

QUARTERLY INVESTOR REPORT | QUARTER ENDING  
MARCH 2018

# VANTAGE PRIVATE EQUITY GROWTH LIMITED

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MARCH 2018  
QUARTERLY REPORT

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## IMPORTANT INFORMATION

This report has been prepared by Vantage Asset Management Pty Limited (ABN 50 109 671 123) AFSL 279186 (VAM) (in its capacity as Investment Manager of Vantage Private Equity Growth Limited (ABN 51112481875)). It has been prepared without taking into account the objectives, financial situation or needs of any investor, which should be considered before investing. Investors should seek their own advice about an appropriate investment or investment strategy. It should not be relied upon as personal advice nor is it an offer of any financial product.

# SUMMARY

## BACKGROUND

Vantage Private Equity Growth Limited (VPEG) is a multi-manager Private Equity investment company structured as an unlisted Australian public company. VPEG is focused on investing in professionally managed Private Equity funds that invest in businesses that are at a more mature stage of development, and in particular the Later Expansion and Buyout stages of Private Equity investment.

The Company's investment objective for its Investment Portfolio is to achieve attractive medium to long-term returns on Private Equity investments while keeping the volatility of the overall investment portfolio low. This is achieved by investing across a highly diversified portfolio of Private Equity assets with diversification obtained by allocating across manager, geographic region, financing stage, industry sector and vintage year.

VPEG has invested the majority of its Investment Portfolio into Australian based Private Equity funds who in turn are focused on investing into small to mid-market sized companies with enterprise value at initial investment of generally between \$20m and \$500m.

VPEG's investment portfolio is now being divested over time and with total initial commitments of \$43m across seven Private Equity funds, it held interests in 11 remaining underlying companies at quarter end, with 38 exits now completed from the portfolio.

As at 31 March 2018, VPEG's investment commitments included, \$8m to Archer Capital Fund 4 and Catalyst Buyout Fund 2, \$7m to Next Capital II and \$4m to each of Advent V, Crescent Capital Partners III and Equity Partners Fund No. 3. VPEG's investment commitment of \$8m to Quadrant Private Equity No. 2 ended upon the termination of that fund in July 2016 following the final exit of its last underlying company investment in June 2016.

# PERFORMANCE

## SPECIAL POINTS OF INTEREST

THREE EXITS COMPLETED FROM VPEG'S UNDERLYING PORTFOLIO DURING THE QUARTER, LEADING TO THE RESOLUTION TO DISTRIBUTE \$1,499,994 TO SHAREHOLDERS IN APRIL 2018.

CRESCENT CAPITAL PARTNERS III COMPLETES THE SALE OF STEEL-LINE GARAGE DOORS TO JAPANESE OWNED, BUNKA SHUTTER

WITH 38 EXITS COMPLETED FROM THE UNDERLYING PORTFOLIO, VPEG ULTIMATELY HELD INTERESTS IN 11 REMAINING UNDERLYING COMPANY INVESTMENTS AT 31 MARCH 2018.

The period 1 January 2018 to 31 March 2018 saw continued divestment activity within VPEG's private equity investment portfolio.

During the period, three underlying company investment were exited from VPEG's private equity investment portfolio.

As a result, the remaining number of investments held within VPEG's underlying Private Equity portfolio at quarter end, reduced to 11.

The table to the right provides a summary of the performance of VPEG's Net Asset Value (NAV) during the March 2018 quarter. As demonstrated, VPEG's NAV decreased from \$0.350 \$0.338 per share.

The slight decrease in VPEG's NAV across the quarter, resulted from underlying fund costs exceeding the increase in the value of the remaining underlying investments within the portfolio at quarter end

Month Ending	VPEG NAV per Ordinary Share*
31-Mar-18	0.338
28-Feb-18	0.341
31-Jan-18	0.344
31-Dec-17	0.350

\* Net Asset Value (NAV) per share post tax

## KEY PORTFOLIO DEVELOPMENTS

The period 1 January to 31 March 2018 saw continued divestment activity across VPEG's Private Equity investment portfolio, with two exits completed from the portfolio of underlying fund Crescent Capital Partners III ('Crescent III') and one portfolio company of Equity Partners 3 placed into Voluntary Administration.

In addition, Next Capital Fund II sold all the remaining shares it held in previously exited portfolio company, Scottish Pacific Group (ASX:SCO).

Also Advent V, distributed further funds to investors including VPEG, resulting from the previous sale of mining services company, UGM and the receipt of further proceeds following the settlement of the merger between portfolio company Integrated Packaging Group and ASX listed Pro Pac Group.



# KEY PORTFOLIO DEVELOPMENTS<sup>(CONT)</sup>

## CRESCENT CAPITAL PARTNERS III COMPLETES THE SALE OF STEEL-LINE GARAGE DOORS TO JAPANESE OWNED, BUNKA SHUTTER

Furthermore, during the quarter, Catalyst Buyout Fund 2 (CBF2) received additional proceeds from the previous sale of the assets of portfolio company Morris Corporation to Sodexo, leading to a distribution to CBF2 investors including VPEG.

As a result of the above exits, share sell down and other distributions received by underlying funds, VPEG received total distributions during the quarter of \$2,585,141. On 12 March 2018 the VPEG board approved a proposal for VPEG shareholders to vote at a general meeting for a resolution to distribute a total of \$1,499,994 as a Return of Capital to Shareholders on 23 April 2018.

At the General Meeting of Shareholders held on 5 April 2018, 100% of Shareholders present at the meeting in person or by proxy (representing 38.0% of all shares on issue) voted in favour of the resolution with the distribution subsequently paid to all shareholders on 23 April 2018.

Draw downs totaling \$160,000 were paid by VPEG during the quarter to Catalyst Buyout Fund 2, to fund follow on investments into existing portfolio companies Vesco & Cirrus Media.

During January 2018, Crescent III completed the sale of investee company GroundProbe to mining services giant and ASX listed, Orica Limited. (refer to VPEG December 2017 Quarterly Report for details).

During March 2018, Crescent III completed the trade sale of Steel-Line Garage Doors to Japanese owned, Bunka Shutter.

Finally During March 2018, Equity Partners 3 portfolio company Aussie Farmers Direct was placed into voluntary administration by the board, appointing KordaMentha as administrators.

The number of exits from VPEG's underlying portfolio is set to accelerate over the next 12 months, as all underlying fund managers work towards creating an exit path for their remaining investee companies, as each of their funds reach the end of their fund life.

With 38 exits completed, 11 underlying Private Equity company investments remained within VPEG's underlying portfolio as at 31 March 2018.

## OVERVIEW OF RECENT EXITS

### STEEL-LINE - CRESCENT CAPITAL PARTNERS III



During March 2018, Crescent Capital Partners completed the trade sale of Steel-Line Garage Doors to Japanese owned, Bunka Shutter. The sale of Steel-line represents the final exit from the Crescent Capital Partners III portfolio.

Acquired by Crescent in April 2007, Steel-Line manufactures, distributes and installs residential and commercial garage doors and associated remote control units under the brands “Steel-Line” and “BOSS”. The company is Australia’s second largest player in the domestic garage door market and employs over 250 staff and 160 installation contractors.

During Crescent’s ownership the company invested in new plant and equipment which delivered significant cost savings. Crescent grew the business both organically and through the acquisition of attractive businesses in the same and / or similar market segments which delivered enhanced revenue and earnings and setting the business up for exit.

VPEG’s share of the sale proceeds from the Steel-Line exit were received on 23 March 2018.

### AUSSIE FARMERS DIRECT - EQUITY PARTNERS 3



On 5 March 2018, Equity Partners 3 portfolio company Aussie Farmers Direct was placed into voluntary administration by the board, appointing KordaMentha as administrators.

Aussie Farmers was one of the first players in online grocery deliveries, starting out 13 years ago as a three-person, one truck milk delivery service. Over the next five years it opened depots in NSW, Queensland, Western Australia, South Australia and the ACT, signing up new franchisees, sourcing fresh food from more than 100 farmers and suppliers and delivering orders to about 150,000 customers. In 2010 it was named BRW’s fastest-growing franchise.

In January 2012 Equity Partners 3 acquired approximately 25% of the fresh food home delivery business. At the time of the Investment by Equity Partners the company was generating revenue of more than \$100m per annum and EBITDA of almost \$10m per annum.

During the period 2103 to 2016 further capital was raised from outside investors with the share holding of Equity Partners 3 diluted down to 13.2% of the total share equity of Aussie Farmers Direct.

## OVERVIEW OF RECENT EXITS

### AUSSIE FARMERS DIRECT - EQUITY PARTNERS 3 (CON'T)

In 2016, in an attempt to gain scale, Aussie Farmers took on Coles and Woolworths by adding packaged groceries to its fresh-food range and expanded into meal solutions, competing with meal kit start-ups such as Marley Spoon and Hello Fresh. Aussie Farmers however struggled to compete with the retail giants who had ramped up their online grocery efforts in recent years. Over the same time the market for meal kits and meal solutions, became saturated.

Despite heavy investment by the major chains and pure-play retailers, online grocery penetration in Australia is only about 2%, compared with 7% in the UK and 16% in South Korea.

ASIC records show that Aussie Farmers Direct lost \$15.5 million in the 12 months to June 2015 on sales of \$137 million. By 2017 sales had fallen to \$80 million and the company was burning through \$25 million cash a year.

The 2015 accounts were prepared on a going-concern basis on the understanding the company would continue to be supported by its shareholders, including Equity Partners, Singapore-based Crescent Point and Shaw Investments, a company associated with chief executive Brendan Shaw. However, Equity Partners and Crescent Point were not prepared to continue to prop up the business after investing more than \$20 million over the last three years. Equity Partners' representative Rajeev Dhawan stepped down from the board in January 2018.

At the time the business was placed into Administration, VPEG's share of the Equity Partners 3 investment in Aussie Farmers was valued at only \$65,800, based on the December 2017 unrealised value ascribed to Aussie Farmers by Equity Partners. This has now been written down to zero.

Aussie Farmers Group is only the second investment to have failed, out of the forty nine investments completed by the underlying Private Equity funds in which VPEG has invested.

Despite the loss resulting from Aussie Farmers Group and taking into account all exits to date including the loss from one other investment, the thirty eight exits from VPEG's underlying portfolio have delivered 2.57 X the original cost of investment into those companies, across an average hold period of 4.7 years, delivering VPEG a weighted average gross Internal Rate of Return (IRR) of 18.6% p.a. from these exits.

This demonstrates the strength of Vantage's Private Equity investment strategy, focused on risk minimization, which imposes strict limits on the proportion of total private equity allocation committed to any one fund or invested in any single underlying company investment. Vantage's diversification strategy also reduces the risk of loss, with VPEG's underlying portfolio diversified across a range of parameters including; fund manager, vintage year, enterprise value, geographic region and industry sector.

# PORTFOLIO STRUCTURE

With 38 exits completed from the underlying portfolio, VPEG ultimately held interests in 11 underlying company investments at 31 March 2018.

## VPEG's Portfolio Structure – 31 March 2018

The tables and charts below provide information on the breakdown of VPEG's underlying investments as at 31 March 2018.

### Current Investment Portfolio Allocation

The following table provides the split of VPEG's current investment portfolio across cash, fixed interest securities (term deposits) and Private Equity.

The Private Equity component of the portfolio is further broken down by the investment stage (Later Expansion or Buyout) of the underlying investments that currently make up VPEG's Private Equity portfolio.

Cash	Fixed Interest	Private Equity	
18.7%	15.7%	Later Expansion	11.1%
		Buyout	54.5%

During the quarter, VPEG's exposure to Private Equity investments decreased from 85.6% to 65.6% with the cash and fixed interest component of the portfolio increasing from 14.4% to 34.4% of total portfolio value. The decrease in VPEG's exposure to private equity investments was due to the additional exits completed from the portfolio as well as further share sell downs and additional proceeds received from previous exits from the portfolio during the period.



# PRIVATE EQUITY PORTFOLIO

## Summary of VPEG's Top 10 Underlying Private Equity Investments

The table below provides a summary of the top ten underlying Private Equity investments remaining in VPEG's portfolio as at 31 March 2018.

Rank	Investment	Fund	Description	% of VPEG NAV*	Cumulative % of VPEG NAV*
1	Adairs (Value of remaining shares held following IPO in June 15)	Catalyst Buyout Fund 2	Specialty Retailer of Homewares and Soft Furnishings	19.4%	19.4%
2	Craveable Brands (formerly Quick Service Restaurants Holdings)	Archer Capital Fund 4	Chicken Fast Food Retailing	11.1%	30.5%
3	Pro-Pac Packaging Limited (merged with Integrated Packaging Group)	Advent V	Manufacturer & Distributor of Packaging Products	7.9%	38.4%
4	Dusk	Catalyst Buyout Fund 2	Specialty Retailer of Homewares	5.4%	43.8%
5	Vesco	Catalyst Buyout Fund 2	Manufacturer of Frozen Meals and Meal Components	4.4%	48.2%
6	Cirrus Media	Catalyst Buyout Fund 2	Business to Business Media Company	3.1%	51.3%
7	V8 Supercars	Archer Capital Fund 4	Premium Motorsport Entertainment Business	2.8%	54.1%
8	Bhagwan Marine	Catalyst Buyout Fund 2	Offshore Transport Servicing the Oil & Gas Industries	2.8%	56.8%
9	Morris Corporation	Catalyst Buyout Fund 2	Remote Facilities Management & Accommodation Services	2.4%	59.3%
10	Trivantage Group (formerly SJ Electrics)	Advent V	Electrical Engineering Contracting & Switchboard Manufacturer	1.3%	60.5%

VPEG, with remaining commitments to six Private Equity funds, ultimately held interests in 11 underlying company investments, at quarter end. VPEG's Private Equity portfolio and commitments, as at 31 March 2018, were as follows:

Private Equity Fund Name	Fund Size	Vintage Year	Investment Focus	VPEG Commitment	Capital Drawn Down	Total No. of Investee Companies	No. of Exits
Advent V	\$300m	2006	Small to Mid Market Expansion / Buyout	\$4.0m	\$4.00m	8	7
Archer Capital Fund 4	\$1,360m	2007	Mid Market Buyout	\$8.0m	\$7.27m	10	8
Catalyst Buyout Fund 2	\$438m	2008	Mid Market Buyout	\$8.0m	\$6.26m	7	3
Crescent Capital Partners III	\$400m	2006	Small to Mid Market Expansion / Buyout	\$4.0m	\$3.95m	6	6
Equity Partners Fund No. 3	\$76m	2007	Small Market Expansion / Buyout	\$4.0m	\$3.69m	6	4
Next Capital II	\$285m	2008	Small to Mid Market Expansion / Buyout	\$7.0m	\$6.06m	7	5
Quadrant Private Equity No. 2	\$500m	2007	Mid Market Expansion / Buyout	\$8.0m	\$7.06m	5	5
<b>Total</b>				<b>\$43.0m</b>	<b>\$38.28m</b>	<b>49</b>	<b>38</b>

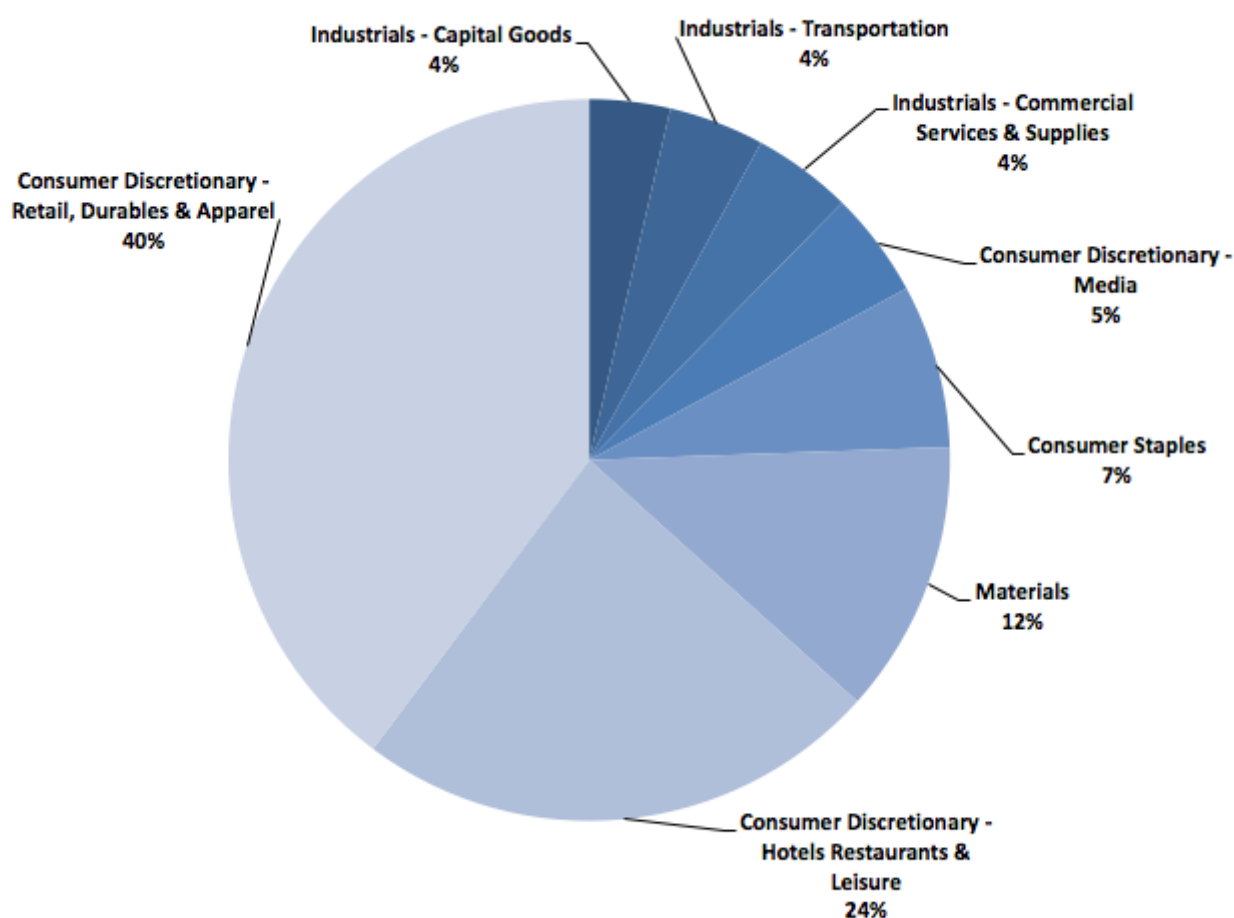
# PRIVATE EQUITY PORTFOLIO

## Industry Spread of VPEG's Underlying Investments

With the completion of the sale of Crescent III's, GroundProbe in January 2018, VPEG's exposure to the "Industrials - Commercial Services & Supplies" sector reduced from 17% to 4% across the quarter

In addition, VPEG's exposure to the "Industrials - Capital Goods" sector decreased from 9% to 4% following the sale of Crescent III's, Steel-Line, in March 2018.

The "Consumer Discretionary—Retail, Durables & Apparel" sector, which includes the value of the remaining shares held in former Catalyst Buyout Fund 2 investee and now ASX listed, Adairs, remained VPEG's largest industry sector exposure at 40%, as at 31 March 2018.





## CONTACT DETAILS

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