US SELECT PRIVATE OPPORTUNITIES FUND II

US SELECT PRIVATE OPPORTUNITIES FUND II (FUND)
QUARTERLY UPDATE FOR PERIOD ENDING **30 JUNE 2015**

ASX: USG

Private investment market commentary

2Q 2015 saw continued improvement in the US economy, with real GDP growth increasing moderately after being down in 1Q 2015. Consensus estimates now point towards a growth rate of 2.7%, largely related to warmer weather, the reopening of West Coast ports and a rebound in oil prices. Despite a small downward revision to the forecast for household spending, labour market conditions were positive, while consumer confidence and economic conditions also continued to improve. The Fed reiterated the current cash rate range of 0% to 0.25% will remain the same until labour markets and inflation figures provide sufficient evidence to support a change.

The US private investment market had a strong first half of 2015. Interestingly, investment consultants that were interviewed for Prequin's study indicated that they are most positive about the private investment asset class, with 46% recommending that their clients invest more capital in 2015 (vs. 2014).

The Australian dollar continued to depreciate against the US dollar, falling to 77.07 cents at 30 June 2015 (or 5.7% below the 31 December 2014 price of 81.75 cents).

Fund activity and portfolio

FUND UPDATE

The estimated unaudited net tangible asset value before withholding tax on unpaid distributions at 30 June 2015 was $2.14* per unit (31 March 2015 was $2.13* per unit).

US Select Private Opportunities Fund II, L.P. (LP) is committed to 12 private investment funds, all focused on small-to-mid-market private investment opportunities, for a total consideration of US$98.0 million.

At 30 June 2015, US$44.9 million (or 47.3% of total funds committed to the LP) had been called. The Fund's proportionate share of this is approximately US$39.2 million (an 87.3% share).

During the quarter, the LP received 11 drawdown requests for a total consideration of US$4.8 million. At 30 June 2015, net drawdown requests from underlying investments were approximately US$32.8 million (or 34.4% of total commitments).

*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 JUNE 2015

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	$1.3
Chicago Pacific Founders Fund, L.P.	Invests in healthcare service delivery and senior living companies.	$7.5	$1.1
DFW Capital Partners IV, L.P.	Acquires companies exclusively in the lower middle-market	$5.0	$2.6
High Road Capital Partners Fund II, L.P.	Buying and building leading companies at the smaller end of the middle-market	$7.5	$2.4
Main Post Growth Capital, L.P.	Invests in lower middle-market growth companies in the consumer, business services and industrial growth sectors	$7.5	$0.0
NMS Fund II, L.P.	Healthcare, consumer products and specialised business services	$6.5	$1.7
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	$0.1
Tengram Capital Partners Gen2 Fund, L.P.	Branded consumer product and retail sectors	$10.0	$8.5
Tower Arch Partners I, L.P.	Invests in high-quality family and entrepreneur-owned companies	$8.0	$1.1
Trive Capital Fund I, L.P.	Strategically viable, but under-resourced, middle-market companies	$10.0	$4.0
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	$5.7
TOTAL		**$98.0**	**$32.8**

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

Blue Point Capital Partners III, L.P. (Blue Point) In June, Blue Point made a significant investment in AWP, Inc., a Kent, Ohio-based provider of outsourced temporary traffic management solutions which support any infrastructure construction, repair, or maintenance that affects public roads. (www.awptrafficsafety.com)

DFW Capital Partners IV, L.P. (DFW) During the quarter, DFW completed add-on acquisitions for its portfolio companies Evolution Research Group and Information Innovators Inc.

High Road Capital Partners Fund II, L.P. (High Road) During the quarter, High Road made an additional investment into its portfolio company SMB Machinery.

NMS Fund II, L.P. (NMS) In June, NMS completed an investment in AAD Dermatology Management, a Maryland-based dermatology practice group. The Company was founded in 1974 and is the largest provider of comprehensive dermatology services in its market with 30 providers operating in 16 locations. (www.aadermatology.com)

Tengram Capital Partners Gen2 Fund, L.P. (Tengram) In June, Tengram completed an investment in Zanella, a luxury menswear brand best known for its offering of handcrafted, sartorial trousers made 100% in Italy. Zanella predominantly sells its classic dress pants through prestigious specialty stores and high-end department stores across the US, Canada and Europe, including key retail customers such as Nordstrom, Neiman Marcus and Mitchell's. (www.zanella.com)

In May, Tengram completed an investment in This Works Products Limited, a modern natural beauty brand focused on developing, marketing, distributing, and selling aroma-therapeutic beauty products across the body care, skincare, and sleep categories. (www.thisworks.com)

Trive Capital Fund I, L.P. During the quarter, Trive acquired Madison-Kipp Corporation, while also completing add-on acquisitions for a number of its existing portfolio companies. Headquartered in Madison, Wisconsin, Madison-Kipp is a fully integrated manufacturer of precision aluminum die cast and machined assemblies for customers in the automotive, leisure, and lawn and garden categories. (www.madison-kipp.com)

U.S. Select Direct Private Equity (US), LP (US Direct) In April, US Direct sold its interest in La Colombe to a strategic buyer. The sale generated over US$2 million in gross proceeds, or 2.0x its invested cost basis and a 170% IRR.

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 small, nimble US private investment funds that have historically outperformed their larger counterparts.

The underlying fund managers 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.