



# QUARTERLY REPORT



## VANTAGE PRIVATE EQUITY GROWTH 2

QUARTERLY INVESTOR REPORT  
30 JUNE 2023

**VPEG2** DIVERSIFY  
GROW  
OUTPERFORM



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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

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Vantage Private Equity Growth 2 (VPEG2 or the 'Fund') 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 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 one co-investment. As a result, VPEG2 has invested in 55 underlying company investments, with 32 exits completed or announced to date. As at 30 June 2023, VPEG2's investment commitments include; \$10m to Adamantem Capital Fund I; \$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 in 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

*CPE Capital 8 completes the sale of portfolio company Dutton Group to Sojitz Corporation, a Japanese conglomerate in May 2023*

*Allegro Fund II announces the sale of Pizza Hut to America's largest restaurant franchise operator, Flynn Restaurant Group in June 2023*

*Next Capital completes the sale of its final interests in Alpha Group in June 2023.*

*As at 30 June 2023, VPEG2A and VPEG2B have delivered a net of fees return of 19.0% p.a. and 13.3% p.a. respectively, since the final close of VPEG2 in May 2015*

## PERFORMANCE

Both VPEG2A and VPEG2B have had a strong quarter, with valuations seeing an uplift across the portfolio, as well as strong exit activity resulting in the completed or announced exits of three underlying portfolio companies.

VPEG2's portfolio is now well within its divestment stage, with a consistent stream of exits occurring each year. Across FY23, 7 companies were sold from VPEG2's portfolio, generating a gross MoIC of 2.5x. With 32 companies now sold from VPEG2's portfolio, the total gross MoIC across all VPEG2 exits to date is now 3.5x, delivering an average gross IRR of 79.4%.

We expect continued exit activity across the next 12 – 24 months as the underlying fund managers continue to harvest the value created in their respective portfolios. To date, VPEG2A and VPEG2B have distributed \$1.409 / Unit and \$1.3681 / Unit respectively, which includes \$0.22 / Unit distributed from both entities during FY23.

As at 30 June 2023, VPEG2A and VPEG2B have delivered net returns to investors of 19.0% p.a. and 13.3% p.a. respectively since the final close of the VPEG2 entities on 28 May 2015.

The table below provides a summary of the performance of VPEG2A and VPEG2B as at 30 June 2023.

	VPEG2 Entity	
	VPEG2A	VPEG2B
<b>Cash</b>	0.6%	0.9%
<b>Fixed Interest</b>	8.3%	6.9%
<b>Private Equity (Value)</b>	91.1%	92.2%
<b>Paid Capital (\$ / Unit)</b>	\$1.00	\$1.00
<b>NAV (\$ / Unit)</b>	\$0.876	\$0.921
<b>Cumulative Distributions Paid (\$ / Unit)</b>	\$1.409	\$1.368
<b>Total Value + Distributed (\$ / Unit)</b>	\$2.285	\$2.289
<b>Net Return Since Inception (p.a.)</b>	<b>19.0%</b>	<b>13.3%</b>

Across the quarter, VPEG2A's Net Asset Value (NAV) increased 1.2% from \$0.865 per Unit at 31 March 2023 to \$0.876 per Unit as at 30 June 2023. VPEG2B's Net Asset Value (NAV) increased 1.7% from \$0.906 per Unit at 31 March 2023 to \$0.921 per Unit as at 30 June 2023. The increase can be attributed to several valuation uplifts across the portfolio outweighing expenses for the period.



# PORTFOLIO DEVELOPMENTS

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Across the June 2023 quarter, VPEG2 made further progress in the sell down of remaining portfolio companies, with the completed or announced exits of three portfolio companies. The three exits were Dutton Group by CPE Capital 8, Alpha Group by Next Capital III and Pizza Hut by Allegro Fund II (announced).

During the quarter, VPEG2 received distributions totalling \$1,661,272 from:

- CPE Capital 8, reflecting proceeds received from the sale of Dutton Group, as well as further proceeds distributed from the previous realisation of StraitNZ
- Next Capital III, a result of proceeds received from the sale of Alpha Group and other proceeds from Noisette

Drawdowns during the quarter from VPEG2 totalling \$93,343 were paid to Odyssey Fund 8, Yorkway IT (Fitzpatrick Co-invest), Waterman Fund 3 and Pencarrow Bridge Fund, covering management fees and working capital requirements for the period.

The economic uncertainty and recessionary fears that have been plaguing global economies in recent times appears to have eased slightly, with inflation across major economies trending downwards and interest rate cycles nearing their estimated peaks. VPEG2's private equity managers have shown a resilience in guiding their portfolio companies through these uncertain times and will continue to do so until realisations are attained. The key focus for our managers is establishing a pattern of strong, maintainable earnings in order to generate long-term value in the portfolio companies, and we believe this has been broadly achieved across the portfolio. As VPEG2 continues moving through its harvesting stage, the high levels of dry powder held by larger, global PE funds combined with increasing M&A activity, should facilitate healthy exit markets for both secondary and trade sales. Based on conversations with our managers, several portfolio companies are in exit discussions and are expected to close in the short-medium term – these are expected to generate strong, risk-adjusted returns for investors.

As of the June 2023 quarter end, VPEG2 had ultimately invested in 55 underlying company investments and had completed or announced 32 exits (fully or partially realised) from the portfolio.

# OVERVIEW OF COMPLETED EXIT

## DUTTON GROUP - CPE CAPITAL 8

On 2 May 2023, VPEG2 investee CPE Capital 8 announced that they had signed an agreement for the 100% sale of portfolio company Dutton Group to Sojitz Corporation, a listed Japanese conglomerate for a media reported \$250 million.



CPE Capital 8 acquired Dutton Group in December 2016, which at the time was an Australia luxury car wholesaler with more than 40 buyers nationwide purchasing and selling cars internationally and trading nearly 12,000 prestige and luxury cars every year. CPE Capital's investment supported Dutton Group's ability to invest in new technology and systems, their expansion into new markets, including Melbourne and Brisbane, as well as supporting improvements in their customer service, branding and marketing.

The sale of Dutton Group delivered another strong return to CPE Capital investors, including VPEG2. Following the completion of the sale, the net proceeds from this exit were distributed to investors, including VPEG2A and VPEG2B in May 2023.

## ALPHA GROUP - NEXT CAPITAL III

In June 2023, Next Capital Fund III sold its final interests in Alpha Car Finance, which provided vehicle finance and leasing solutions to private and business customers.



The realisation strategy for Next Capital involved a progressive sell-down of its key assets. This began with the sale of the Hire and Parking divisions of the Group and continued through the gradual run-off of the Finance book until its eventual sale to a trade purchaser.

The net proceeds of the sale were distributed to investors, including VPEG2A and VPEG2B in June 2023.

# OVERVIEW OF ANNOUNCED EXIT

## PIZZA HUT - ALLEGRO FUND II

In June 2023, Allegro Funds announced the sale of Pizza Hut Australia to America's largest restaurant franchise operator, Flynn Restaurant Group "Flynn". The sale is expected to be completed in Q1FY24, with proceeds being distributed to investors, including VPEG2A and VPEG2B shortly after.



Allegro acquired the master franchisee licence for Pizza Hut in Australia in 2016 and partnered with the CEO Phil Reed, and the businesses' dedicated management team to execute a successful turnaround, transforming the business into a profitable growing network through an unwavering focus on operational excellence and customer satisfaction.

Following its transformation, Pizza Hut has an established network of 259 stores and is now Australia's fastest growing QSR network.

Once the sale proceeds from the Pizza Hut exit are received it is anticipated that VPEG2 will pay a distribution of the proceeds from these recent exits, to all VPEG2 investors during September 2023.

# PORTFOLIO STRUCTURE

## VPEG2's PORTFOLIO STRUCTURE - 30 JUNE 2023

The tables and charts below provide information on the breakdown of VPEG2's investments as at 30 June 2023.

## 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	
0.6%	8.3%	Later Expansion	29.7%
		Buyout	61.4%

VPEG2B			
Cash	Fixed Interest Investments	Private Equity	
0.9%	6.9%	Later Expansion	29.6%
		Buyout	63.6%

## PRIVATE EQUITY PORTFOLIO

With commitments to eight Private Equity funds and one co-investment, VPEG2 has ultimately invested in 55 underlying companies, with 32 exits completed or announced from the portfolio at quarter end. As a result, VPEG2's Private Equity portfolio and commitments, as at 30 June 2023 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	\$5.17m	\$1.72m	8	7
Allegro Fund II	\$180m	2014	Lower to Mid Market Expansion / Buyout	\$4.0m	\$2.0m	\$3.92m	\$1.96m	9	6
Mercury Capital Fund 2	\$300m	2015	Lower to Mid Market Expansion / Buyout	\$3.8m	\$1.2m	\$3.46m	\$1.09m	7	5
CPE Capital 8	\$735m	2016	Mid Market Buyout	\$6.0m	\$2.0m	\$5.29m	\$1.76m	10	8
Waterman Capital Fund 3	NZ\$200m	2016	Lower to Mid Market Expansion / Buyout	NZ\$3.0m	NZ\$1.0m	\$2.30m	\$0.73m	4	3
Pencarrow Bridge Fund	NZ\$80m	2016	Lower to Mid Market Expansion / Buyout	NZ\$1.5m	NZ\$0.5m	\$1.29m	\$0.42m	4	1
Adamantem Capital Fund I	\$591m	2017	Mid Market Expansion / Buyout	\$7.6m	\$2.4m	\$6.43m	\$2.03m	6	1
Odyssey Fund 8	\$275m	2017	Mid Market Expansion / Buyout	\$6.0m	\$2.0m	\$5.24m	\$1.75m	6	1
Co-invest (Fitzpatrick Financial Group)	\$200m	2017	Mid Market Expansion	\$0.4m	\$0.1m	\$0.44m	\$0.14m	1	-
<b>Total<sup>3.</sup></b>				<b>\$38.0m</b>	<b>\$13.1m</b>	<b>\$33.54m</b>	<b>\$11.61m</b>	<b>55</b>	<b>32</b>

<sup>3.</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.



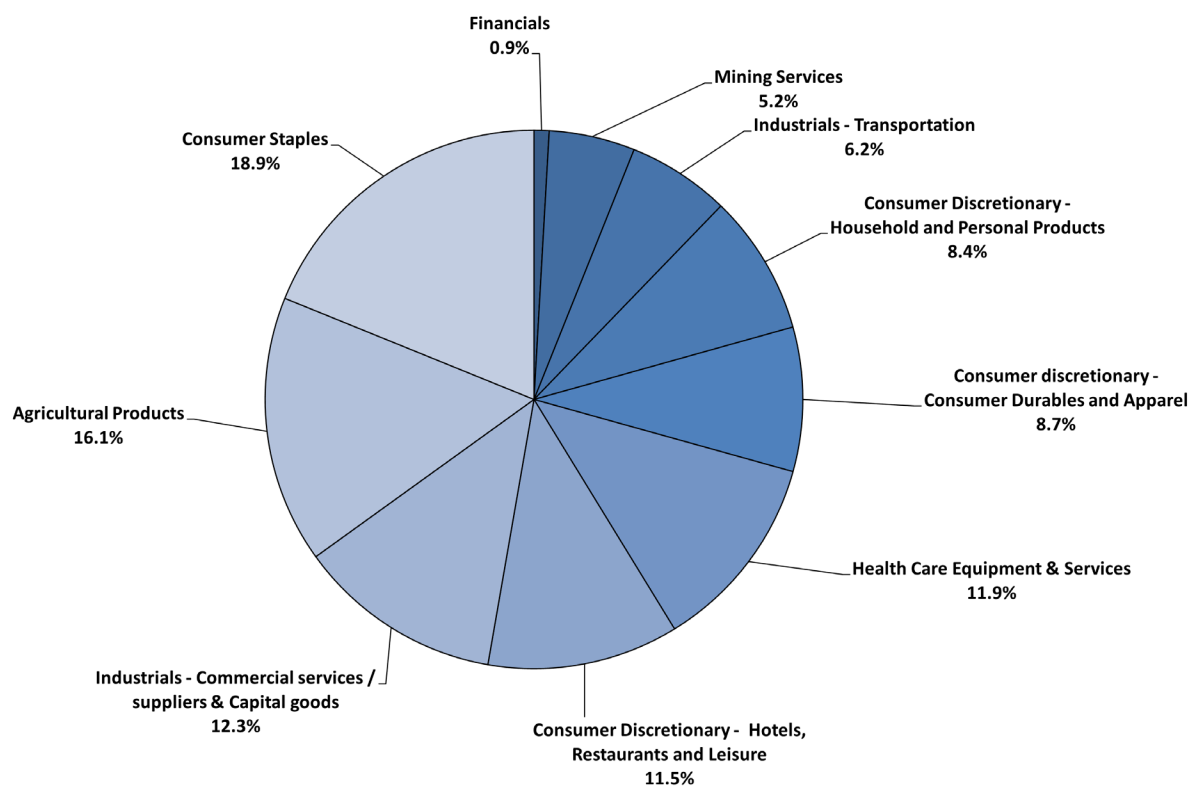
## SUMMARY OF VPEG2's TOP 10 UNDERLYING PRIVATE EQUITY INVESTMENTS

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 30 June 2023.

Rank	Investment	Fund	Description	% of VPEG2's Private Equity Investments	Cumulative %
1	Delta Agribusiness	Odyssey 8	Provider of Agricultural Products & Independent Rural Services	8.7%	8.7%
2	Hygain Holdings Pty Ltd	Adamantem Capital 1	Premium horse feed manufacturer & distributor	7.3%	16.1%
3	Hellers	Adamantem Capital 1	Producer of processed meats in New Zealand	7.3%	23.4%
4	Tamaki Health Group	Mercury Capital 2	New Zealand Primary Care Operator	6.4%	29.8%
5	Lynch Group	Next Capital III	Wholesale and grower of flowers and potted plants in Australia & China	5.9%	35.7%
6	Pizza Hut	Allegro Fund II	Australia's largest pizza chain	5.6%	41.3%
7	Noisette Bakery	Next Capital III	Artisanal Commercial Bakery	5.7%	47.0%
8	FRANKIE4	Odyssey 8	Leading Women's Supportive Footwear Label	5.6%	52.6%
9	Sushi Sushi	Odyssey 8	Franchisor & Sushi Retailer	5.3%	57.9%
10	Marand	CHAMP IV	Supplier of Precision Engineered Solutions for Aerospace & Defence Industries	5.0%	62.9%

## INDUSTRY SPREAD OF VPEG2's UNDERLYING INVESTMENTS

VPEG2's exposure to the "Consumer Staples" industry sector which consists of Hellers, Noisette Bakery, Everest and The Collective represents VPEG2's largest industry sector exposure at 18.9% of VPEG2's total Private Equity portfolio at quarter end.



Figure; Industry exposure of VPEG2's underlying investments as at 30 June 2023

# MARKET & ECONOMIC UPDATE

The Australian economy has been displaying signs of a slowdown, with GDP growth of only 0.2% during the March quarter, the lowest since the contraction caused by the COVID-19 Delta lockdown in September 2021. On an annual basis, GDP grew by 2.3%, down from 2.7% in the previous quarter. The Reserve Bank of Australia (RBA) expects the economy to grow in 2023 but at a slower pace, with a forecast of 1.25% GDP growth.

To curb inflation, the RBA increased the cash rate to 4.1% in the June quarter, with 25bps hikes in both May and June, before pausing in July to assess the impact of previous rate increases and the economic outlook. Inflation has started to moderate, with CPI for the 12 months to June recording 5.4%, a decline from the peak of 8.4% in December.

Consumer market conditions are showing signs of weakness due to rising living costs. Increasing interest rates are affecting household budgets, leading to slower household consumption activity, a declining household savings rate, and weakened consumer sentiment. While spending on non-discretionary items like food, health, transport, and catering continues to grow (albeit at a slower pace), discretionary spending has contracted as consumers cut back on recreation, furniture, and clothing purchases.

Despite weak consumer sentiment, the labour market is operating at full capacity, with the unemployment rate remaining historically low at 3.5%. The high employment rate is expected to moderate the impact of market conditions on consumer spending.

During the quarter, the Australian government presented its second budget since the May 2022 election, reporting a small surplus—the first in 15 years. Although the government anticipates a strong revenue path ahead, the budget is expected to return to a deficit due to cost increases and policy measures aimed at alleviating cost-of-living pressures.

In New Zealand, real GDP declined for the second consecutive quarter, albeit at a slower rate, falling by 0.1% during the March quarter, mainly due to weakening private demand and falling real incomes. Consumer confidence rose slightly in the June quarter but remains relatively low. The Reserve Bank of New Zealand hiked rates by 25bps on May 24th, reaching 5.5%, one of the highest rates among OECD countries, in an effort to control inflation, which currently stands at 6.7% (down from 7.2% in the previous report).

# MARKET & ECONOMIC UPDATE

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Private equity transaction activity continued at a slow pace in the quarter, with only 5 deals announced or completed. In the context of exit environment, despite the prevailing sluggishness in deal flow, VPEG2's underlying managers have reported a noteworthy surge in inbound intermediated origination activity over the course of the quarter as investors seek to acquire resilient private equity backed assets. This suggests a positive environment for VPEG2's underlying managers to exit portfolio companies that have achieved their investment objectives and are demonstrating sustainable maintainable earnings. VPEG2's underlying managers report that they are in ongoing discussions and negotiations for the exit of a number of portfolio companies, which are expected to be completed over the next three to six months, ultimately delivering further returns to VPEG2 investors.

## CONTACT DETAILS

**Vantage Private Equity Growth Trusts 2A & 2B**

Level 39, Aurora Place

88 Phillip Street

Sydney, New South Wales 2000

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## INVESTMENT MANAGER & TRUSTEE

**Investment Manager of the Trust's VPEG2A & VPEG2B: 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.vpeg2.info](http://www.vpeg2.info)

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