VPEG

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GROW
OUTPERFORM

Vantage Private Equity Growth Limited
Quarterly Report
31 December 2019

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IMPORTANT INFORMATION

SUMMARY

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 lower to mid-market sized companies with enterprise value at initial investment of generally between $20m and $500m.

VPEG's investment portfolio is being divested over time and with total initial commitments of $43m across seven Private Equity funds, it held interests in five remaining underlying companies plus three residual holdings in previously exited companies, of which two are now ASX listed companies at quarter end, with 44 exits completed from the portfolio.

As at 31 December 2019, VPEG's remaining investment commitments included, $8m to Archer Capital Fund 4 and Catalyst Buyout Fund 2 and $4m to Advent V. 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. VPEG's investment commitment of $4m to Crescent Capital Partners III ended upon the termination of that fund in June 2018 following the final exit of its last portfolio company in March 2018. VPEG's investment commitment of $7m to Next Capital II ended upon termination of that fund in June 2019 with the final distributions received following their final exit of its last portfolio company in November 2018. VPEG's investment commitment of $4m to Equity Partners Fund No. 3 ended upon the sale of their last portfolio company during the September 2019 quarter with the residual proceeds of the fund received by VPEG during the December 2019 quarter.

SPECIAL POINTS OF INTEREST

VPEG pays $707,467 ($0.02 / share) Return of Capital distribution to all VPEG shareholders on 16 December 2019

Adairs Share Price increases 33% across the December 2019 quarter, following the acquisition of Mocka, an online retailer of furniture and home furnishing products in New Zealand

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With 44 exits completed from the underlying portfolio, VPEG ultimately held interests in 5 remaining underlying company investments with 3 residual holdings of previously exited companies at 31 December 2019

Month Ending	VPEG NAV per Ordinary Share*
31-Dec-19	0.132
30-Nov-19	0.151
31-Oct-19	0.151
30-Sep-19	0.152

* Net Asset Value (NAV) per share post tax

PERFORMANCE

The period 1 October 2019 to 31 December 2019 saw continued activity across VPEG's remaining private equity investment portfolio. The number of investments held within VPEG's underlying Private Equity portfolio at quarter end, remained at five. In addition, VPEG ultimately held interests in the listed shares of two residual holdings of previously listed portfolio companies and the escrowed sale proceeds of another previously exited company.

During the December 2019 quarter, VPEG received a total distribution of $10,632. The distribution was received from Equity Partners Fund No. 3 following the wind up of that fund on 30 November 2019 after the sale of their final underlying portfolio company during the December 2019 quarter.

In addition, following shareholder approval at the VPEG Annual General Meeting on 28 November 2019, VPEG paid a total of $707,461 ($0.02 per share) as a Return of Capital distribution to VPEG shareholders on 16 December 2019.

The table to the left provides a summary of the performance of VPEG's Net Asset Value (NAV) during the December 2019 quarter. As demonstrated, VPEG's NAV decreased from $0.152 per share to $0.132 per share.

The decrease in VPEG's NAV across the quarter, resulted predominately from the $0.02 per share distribution paid to all VPEG shareholders during December 2019.

KEY PORTFOLIO DEVELOPMENTS

The period 1 October 2019 to 31 December 2019 saw continued investment activity across VPEG's remaining private equity investment portfolio.

On December 2019, Adairs completed the approximate $85 million acquisition of Mocka, a New Zealand based online retailer of furniture and home furnishing products with a bias towards nursery, children and young family products.

As a result of this acquisition and confirmation of earnings guidance, Adairs share price increased 33% from around $1.80 pre-announcement to $2.40 following the announcement.

With 44 exits completed, 5 underlying Private Equity company investments remained within VPEG's underlying portfolio as at 31 December 2019.

All remaining companies in VPEG's underlying portfolio are in the process of being exited over the course of the 2020, as 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 throughout 2020.

OVERVIEW OF ADD-ON INVESTMENT

MOCKA, ADAIRS - CATALYST BUYOUT FUND 2

During December 2019, Adairs completed the acquisition of Mocka, a New Zealand based online retailer of furniture and home furnishing products with a bias towards nursery, children and young family products.

The purchase price of approximately $85m included $43.4m in cash, which was funded with debt by Adairs, and $5.7m in escrowed Adairs shares upfront, as well as deferred payments based on Mocka's earnings over the next three years.

The acquisition increased Adairs exposure to the online channel and to the small and 'value furniture' market in Australia and NZ. The market received the acquisition well, with Adairs share price increasing from ~$1.80 pre-announcement, to ~$2.20-$2.40 following the announcement.

The acquisition is expected to boost Adairs' earnings per share by about 10 per cent in 2020 before synergies, while increasing online sales from 21 per cent of total sales to about 29 per cent.

Catalyst Buyout Fund 2 currently hold 18,405,588 shares in Adairs, representing 11.1% of Adairs total shares on issue, following its IPO in June 2015. It is anticipated that these shares will be sold by Catalyst during 2020.

The residual shareholding in Adairs is currently the second largest remaining investment in VPEG's portfolio representing 25.3% of all remaining private equity investments by value and 23.1% of VPEG's Net Asset Value.

PORTFOLIO STRUCTURE

VPEG's PORTFOLIO STRUCTURE - 31 DECEMBER 2019

The tables and charts below provide information on the breakdown of VPEG's investments as at 31 December 2019.

CURRENT INVESTMENT 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.

During the quarter, VPEG's exposure to Private Equity investments increased from 74.91% to 90.11% with the cash and fixed interest component of the portfolio decreasing from 25.09% to 9.89% of the total portfolio value.

The decrease in VPEG's exposure to Cash and Fixed Interest investments, was due to the payment of $707,461 in distributions to all Shareholders during the quarter, thereby increasing the proportion of Private Equity investments held in the portfolio at the end of the quarter.

Cash	Fixed Interest	Private Equity	
0.64%	9.25%	Later Expansion	4.31%
		Buyout	85.80%

PRIVATE EQUITY PORTFOLIO

VPEG, with remaining commitments to three Private Equity funds, ultimately held interests in 5 underlying company investments and 3 residual holdings in previously exited / ASX listed companies, at quarter end. VPEG's Private Equity portfolio and commitments, as at 31 December 2019, 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	8
Archer Capital Fund 4	$1,360m	2007	Mid Market Buyout	$8.0m	$7.27m	10	9
Catalyst Buyout Fund 2	$438m	2008	Mid Market Buyout	$8.0m	$6.38m	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	6
Next Capital II	$285m	2008	Small to Mid Market Expansion / Buyout	$7.0m	$6.18m	7	7
Quadrant Private Equity No. 2	$500m	2007	Mid Market Expansion / Buyout	$8.0m	$7.06m	5	5
			Total	**$43.0m**	**$38.53m**	**49**	**44**

SUMMARY OF VPEG'S REMAINING UNDERLYING PRIVATE EQUITY INVESTMENTS

The table below provides an overview of the remaining underlying Private Equity investments and the residual holdings in VPEG's portfolio as at 31 December 2019.

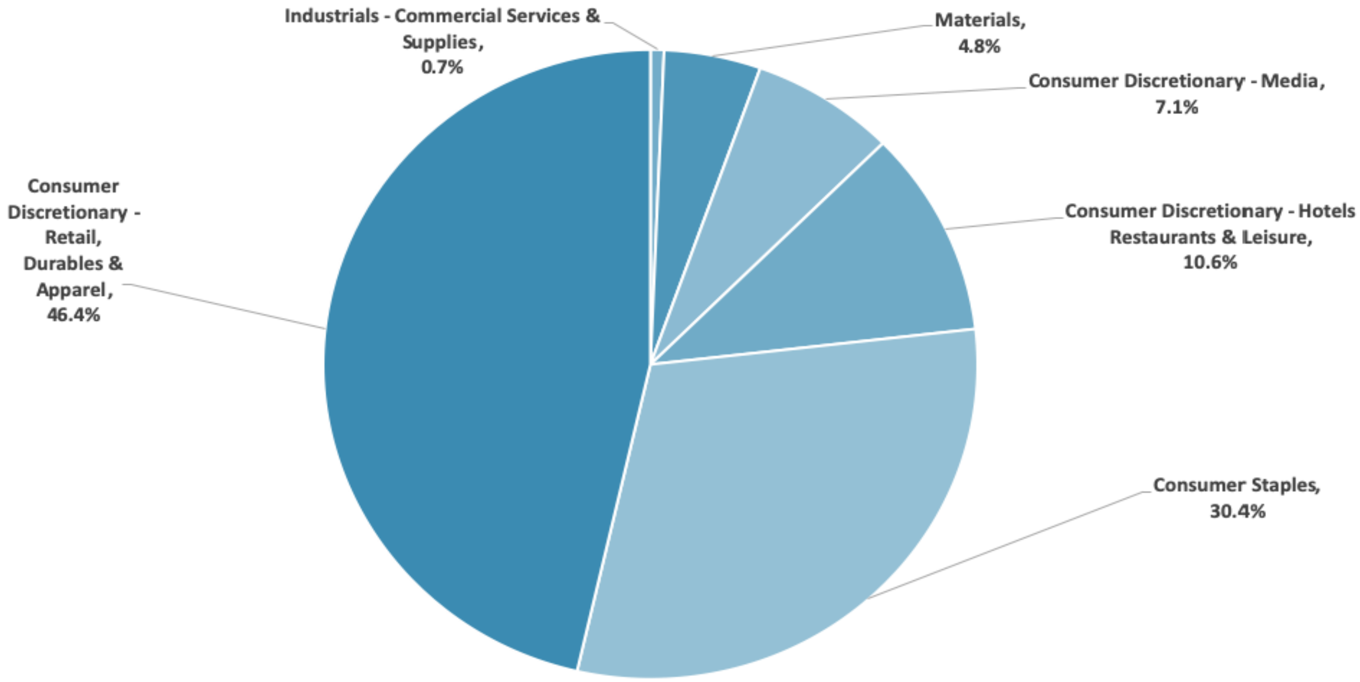
Rank	Investment	Fund	Description	% of VPEG NAV*	Cumulative % of VPEG NAV*
1	Vesco	Catalyst Buyout Fund 2	Manufacturer of frozen meals and meal components	27.7%	27.7%
2	Adairs (Value of remaining shares held following IPO in June 15)	Catalyst Buyout Fund 2	Specialty Retailer of Homewares and Soft Furnishings	23.1%	50.8%
3	Dusk	Catalyst Buyout Fund 2	Specialty Retailer of Homewares	19.3%	70.1%
4	V8 Supercars	Archer Capital Fund 4	Motor racing events	8.0%	78.1%
5	Cirrus Media	Catalyst Buyout Fund 2	Australia's largest business to business media company	6.5%	84.6%
6	Pro-Pac Packaging Limited (Value of shares in Listed Integrated Packaging Group following merger)	Advent V	Manufacturer & Distributor of Packaging Products	4.4%	88.9%
7	Craveable Brands (Forecast Earn out after sale to PAG)	Archer Capital Fund 4	Chicken Fast Food Retailing	1.7%	90.6%
8	Morris Corporation	Catalyst Buyout Fund 2	Remote Facilities Management & Accommodation Services	0.6%	91.2%

*As at 31 December 2019 (unaudited) calculated on VPEG's Pre-Tax Net Asset Value (NAV).

INDUSTRY SPREAD OF VPEG's UNDERLYING INVESTMENTS

As a result of the add-on acquisition of Mocka into Adairs during the quarter, the "Consumer Discretionary – Retail, Durables & Apparel" industry sector increased from 39% to 46% at quarter end. As a result, this industry sector consisting of underlying companies Adairs & Dusk, represented VPEG's largest industry sector exposure at quarter end.

Due to this add-on investment and other revaluations across the underlying portfolio during the December 2019 quarter, the spread of VPEG's remaining portfolio investments altered across a range of industry segments.



MARKET AND ECONOMIC CONDITIONS

From a global economic perspective, 2019 was a challenging year. It was dominated by trade tensions between the US and China and to a lesser extent between the US and Europe and its other trading partners. As a result, industrial production and global trade slowed markedly. Global growth was disappointing overall, which then manifested itself in additional geopolitical tensions.

The forecast for 2020 was initially more optimistic, with the World Economic Outlook calling for growth of 3.3% followed by a further rise to 3.4% in 2021. Market sentiment certainly appeared to be more upbeat at the start of the year, reflecting the fact that trade tensions were easing, while manufacturing activity also seemed to be picking up.

However, the recent outbreak of the Coronavirus in China, which has to date resulted in over 900 deaths and over 40,000 people being infected is also a serious emerging concern and could turn into a “black swan” event. The World Health Organization has declared this a global health emergency, this being only the fifth time this has occurred since its power to do so was established 15 years ago.
The fact that the Chinese government has locked down Wuhan and several other cities, with a population almost that of Canada in that region, suggests they are taking the outbreak very seriously. Equally steps taken by a number of other governments to isolate carriers from China confirms this position. The number of people killed by the virus now exceeds that caused by SARS in 2002. The SARS outbreak had a serious impact on China’s GDP growth at the time, although the economy and markets bounced back sharply once the infection rate peaked.

Australia and New Zealand have not been isolated from the slowing elsewhere. Australia’s growth for calendar 2019 was estimated to come in below 2.0%. The full year result was, however, dependent on a strong fourth quarter. During the first three quarters the economy grew at an annualised rate of only 1.7%. This compares with 2.4% in 2018 and 2.8% in 2017. Factors contributing to the weakness last year included weak domestic spending, and lower investment in mining and real property. This occurred notwithstanding record low interest rates. Despite the government’s best efforts to help stimulate growth via recent tax cuts, modest wage growth and higher savings rates, consumers still reduced their spending. The effects of the drought and then subsequent bushfires may well exacerbate this problem.

Despite calls from several economists and the RBA, for greater support from the Federal Government via additional tax cuts and more spending on infrastructure, the latter did not oblige. Instead it remained focussed on delivering a surplus in the current financial year, albeit in a reduced amount given the impact of the bushfires. As might be expected the AUD weakened during the year falling approximately 4% against the USD.

The final and potentially most difficult challenge relates to the recent coronavirus outbreak, which emerged in January. While the fast-moving outbreak is centred in Wuhan in central China, an increasing number of cases have already been reported in other countries including a small number in Australia. Australia has to date benefited greatly from its close trading relationship with China and other northern Asian countries. If the coronavirus has an impact on the Chinese economy, or for that matter any other of the trading partners, then it is inevitable that the flow on effects will impact Australia. Impacts to date have so far been minimal with the share prices of publicly traded entities dealing with Chinese tourism coming under pressure. As the increased controls on the movement of people start to take effect other areas of the economy will inevitably be impacted.

Despite all this, the current conditions for the Private Equity landscape within the lower to middle market segment in Australia and New Zealand remains resilient. Deal origination is robust, with a number of private equity transactions completed over the December 2019 quarter and into early 2020 especially in Australia. Although business confidence in both countries appears to be slowing, the Private Equity industry could well benefit from this, with trade acquirers becoming less aggressive in terms of pursuing acquisitions and the IPO market slowing dramatically over the last 12 months.

As a result, the conditions for the exit side remain stable. Although the IPO window has narrowed, secondary interest remains strong from financial institutions as well as larger buyout funds, both locally and globally, looking to deploy capital and acquire strong performing businesses from VPEG's underlying fund's portfolios. Should exit conditions remain positive, it is expected that the wind up of VPEG's portfolio will be completed during the second half of 2020, with the final remaining companies going through the final stages of their sale process.

VPEG4 COMMITS $5M TO RIVERSIDE AUSTRALIA FUND III

Following first close in September 2019, Vantage Private Equity Growth 4 (VPEG4) recently completed an initial $5 million investment commitment to Riverside Australia Fund III to commence its investment program.

Riverside Australia Fund III (RAF III) managed by Riverside Partners of Melbourne is a (target) $350 million buyout fund focussed on control investments into profitable, private companies, operating in the lower to mid-market segment in Australia and New Zealand.

The Riverside Company is a global Private Equity firm that was founded in 1988 in New York, is led by founder Béla Szigethy and CO-CEO Stewart Kohl who joined the firm in 1993. With over $7.6 billion in assets under management the firm specifically focusses on acquiring, building and exiting businesses in the lower end of the middle market, with investments made across North America, Europe and the Asia-Pacific region through dedicated funds with teams operating through local and regional offices.
VPEG4 is an Australian Private Equity Fund of Funds established to provide investors with access to the superior returns consistently delivered by the top performing Later Expansion and Buyout Private Equity Funds in Australia.

VPEG4 will continue the same successful investment strategy implemented by Vantage's previous funds, which at 31 December 2019 had investments across 23 Australian Private Equity Funds, who in turn had invested in 122 companies across a broad range of industry sectors and had exited (sold) 54 of these investments generating a gross 2.54x multiple of invested capital across an average hold period of 3.7 years delivering an average IRR of 31% p.a..

VPEG4 continues to remain open for investment for new investors and will conduct monthly closes until its target fund size of $100m is reached. VPEG4 is targeting to deliver a net return after fees of 20% p.a. to investors over a four to six-year investment timeframe.

If you would like to learn more about VPEG4 please contact your wealth manager or financial adviser. Alternatively if you would like to receive a call or request a meeting with a Vantage executive to discuss VPEG4 please call +61 2 8211 0477 or email info@vantageasset.com or visit www.vpeg4.info for more information.

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