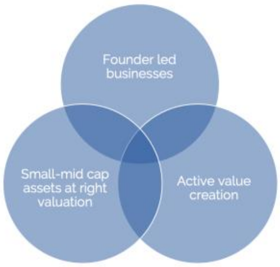
Spire Branford Castle US Private Equity Fund II (AAUD)

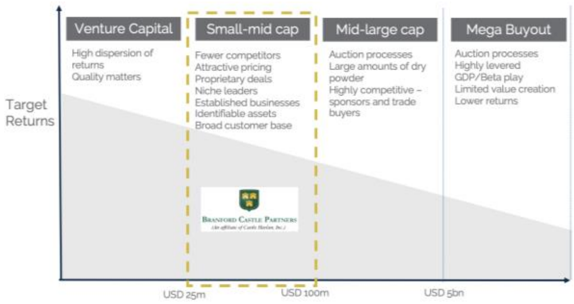
Fact Sheet

Overview

Spire Capital Pty Ltd ("Spire") continues to have high conviction in select pockets of the global private markets (i.e. 'sweet spots'). This includes private equity opportunities with the key attributes outlined below:



Within the spectrum of private equity opportunities, the small-mid market typically has relatively attractive entry multiples, malleable business models, aligned management teams and strong exit options. In addition, the recent volatility in public markets and expected slow-down in real economies around the world make for an attractive time to invest in private equity.



The Spire Branford Castle US Private Equity Fund II (AUD) ("the Fund") seeks to deliver steady returns and strong asset growth from US Private Equity. The Fund was established in May 2020 and serves as an AUD denominated Australian unlisted unit trust that feeds into the Branford Castle Partners Fund II, L.P. ("the Underlying Fund" or "Fund II"). The Investment Manager for the Underlying Fund is Branford Castle Partners, L.P., ("Branford"). Branford is launching the Underlying Fund to build upon the Firm's track record of making control investments in strong, privately held "Small-Cap" businesses primarily based in North America. For over three decades, Branford's professionals have been buying solid Small-Cap businesses, at reasonable prices, then adding value, in the pursuit of generating superior risk-adjusted returns.

How the Fund invests

Ordinary Units will acquire an interest in the Underlying Fund, which has exposure to US Small-Cap companies. The Underlying Fund will benefit from Branford's operational capability in delivering for investors through equity and preferred equity positions. Branford's Small-Cap investment strategy is focused on finding companies with under USD 100m in enterprise value and whose product or service lines typically have less than USD 200m in total industry sales. Many private equity firms overlook the types of Small-Cap companies that Branford invests in, leaving significant actionable opportunities for Branford which often can be purchased for around 6.0x EBITDA or lower.

Branford aims to have the Underlying Fund achieve Gross Returns of 4.0x MOIC with a 40% IRR. These returns are commensurate with Branford's historical returns. Branford's Fund I, a USD 116.9m fund that closed in October 2016, as at December 2019 has a Gross MOIC of 2.3x with a 58% IRR (1.6x Net with a 26% IRR). Prior to Fund I, under Branford's leadership from 2002 to 2016, Branford was able to generate Gross Returns of between 3.5-5.5x MOIC with close to 60% IRRs (2.8x Net, with greater than 45% IRRs). These returns were generated on a deal-by-deal basis beginning with transactions in 2004, with the period being referred to as Branford's "Pre-Fund" period. To date, Branford has acquired 12 companies (8 platform, 4 bolt-ons) and has now completed its platform investments with Fund I. Given the advanced status of Fund I, Branford is now raising Fund II to continue building on its historical achievements and opportunities in the Small-Cap market. Fund II is seeking aggregate capital commitments of at least USD 250m. Fund II is targeting 10-15 platform businesses, with additional bolt-on investments. Given Branford's investment pace for Fund I as at December 2019, Branford believes it is already on an investment run-rate of USD 250-350m during a five-year investment period.

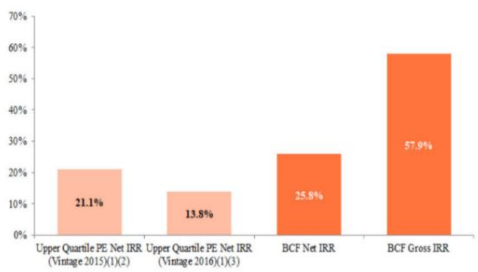
Branford's Track Record

Between 1986 and 2002, Branford Castle made successful investments on a deal-by-deal basis using Castle family capital. Since these results are not attributable to management as at December 2019, they are found in the Appendix to Branford's Marketing document. However, as a point of reference, the Gross MOIC for those investments is roughly 14x. The 1986 to 2002 period is referred to as the "Legacy Period."

During the Pre-Fund period from 2002 to 2016, Branford's management team started to come together and continued Branford Castle's tradition of utilizing Castle family capital to complete transactions on a deal-by-deal basis. From the first platform transaction completed in 2004 until the initial closing of Fund I, a total of USD 21.8m was invested resulting in realized and unrealized returns of USD 73.3m from 6 platform investments and their related bolt-ons. On a fully and partially realized basis, USD 11.2m was invested and USD 60.0m has been returned on a gross basis. Three of the platform transactions completed during this period returned greater than a 10x MOIC. Due to the desire to increase its investment pace because of the myriad opportunities in the Small-Cap market, Branford decided to raise Fund I and completed that fundraise in October 2016. As noted, Fund I has been rapidly deploying capital. As of March 31, 2019, it has made 12 investments – 8 platform and 4 bolt-ons – at an average EBITDA multiple of 5.0x.

Fund I Performance Summary vs. Peer Group and S&P 500

As of June 30, 2019



Branford's performance reflects its view that its investment approach often results in higher-return, lower-risk investments. Of the 11 platform investments made under current leadership as at December 2019 (excluding the three recent platform companies acquired in August and September), 10 have seen EBITDA increases. In many cases, EBITDA has doubled or tripled during Branford's ownership period.

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(1) Source: Cambridge Associates - US Private Equity Index and Selected Benchmark Statistics, December 31, 2018. This is the most recent report available to Branford.
(2) 74 funds included in the 2015 vintage year dataset.
(3) 66 funds included in the 2016 vintage year dataset.
(4) S&P performance as of 1/28/19 calculated based on the Public Market Equivalent+ ("PME+") methodology. The PME+ calculation methodology assumes that capital is invested in or withdrawn from the SPDR S&P 500 ETF on the days the capital was due to or distributed from BCF, as applicable, as adjusted based on certain scaling factors and other components in order to avoid an index short position. The SPDR S&P 500 ETF does not include nominal ETF expenses and generally corresponds to the price and yield performance of the S&P 500 Index. Additional information regarding this calculation methodology is available upon request. This data is being included based on requests often received from prospective investors. Branford does not view the S&P 500 as a relevant benchmark due to its broad scope.

Branford Castle Partners, L.P.

Headquartered in New York City, Branford is a pre-eminent private market investor. Branford is focused on working with already strong companies that typically have under USD 100m in sales. Since Branford's founding in 1986 under John K. Castle, they have worked with these companies to maximize their potential, both in terms of strengthening operations and facilitating growth. Branford's management team is comprised of John S. Castle, David Castle, Eric Korsten and Laurence Lederer, who are also responsible for the Underlying Fund.

Investment Strategy

Small-Cap companies across US Small-Cap markets

The companies that Branford invests in typically have less than USD 100m in enterprise value at the time of the initial transaction and are generally the #1 or #2 players in their respective niche industries. These companies often operate in markets where total industry or product (or service) line sales are under USD 200m. These opportunities attribute the following characteristics: lower acquisition multiples; competitively stable markets; substantial growth potential; and resiliency during and after recessionary periods.

Lower Acquisition Multiples

Branford's approach to acquisitions focuses it on transaction size categories that often allow it to purchase businesses relatively inexpensively. The below table shows the acquisition multiples in the smaller ends of the private equity market. Overall, deals under USD 100m in Enterprise Value typically trade for significant discounts to businesses with USD 100m – 250m in Enterprise Value.

EBITDA Multiples for Different Transaction Values [1]

($ in millions) TEV	2003 - 2014	2015	2016	2017	2018	YTD[2] 2019	Total
$10-25	5.5	5.9	5.8	6.3	5.9	6.4	5.7
$25-50	6.2	6.6	6.4	6.6	6.9	7.1	6.3
$50-100	6.7	7.8	7.2	8.2	8.9	7.2	7.2
$100-250	7.3	9.0	8.9	9.1	8.8	9.3	8.0
Larger Middle-Market Premium				44%	49%	45%	40%

(1) Source: GF Data and GF Data Resources LLC
(2) YTD as of 6/30/2019

Further, the businesses that Branford seeks are often differentiated compared to what other private equity firms target, which allows for even lower purchase price multiples. For instance, many private equity firms seek to find businesses where the product lines are in markets with more than USD 500m in total sales. Those types of companies are often perceived as having greater growth potential. As a result of Branford's differentiated focus, as at December 2019, the nine current Fund I companies have been acquired at an arithmetic average of 5.0x EBITDA. In calculating the EBITDA multiple, six of the eight portfolio companies were calculated using the TTM EBITDA, Titan was based on the mid-cycle EBITDA and Earthlite was based on a full year near-term forward EBITDA.

Stable Markets & Growth Potential

Due to their size, mature Small-Cap niche markets are often competitively stable and without the constant threat of new entrants. Within the Small-Cap market, entrepreneurial owners are not always focused on maximizing growth. As a result, Branford can help businesses facilitate that growth, even in instances where the company is already a market leader. As part of this, Branford typically looks for companies that have 20-40% market share. This percentage range establishes the dominance of that company but often means there are still opportunities left for further growth. When assessing growth potential, Branford believes that most owner/entrepreneurs already know the highest-impact low-hanging fruit return on investment (ROI) initiatives for their businesses. That means that the first thing Branford does is 'listen' to the entrepreneurs/ management teams and prepare analytics around their recommendations. Frequently, these recommendations create forward movement in the areas of geographic expansion, 'adjacent market' expansion, and bolt-on acquisitions. In addition, once Branford understands a business to a significant extent, they also make material suggestions on how to expand the business given their experience with other similar companies.

Resiliency During Recessions

Branford's investment approach positions the Firm well for most macro-economic environments. During a cyclical downturn, niche market leaders often fare relatively well and will bounce back more quickly than their counterparts, with certain of those counterparts going out of business. During Branford's Pre-Fund investment period, both the Carmel Car and Limousine Service and EMon businesses exhibited these types of characteristics – modest declines with significant and immediate growth coming out of the Global Financial Crisis (GFC). Further, during the GFC recovery period, Branford frequently reviewed acquisition opportunities that exhibited this type of behavior.

Additionally, Small-Cap businesses usually have significantly less leverage available to them. Most lenders will not provide more than 4-4.5x debt-to-EBITDA loans to smaller companies, so they are typically not over-levered, absent a material decline in their underlying performance. As of December 31, 2018, Branford's portfolio had an average of 3.6x debt to EBITDA, allowing their portfolio companies to more easily navigate a potential recession. As part of their due diligence, Branford evaluates each of its acquisitions for its GFC performance and potential exposure to future down cycles.

Significant Value-Add/Working Closely with Portfolio Companies

Branford views its operational value-add at the portfolio company level to be critically important to its success. While Branford allows its portfolio company managers to determine the day-to-day and long-term strategic goals of the company, Branford is heavily involved in helping establish those strategic goals and effecting the outcome. Branford prides itself on listening to entrepreneurs indicate where there is growth potential and also bringing a wide array of "best-in-class" capabilities that help dramatically increase the company's growth trajectory. Part of this is through the "institutionalization" of the business by creating solid growth-related foundations such as upgrading their financial capabilities, processes, governance and controls.

Comprehensive sourcing capabilities

In order to gain access to investment opportunities, Branford has worked extensively for over 30 years to develop its well-regarded name in the market. Of note, over the past 17 years, Branford's leadership team has significantly increased investment in Branford's marketing, brand exposure, and deal sourcing. Today, Branford has an extensive network of over 7,000 intermediary contacts in the Small-Cap market that routinely provide Branford access to potential transactions. By demonstrating its access to capital, its ability to close transactions and its ability to help foster growth post-transaction, Branford has been a "go-to" buyer for many of them for decades.

Branford Market Coverage Map

Key Terms

Registered Fund Name & APIR Code	Spire Branford Castle US Private Equity Fund II (AUD) - Ordinary Units: APIR SPI0659AU
Fund Type	Wholesale Closed-Ended Fund
Term Sheet	Click here to see the Term Sheet
Commencement	15 May 2020
Trustee and Fund Manager	Spire Capital Pty Ltd
Underlying Investment Manager	Branford Castle Partners, L.P.
Applications	Daily during the Offer Period, which is anticipated to run until 30 September 2020
Minimum Investment	AUD 100,000, however the Trustee may accept lower amounts at its discretion.
Capital Raising Period	The capital raising period is expected to close on 30 September 2020, unless the Fund's allocation to the Underlying Fund has been capitalised prior to this date, in which case the Fund will close to applications earlier.
NAV Unit Pricing	Net Asset Value (NAV) unit pricing will commence on a quarterly basis following the capital raising period.
Distribution Frequency	Annually as at 30 June (following the completion of the Initial Offer Period).
Liquidity	Nil - Closed-ended fund
Tax considerations	Unitholders are not required to file US tax returns. The Fund will invest into the assets of the underlying funds via a leveraged blocker subsidiary, which will elect to be taxed as a corporate for US tax purposes on its taxable income. Depreciation and other allowances, such as interest expenses, may be used to reduce US taxable income. US corporate tax paid by or withheld from this subsidiary is expected to generate a proportionate Foreign Income Tax Offsets (FITOs), which may be used by unitholders to offset Australian income tax liabilities on foreign sourced income or gains, including but not limited to returns from the Fund.
Management Fees	0.50% p.a. x NAV (paid monthly) plus GST, payable to Spire Capital Pty Limited at the Master Fund level.
Sourcing & Structuring Fee	The Trustee is entitled to a Sourcing and Structuring Fee of 0.50% plus GST of the total capital commitments made by the Series Sub-Trust into the Underlying Fund. This fee is a one-off fee, and becomes payable when the capital commitment is made to the Underlying Fund. The Sourcing and Structuring Fee is payable out of the assets of the Master Fund and is payable to the Trustee.
Other Operating Expenses	The Trustee estimates direct operating costs and expenses to be 0.10% per annum plus GST based on the NAV of the Master Fund. These costs and expenses are payable from the Fund's assets to the relevant person when incurred or, where initially paid by the Trustee, will be reimbursed to the Trustee at the end of each month.
Underlying Management Fee	2% p.a. x capital that the Series Sub-Trust has committed to the Underlying Fund, payable to the Underlying Investment Manager. Please note this is the headline management fee, which will be offset by portfolio company Monitoring Fees. For example, this is projected to reduce Fund I management fees by at least 40% or down to a 1.20% effective rate.
Underlying Performance Fee	At the Underlying Fund level, 20% of profits, subject to Limited Partners receiving the Preferred Return of 8% IRR. No Performance Fee at the Series Sub-Trust level.

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