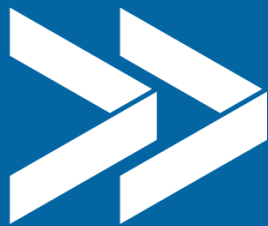


# VPEG2

DIVERSIFY  
GROW  
OUTPERFORM



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Vantage Private Equity Growth 2  
Quarterly Report  
31 March 2021



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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 2. 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. This report 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.



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

VPEG2 has made \$51.1m<sup>1</sup> of commitments across eight Private Equity funds and completed one co-investment. As a result, VPEG2 has invested in 55 underlying company investments, with eight exits completed to date. As at 31 March 2021, VPEG2's investment commitments include; \$10m to Adamantem Capital Fund I; \$8m to each of CPE Capital 8 (formally 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.

<sup>1</sup>: 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

*VPEG2 investee Waterman Capital Fund 3 completes the successful partial exit of My Food Bag via an IPO and Dual listing on the NZX & ASX, representing New Zealand's largest IPO since 2014*

*Odyssey Private Equity Fund 8 invests in MTB Direct, a leading online store for mountain bike parts, riding apparel and accessories*

*VPEG2 investee CPE Capital 8 (formally CHAMP IV) announces the 100% trade sale of Gourmet Food Group to Mondelez International, a global packaged food business listed on the NASDAQ*

*VPEG2 investee Next Capital Fund III announces the completion of the underwritten bookbuild for the IPO of Lynch Group, with the Company successfully listing on the ASX on 6<sup>th</sup> April 2021*

*As at 31 March 2021, VPEG2A and VPEG2B generated a net of fees internal rate of return (IRR) of 20.0% p.a. and 13.0% p.a. respectively, since final close of VPEG2 on 28 May 2015*

# PERFORMANCE

The period 1 January 2021 to 31 March 2021 saw continued activity across VPEG2's portfolio with one investment exit occurring during the quarter, as well as the announcement of two further exits at quarter end. In addition one new underlying company investment was added to VPEG2's portfolio, as well as the completion of a number of bolt-on acquisitions added to the operations of an existing portfolio company at quarter end.

During the March quarter, VPEG2A paid a distribution of \$0.08 per unit to all VPEG2A investors. The distribution was as a result of the receipt by VPEG2 of the partially realised sale proceeds from the IPO and dual listing on the NZX and ASX listing of Waterman Fund 3 portfolio company My Food Bag on 5 March 2021.

The exit proceeds from MY Food Bag received by VPEG2B were utilised to repay, in full, a bridge funding facility that VPEG2B had utilised to meet call payment obligations to underlying funds for new investments completed over the previous 12 months.

The table on the following page provides a summary of the performance of VPEG2's portfolio as at 31 March 2021. VPEG2A's Net Asset Value (NAV) increased by 18.7% across the quarter from \$1.393 Per Unit at 31 December 2020 to \$1.653 Per Unit at 31 March 2021. The increase in VPEG2A's NAV throughout the quarter was predominately due to the sale of one portfolio company during the period, as well as from the increase in unrealised value of companies across VPEG2's portfolio, offset by the \$0.08 per unit distribution paid to all VPEG2A Unitholders during March 2021. Taking into account the \$0.08 per unit distribution paid to all VPEG2A Unitholders during the quarter, the total value increase of VPEG2A across the March 2021 quarter was 24.4%.

VPEG2B's NAV increased by 21.9% across the quarter from \$1.413 Per Unit to \$1.722 Per Unit. The increase in NAV was predominately due to the strong performance from one portfolio company exit during the period, as well as from the increase in unrealised value of a number of VPEG2's portfolio companies at the end of the quarter.

## VPEG2 SUMMARY PERFORMANCE AT 31 MARCH 2021

VPEG2 Entity	Cash	Fixed Interest	Private Equity (Value)	Paid Capital (\$ / Unit)	NAV (\$ / Unit)	Cumulative Distributions Paid (\$ / Unit)	Total Value + Distributed	Net IRR Since Inception (p.a.)
<b>VPEG2A</b>	7.4%	0.2%	92.4%	1.00	1.653	0.249	1.902	20.0%
<b>VPEG2B</b>	7.6%	0.0%	92.4%	1.00	1.722	0.208	1.930	13.0%

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 March 2021, VPEG2A and VPEG2B generated a net of fees internal rate of return (IRR) of 20.0% p.a. and 13.0% p.a. respectively, since final close of VPEG2 on 28 May 2015.

VPEG2's portfolio value is well placed to continue to grow as underlying fund managers further maximise the value of each underlying portfolio company prior to exit. It is anticipated that as underlying managers enter into the final stages of exit discussions of a number of underlying company investments, the level of exits from VPEG2's portfolio is expected to significantly increase within the next three to six months. These exits will generate further distributions for VPEG2 fund investors, which will further enable the fund to deliver strong risk adjusted returns for investors over the term of the Fund.

## KEY PORTFOLIO DEVELOPMENTS

The March 2021 quarter saw extensive activity across VPEG2's portfolio with one investment exit completed during the quarter, as well as the announcement of two further exits at quarter end. These three exits were completed by VPEG2 investee's Waterman Capital Fund 3, CPE Capital 8 (Formally CHAMP IV) and Next Capital Fund IV. In addition one new underlying investment was added to VPEG2's portfolio, as well as a number of bolt-on acquisitions added to the operations of an existing portfolio company at quarter end.

A total of \$478,471 was called from VPEG2 during the quarter, by Odyssey Private Equity Fund 8. The majority of the capital drawn by Odyssey Fund 8 was to pay for VPEG2's share of a new investment completed during the quarter.

During March 2021, VPEG2 investee Waterman Capital Fund 3 completed the partial exit of My Food Bag via an IPO and dual listing on the NZX & ASX on 5<sup>th</sup> March 2021. The listing raised ~\$340 million, which represented the largest IPO in New Zealand since 2014 and ranked as the 49<sup>th</sup> largest company by free-float market capitalisation on the NZX.

Additionally, CPE Capital 8 announced the 100% Trade sale of Gourmet Food Group to Mondelez International, a global packaged food business listed on the NASDAQ.

Furthermore, Next Capital Fund III announced that they had completed the underwritten bookbuild for the IPO of portfolio company Lynch Group, with the Company successfully listing on the ASX on 6 April 2021.

In addition to the announced exits during the month of March, one new investment was completed by VPEG2 investee Odyssey Private Equity Fund 8 in MTB Direct, a leading online store for mountain bike parts, riding apparel and accessories.

Further to the new investment completed by Odyssey 8 during the quarter, there were a number of bolt-on acquisitions completed by VPEG2 investee CPE Capital 8 to portfolio company Jaybro, which included Cadia (plumbing), Polyfabric (Geosynthetics) & Hydro (Drainage). These acquisitions added to Jaybro's operations, significantly increasing the Company's product categories, allowing Jaybro to penetrate new markets in New Zealand, Victoria & Western Australia with the ability to maximise on cross-sell opportunities.

During the quarter, VPEG2 received distributions totaling \$7,227,539 from underlying funds CPE Capital 8, Waterman Fund 3, Next Capital Fund III and Odyssey Fund 8. The distribution from CPE Capital 8 resulted from the further proceeds of previously exited portfolio company Pepperstone Group and from the strong operating performance of Banksmeadow and Panthera Finance. The Waterman distribution was as a result of the partially realised proceeds from the 55% sell down of shares upon My Food Bag's dual listing on 5<sup>th</sup> March 2021. The distribution from Next Capital was from 100% realised proceeds of previously announced sale of Funlab. The distribution from Odyssey was related to the dividends received from underlying investment Frankie4 as a result of that underlying company delivering strong year-on-year growth across all channels.

With ten investments completed by CPE Capital 8 (formally CHAMP IV), nine by Allegro Fund II, eight by Next Capital Fund III, seven by Mercury Capital Fund 2, six by each of Adamantem Capital Fund 1, and 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 March 2021 was 55, with eleven exits completed to date.

# RECENTLY COMPLETED EXITS

## MY FOOD BAG – WATERMAN CAPITAL FUND 3

On 5 March 2021 VPEG2 investee Waterman Capital Fund 3 completed the partial exit of My Food Bag via an IPO and dual listing on the NZX & ASX, raising ~\$340 million at \$1.85 per share. This listing represented the largest IPO in New Zealand since 2014 and ranked My Food Bag as the 49th largest company by free-float market capitalisation on the NZX.



Waterman Capital Fund 3 invested in My Food Bag in November 2016, when at that time it was New Zealand's leading meal kit provider, servicing over 50,000 customers around the country. Today the company services over 300,000 customers and has provided over 85 million meals across New Zealand.

During Waterman's Ownership, management focused on developing healthy and delicious recipes, product innovation and exceptional customer service. These initiatives resonated with New Zealand customers, which allowed the company to service customer needs with their portfolio of product offerings designed to appeal to a wide range of customer preferences. These brands comprise of, the My Food Bag meal kit brand, affordable meal kit brand Bargain Box, weight loss offering Fresh Start and ready-made meal arm Made.

This partial exit provided Waterman Capital Fund 3 and its investors, including VPEG2 with a strong top quartile return on investment across a 4.3 year investment period.

## GOURMET FOOD GROUP – CPE CAPITAL 8

On 10 March 2021, CPE Capital 8 announced the trade sale of Gourmet Food Group to Mondelez International, a global packaged food business listed on the NASDAQ with a market capitalisation of US\$75 billion.



CPEC 8 Fund acquired Gourmet Foods from the company's founders in July 2018. Under CPEC's ownership, the company executed a strategic 3-year plan which focused on new product development, increased ranging and building a new manufacturing facility whilst establishing a strong corporate structure.

Under CPEC 8's ownership Gourmet Food Holdings has grown to become the leading manufacturer and distributor of premium entertaining food products in Australia. The company now makes a variety of premium crackers, chilled-packaged seafood and sugar-free biscuits, which are sold in the upmarket sections of supermarkets and delis under a handful of brands including OB finest, Ocean Blue, Crispbic, Olina's Bakehouse and Clearly Premium. During CPEC's ownership, EBITDA increased significantly, all from organic growth initiatives.

The 100% trade sale of Gourmet Food Group provided CPE Capital 8 and its investors, including VPEG2 with a top quartile performing return across a 2.7 year investment period.

## LYNCH GROUP – NEXT CAPITAL FUND III

On 16 March 2021, Next Capital Fund III announced the fully underwritten bookbuild for the IPO of portfolio company Lynch Group. Lynch, subsequent to quarter end, successfully listed on the ASX on 6 April 2021, raising ~\$206 million at \$3.40 per share.



The transaction followed a transformational investment period for the Company across the 5.4 years of ownership by Next Capital. Lynch Group has evolved from predominantly an Australian supermarket wholesale business with a fledgling growing asset in China, to the largest Asian vertically integrated grower and multi-channel wholesaler of cut flowers and potted plants across Australia and China.

Next Capital played an instrumental role in assisting management across a range of material growth initiatives including;

- Investment in management and shift from family-owned business
- Operational focus on core KPIs
- Acquisition of Pine Valley. Lynch acquired its largest competitor with approx. 10% market share as the supplier to 180 Woolworths stores in Queensland.
- Acquisition of Van den Berg "VdB" Asia and farm expansion strategy. The VdB acquisition added two state-of-the-art farms to Lynch's portfolio, tripling production capacity and driving efficiency improvement.
- Turnaround of Lynch Wholesale Markets division, certifying Lynch's position as the lead purchaser of floral products in Australia

Next Capital sold ~50% of the fund's shareholding into the IPO. The remaining 17.4% holding in Lynch will be in escrow until release of Lynch's audited 1H FY22 financial results in March 2022.

This partial exit delivered Next Capital Fund III and its investors, including VPEG2 with a strong return across a 5.4 year hold period.



# OVERVIEW OF NEW UNDERLYING INVESTMENT

## MTB DIRECT – ODYSSEY PRIVATE EQUITY FUND 8

On 2 March 2021, Odyssey Private Equity Fund 8 announced an investment in MTB Direct, a leading online store for mountain bike parts, riding apparel and accessories.



Founded in 2012 by three passionate mountain bike riders, MTB Direct has grown to become Australia's leading pure play online destination for mountain bike products, knowledge and connection. The business focuses on providing a high-quality customer experience to mountain bike riders from beginner to expert, with its extensive range of products appealing to customers who appreciate the convenience and flexibility of online shopping.

MTB Direct has achieved strong sales growth over recent years driven by the increasing popularity of cycling, and particularly mountain biking, alongside the continued shift of consumers to the online channel.

Odyssey's strategy for value-creation includes:

- Further growth in new customers
- Expansion of the product range
- Investment in a range of new digital platforms, and
- International expansion.

## PORTFOLIO STRUCTURE

### VPEG2's PORTFOLIO STRUCTURE - 31 MARCH 2021

The tables and charts below provide information on the breakdown of VPEG2's investments as at 31 March 2021

#### 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 Investments	Private Equity	
7.4%	0.2%	Later Expansion	32.6%
		Buyout	59.8%

VPEG2B			
Cash	Fixed Interest Investments	Private Equity	
7.6%	0.0%	Later Expansion	32.8%
		Buyout	59.6%

## PRIVATE EQUITY PORTFOLIO

With commitments to eight Private Equity funds and one co-investment, VPEG2 has ultimately invested in 55 underlying companies, including one co-investment with eleven exits completed, at quarter end. As a result, VPEG2's Private Equity portfolio and commitments, as at 31 March 2021, were as follows:

Private Equity Fund Name	Fund / Deal Size	Vintage Year	Investment Focus	VPEG2 Commitment		Capital Drawn		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	\$5.18m	\$1.72m	8	3
Allegro Fund II	\$180m	2014	Lower to Mid Market Expansion / Buyout	\$4.0m	\$2.0m	\$3.85m	\$1.93m	9	3
Mercury Capital Fund 2	\$300m	2015	Lower to Mid Market Expansion / Buyout	\$3.8m	\$1.2m	\$3.46m	\$1.09m	7	1
CPE Capital 8	\$735m	2016	Mid Market Buyout	\$6.0m	\$2.0m	\$5.61m	\$1.87m	10	3
Waterman Capital Fund 3	NZ\$200m	2016	Lower to Mid Market Expansion / Buyout	NZ\$3.0m	NZ\$1.0m	\$2.20m	\$0.70m	4	1
Pencarrow Bridge Fund	NZ\$80m	2016	Lower to Mid Market Expansion / Buyout	NZ\$1.5m	NZ\$0.5m	\$1.26m	\$0.41m	4	-
Adamantem Capital Fund I	\$591m	2017	Mid Market Expansion / Buyout	\$7.6m	\$2.4m	\$5.97m	\$1.89m	6	-
Odyssey Fund 8	\$275m	2017	Mid Market Expansion / Buyout	\$6.0m	\$2.0m	\$3.69m	\$1.26m	6	-
Co-invest (Fitzpatrick Financial Group)	\$200m	2017	Mid Market Expansion	\$0.4m	\$0.1m	\$0.41m	\$0.13m	1	-
<b>Total<sup>2</sup></b>				<b>\$38.0m</b>	<b>\$13.1m</b>	<b>\$31.65m</b>	<b>\$10.97m</b>	<b>55</b>	<b>11</b>

<sup>2</sup> 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 TOP 10 UNDERLYING PRIVATE EQUITY INVESTMENTS

The table below provides a summary of the top ten 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 March 2021. Due to Lynch Group and Gourmet Food Group's exit completion occurring subsequent to March quarter end, these portfolio investments are still represented in VPEG2's top ten underlying private equity investments as at 31 March 2021.

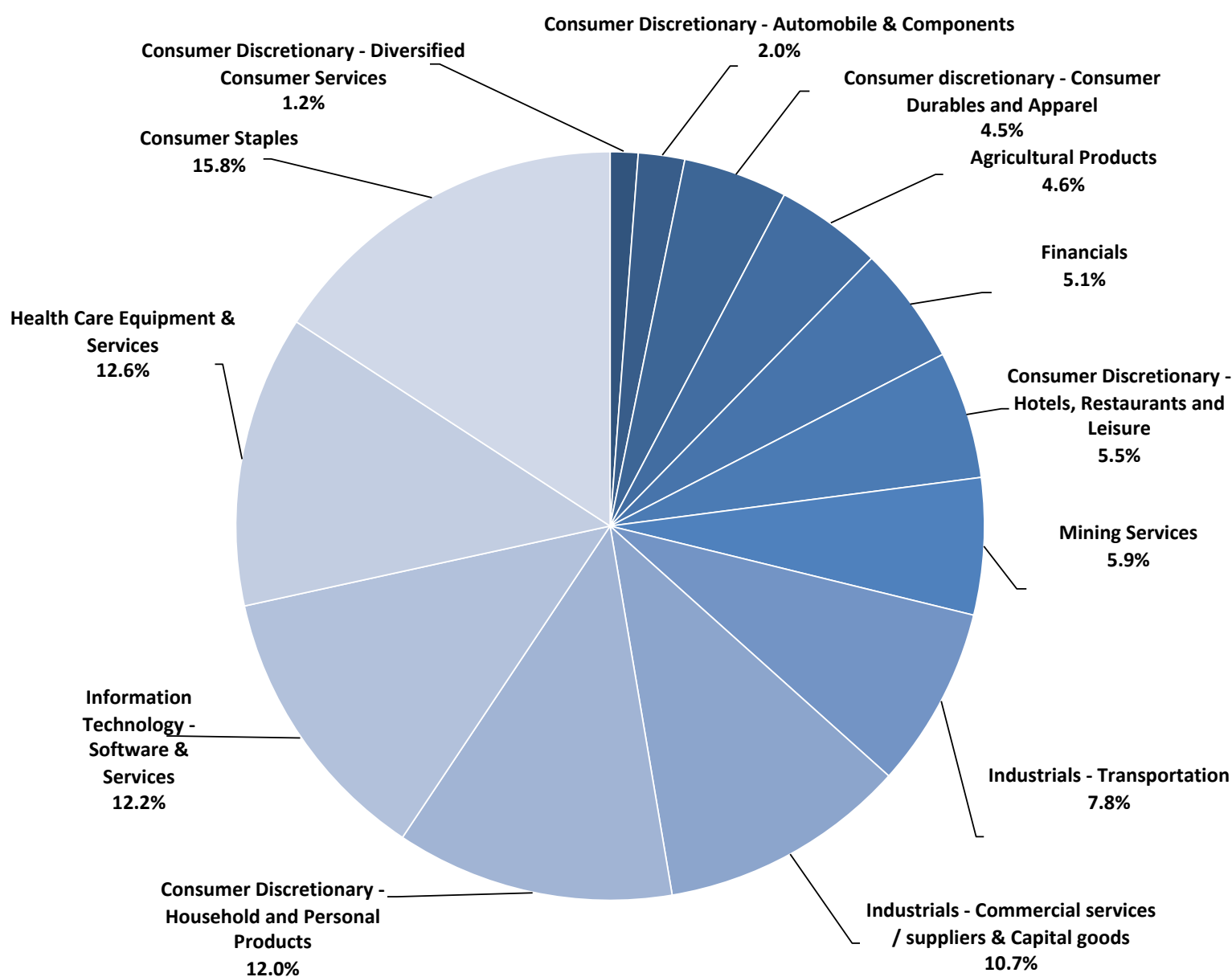
Rank	Investment	Fund	Description	% of VPEG2's Private Equity Investments	Cumulative %
1	Lynch Group	Next Capital III	Flower & Potted Plant Operator	7.6%	7.6%
2	Gourmet Food Holdings	CPE Capital 8	Manufacturer And Distributor of Gourmet Crackers & Chilled Packaged Seafood	6.1%	13.7%
3	MessageMedia	Mercury Capital 2	Business to Person Text Messaging Platform	5.0%	18.7%
4	Heritage Lifecare Ltd	Adamantem Capital I	New-Zealand Age-Care & Retirement Village Operator	4.5%	23.2%
5	Servian	Adamantem Capital I	Leading Specialist Data & Analytic Consulting Firm	4.3%	27.5%
6	Hellers	Adamantem Capital I	Producer of Processed Meats in New Zealand	3.9%	31.4%
7	Hygain Holdings Pty Ltd	Adamantem Capital I	Premium Horse Feed Manufacturer & Distributor	3.5%	34.9%
8	Mining Technologies Holding Pty Ltd	Odyssey Private Equity Fund 8	Leading Global Provider of Data & Voice Communications	3.2%	38.1%
9	NZ Bus	Next Capital III	Urban Bus Operator in New Zealand	3.1%	41.2%
10	The Interiors Group	Allegro Fund II	Leading Flooring & Curtain Wholesaler & Retailer in New Zealand	3.0%	44.3%

## INDUSTRY SPREAD OF VPEG2's UNDERLYING INVESTMENTS

With Odyssey Private Equity Fund 8 completing the acquisition of MTB Direct during the quarter, the Funds exposure to the "Consumer Discretionary – Consumer Durables and Apparel" industry sector increased from 4.1% to 4.5% at quarter end.

Due to the completion of the sale of Next Capital Fund III's portfolio company Funlab, during the quarter, VPEG2's exposure to the "Consumer Discretionary – Hotels, Restaurant and Leisure" industry sector decreased from 13.1%, to 5.5%.

VPEG2's exposure to the "Consumer Staples" industry sector which consists of Everest, Hellers, Gourmet Food Holdings, My Food Bag (listed shares held following IPO) and The Collective represented VPEG2's largest industry exposure at 15.8% of VPEG2's total Private Equity portfolio, at quarter end.





## MARKET AND ECONOMIC CONDITIONS

Over the last 12 months, Australia and New Zealand's COVID experience has been relatively mild compared to most other countries, with 909 COVID related deaths in Australia and 26 in New Zealand.

Reflecting on this period, the principal themes were high and surging rates of infection resulting in countries being faced with lockdowns impacting either specific regions or whole countries. This flowed through to higher rates of unemployment and abrupt slowing of growth. Whilst the precise measure of COVID's impact on the global economy cannot be delineated, there is widespread agreement amongst economists that most major economies lost between 4% and 5% of their GDP.

COVID related restrictions on domestic travel and social gatherings have now been lifted and both countries commenced their vaccine rollout program in February, albeit at a very slow rate. There is now a two-way travel agreement between Australia and New Zealand whereby travel is permitted without the requirement to quarantine. Beyond this, international borders are expected to remain closed for the foreseeable future.

Slow vaccine rollout in Australia has not impeded economic recovery. In April the IMF forecast the economy will expand 4.5% this year, a substantial upgrade to the 3.5% annual growth forecast in January. Australia's GDP increased by 3.1% quarter-on-quarter in the December quarter. This is the first time in sixty-years quarter-on-quarter GDP has grown by more than 3% in two consecutive quarters. Household consumption increased by 4.3% and the unemployment rate fell from 6.3% to 5.8%.

In New Zealand, the December quarter was more subdued. GDP fell 1% in the December quarter, following a record 13.9% rise in the September quarter. While the unemployment rate fell to 4.9%, the New Zealand economy is showing its vulnerability to slowing exports and suspended international tourism with slower growth continuing through the March 2021 quarter.

Since the onset of COVID-19, the Australian government has injected an estimated \$290 billion into the economy through wage subsidies, mortgage relief and support for small businesses, while the New Zealand government spent \$50 billion on similar support measures. Most of these measures were withdrawn during the recent quarter without immediate negative impact. However, economists remain cautious about the economic outlook perceiving more downside risk than upside risk to the prevailing mood and consensus forecasts.

The March 2021 quarter saw high levels of M&A and ECM activity across the market. Private equity activity in Australia is set to sustain the growth seen in Q4 and increase significantly throughout 2021. Over the March quarter, 8 new deals were announced (7 in Australia and 1 in New Zealand) with 6 in consulting services across technology and healthcare and 2 in financial services. Of the 6 completed acquisitions a majority were acquired by underlying funds in VPEG3 and VPEG4 portfolios.

In addition there was a flurry of exit activity across the March quarter. There were 15 exits of private equity owned businesses across Australia and New Zealand, 7 trade sales and 2 secondary sales to larger Private Equity funds. The IPO market remains very active with 20 IPOs planned for the June quarter including three by private equity backed businesses.

Once again, a number of the Private Equity exits completed or announced during the March 2021 quarter came from Vantage's underlying funds, VPEG2 and VPEG3, which delivered Vantage Fund investors an average gross 4.5x return on invested capital representing an average annualised return of 55.2% p.a.





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