US SELECT PRIVATE OPPORTUNITIES FUND II

US SELECT PRIVATE OPPORTUNITIES FUND II (FUND)
QUARTERLY UPDATE FOR PERIOD ENDING **31 DECEMBER 2014**

ASX: USG

Private equity market commentary

2014 emerged as one of the strongest exit environments for private equity funds ever, with over US$400 billion in total value transacting during the year. The record levels of exit activity are leading many limited partners to re-invest those funds back into the asset class, and 2015 is expected to be another strong year for fundraising. While purchase price multiples and leverage levels remain elevated, our managers have seen a turn in the market over the past three months and expect pricing in the smaller private investment market to normalise in the year ahead.

The US economy is predicted to grow around 3% in 2015, its fastest pace in a decade. Economists across the spectrum expect further acceleration in consumer spending due to lower unemployment and plunging oil prices, as well as a strengthening housing market.

The most critical unknown for the US economy in 2015 will be whether the Federal Reserve finally begins to raise the federal funds rate, which it has locked at 0.25% or less since the end of 2008. With the economy seemingly on solid footing and GDP growth expected to continue to rise above trend, many members in the rate-setting Federal Open Markets Committee are calling for the funds rate to reach 1.25% to 1.50% by the end of 2015. If a Fed hike does occur, it may affect growth, inflation and exchange rates around the world and could potentially put a damper on the optimistic projections for 2015 and beyond.

Fund activity and portfolio

FUND UPDATE

The estimated unaudited net tangible asset value before withholding tax on unpaid distributions at 31 December 2014 was $1.92* per Unit (30 September 2014 was $1.79).

During the quarter, US Select Private Opportunities Fund II, L.P. (LP) made three commitments; a US$7.5 million capital commitment to Chicago Pacific Founders Fund, L.P., a US$8 million capital commitment to Staple Street Capital Partners II, L.P., and increased its investment in U.S. Select Direct Private Equity (US), LP by US$3 million to a total of US$15 million. See below for more information.

Through the LP, the Fund is committed to 11 private investment funds for a total consideration of US$90.5 million (or 95.2% of committed capital), all focused on small-to-mid-market private investment opportunities.

During the quarter, the LP received 9 drawdown requests and 3 capital returns for a total net consideration of US$1.4 million. At 31 December 2014, net drawdown requests from underlying investments were approximately US$25.0 million (or 26.3% of total commitments).

At 31 December 2014, US$34.9 million (or 36.7% of total funds committed) to the LP had been called. The Fund's proportionate share of this is approximately US$30.5 million (an 87.3% share).

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

NEW FUND COMMITTMENT

Chicago Pacific Founders Fund, L.P.

The LP made a US$7.5 million capital commitment to Chicago Pacific Founders Fund, L.P. (CPF). Headquartered in Chicago, IL, CPF is a newly formed private investment fund established to invest in healthcare service delivery and senior living companies. CPF is managed by a talented and experienced group of healthcare operators and private equity investors each with decades of experience in the sector.

Staple Street Capital Partners II, L.P.

The LP made a US$8 million capital commitment to Staple Street Capital Partners II, L.P. (Staple Street). Staple Street is an experienced investment manager that invests in lower middle market companies with operational, balance sheet or process complexities. The Fund's strategy is to focus on orphaned businesses, change-intensive situations, operational turnarounds, corporate carve-outs, public-to-private transactions, financial restructurings and other types of complex transactions. www.staplestreetcapital.com

SUMMARY OF THE UNDERLYING FUNDS AT 31 DECEMBER 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	$1.2
Chicago Pacific Founders Fund, L.P.	Invests in healthcare service delivery and senior living companies.	$7.5	$0.3
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	$1.5
NMS Fund II, L.P.	Healthcare, consumer products and specialised business services	$6.5	$1.0
RFE Investment Partners VIII, L.P.	Small market buyouts of companies in market leading positions	$8.0	$4.3
Staple Street Capital Partners II, L.P.	Invests in lower middle market companies with operational, balance sheet or process complexities	$8.0	$0.0
Tengram Capital Partners Gen2 Fund, L.P.	Branded consumer product and retail sectors	$10.0	$6.7
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	$3.3
U.S. Select Direct Private Equity (US), LP	Invests in a direct portfolio of select private companies alongside leading, specialist private investment funds	$15.0	$4.1
		$90.5	**$25.0**

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 up due to rounding.

Underlying fund activity

Chicago Pacific Founders Fund, L.P. (Chicago Pacific) In December, Chicago Pacific invested in Recovery Ways, a leading addiction recovery business based in Salt Lake City, Utah. The Company currently operates two JACHO (Joint Commission of Accredited Healthcare Organisation) certified addiction recovery centers (46 total residential beds) as well as a newly opened 26-bed recovery living facility. In addition to residential treatment services and recovery living, the Company also offers its patients Partial Residential Treatment, Intensive Outpatient Programs, and Outpatient treatment support services, all of which can be provided in person in a group setting or through the Company's innovative "TeleHealth" delivery model (www.recoveryways.com).

RFE Investment Partners VIII, L.P. (RFE) In October, RFE acquired a majority interest in Squan Construction Services, LLC (Squan). Headquartered in Englewood, NJ, Squan is a leading infrastructure services provider for wireless carriers, tower companies, neutral host providers, commercial landlords, government entities and other organisations (www.squansolutions.com).

Tengram Capital Partners Gen2 Fund, L.P. (Tengram) In October, Tengram made a small follow-on investment in its portfolio company Sequential Brands Group by exercising warrants the fund owned from its initial investment in the Company back in February 2012 (http://sequentialbrandsgroup.com/).

U.S. Select Direct Private Equity (US), LP In December, U.S. Select Direct Private Equity (US), LP co-invested $950,000 into Recovery Ways alongside Chicago Pacific (see above).

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.