VPEG2

DIVERSIFY
GROW
OUTPERFORM

Vantage Private Equity Growth 2
Quarterly Report
31 December 2019

TABLE OF CONTENTS

IMPORTANT INFORMATION

SUMMARY

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[1] of commitments across eight Private Equity funds and completed one co-investment. As a result, VPEG2 has invested in 52 underlying company investments, with nine exits completed / announced to date. As at 31 December 2019, 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 into Fitzpatrick Financial Group.

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

SPECIAL POINTS OF INTEREST

Mercury Capital Fund 2, completes the sale of Nexus Day Hospitals to the Queensland Investment Corporation's Global Infrastructure Fund

---

Next Capital Fund III announces the sale of Funlab to Archer Capital

---

Nine companies now sold from VPEG2's portfolio delivering a combined 2.97X return on investment

---

VPEG2's performance continues to improve as the portfolio matures, with VPEG2A & VPEG2B delivering net returns of 15.23% p.a. and 9.23% p.a. since inception

Month Ending	VPEG2A Paid Capital / Partly Paid Unit ($)	VPEG2A NAV / Partly Paid Unit ($)
31-Dec-19	1.00	1.265
30-Nov-19	1.00	1.171
31-Oct-19	1.00	1.155
30-Sep-19	1.00	1.160

PERFORMANCE

The period 1 October 2019 to 31 December 2019 saw an extensive amount of activity across VPEG2's portfolio of Private Equity investments.

During the quarter, two underlying portfolio companies were sold, delivering top quartile returns to each underlying fund and their investors, including VPEG2.

Also, during the quarter, one bolt-on and a number of other follow-on investments were completed across VPEG2's underlying Private Equity portfolio.

One capital call was made on VPEG2 by an underlying fund across the quarter, with the call required for the repayment of that fund's bridging facility utilised to fund an acquisition completed during the September 2018 quarter.

The table to the left provides a summary of the performance of VPEG2A's portfolio during the December 2019 quarter. As demonstrated, VPEG2A's Net Asset Value (NAV) per partly paid unit increased by 9.05% across the quarter from $1.160 at 30 September 2019 to $1.265 at 31 December 2019. 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 and performance of those companies.

The second table on the next page provides a summary of the performance of VPEG2B's NAV per unit during the December 2019 quarter.

As demonstrated, VPEG2B's NAV per unit also increased across the quarter from $1.205 to $1.267. The increase in NAV was also due predominately to an increase in the holding value of the underlying portfolio at quarter end, offset slightly by the $0.035 per unit, year end tax distribution paid to all VPEG2B Unit Holders during October 2019. This distribution represented the net taxable income of the VPEG2B trust for the financial year ended 30 June 2019 resulting from strong operational performance of the trust across FY19.

As a result of the increase in value of VPEG2's underlying portfolio across the quarter, along with the strong returns achieved by the two additional companies sold from the portfolio, VPEG2's returns to Investors continues to improve.

As at 31 December 2019, VPEG2A and VPEG2B generated a net of fees internal rate of return (IRR) of 15.23% p.a. and 9.23% p.a. respectively, since the final close of VPEG2 on 28 May 2015.

Furthermore, the nine companies sold to date from VPEG2's portfolio have contributed to this performance, generating a total gross 2.97 X return on invested capital across an average hold period of 2.8 years.

Month Ending	VPEG2B NAV / Fully Paid Unit ($)
31-Dec-19	1.267
30-Nov-19	1.177
31-Oct-19	1.164
30-Sep-19	1.205

As VPEG2's underlying portfolio further matures, the number of companies sold from the portfolio will accelerate over the course of 2020 and into 2021, delivering further value and distributions to VPEG2 investors.

KEY PORTFOLIO DEVELOPMENTS

During the December 2019 quarter, continued activity across VPEG2's underlying Private Equity portfolio resulted in the sale of two underlying portfolio companies, as well as the completion of one bolt-on acquisition and a number of other follow-on investments into existing companies within VPEG2's underlying portfolio.

One drawdown was called from VPEG2 by CHAMP IV during the quarter which totaled $787,665. The drawdown was required for the repayment of CHAMP IV's bridging facility to fund the earlier acquisition of Cell Care, which was completed during the September 2018 quarter.

During November 2019, VPEG2 investee Mercury Capital Fund 2, completed the sale of Nexus Day Hospitals to the Queensland Investment Corporation's Global Infrastructure Fund. Under Mercury 2's ownership, Nexus became Australia's second largest day hospital platform with a portfolio of twelve, day and short-stay hospitals across six states and territories in Australia.

Additionally, during November 2019, Allegro II portfolio company, Terrex completed a transformative acquisition of the Australian-based assets of one of its major competitors, SAE. The acquisition provides Terrex with complementary assets to meet a substantial expected increase in activity levels and materially increase its operating efficiency.

In December 2019, Next Capital Fund III announced they had reached agreement to sell Funlab to Sydney based Private Equity firm Archer Capital. Throughout Next Capital's ownership, Funlab became a distinctive market leader in the Australian out-of-home entertainment and leisure sector as the business successfully launched 4 new brand concepts and increased its footprint from 15 to 36 locations, including international expansion into New Zealand and Singapore.

During the quarter, VPEG2 received distributions totaling $2,989,967 from underlying funds, CHAMP IV, Mercury Capital Fund 2 and Waterman Fund 3. The distribution from CHAMP IV resulted from further proceeds from the previously exited portfolio company Pepperstone Group and from the strong operating performance of Panthera Finance. The Mercury Capital Fund 2 distribution resulted from the successful realisation of proceeds from the sale of Nexus, which was completed during November 2019. Furthermore, the Waterman Fund 3 distribution was in the form of a dividend due to strong performance across the funds underlying portfolio across 2019.

With ten investments completed by CHAMP IV, eight by each of Allegro II and Next III, six by Adamantem Capital Fund 1 and Mercury 2, five by Odyssey Private Equity Fund 8, four by each of Pencarrow Bridge Fund and Waterman 3, and one co-investment, the total number of underlying Private Equity company investments completed in VPEG2's portfolio as at 31 December 2019 was 52, with nine exits completed to date.

OVERVIEW OF RECENT EXITS

NEXUS DAY HOSPITALS - MERCURY CAPITAL FUND 2

On 12 November 2019, Mercury Capital Fund 2 completed the sale of Nexus Day Hospitals Pty limited to the Queensland Investment Corporation (QIC) Global Infrastructure Fund (QGIF), after the company's doctor shareholder partners unanimously approved the sale terms.

nexus
Your Local World Class Hospital

Under Mercury's ownership, Nexus became Australia's second largest day hospital platform with a portfolio of twelve, day and short-stay hospitals across six states and territories in Australia. Mercury leveraged the strong stakeholder network of Nexus to create a diversified business offering, that provides the medical infrastructure to QGIF across a broad range of low acuity, non-emergency, largely non-elective surgeries for doctors, making it a true essential service provider.

The exit of Nexus delivered Mercury Capital Fund 2 investors, including VPEG2, a strong return across a 3.5 year hold period. VPEG2's share of the Nexus sale proceeds were received during December 2019.

FUNLAB - NEXT CAPITAL FUND III

On 23 December 2019, Next Capital announced that they had signed an agreement to sell Funlab to Sydney based Private Equity firm Archer Capital.

Next Capital acquired a majority stake in out-of-home entertainment business Funlab in December 2016, partnering alongside Funlab CEO and founder Michael Schreiber. At the time of acquisition, Funlab owned Strike bowling venues, four Sky Zone trampoline venues and had newly opened Australia's first mini golf concept with a fully licenced bar; Holey Moley.

As a result of Next Capital's investment in Funlab, value was created through the implementation of a range of strategic growth initiatives which included:

- Increasing Funlab's entertainment venue footprint from 15 to 36 locations over three years.
- Successfully launched 4 new brand concepts including Archie Brothers, B. Lucky & Sons, Juke's and Red Herring.
- Expanding internationally with 3 new venues opened across New Zealand and Singapore.

The exit of Funlab delivered Next Capital III investors, including VPEG2, a strong return across a 3.8 year hold period. VPEG2's share of the Funlab sale proceeds is expected to be received during the March 2020 quarter following the completion of the sale.

PORTFOLIO STRUCTURE

VPEG2's PORTFOLIO STRUCTURE - 31 DECEMBER 2019

The tables and charts below provide information on the breakdown of VPEG2's investments as at 31 December 2019.

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	
3.5%	0.7%	Later Expansion	26.0%
		Buyout	69.8%

VPEG2B			
Cash	Fixed Interest	Private Equity	
0.1%	1.1%	Later Expansion	28.3%
		Buyout	70.5%

PRIVATE EQUITY PORTFOLIO

With commitments to eight Private Equity funds, VPEG2 has ultimately invested in 52 underlying companies, including one co-investment with nine exits completed, at quarter end. As a result, VPEG2's Private Equity portfolio and commitments, as at 31 December 2019, 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	Small to Mid Market Expansion / Buyout	$6.0m	$2.0m	$5.18m	$1.72m	8	3
Allegro Fund II	$180m	2014	Small to Mid Market Expansion / Buyout	$4.0m	$2.0m	$3.57m	$1.78m	8	3
Mercury Capital Fund 2	$300m	2015	Small to Mid Market Expansion / Buyout	$3.8m	$1.2m	$3.46m	$1.09m	6	1
CHAMP IV	$735m	2016	Mid Market Buyout	$6.0m	$2.0m	$5.41m	$1.80m	10	2
Waterman Fund 3	NZ$200m	2016	Small to Mid Market Expansion / Buyout	NZ$3.0m	NZ$1.0m	$2.08m	$0.66m	4	0
Pencarrow Bridge Fund	NZ$80m	2016	Small to Mid Market Expansion / Buyout	NZ$1.5m	NZ$0.5m	$1.16m	$0.38m	4	0
Adamantem Capital Fund 1	$591m	2017	Mid Market Expansion / Buyout	$7.6m	$2.4m	$5.38m	$1.70m	6	0
Odyssey Fund 8	$275m	2017	Mid Market Expansion / Buyout	$6.0m	$2.0m	$3.24m	$1.08m	5	0
Co-Invest 1 (Fitzpatricks Financial Group)	$200m	2017	Mid Market Expansion	$0.4m	$0.1m	$0.41m	$0.13m	1	0
			Total *	**$38.0m**	**$13.1m**	**$29.89m**	**$10.35m**	**52**	**9**

*Assumes an average AUD/NZD exchange rate of 1.1 for VPEG2's investment commitments and draw down to Waterman Fund 3 and the Pencarrow Bridge Fund.

SUMMARY OF VPEG2's UNDERLYING PRIVATE EQUITY 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 31 December 2019.

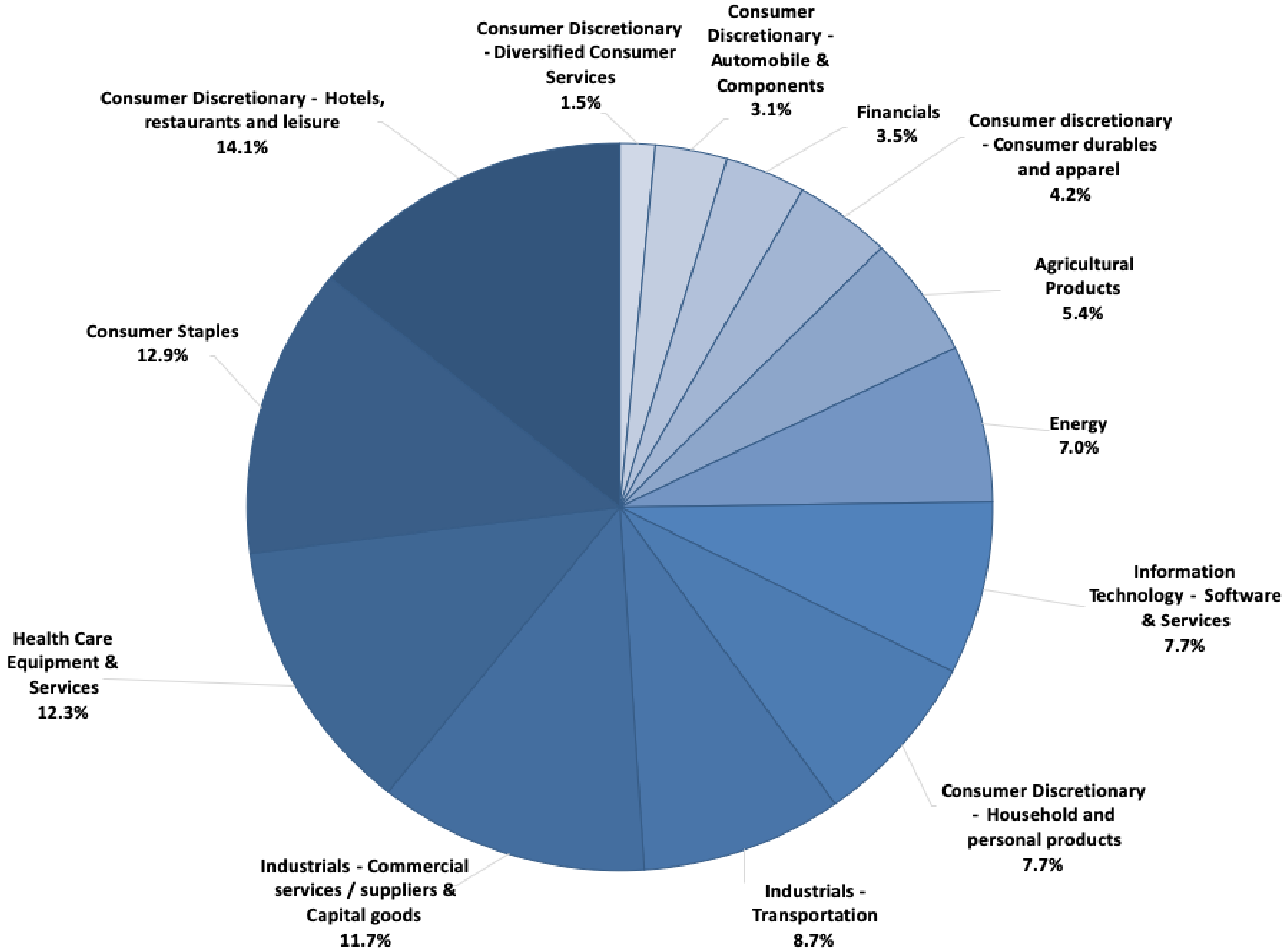
Rank	Investment	Fund	Description	% of VPEG2's Private Equity Investments	Cumulative %
1	Funlab	Next Capital III	Developer & Operator of Entertainment & Leisure Venues	8.3%	8.3%
2	Hygain Holdings Pty Ltd	Adamantem 1	Premium Horse Feed Manufacturer & Distributor	4.4%	12.7%
3	Strait Shipping Ltd	CHAMP IV	New Zealand Logistics Group	4.0%	16.7%
4	Lynch Group	Next Capital III	Flower & Potted Plant Operator	3.6%	20.3%
5	Heritage Lifecare Ltd	Adamantem 1	New-Zealand Age-Care & Retirement Village Operator	3.5%	23.8%
6	Jaybro Group	CHAMP IV	Infrastructure Project - Supplier Of Consumables	3.5%	27.3%
7	Dutton Group	CHAMP IV	Wholesaler of New & Used Prestigous Vehicles	3.1%	30.4%
8	Carpet Court NZ	Allegro Fund II	Carpet Retailer	3.1%	33.5%
9	Hellers	Adamantem 1	Producer of processed meats in New Zealand	3.0%	36.5%
10	Noisette Bakery	Next Capital III	Artisanal Commercial Bakery	2.8%	39.4%

INDUSTRY SPREAD OF VPEG2's UNDERLYING INVESTMENTS

As a result of the sale of Nexus Day Hospitals by investee Mercury Capital Fund 2, VPEG2's industry exposure to the "Health Care Equipment & Services" industry sector decreased from 14.1% to 12.3%.

This resulted in all other industry sector exposures increasing slightly, in overall percentage terms.

The "Consumer Discretionary - Hotels, Restaurants and Leisure" industry sector which is comprised of underlying investees Journey Beyond, Funlab, Pizza Hut and Sushi Sushi became VPEG2's largest industry sector exposure, representing 14.1% of the overall underlying portfolio sector allocation as at 31 December 2019.



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 that 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 quality of opportunities for VPEG2's underlying fund managers remains encouraging both in terms of standalone transactions and the continual deal flow for underlying investee companies to undertake bolt on acquisitions. The quality of deals seen by VPEG2's underlying fund managers in the last six months has also been encouraging, indicated by a number of factors which are helping to create a positive investment environment during 2020.

The competitive situation also remains encouraging, with a limited number of trade purchasers competing against private equity managers in the lower middle market space. This leads to a limited number of auction processes and a surprising number of either proprietary or semi proprietary deals for private equity funds operating in this segment of the market. This translates into an ability for VPEG2's underlying managers to purchase businesses at what they report to be attractive purchase multiples (i.e. between 4.5x and 7x forward EBITDA). This environment appears to be more accommodating than in other Private Equity markets globally, which are experiencing higher levels of competition and a certain amount of price inflation.

Therefore, it is anticipated that the final new investments will be added to VPEG2's portfolio across 2020 as VPEG2's underlying fund managers actively expand their portfolios, with both new company acquisitions added and other bolt on investments completed by existing portfolio companies.

Finally, conditions on the exit side also currently 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 VPEG2's underlying fund's portfolios. Should exit conditions remain positive, further exits of underlying companies from VPEG2's portfolio is likely to occur 2020, as several companies have now achieved their growth targets while in Private Equity ownership.

CONTACT DETAILS

Vantage Private Equity Growth 2

Vantage Asset Management Pty Limited

Level 25, 88 Phillip Street

Sydney NSW 2000

Australia

Phone: +61 2 8211 0477

Fax: +61 2 8211 0555

Website: www.vpeg2.info

Email: info@vantageasset.com

Website: www.vantageasset.com