VALLEY FORGE
FINANCIAL GROUP

VALLEY FORGE PRIVATE EQUITY, INC.
VALLEY FORGE INVESTMENT CONSULTANTS, INC.
VALLEY FORGE FINANCIAL GROUP, INC.
VALLEY FORGE PENSION MANAGEMENT, INC.
VALLEY FORGE FAMILY OFFICE, INC.

January 25, 2018

Dear Partner,

We are pleased to provide your Private Equity Summary of Holdings. The figures in the enclosed summaries represent your Commitments, Calls, Distributions and Valuations as of December 31, 2017.

Last year was **Epic** for partners of the Valley Forge Funds! Often an overused word, epic as an adjective is synonymous with heroic, grand, and monumental. The twelve months ending December 31, 2017 were monumental and we are pleased to share the details with you.

Appropriately named, the portfolio company **Epic Health** was held by Valley Forge Fund VI, LP. The sale of Epic Health was responsible for distributions in excess of $8 million, representing an 11.8x return on invested capital! In total, the Private Equity funds and Real Estate funds distributed a record $21.3 million and $2.3 million, for the year, respectively. These annual distributions were fueled by 11 company sales and 4 recapitalizations.

We would like to welcome our repeat and first-time partners in **Valley Forge Fund XII, LP**. Thank you for making this our largest fund ever. Fund XII has committed $7M to Frontenac (Chicago) and $5M to HCI (Washington, DC). Frontenac and HCI have each sourced a co-investment to kick-off this new partnership.

We are pleased to report that during the fourth quarter, the Investment Committee of Fund XI approved a new co-investment in OASE, the world market leader in the water gardens and commercial fountain marketplace. This is a co-investment with Argand Partners with whom we have several co-investments.

We extend a special thank you to our partners in Fund I, Fund II, Fund III and Fund V. These fund partnerships formally closed on December 31, 2017. We are most grateful to our founding investors who believed in our vision and supported our inaugural funds back in 2002! Your final closing statement is enclosed.

Thank you for your continued interest and support.

Sincerely,

Sean Maher, CFP®, CLU®, ChFC®
Principal

Michael J. Maher, Jr. CIMA
Principal

Valley Forge Private Equity provides disciplined access and diversification to alternative investments that are inaccessible to most investors. We seek to provide transparent, consistent return while being cautious about risk, and vigilant about fees.

Fundamentals of Private Equity

A Closer Look at MOIC and IRR%

Each quarter, for each Valley Forge Fund, we report the Multiple of Invested Capital (MOIC) and Internal Rate of Return (IRR%). Both are important performance measurements, but we are often asked which is more important for wealth creation.

Multiple of Invested Capital is calculated by taking the ending value of all distributions from an investment and dividing it by the amount originally invested. For example, if you invest $5 and its dividends and growth equal $10, you have doubled your money or MOIC = 2X.

Internal Rate of Return is calculated using the time value of money. It is the rate of earnings that is required to provide a specific stream of cash flows, taking into consideration the time duration of the investment. Using the same figures above, an investment of $5 which doubles to $10 would have the following IRR%:

Table 1. Double Your Money – 2.0X MOIC

Duration of Investment	IRR%
3 Years	26.0%
5 Years	14.9%
7 Years	10.4%

Accordingly, a high IRR% result is beneficial – it allows for the redeployment and continued growth of capital sooner than with a low IRR investment. The challenge then, is to find continuous opportunities to reinvest the capital at a high IRR%. The table below outlines the compounding effect of long term performance, or the reinvestment of capital at a 15% IRR:

Table 2. Consistent 15% IRR

Duration of Investment	MOIC
3 Years	1.52X
5 Years	2.01X
7 Years	2.66X

When evaluating new investment opportunities, it is important to take into consideration both measurements. As illustrated above, a high MOIC with a long duration does not help create wealth. Table 1 shows that the IRR of a 2X investment over 7 years is only 10.4%. Similarly, a high IRR% can be deceiving if the duration of the investment is too short. Note in Table 2 that a 15% IRR in 3 years is only a 1.52X MOIC.

The key to long term wealth creation is the consistent growth of the portfolio as expressed in terms of MOIC, but IRR% provides the measurement to compare the unpredictable timing of cash flows from a private equity or private real estate investment to other investments. Valley Forge investors who have committed to consecutive funds, allowing for consistent redeployment of capital, have had the best wealth-building results.