



# QUARTERLY REPORT

# VANTAGE PRIVATE EQUITY GROWTH LIMITED

QUARTERLY INVESTOR REPORT  
30 SEPTEMBER 2022

# VPEG

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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 51 112 481 875)). 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

Vantage Private Equity Growth Limited (VPEG or the Company) is a multi-manager Private Equity investment company structured as an unlisted Australian public company. VPEG was established to invest 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 invested its Investment Portfolio into Australian based Private Equity funds who in turn were 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. At quarter end, it held interests in two remaining underlying companies and one residual holding in a previously exited company, which is an ASX listed company. In total, there have been 47 completed exits from the portfolio.

As at 30 September 2022, VPEG's only remaining investment commitment is to Catalyst Buyout Fund 2.

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. VPEG's investment commitment of \$4m to Advent V ended upon termination of that fund in September 2020 with the final distributions received following their final exit of its last portfolio company in July 2020. VPEG's investment commitment of \$8m to Archer Capital Fund 4 ended in June 2022, with a final distribution covering the residual proceeds from the exit of its' last portfolio company in December 2021.

## SPECIAL POINTS OF INTEREST

*With 47 exits completed from the underlying portfolio, VPEG ultimately held interests in two underlying investments and one residual interest from a partial exit at September 2022*

*Catalyst Buyout Fund 2 enters into an agreement with PAG for the sale of Vesco Foods, with completion subject to regulatory approval and the execution of a simultaneous transaction.*

*Catalyst Buyout Fund 2 executes a sell-down of 2.3 million shares in Dusk (ASX:DSK), leaving the Fund with a 7% residual stake in the business.*

## PERFORMANCE

The period 1 July 2022 to 30 September 2022 saw continued activity across VPEG's remaining Private Equity portfolio. All remaining active investments are held within Catalyst Buyout Fund 2.

As at 30 September 2022, the number of investments remaining within VPEG's underlying portfolio at quarter end was two. In addition, VPEG held residual / earn out interest in one previously exited portfolio company.

The table below provides a summary of the performance of VPEG's Net Asset Value (NAV) during the September 2022 quarter. As per below, VPEG's NAV increased 3.4% from \$0.059 per share to \$0.061 per share. The increase in VPEG's NAV primarily as a result of the increase in valuation of ASX-listed Dusk (ASX:DSK), exceeding fund expenses for the period.

VPEG expects the remaining investments in the Funds underlying portfolio will be exited over the remainder FY23, as the Manager continues working towards selling the remaining portfolio companies in Catalyst Buyout Fund 2 as that fund reaches the end of its fund term. The Fund will subsequently provide one further distribution to VPEG's shareholders at the conclusion of the Funds remaining underlying investments.

## KEY PORTFOLIO DEVELOPMENTS

The September 2022 quarter saw continued private equity activity across VPEG's portfolio as Catalyst Buyout Fund 2 management worked towards positioning each remaining portfolio for exit.

With 47 exits completed, two controlling interests in underlying Private Equity company investments and one residual interest in a previously exited company remained in VPEG's portfolio as at 30 September 2022.

The remaining companies in VPEG's underlying portfolio are expected to be exited over the remainder of the 2023 financial year as Catalyst Buyout Fund 2 work towards creating an exit path for their remaining investee companies as that fund reaches the end of their fund term.

Month Ending	VPEG NAV per Ordinary Share*
30-Sep-22	0.061
31-Aug-22	0.061
31-Jul-22	0.061
30-Jun-22	0.059

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

Notably, Catalyst management executed the partial sell-down of their residual holding in Dusk (ASX:DSK), with the Fund retaining a 7% stake, which is subject to a 45-day moratorium before any further sales can be executed.

In addition, during the period Catalyst entered into an agreement for the sale of Vesco Foods to a fund managed by Hong Kong based, APAC focused Private Equity firm, PAG, subject to a number of factors which have been described below.

## PORTFOLIO UPDATE

The underlying portfolio update provided below covers the two remaining actively managed companies in VPEG's portfolio, representing 88.4% of VPEG's remaining private equity exposure at quarter end.

### VESCO - CATALYST BUYOUT FUND 2

Vesco Foods is a frozen ready meals and components business and is a market leader in the private label and contract manufacturing segments primarily servicing the retail channel to customers including Australia's leading supermarket chains and global food brand names. It also services Health and Food Services, QSR and the export channels. Vesco has two manufacturing facilities; in WA and QLD.



Vesco represents 77.4% of VPEG's remaining Private Equity portfolio as at 30 September 2022.

Vesco experienced a challenging FY23 Q1, with both sales and EBITDA below budget and the prior year actuals. This can be primarily attributed to inflationary pressures impacting their raw material costs, as well as difficulties maintaining targeted employee levels. These pressures have impacted a number of their sites, leading to them reduced capacity and experiencing larger than expected operating losses.

Despite the temporary trading downturn, in mid-September Catalyst Buyout Fund 2 entered into an agreement with PAG, an investment firm focusing in the Asia-Pacific region, for the sale of Vesco foods. The completion of the deal is subject to:

- Foreign Investment Review Board ("FIRB") and Australian Competition and Consumer Commission ("ACCC") approval;
- Simultaneous completion of the acquisition of the Patties Foods business;
- Nestle approval for the assignment of the Lean Cuisine licence and
- Customary assignment of key site leases.

Both parties are confident in securing ACCC approval as the product crossover is quite small. It's noted that the ACCC review is conducting a public review, with the outcome expected to occur on the 15th December 2022, with final completion (subject to ACCC approval) likely to occur in January 2023.

Once completed, the sale will generate strong returns for investors, including VPEG and its' investors.

## CIRRUS MEDIA - CATALYST BUYOUT FUND 2

Cirrus Media is Australia's largest business-to-business media company, with a diverse portfolio of leading print publications, websites, events and conferences and online industry portals providing information to professionals in a diverse range of industries. Key industry verticals include healthcare, wealth management and mining.



Cirrus represents 11.0% of VPEG's remaining Private Equity portfolio as at 30 September 2022.

The quarter saw Cirrus release its new platform, with mobile app and a range of other features. The initial launch saw a number of bugs and infrastructure issues, which are generally expected for new releases, however these have largely been fixed. Positively, user numbers have for app downloads have continued to increase, while forward sales for subscriptions are above FY22 figures.

There are still a number of issues which are being worked through by the Cirrus Media team, particularly relating to the messaging functionality on the platform, and ability to integrate commercial products. Pleasingly, the product is now "in market", and the focus moving forward is predominantly bug fixes and platform enhancements.

## PORTFOLIO STRUCTURE

### VPEG's PORTFOLIO STRUCTURE - 30 SEPTEMBER 2022

The tables and charts below provide information on the breakdown of VPEG's underlying investments as at 30 September 2022.

### 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 decreased from 73.2% to 67.6%, with the cash and fixed interest component of the portfolio increasing from 26.8% to 32.4% of the total portfolio value, a result of the proceeds received from the partial sell-down of Dusk (ASX:DSK).

Cash	Short Term Deposits	Private Equity	
8.3%	24.1%	Later Expansion	0.0%
		Buyout	67.6%

## SUMMARY OF VPEG's REMAINING UNDERLYING PRIVATE EQUITY INVESTMENTS

The table below provides a summary of the remaining underlying Private Equity investments and the residual holdings of a previously exited investment remaining in VPEG's portfolio as at 30 September 2022.

Rank	Investment	Fund	Description	% of VPEG's Private Equity Portfolio	Cumulative %
1	Vesco	Catalyst Buyout Fund 2	Manufacturer of frozen meals and meal components	77.4%	77.4%
2	Dusk	Catalyst Buyout Fund 2	Specialty Retailer of Candles	11.6%	89.0%
3	Cirrus Media	Catalyst Buyout Fund 2	Australian business to business media company	11.0%	100.0%

Note: As at 30 September 2022 (unaudited) calculated on VPEG's Pre-Tax Net Asset Value (NAV).

## PRIVATE EQUITY PORTFOLIO

VPEG has remaining interests with only one Private Equity fund, Catalyst Buyout Fund 2, which holds interests in two underlying company investments and the residual holding of a previously exited portfolio company. As a result, VPEG's Private Equity portfolio and commitments, as at 30 September 2022, were as follows:

Private Equity Fund Name	Fund / Deal Size	Vintage Year	Investment Focus	VPEG Commitment	Capital Drawn Down	Total No. of Investee Companies	No. of Exits
Advent V	\$300m	2006	Lower 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	10
Catalyst Buyout Fund 2	\$438m	2008	Mid Market Buyout	\$8.0m	\$6.38m	7	5
Crescent Capital Partners III	\$400m	2006	Lower to Mid Market Expansion / Buyout	\$4.0m	\$3.95m	6	6
Equity Partners Fund No. 3	\$76m	2007	Lower Market Expansion / Buyout	\$4.0m	\$3.69m	6	6
Next Capital II	\$285m	2008	Lower to Mid Market Expansion / Buyout	\$7.0m	\$6.18m	7	7
Quadrant Private Equity No. 2	\$500m	2007	Lower to Mid Market Expansion / Buyout	\$8.0m	\$7.06m	5	5
<b>Total</b>				<b>\$43.0m</b>	<b>\$38.53m</b>	<b>49</b>	<b>47</b>

### INDUSTRY SPREAD OF VPEG'S UNDERLYING INVESTMENTS

VPEG's "Consumer Staples" industry sector consisting of underlying investment in Vesco Foods, represented VPEG's largest industry sector exposure at 77.4% at quarter end.

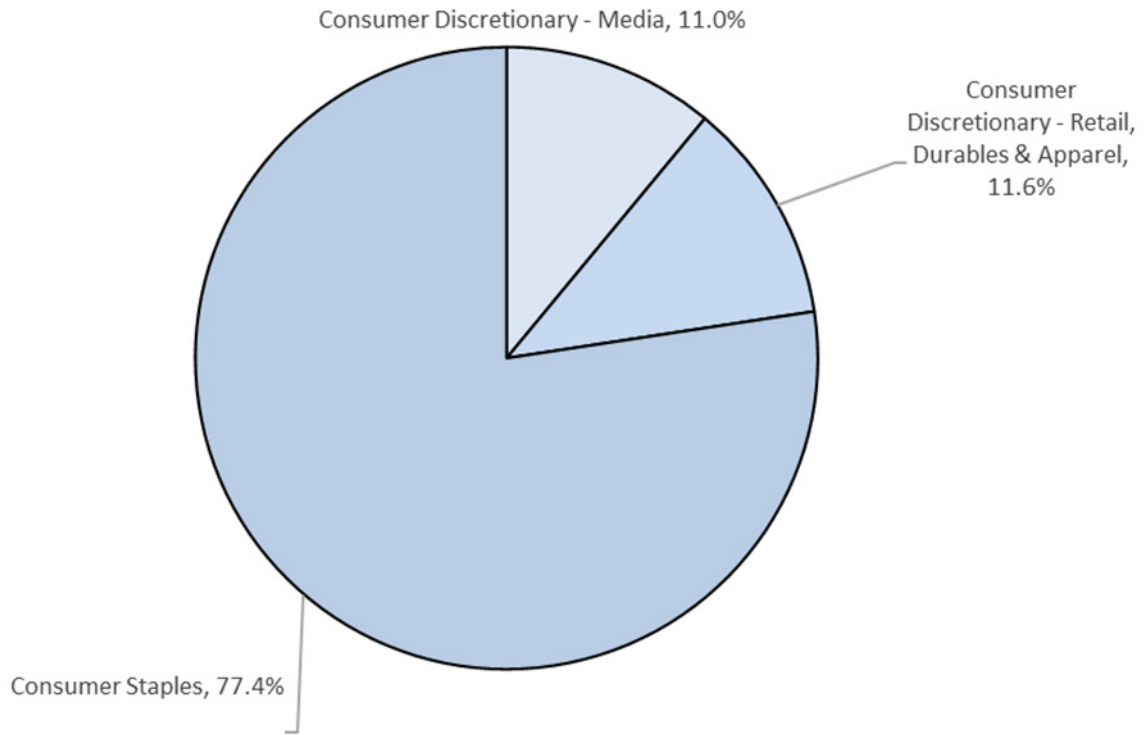


Figure: Industry exposure of VPEG's underlying investments



## MARKET & ECONOMIC UPDATE

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Similar to conditions being experienced in most developed markets, the economic environment in Australia and New Zealand continues to be uncertain, with supply chain disruption, relatively high inflation, rising interest rates and a persisting tight labour market.

In response to these economic conditions, the RBA has continued to increase interest rates which are currently at 2.5% and expected to be at ~3.1% by the end of CY2022. Inflation continues to rise and is expected to peak at just over 7% in late 2022. Housing prices have fallen and are expected to fall by 15% by year end. However, the Australian economy continues to grow (4.1% expected 2022 growth), with low unemployment persisting (3.5% in August 2022). Unemployment seems likely to remain low but could rise slightly in 2023 once borders have been open for longer and normal migration has resumed, easing some of the current pressure on wages. Consumer spending has been strong over the last quarter, but sentiment indicators suggest this is starting to dampen as a result of higher interest rates and sustained inflationary pressures.

In listed markets, FY22 earnings were broadly in line with consensus, however forward earnings guidance had a skew towards downgrades. Trading in the September quarter was subdued in most sectors because of continuing disruption across many industries. Increasingly, market commentary is predicting an economic slowdown in the United States, and we are conscious that this could also occur in Australia and New Zealand.

M&A activity in YTD 2022 has been strong albeit lower than levels seen in 2021, with \$130 billion worth of deals being announced in Australia and New Zealand so far. In private equity, 32 buyout deals were announced in Australia in 2022 and the cadence of deal activity to September was robust, though activity is starting to slow in the large buyout end of the market.

VPEG2's underlying managers will continue to explore exit opportunities to realise their existing portfolio companies. With the IPO window having closed, in addition to recessionary worries permeating across the local and global economy, it's possible that this may make exits at attractive multiples increasingly challenging. However, significant levels of dry powder held by the larger buyout funds may alleviate these concerns, as it provides an opportunity for VPEG2's midmarket managers, to exit businesses with defensive characteristics, proven by their performance despite the challenges in recent years. VPEG2's underlying managers are expecting the number of exits to increase as they look to complete exit negotiations of a number of portfolio companies, ultimately delivering further returns to VPEG2 investors.

## CONTACT DETAILS

Vantage Private Equity Growth Limited  
Level 39, Aurora Place  
88 Phillip Street  
Sydney, New South Wales 2000

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## INVESTMENT MANAGER

Investment Manager: Vantage Asset Management Pty Limited

ACN: 109 671 123

Australian Financial Services Licence: 279186

Level 39, Aurora Place

88 Phillip Street

Sydney, New South Wales 2000

Telephone: +61 2 9067 3133

Email: [info@vantageasset.com](mailto:info@vantageasset.com)

Website: [www.vpeg.info](http://www.vpeg.info)

Website: [www.vantageasset.com](http://www.vantageasset.com)