US SELECT PRIVATE OPPORTUNITIES FUND II

US SELECT PRIVATE OPPORTUNITIES FUND II (FUND)

QUARTERLY UPDATE FOR PERIOD ENDING **30 SEPTEMBER 2014**

ASX: USG

Private equity market commentary

The US economy continued to expand in the third quarter of 2014 (3Q 2014). Primarily driven by upturns in private inventory, exports and personal consumption, notably durable goods, stronger growth is expected for the rest of the year.

Although the Australian dollar (AUD) remained strong against the US Dollar (USD) during July and August, September saw the largest monthly fall since mid-2013, with the AUD falling below US$0.90 for the first time since the start of the year. The AUD dropped 7.3% for the quarter as the US economy strengthened and speculation about rising interest rates continued.

The US transaction market also continues to gain strength, with the total number of deals completed year-to-date up 5.4% (when compared to the same period in 2013). In terms of total dollars, deal activity was up a staggering 94.8%, reflecting a surge in large deal activity. In the smaller end of the market, where the Fund and its managers participate, year-to-date transaction volumes are up 5.8% (when compared to the same period in 2013).

Fund activity and portfolio

FUND UPDATE

The estimated unaudited net tangible asset value before withholding tax on unpaid distributions at 30 September 2014 was $1.79* per Unit (30 June 2014 was $1.64* per Unit).

Through US Select Private Opportunities Fund II, L.P. (LP), the Fund is committed to 9 private investment funds, all focused on small-to-mid-market private investment opportunities for a total consideration of US$72.0 million (or 75.7% of committed capital).

At 30 September 2014, US$30.0 million (or 31.6%) of total funds committed to the LP had been called. The Fund's proportionate share of this is approximately US$25.6 million (an 85.2% share).

During the quarter, the LP received 9 drawdown requests and 3 capital returns for a total net consideration of US$4.1 million. At 30 September 2014, net drawdown requests from underlying investments were approximately US$23.6 million (or 24.8%) of total commitments.

NEW FUND COMMITTMENT

Blue Point Capital Partners III, L.P.

BLUE POINT
CAPITAL PARTNERS

During 3Q 2014, the LP made a US$5 million capital commitment to Blue Point Capital Partners III, L.P. (Blue Point). Blue Point is an established private investment firm with a 24-year track record, that partners with entrepreneurs and management teams by investing in growing lower middle-market companies. Through its US offices in Cleveland, Seattle and Charlotte, Blue Point employs a regional sourcing model, complemented by a proactive sector focus in areas such as engineered components, industrial outsourcing, specialty distribution and energy, utility and environmental services (http://www.bluepointcapital.com).

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

SUMMARY OF THE UNDERLYING FUNDS AT 30 SEPTEMBER 2014

UNDERLYING FUND	INDUSTRY FOCUS	LP COMMITMENT (US$ MILLION)[1]	NET LP CAPITAL DRAWDOWN (US$ MILLION)
Blue Point Capital Partners III, L.P.	Invests in lower middle-market engineering, industrial and distribution companies	$5.0	$0.9
DFW Capital Partners IV, L.P.	Acquires companies exclusively in the lower middle-market	$5.0	$2.2
High Road Capital Partners Fund II, L.P.	Buying and building leading companies at the smaller end of the middle-market	$7.5	$1.4
NMS Fund II, L.P.	Healthcare, consumer products and specialised business services	$6.5	$1.2
RFE Investment Partners VIII, L.P.	Small market buyouts of companies in market leading positions	$8.0	$4.1
Tengram Capital Partners Gen2 Fund, L.P.	Branded consumer product and retail sectors	$10.0	$6.5
Tower Arch Partners I, L.P.	Invests in high-quality family and entrepreneur-owned companies	$8.0	$0.5
Trive Capital Fund I, L.P.	Strategically viable, but under-resourced, middle-market companies	$10.0	$3.1
U.S. Select Direct Private Equity (US), LP	Invests in a direct portfolio of select private companies alongside leading, specialist private investment funds	$12.0	$3.6
		$72.0	**$23.6**

Note 1: the Fund has an 85.2% 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 up due to rounding.

Underlying fund activity

RFE Investment Partners VIII, L.P. (RFE) In July 2014, RFE acquired a majority interest in Wind River Environmental, LLC (Wind River). Headquartered in Hudson, Massachusetts, Wind River provides complete end-to-end waste management solutions for a diverse set of residential and commercial customers (www.wrenvironmental.com).

Tengram Capital Partners Gen2 Fund, L.P. (Tengram) In July 2014, Tengram acquired Active Ride Shop (Active), a premier skate and active lifestyle retailer in Southern California. Founded in 1989 by a group of skateboard enthusiasts, Active currently operates 21 retail locations as well as its own e-commerce site and catalogue. The company offers a broad product assortment, including apparel, footwear, accessories, and hard goods primarily targeting the skate, snowboard, and active lifestyle communities (www.activerideshop.com).

In July 2014, Tengram also acquired Tommie Copper Inc., an innovator and first-mover in the compelling new category of copper-infused compression-wear. This company was founded in 2012 by Tom Kallish, a veteran in the textile and apparel industry with 37 years of experience (www.tommiecopper.com).

Trive Capital Fund I, L.P. (Trive) Trive acquired ISR Group, Merlin RamCo, and LARK Industries Inc. Located in Savannah, Tennessee, ISR Group LLC operates a 6,000 acre facility, training centre and aircraft range located in the Midwest, specialising in the operation, testing and certification of unmanned aerial vehicles (http://www.isrgroup.com).

Headquartered in Florida, Merlin RamCo, LLC provides engineering, flight operations, maintenance, retrofit and other technical services in support of unmanned aerial vehicle fleets for the Air Force, Special Operations Command and other government agencies (http://www.merlinramco.com).

L.A.R.K. Industries, Inc. is a leading provider of interior surface solutions to residential and commercial builders throughout California and Western Nevada. The Company offers design, sales, and installation services for a wide variety of interior surface products, including flooring, wall tile, custom countertops, finished carpentry, shower doors, mirrors and window treatments (www.resdesign.com).

Tower Arch Partners I, L.P. (Tower Arch) In September, Tower Arch completed the recapitalisation of Hard Rock Directional Drilling, LLC (Hard Rock). Located in San Antonio, Texas, Hard Rock is the partner of choice for energy and pipeline companies looking for safe and on-time performance with the toughest horizontal directional bores in the installation of oil and gas pipelines (www.hardrockhdd.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 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 those businesses and employ moderate and judicious amounts of leverage.