

# Vantage Private Equity Growth 2

Quarterly Investor Report — Quarter Ending 31 December 2015



## Special points of interest:

- Next Capital Fund III acquires controlling interest in Australia's largest wholesaler of Fresh cut Flowers, Lynch Group.
- VPEG2A commits a further \$2.5m to Next Capital Fund III increasing VPEG2's total committed capital to Next III to \$8m.
- Mercury 2 invests in label manufacturing business, Hexagon Holdings.

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## SUMMARY

### Background

Vantage Private Equity Growth 2 (VPEG2) is a multi manager Private Equity investment fund structured as twin Australian unit trusts (VPEG2A & VPEG2B). VPEG2 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 Fund'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.

VPEG2 will invest 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 headquartered in Australia and New Zealand, with enterprise value at initial investment of between \$20m and \$500m.

VPEG2's private equity investment portfolio will be developed over time and will ultimately make investment commitments into between six to eight private equity funds, including new (or Primary) private equity funds being established as well as into existing (or Secondary) private equity funds.

To date VPEG2 has made commitments of \$19m across three Primary Private Equity funds who in turn hold interests in seven underlying companies. As at 31 December 2015, VPEG2's investment commitments include; \$8m to Next Capital Fund III, \$6m to Allegro Fund II and \$5m to Mercury Capital Fund 2.

## 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 and Trustee of Vantage Private Equity Growth (Trusts 2A & 2B)). 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. All \$ referred to in this report are Australian dollars

## Performance

The period 1 October 2015 to 31 December 2015 saw the continued growth in VPEG2's portfolio of Private Equity investments as well as an additional \$2.5m Private Equity commitment made by VPEG2A to an existing Private Equity fund.

During the period, two new Private Equity investments were added to VPEG2's Private Equity portfolio. An increase in the number of investments is set to continue with fund managers actively considering several investment opportunities.

In addition, four capital calls from VPEG2 were made during the December 2015 quarter. Two of these calls were for new underlying Private Equity investments. The third followed the additional \$2.5m capital commitment (mentioned above) and the remaining call was for additional working capital requirements.

The first table to the right provides a summary of the performance of VPEG2A's portfolio during the December 2015 quarter. As demonstrated VPEG2A's Net Asset Value (NAV) increased from \$0.078 per partly paid unit at the commencement of the quarter to \$0.119 per partly paid unit by 31 December 2015. As demonstrated in the table, the increase in VPEG2A's NAV was predominately due to call number 3 which was paid during November by VPEG2A investors to the fund. The amount of this call was for an additional 5% of committed capital, taking the total cumulative paid in capital to 15 cents per partly paid unit.

The second table to the right provides a summary of the performance of VPEG2B's NAV per unit during the December 2015 quarter.

As demonstrated, VPEG2B's NAV decreased slightly during the quarter from \$1.006 per unit to \$1.003 per unit, as the management, custody and administration costs incurred by the trust marginally exceeded the interest earned on VPEG2B's cash investments during the December quarter.

Month Ending	VPEG2A Paid Capital / Partly Paid Unit (\$)	VPEG2A NAV / Partly Paid Unit (\$)
31-Dec-15	0.15	0.119
30-Nov-15	0.15	0.121
31-Oct-15	0.10	0.075
30-Sep-15	0.10	0.078

Month Ending	VPEG2B NAV / Fully Paid Unit (\$)
31-Dec-15	1.003
30-Nov-15	1.004
31-Oct-15	1.004
30-Sep-15	1.006

## Key Portfolio Developments

During the December 2015 quarter, VPEG2 continued to grow its underlying Private Equity portfolio with two new investments added and an increase in the Private Equity investment commitment to an existing fund manager.

In November 2015, VPEG2A committed an additional \$2.5m to **Next Capital Fund III** (Next III), preceding that fund's second close.

Draw downs during the quarter from VPEG2, totaling **\$1,294,769** were made to **Next III, Mercury Capital Fund 2** (Mercury 2) and **Allegro Fund II** (Allegro II).

Draw downs during the quarter from VPEG2, totaling \$1,008,103 were made to **Next III**. The first of these draw downs funded VPEG2's share of the acquisition of the **Lynch Group** which was completed in October 2015. (Further details about this acquisition follow on page 3 of this report.) The subsequent draw down occurred in November, following the additional \$2.5m capital commitment made by VPEG2A.

In addition, draw downs during the quarter from VPEG2, totaling \$250,000 were made to **Mercury 2** to fund VPEG2's share of its co-investment in **Hexagon** along side existing investor Mercury Capital No. 1 Fund. (Further details about this co-investment follow on page 3 of this report.)

The remaining capital drawn from VPEG2 during the quarter contributed toward working capital expenditure (i.e. underlying fund costs and management fees).

With Allegro II and Next III having completed three investments each and Mercury 2 now completed its initial investment, the total number of underlying Private Equity companies within VPEG2's portfolio as at 31 December 2015 was seven.

**Two new underlying company investments were acquired during the December 2015 quarter, Mercury 2's—Hexagon Holdings and Next III's—Lynch Group.**

## OVERVIEW OF NEW INVESTMENTS

### Lynch Group – Next Capital Fund III

On 22 October 2015, Next Capital Fund III signed an agreement to acquire a controlling interest of Lynch Group. Lynch Group is Australia's leading integrated supplier and wholesaler of fresh cut flowers and potted plants. The company is a third generation business and is considered the largest floral house and plant operator in the Southern hemisphere and world leaders in floral innovation. Its success is founded upon its leadership in ensuring international design standards, floral quality control and post-harvest techniques to provide maximum value to its customers.

Lynch also owns and operates three farms and distribution centres throughout Australia as well as a flower farm and processing facility in Kunming, China. This enables the company to produce high quality, low cost produce critical to its competitive advantage and supply product to support the company's range.

Lynch reported to the media, that the company has been seeking a Private Equity partner to provide further growth capital to expand Lynch's farming base and to access new markets and international opportunities. Next Capital III are working closely with Lynch management to implement strategies to continue to drive growth and expand operations to meet growing demand from local and overseas markets.



### Hexagon Holdings – Mercury Capital Fund 2

During December 2015, Mercury Capital Fund 2 ("Mercury 2") completed its first investment into Hexagon Holdings as a co-investor alongside existing investors Mercury Capital No. 1 Fund ("Mercury 1") and Tom Sturgess. The opportunity to invest arose from the equity funding needed to acquire the bolt-on investment—Hally Group ("Hally").

Hexagon Holdings, prior to the Hally acquisition, owned three New Zealand label converting businesses – Rapid Labels, Panprint & Kiwi Labels. Hexagon operates from three sites, employing 145 staff and has key markets in the wine, thermal, FMCG (fast moving consumer goods), laser & pharmacy industries. Hexagon Holdings, is headquartered in Auckland.

The investment by Mercury 2 in Hexagon gives Mercury (as investment manager of both Mercury 1 and Mercury 2) a controlling interest in the group.

### Hally Labels—Bolt on Acquisition

As noted above, Hexagon's bolt-on acquisition of Hally Labels provided Mercury 2 the opportunity to co-invest along side Mercury 1 in Hexagon Holdings. The acquisition was for 100% of the shares in the Hally Group.

Since establishment in 1965, the Hally Group has grown to become New Zealand's second largest label participant in the market. The group entered Australia in 1998 with a manufacturing base in Brisbane. Prior to acquisition, the group had built significant market positions in fresh food, beverage, manufacturing, shelf stable food, pharmaceuticals, nutraceuticals & horticultural industries. Hally businesses include, Hally Labels (located in Brisbane, Christchurch, Auckland), AC Labels (Sydney) and MarkIt Labels (Christchurch). The businesses operated from five sites and employs 235 staff.

Hexagon management reported to the media that there are no plans to merge any Hally and Hexagon subsidiaries, and accordingly, the companies will continue to trade independently and competitively. Post completion, it is anticipated, Hexagon will have combined annual sales of NZ\$120m.

Given the highly complementary nature of both Hexagon and Hally, management are implementing strategies to support the future growth prospects of the expanded group and exploring further possible bolt-on acquisitions.

## HEXAGON



## PANPRINT



## PORTFOLIO STRUCTURE

### VPEG2's Portfolio Structure – 31 December 2015

The tables and charts below provide information on the breakdown of VPEG2's investments as at 31 December 2015.

#### Current Investment Portfolio Allocation\*

The following tables provide the percentage split of the current investment portfolio of each of VPEG2A and VPEG2B, across cash, fixed interest securities (term deposits) and Private Equity.

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

VPEG2A			
Cash	Fixed Interest	Private Equity	
2.2%	20.6%	Later Expansion	7.5%
		Buyout	69.7%

VPEG2B			
Cash	Fixed Interest	Private Equity	
0.3%	88.2%	Later Expansion	0.9%
		Buyout	10.6%

**During the December 2015 quarter, VPEG2A made an additional \$2.5m capital commitment to Next Capital Fund III and ultimately held interests in seven underlying company investments.**

#### Private Equity Portfolio

VPEG2, with commitments to three Private Equity funds, ultimately held interests in five underlying company investments at quarter end. As a result, VPEG2's Private Equity portfolio and commitments, as at 31 December 2015, 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
				VPEG2A	VPEG2B	VPEG2A	VPEG2B		
Next Capital Fund III	\$300m*	2014	Small to Mid Market Expansion / Buyout	\$6.0m	\$2.0m	\$1.28m	\$0.42m	3	0
Allegro Fund II	\$180m	2014	Small to Mid Market Expansion / Buyout	\$4.0m	\$2.0m	\$0.73m	\$0.37m	3	0
Mercury Capital Fund 2	\$300m	2015	Small to Mid Market Expansion / Buyout	\$3.8m	\$1.2m	\$0.30m	\$0.10m	1	0
<b>Total</b>				<b>\$13.8m</b>	<b>\$5.2m</b>	<b>\$2.31m</b>	<b>\$0.89m</b>	<b>7</b>	<b>0</b>

\* Target Fund Size

## PORTFOLIO STRUCTURE — continued

### Summary of VPEG2's Underlying Private Equity Investments

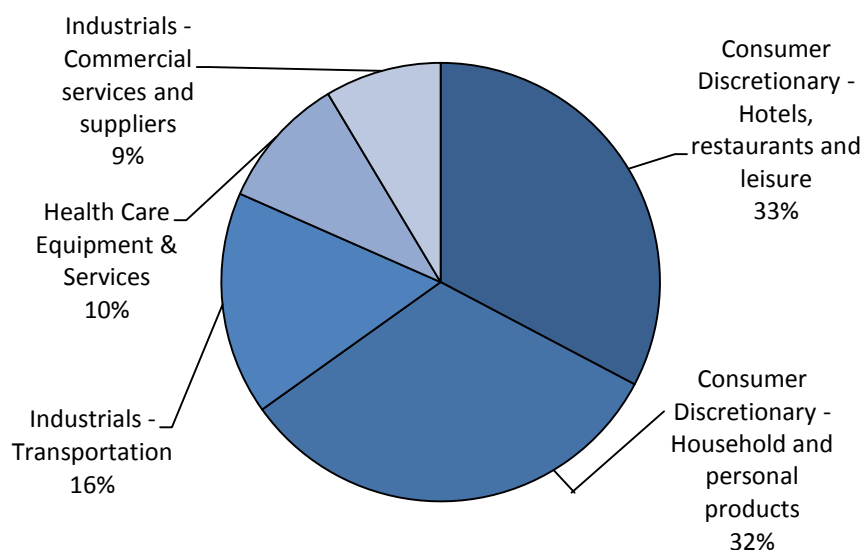
The table below provides an overview of the spread of underlying private equity investments in VPEG2's portfolio, for which funds had been drawn from VPEG2 (on a pro rata basis across both trusts A & B), as at 31 December 2015.

Rank	Investment	Fund	Description	% of VPEG2's Private Equity Investments	Cumulative %
1	Great Southern Rail	Allegro Fund II	Luxury tourism provider	32.7%	32.7%
2	Lynch Group	Next Capital III	Flower and Potted Plant Operator	20.8%	53.5%
3	Carpet Court NZ	Allegro Fund II	Flooring retailer	11.6%	65.1%
4	Forest Coach Lines	Next Capital III	Urban Bus Fleet Owner and Operator	10.0%	75.1%
5	Infinite Aged Care	Next Capital III	Aged Care Operator and Developer	9.8%	84.9%
6	Hexagon	Mercury Capital 2	Label manufacturer	8.6%	93.5%
7	Custom Bus	Allegro Fund II	Bus Manufacturer	6.5%	100.0%

### Industry Spread of VPEG2's Underlying Investments

With the addition of Lynch Group and Hexagon to VPEG2's underlying Private Equity portfolio during the December 2015 quarter, VPEG2's industry exposure to "Consumer Discretionary—Household & personal products" sector increased from 13% to 32% and "Industrials—Commercial services and suppliers" sector increased from nil to 9%. Accordingly there were reductions in VPEG2's exposure to the remaining industry sectors from the previous quarter.

VPEG2's exposure to the "Consumer Discretionary—Hotels, Restaurants and Leisure" sector, occupied by Great Southern Rail, represents VPEG2's largest industry exposure, as at 31 December 2015.



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