

# VANTAGE PRIVATE EQUITY GROWTH 2

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VPEG2A & VPEG2B  
QUARTERLY REPORT  
30 SEPTEMBER 2018

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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 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.

## SPECIAL POINTS OF INTEREST

NEXT CAPITAL III SELLS FOREST COACH LINES TO COMFORTDELGRO CORPORATION LIMITED THE SINGAPORE BASED PUBLIC TRANSPORT CONGLOMERATE

MERCURY CAPITAL FUND 2 INVESTS INTO AUSTRALIA'S LARGEST BUSINESS TO PERSON MESSAGING COMPANY, MESSAGE MEDIA GROUP

NEXT CAPITAL FUND III INVESTS IN AUSTRALIAN OWNED CLOUD, DATA AND SERVICE PROVIDER, ISEEK GROUP

CHAMP IV ACQUIRES GOURMET FOOD HOLDINGS, A BRANDED MANUFACTURER AND DISTRIBUTOR OF GOURMET CRACKERS AND CHILLED PACKAGED SEAFOOD

CHAMP IV ACQUIRES CELL CARE, THE LEADING PRIVATE UMBILICAL CORD BLOOD AND TISSUE STORAGE BANK IN AUSTRALIA AND CANADA

# 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 lower to mid-market sized companies headquartered in Australia and New Zealand, with enterprise value at initial investment of between \$20m and \$500m.

VPEG2 has made \$51.1m\* of commitments across eight Private Equity funds and completed one co-investment. As a result, VPEG2 has invested in 41 underlying company investments, with three exits completed to date. As at 30 September 2018, VPEG2's investment commitments include; \$10m to Adamantem Capital Fund 1, \$8m to each of CHAMP IV, Next Capital Fund III and Odyssey Private Equity Fund 8, \$6m to Allegro Fund II, \$5m to Mercury Capital Fund 2, NZ\$4m to Waterman Fund 3, NZ\$2m to Pencarrow Bridge Fund and a \$0.5m co-investment Fitzpatrick Financial Group.

\* Assumes an average AUD / NZ exchange rate 1.1 for VPEG2's investment commitments to Waterman Fund 3 & the Pencarrow Bridge Fund.

# PERFORMANCE

The period 1 July 2018 to 30 September 2018 saw continued growth in VPEG2's portfolio of Private Equity investments.

During the period, four new investments were completed and four bolt on acquisitions were added to existing investments within VPEG2's Private Equity portfolio. In addition, one underlying company was sold from the underlying portfolio.

During the September quarter, ten capital calls were made on VPEG2, by underlying funds with the majority of these calls required to fund the acquisition of new investee companies and additional funding for underlying private equity company investments including bolt on acquisitions.

VPEG2 also received distributions from two underlying funds during the quarter resulting from the final close of one fund and strong operational performance of companies along with a partial exit within the portfolio of another fund. Unitholders in VPEG2A and VPEG2B will receive their share of the non-recallable components of these distribution, during the December 2018 quarter.

The first table to the right provides a summary of the performance of VPEG2A's portfolio during the September 2018 quarter. As demonstrated, VPEG2A's Net Asset Value (NAV) increased by 12% across the quarter from \$0.822 to \$0.921 per partly paid unit at 30 September 2018. The increase in NAV resulted from an increase in the holding value of underlying portfolio companies across the quarter, due to an improvement in earnings of those companies.

Month Ending	VPEG2A Paid Capital / Partly Paid Unit (\$)	VPEG2A NAV / Partly Paid Unit (\$)
30-Sep-18	0.865	0.921
31-Aug-18	0.865	0.876
31-Jul-18	0.79	0.806
30-Jun-18	0.79	0.822

The second table to the right provides a summary of the performance of VPEG2B's NAV per unit during the September 2018 quarter.

As demonstrated, VPEG2B's NAV increased from \$1.092 per unit to \$1.109 per unit across the September 2018 quarter. The increase in NAV across the quarter resulted an increase in the holding value of underlying portfolio companies across the quarter, due to an improvement in earnings of those companies.

Month Ending	VPEG2B NAV / Fully Paid Unit (\$)
30-Sep-18	1.109
31-Aug-18	1.070
31-Jul-18	1.078
30-Jun-18	1.092

# KEY PORTFOLIO DEVELOPMENTS

FOUR NEW INVESTMENTS COMPLETED DURING THE QUARTER, BRINGING THE TOTAL OF UNDERLYING COMPANY INVESTMENTS IN VPEG2'S PORTFOLIO TO 41

During the September 2018 quarter, VPEG2 continued to grow its underlying Private Equity portfolio with four new underlying company investments and four bolt-on investments completed. Furthermore another company was sold from the portfolio increasing to three the total number of exits from the underlying portfolio at quarter end.

Draw-downs during the quarter from VPEG2, totalling \$5,331,354 were made to Adamantem Capital Fund 1 (Adamantem 1), Allegro Fund II (Allegro II), CHAMP IV, Mercury Capital Fund 2 (Mercury 2), Next Capital Fund III (Next III), Odyssey Private Equity Fund 8 (Odyssey 8), and Waterman Fund 3 (Waterman 3)

The majority of these draw-downs were used to fund VPEG2's share of new and bolt-on underlying company investments completed during the quarter, with the remaining capital called to fund additional working capital requirements of underlying funds.

In July 2018, Odyssey Fund 8 underlying investee Adventure Holdings Australia (AHA) acquired key outdoor wholesale distributor, Primus Australia Pty Ltd, trading as Companion Brands.

Additionally, during July 2018, CHAMP IV acquired Gourmet Food Holdings, a market leading Australian and New Zealand branded manufacturer and distributor of gourmet crackers and chilled packaged seafood. Furthermore during the quarter, CHAMP IV acquired Cell Care, a consumer healthcare business collecting and storing cord blood, used primarily to treat Childhood Leukaemia and over 80 other diseases.

In August 2018, Next Capital Fund III completed an investment into iSeek Group, an Australian owned cloud, data centre specialising in managed connectivity solutions.

In addition, during August 2018, Next Capital Fund III investee Noisette Bakery acquired Brasserie Breads expanding their operations across Australia

Also in August 2018 Mercury Capital Fund 2 invested in Message Media Group, Australasia's largest business to person messaging company with international operations in the United States and the United Kingdom.

During the quarter, Advent Partners 2 investee, SILK Laser Clinics completed two bolt on acquisitions purchasing AestheticsRx and The Laser Lounge adding to their product range as well as increasing the number of clinics within their network.

# KEY PORTFOLIO DEVELOPMENTS (cont.)

Finally, during the quarter, Next Capital III completed the sale of Forest Coach Lines to Comfortdelgro Corporation Limited the Singapore based public transport conglomerate. During the quarter, VPEG2 received distributions totalling \$1,767,932 from underlying funds, Next Capital III and CHAMP IV. These distributions resulted from the exit of Next III's underlying investee company Forest Coach Lines, as well as resulting from the partial exit of Pepperstone and the strong operational performance of other companies within the CHAMP IV portfolio.

With eight investments completed by Allegro II and CHAMP IV, seven by Next III, five by Mercury 2, four by Pencarrow Bridge Fund, three by each of Waterman 3 and Adamantem Capital Fund 1, two by Odyssey Private Equity Fund 8 and one co-investment, the total number of underlying Private Equity company investments completed within VPEG2's portfolio as at 30 September 2018 was 41. In Addition, three underlying company investments have now been exited from the underlying portfolio.



# OVERVIEW OF NEW INVESTMENTS

## ISEEK GROUP – NEXT CAPITAL FUND III



During August 2018, Next Capital III acquired a controlling interest in iSeek. Founded in 2000 by founder and CEO, Jason Gomersall, iSeek Communications is a managed services provider specialising in data centre, cloud and managed connectivity services to over 260 customers including enterprise, government and hyperscale (e.g. Amazon Web Services). The business operates three facilities; two in Brisbane and one in Sydney with the ownership of the Sydney facility through a joint venture with a Singaporean conglomerate.

iSeek Communications offers its customers secure data, cloud and connectivity services through its high-quality facilities. Specifically, these facilities are customised to ensure data accessibility for its customers by minimising redundancy time (through UPS batteries, diesel generators and integrated cooling systems), provide 24/7 security (ISO27001 compliant), and enable rapid response to potential fires via a sophisticated emergency fire extinguishing system. It also allows secure physical access for its customers without compromise of privacy and confidential data.

The customer base is highly diversified with the largest customer representing less than 10% of overall sales. Its customers include state governments, large IT/telecommunication companies, leading enterprises and several hyperscale players. In addition, several customers subscribe to both the data centre and connectivity service due to the synergy of the services. The cross over assists with customer retention as the business can embed itself with the customer's data requirement.

## MESSAGE MEDIA – MERCURY CAPITAL FUND 2



During August 2018, Mercury Capital Fund 2 invested in Message Media Group, Australasia's largest business to person messaging company with international operations in the United States and the United Kingdom.

Message Media operates nine brands with an active customer base of ~ 29,000 businesses who are primarily small and medium enterprises and with a small base of enterprise and government customers. The business is well established with robust systems and processes and a team of ~200 staff.

Message Media was established by in 2000 and is based in Melbourne, Australia. Over 18 years, Message Media has grown to become the market leader with an estimated 30% share of the Australian Application-to-Person (ATP) business messaging market. More than 5.3 billion messages are sent per year and growing at 10% per year of which 1.6 billion were sent via the Message Media gateway in FY18 across Australia, New Zealand, the United States and the United Kingdom.

## GOURMET FOOD HOLDINGS – CHAMP IV FUNDS

During July 2018, CHAMP IV announced the acquisition of a majority share in Gourmet Food Holdings, a market leading Australian and New Zealand branded manufacturer and distributor of gourmet crackers and chilled packaged seafood.

Gourmet Food Holdings consists of a range of small up-market food companies, which include OB Finest a manufacturer of a large range of specialty crackers, such as Cranberry & Pumpkin Seed crackers and Olina's Bakehouse, which also manufactures specialty artisan and wafer crackers.

The business also distributes sugar free biscuit maker Gullon and owns a stake in chilled packaged seafood brand Ocean Blue, which is known for small packages of salmon, smoked salmon, blue swimmer crab and other seafood products. Gourmet Foods Group is expected to seek to grow its portfolio of brands in the future with a focus on premium entertaining food categories.

## CELL CARE – CHAMP IV FUNDS



During September 2018, the CHAMP IV Funds acquired a majority share in Cellcare, the leading private umbilical cord blood and tissue storage bank in Australia and Canada. Cellcare is a consumer healthcare business collecting and storing cord blood. Cord blood is collected at birth from the umbilical cord, being used worldwide in over 40,000 transplants to date. The business has leading market positions in Australia and Canada and is one of the top 10 cord banks globally.

Given the stable underlying market drivers (i.e. births), strong market position in Australia and Canada and cash flow generation of the business, the investment has favourable inherent downside protection.

## BOLT ON ACQUISITION: COMPANION BRANDS – ODYSSEY FUND 8

During July 2018, Odyssey Fund 8 investee, Adventure Holdings Australia (AHA) acquired Primus Australia Pty Ltd trading as Companion Brands (Companion).

Companion is a key wholesale distributor in the Australian market, distributing products to over 3,400 outlets across leisure, hardware, auto and outdoor categories. It will provide an array of complimentary product categories to AHA's existing portfolio including camping fridges, gas hot water systems and 4 x 4 equipment. Companion also sells to international markets such as New Zealand, USA, UK, Scandinavia, Europe, Middle East and South Africa.



## BOLT ON ACQUISITION: SILK LASER CLINICS – ADVENT PARTNERS 2 FUND

In August 2018, Advent Partners 2 investee, SILK Laser Clinics (SILK), completed the acquisition of a third-party skincare brand called AestheticsRx (ARx). ARx is a nine-piece advanced cosmeceutical range that contains a high concentration of active ingredients.



The rollout of ARx across the SILK clinic network will be completed by the end of FY19 and will replace the third-party agency brands that are currently being stocked at the clinics.

Also, during the quarter, SILK acquired The Laser Lounge, a complementary franchise business headquartered in Sydney, with 16 clinics across New South Wales and Queensland. With this acquisition, the combined clinic network of 38 now covers 6 Australian States and Territories, positioning SILK as one of largest national players in the market.

The acquisition also provides SILK with the resources and support required for the Group's accelerated growth strategy.

## OVERVIEW OF RECENT EXIT

### FOREST COACH LINES – NEXT CAPITAL FUND III



On 30 September 2018, Next Capital III sold investee company Forest Coach Lines (Forest) to Comfortdelgro Corporation Limited the Singapore based public transport conglomerate (CDC). CDC is headquartered in Singapore and is a public transport conglomerate, the world's largest land transport companies.

In December 2014, Next Capital executed a management buy-out of Forest. Established in 1930 Forest is a leading urban bus operator, focused on delivering passengers from Sydney's north shore to four of Sydney's key metropolitan centres; CBD, North Sydney, Chatswood and Macquarie Centre. Forest also operates an ancillary charter business providing short group transfers, or extended group tours to regional locations across the country.

The majority of Forest's earnings are generated under a long-term contract with the New South Wales transport authority. Next Capital's investment saw the expansion of Forest through organic earnings growth from its core region as well as the building of a broader business through the acquisitions of three regional operations and a complementary charter business in Sydney.

During the Next ownership, Forest grew employee levels from 130 to 220 staff and now operates a fleet of 220 buses spread over eight depots. It operates Region 14 contract bus services in Metropolitan NSW, other bus services in regional NSW, as well as school and non-school charter services.

The exit delivered Next III investors including VPEG2 another top quartile performance which was a strong result for a low volatility, government contracted business over a holding period of approximately 3.75 years.

# PORTFOLIO STRUCTURE

## VPEG2's Portfolio Structure - 30 September 2018

The tables and charts below provide information on the breakdown of VPEG2's investments as at 30 September 2018.

### 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.

VPEG2A			
Cash	Fixed Interest	Private Equity	
1.2%	2.0%	Later Expansion	28.4%
		Buyout	68.4%

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.

VPEG2B			
Cash	Fixed Interest	Private Equity	
0.3%	14.1%	Later Expansion	25.9%
		Buyout	59.7%

### PRIVATE EQUITY PORTFOLIO

With commitments to eight Private Equity funds, VPEG2 had ultimately invested in 41 underlying companies, including one co-investment, with three exits completed, at quarter end. As a result, VPEG2's Private Equity portfolio and commitments, as at 30 September 2018, 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
				VPEG2A	VPEG2B	VPEG2A	VPEG2B		
Next Capital Fund III	\$265m	2014	Lower to Mid Market Expansion / Buyout	\$6.0m	\$2.0m	\$4.33m	\$1.44m	7	2
Allegro Fund II	\$180m	2014	Lower to Mid Market Expansion / Buyout	\$4.0m	\$2.0m	\$3.31m	\$1.66m	8	1
Mercury Capital Fund 2	\$300m	2015	Lower to Mid Market Expansion / Buyout	\$3.8m	\$1.2m	\$3.00m	\$0.95m	5	0
CHAMP IV	\$735m	2016	Mid Market Buyout	\$6.0m	\$2.0m	\$4.57m	\$1.52m	8	0
Waterman Fund 3	NZ\$200m	2016	Lower to Mid Market Expansion / Buyout	NZ\$3.0m	NZ\$1.0m	\$1.52m	\$0.48m	3	0
Pencarrow Bridge Fund	NZ\$80m	2016	Lower to Mid Market Expansion / Buyout	NZ\$1.5m	NZ\$0.5m	\$1.07m	\$0.35m	4	0
Adamantem Capital Fund 1	\$591m	2017	Mid Market Expansion / Buyout	\$7.6m	\$2.4m	\$2.15m	\$0.68m	3	0
Odyssey Fund 8	\$275m	2017	Mid Market Expansion / Buyout	\$6.0m	\$2.0m	\$1.95m	\$0.65m	2	0
Co-Invest 1 (Fitzpatricks Financial Group)	\$200m	2017	Mid Market Expansion	\$0.4m	\$0.1m	\$0.40m	\$0.13m	1	0
Total *				\$38.0m	\$13.1m	\$22.30m	\$7.85m	41	3

\* Assumes an average AUD / NZ exchange rate 1.1 for VPEG2's investment commitments to Waterman Fund 3 & the Pencarrow Bridge Fund.

# PRIVATE EQUITY PORTFOLIO

## Summary of VPEG2's Underlying Private Equity Portfolio investments

The table below provides an overview of the top 10 underlying private equity investments within VPEG2's portfolio, for which funds had been drawn or called from VPEG2 (on a pro rata basis across both trusts A & B), as at 30 September 2018.

Rank	Investment	Fund	Description	% of VPEG2's Private Equity Investments	Cumulative %
1	Funlab	Next Capital III	Developer & Operator of Entertainment & Leisure Venues	8.3%	8.3%
2	Message Media	Mercury Capital 2	Business to Person messaging	6.9%	15.2%
3	Pepperstone	CHAMP IV	Futures Trading Investment Platform	6.4%	21.6%
4	Lynch Group	Next Capital III	Flower & Potted Plant Operator	5.3%	26.9%
5	Carpet Court NZ	Allegro Fund II	Carpet Retailer	4.6%	31.5%
6	Adventure Holdings Australia Pty Ltd	Odyssey 8	Leading Outdoor Equipment Brand	4.5%	36.0%
7	Strait Shipping Ltd	CHAMP IV	New Zealand Logistics Group	3.7%	39.7%
8	Dutton Group	CHAMP IV	Wholesaler of New & Used Prestigious Vehicles	3.7%	43.4%
9	Noisette Bakery	Next Capital III	Artisanal Commercial Bakery	3.5%	47.0%
10	Heritage Lifecare Ltd	Adamantem 1	New-Zealand Age-Care & Retirement Village Operator	3.4%	50.4%

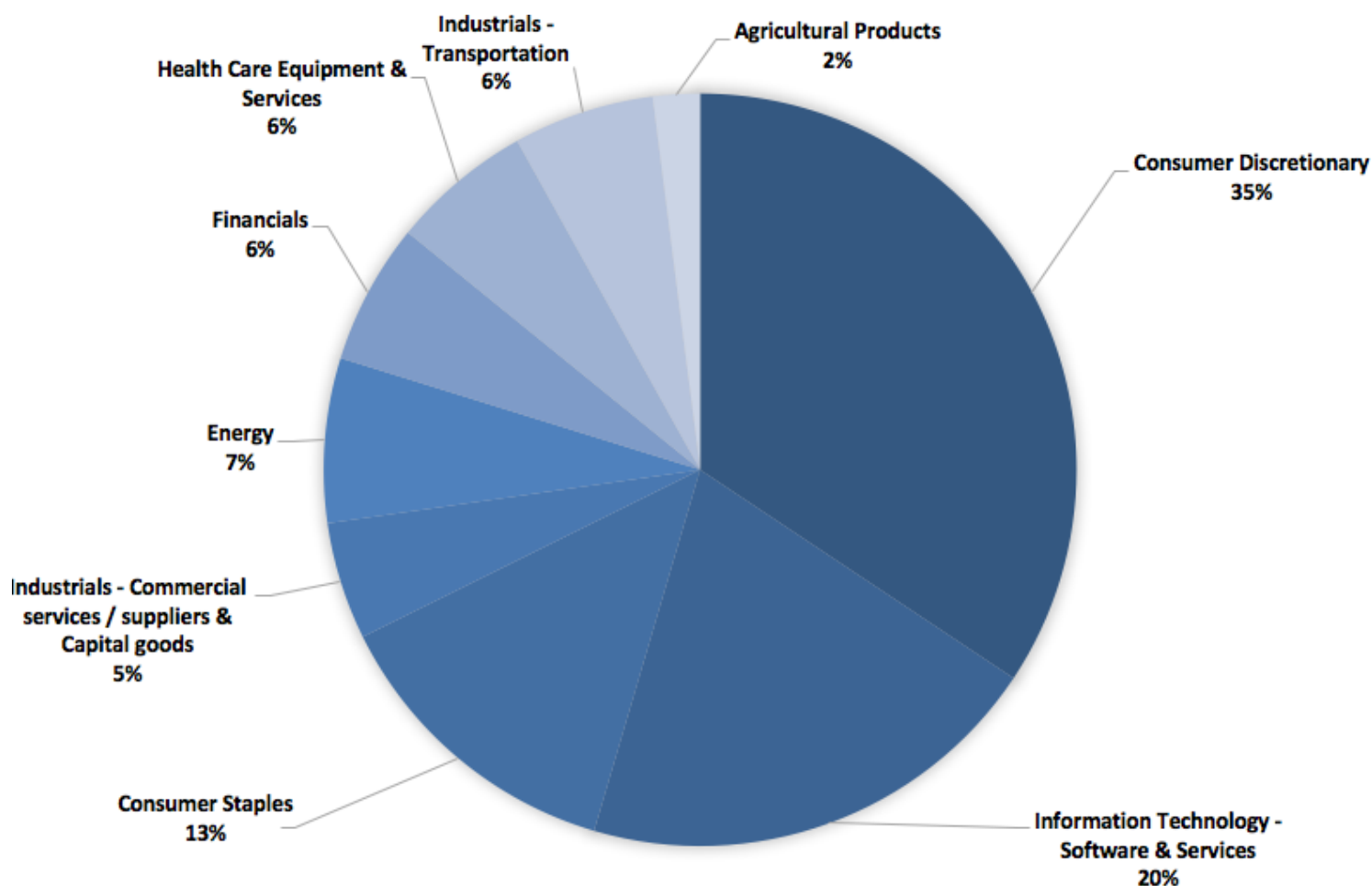
## INDUSTRY SPREAD OF VPEG2'S UNDERLYING INVESTMENTS

During the quarter, capital was paid to Adamantem 1 for their investment into Servian. Additionally, the investments into iSeek and Message Media by underlying funds Next III and Mercury 2 further increased VPEG2's exposure to "Information and Technology – Software and Services" from 9% to 20% across the quarter.

As a result, all other industry sector exposures reduced, in overall percentage terms, to accommodate these recently completed investments.

Finally, the exit of Forest Coach Lines by underlying fund Next III reduced VPEG2's exposure to the "Industrials – Transportation" sector from 11% to 6%.

The "Consumer Discretionary" sector remains VPEG2's largest industry sector exposure, representing 35% of the total Private Equity portfolio as at 30 September 2018.





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