commitments will be made in the remainder of 2013 and first quarter of 2014.

The fundamentals of the US economy showed further signs of improvement over the quarter, underpinned by the continued recovery in housing, consumer confidence, and growth in small business. The National Association of Home Builders index rose to a new seven-year high in June on growth in housing turnover, prices and construction activity. Consumer confidence increased for the third consecutive month, now at its highest level in five years. Consumers are considerably more positive about current business and labour market conditions than they were at the beginning of the year, providing a positive backdrop for the consumer-based

1. Pitchbook 3Q 2013 VC Rundown Report | 2. Pitchbook 3Q 2013 PE Breakdown Report

exposure in the portfolio. According to the National Federation of Independent Business (NFIB) survey, small business confidence jumped back to post-recession highs this quarter.

As the Fund's investments are denominated in US dollars, the fall of the Australian dollar against the US dollar during the quarter has had a positive impact on the value of the Fund.

The NTA for the Fund at 30 June 2013 was $1.73* per Unit.

SUMMARY OF THE UNDERLYING FUNDS AT 30 JUNE 2013

UNDERLYING FUND	INDUSTRY FOCUS	LP COMMITMENT (US$ MILLION)	NET LP CAPITAL DRAWDOWN (US$ MILLION)
RFE Investment Partners VIII, L.P.	Niche manufacturing, specialised business services and healthcare services	$8.0	$2.1
Tengram Capital Partners Gen2 Fund, L.P.	Apparel & branded consumer products, retail, restaurants	$10.0	$2.5
Trive Capital Partners, L.P.	Manufacturing, distribution, business services, consumer	$10.0	$0.8
U.S. Select Direct Private Equity, L.P.	Generalist – Direct investments in private companies	$12.0	$0
Total		**$40.0**	**$5.4**

Note: the Fund has an 85% 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.

Figures may not sum because of rounding.

Additional Information on Underlying Investments

RFE INVESTMENT PARTNERS VIII, L.P.

RFE Investment Partners VIII, L.P. (**RFE**) has been a leading small market buyout firm throughout its history, and the RFE VIII team of eleven professionals has more than 160 years of combined private equity and related experience in this market. The team is led by five Managing Directors who have worked together at RFE for an average of 20 years. The Fund will target buyouts of small-market companies with enterprise values between US$20 million and US$100 million that possess leading market share positions in their core markets and exhibit strong growth prospects that will enable them to become middle-market-size companies within five years. The Fund has already made four attractive investments (see website for information on portfolio companies).

Website: **www.rfeip.com**

TENGRAM CAPITAL PARTNERS GEN2 FUND, L.P.

Tengram Capital Partners Gen2 Fund, L.P. (**Tengram**) makes investments in the branded consumer product and retail sectors focusing on segments including apparel, home goods, sporting goods, consumer electronics, health and beauty, spirits, food and beverage, packaged goods, and branded retail. The firm is led by three senior partners William (Bill) Sweedler, Matthew Eby and Richard Gersten who are proven operators and investors with over three decades of combined experience investing in branded consumer product companies. The Fund has already made four attractive investments (see website for information on portfolio companies).

Website: **www.tengramcapital.com**

TRIVE CAPITAL PARTNERS, L.P.

Trive Capital Partners, L.P. (**Trive**) is a Dallas, Texas-based private equity fund focused on acquiring strategically viable but under-resourced middle-market companies with the potential for transformational upside through operational improvement. The firm's vision is to utilise proven operational best practices and identify actionable opportunities that allow businesses, shareholders and employees to realise their full long-term

*Source: Walsh & Company Investments Limited – historical performance is not a guarantee of the future performance of the Fund.

potential. The Fund has made an investment in one portfolio company to date (see website for information on portfolio companies).

Website: **www.trivecapital.com**

U.S. SELECT DIRECT PRIVATE EQUITY, L.P.

U.S. Select Direct Private Equity, L.P. (**US Direct**) was established with the sole purpose of investing in a direct portfolio of select private companies alongside leading, specialist private investment funds, a strategy commonly referred to as co-investing.

US Direct provides a platform through which the investors can access attractive co-investment opportunities within the LP's target market of small and mid-market private investments. Co-investing enables the LP to accelerate its deployment of capital, thereby enhancing returns and cash flows, better tailor its investment exposures and reduce investment management fees. The LP's investment in US Direct is consistent with its investment mandate.

Co-investing is an increasingly competitive and sought-after segment of the private investment market. By building a specialist co-investment platform and leveraging existing relationships with leading private investment managers, US Direct will be well placed to access highly coveted co-investment opportunities.