



# QUARTERLY REPORT



# VANTAGE PRIVATE EQUITY GROWTH 2

QUARTERLY INVESTOR REPORT  
31 DECEMBER 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 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 33 exits completed or announced to date. As at 31 December 2023, 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.

<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

*Waterman Fund 3 announces the sale of the courier business of portfolio company PBT Group to NZ Post with completion subject to NZ Commerce Commission approval, anticipated during April 2024*

*VPEG2's Total Value to Paid In (TVPI) ratio of more than 2.29x ranks it in the top quartile of all direct global private equity funds formed post the GFC*

*As at 31 December 2023, VPEG2A and VPEG2B have delivered a net of fees return of 18.5% p.a. and 13.0% p.a. respectively, since VPEG2's final close in May 2015*

## PERFORMANCE

The December 2023 quarter saw a period of continued improvement and stability in the operating environment across VPEG2's portfolio of companies, with valuations across the portfolio seeing a slight increase across the quarter. The period also saw a heightened level of M&A activity which included the announcement of the sale of the courier business of Waterman Fund 3 portfolio company PBT Group to NZ Post. In addition, VPEG2's Underlying managers' report they are continuing discussions to exit a number of portfolio companies that are anticipated to be sold across the 2024 calendar year.

The table below provides a summary of the performance of VPEG2's portfolio as at 31 December 2023.

|   | VPEG2 Entity |              |
|---|--------------|--------------|
|   | VPEG2A       | VPEG2B       |
| Cash                                      | 0.310%       | 0.962%       |
| Fixed Interest                            | 0.857%       | 1.135%       |
| Private Equity (Value)                    | 98.832%      | 97.903%      |
| Paid Capital (\$ / Unit)                  | \$1.00       | \$1.00       |
| NAV (\$ / Unit)                           | \$0.784      | \$0.822      |
| Cumulative Distributions Paid (\$ / Unit) | \$1.509      | \$1.468      |
| Total Value + Distributed (\$ / Unit)     | \$2.293      | \$2.290      |
| Net Return Since Inception (p.a.)         | <b>18.5%</b> | <b>13.0%</b> |

Note; MoIC refers to Multiple of Invested Capital & IRR is the Internal Rate of Return or annualised return on the invested capital in each company, at exit.

Across the quarter, VPEG2A's Net Asset Value (NAV) increased 1.8% from \$0.770 per Unit at 30 September 2023 to \$0.784 per Unit as at 31 December 2023. VPEG2B's Net Asset Value (NAV) increased 1.5% from \$0.810 per Unit at 30 September 2023 to \$0.822 per Unit at 31 December 2023. The increase in VPEG2A's and VPEG2B's NAV resulted from upward valuation movements across a number of the portfolio companies across the December 2023 quarter.

As at 31 December 2023, VPEG2A and VPEG2B's Distributed to Paid-In (DPI) multiple is 1.509x and 1.468x, respectively.

In addition, the Total Value to Paid-In (TVPI) multiple, which considers all realised investment proceeds to VPEG2 investors plus the residual value of unrealised investments, was 2.293x for VPEG2A and 2.290x for VPEG2B, at quarter end. This result ranks the VPEG2 fund entities in the top quartile of all direct global Private Equity funds formed post the GFC according to the most recent Preqin data on global private equity returns.

Finally, VPEG2's annualised return to investors continues to improve as the portfolio matures. As at 31 December 2023, VPEG2A and VPEG2B had delivered net returns to investors of 18.5% p.a. and 13.0% p.a., respectively, since the final close of VPEG2 on 28 May 2015.

# PORTFOLIO DEVELOPMENTS

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Across the December 2023 quarter, it was announced that one portfolio company had entered into an agreement to sell a significant part of its business to a larger competitor, increasing the number of exits completed and announced from VPEG2's portfolio to 33 companies. In addition, VPEG2's underlying managers are continuing their efforts toward improving the value of the 22 remaining portfolio companies held by VPEG2, with a view to divesting several of these across 2024.

During the quarter, VPEG2 received distributions totalling \$158,333 from Allegro Fund II and Odyssey Private Equity Fund 8. The majority of the distribution received consisted of dividend proceeds received from Odyssey portfolio company, Delta Agribusiness during the quarter. In addition, capital was also received from the final distribution of the remaining escrowed sale proceeds of previously exited, Allegro portfolio company, Pizza Hut.

Drawdowns during the quarter from VPEG2 totalling \$25,600 were paid to Odyssey Fund 8. This capital was required for VPEG2's share of the management fees and working capital requirements of Odyssey Fund 8 for the quarter.

As of the December 2023 quarter end, VPEG2 had ultimately invested in 55 underlying company investments and had completed 33 exits (fully or partially realised) from the portfolio.



## OVERVIEW OF RECENTLY ANNOUNCED EXIT

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### PBT GROUP - WATERMAN CAPITAL FUND 3

On 1<sup>st</sup> November 2023, VPEG2 investee Waterman Fund 3, announced that they had signed an agreement for the sale of the courier business of portfolio company PBT Group to NZ Post. The agreement is conditional upon Commerce Commission approval, with clearance (subject to the acquisition not substantially lessening competition in the market) anticipated to be received during April 2024.



During September 2017, Waterman Fund 3 acquired 75% of PBT Group, a provider of freight, courier and logistics services throughout New Zealand. Since Waterman's investment PBT has grown significantly to now provide transport of palletised freight, courier services for smaller packages, container pick-up and delivery and third-party logistics including storage, pick/pack and transport/delivery, all serviced by an extensive national network of 19 branches and a workforce of approximately 800 staff, including around 400 owner drivers.

Upon the successful completion of the sale, the process of transferring PBT's customers to NZ Post is expected to take at least 12 months. Throughout that transitional period the PBT team will be supporting customers to ensure a smooth handover and aligning the remaining logistics service lines of Transportation, Air and Ocean to reflect a more focussed offering.

# PORTFOLIO STRUCTURE

## VPEG2's PORTFOLIO STRUCTURE - 31 DECEMBER 2023

The tables and charts below provide information on the breakdown of VPEG2's investments as at 31 December 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  |       |
| 0.3%   | 0.9%                       | Later Expansion | 35.4% |
|        |                            | Buyout          | 63.4% |

| VPEG2B |                            |                 |       |
|--------|----------------------------|-----------------|-------|
| Cash   | Fixed Interest Investments | Private Equity  |       |
| 0.7%   | 1.1%                       | Later Expansion | 36.0% |
|        |                            | Buyout          | 62.2% |

## 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 33 exits completed from the portfolio at the quarter's end. As a result, VPEG2's Private Equity portfolio and commitments, as at 31 December 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                               | 4            |
| 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         | \$5.28m         | \$1.76m         | 6                               | 1            |
| Co-invest (Fitzpatrick Financial Group) | \$200m           | 2017         | Mid Market Expansion                   | \$0.4m           | \$0.1m         | \$0.45m         | \$0.14m         | 1                               | 0            |
| <b>Total<sup>3</sup></b>                |                  |              |  | <b>\$38.0m</b>   | <b>\$13.1m</b> | <b>\$33.59m</b> | <b>\$11.63m</b> | <b>55</b>                       | <b>33</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.



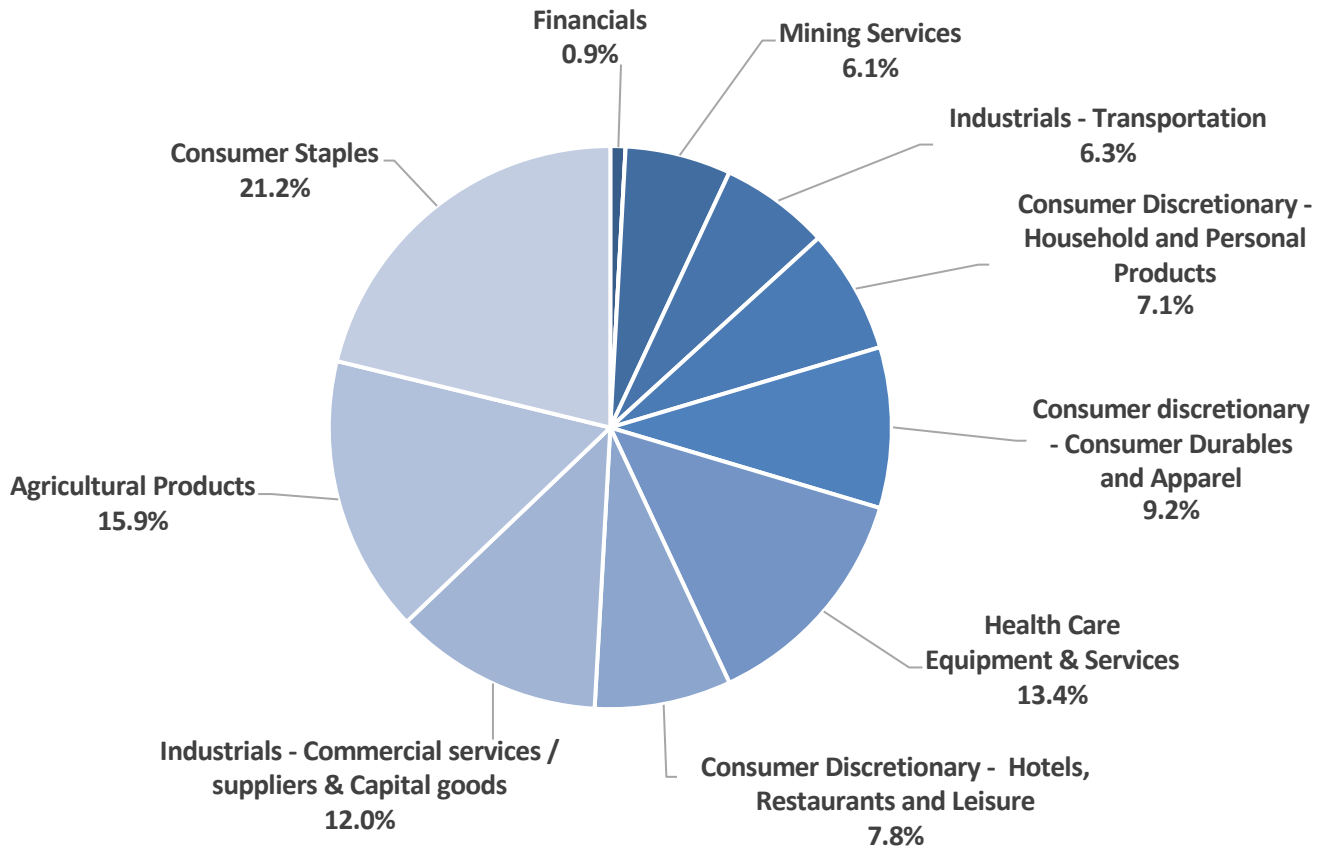
## SUMMARY OF VPEG2's TOP 10 UNDERLYING PRIVATE EQUITY INVESTMENTS

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 31 December 2023. The top 10 underlying company investments by value represented 65.2% of VPEG2's total Private Equity Portfolio at quarter end.

| Rank | Investment              | Fund                          | Description   | % of VPEG2's Private Equity Investments | Cumulative % |
|------|-------------------------|-------------------------------|---|---|--------------|
| 1    | Delta Agribusiness      | Odyssey Private Equity Fund 8 | Provider of Agricultural Products & Independent Rural Services                | 9.5%                                    | 9.5%         |
| 2    | Hellers                 | Adamantem Capital I           | Producer of processed meats in New Zealand                                    | 8.7%                                    | 18.1%        |
| 3    | Sushi Sushi             | Odyssey Private Equity Fund 8 | Franchisor & Sushi Retailer   | 7.4%                                    | 25.6%        |
| 4    | Tamaki Health Group     | Mercury Capital Fund 2        | New Zealand Primary Care Operator   | 6.7%                                    | 32.3%        |
| 5    | Hygain Holdings Pty Ltd | Adamantem Capital I           | Premium horse feed manufacturer & distributor                                 | 6.5%                                    | 38.7%        |
| 6    | Noisette Bakery         | Next Capital III              | Artisanal Commercial Bakery   | 6.1%                                    | 44.8%        |
| 7    | FRANKIE4                | Odyssey Private Equity Fund 8 | Leading Women's Supportive Footwear Label                                     | 5.5%                                    | 50.4%        |
| 8    | Terrex Seismic          | Allegro Fund II               | Seismic Services Provider   | 5.4%                                    | 55.8%        |
| 9    | Legend Corporation Ltd  | Adamantem Capital I           | Wholesaler & Distributor of Electrical & Gas Products                         | 4.9%                                    | 60.7%        |
| 10   | Marand                  | CPE Capital 8                 | Supplier of Precision Engineered Solutions for Aerospace & Defence Industries | 4.5%                                    | 65.2%        |

## 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 became VPEG2's largest industry sector exposure representing 21.2% of VPEG2's total Private Equity portfolio at quarter end.



Figure; Industry exposure of VPEG2's underlying investments as at 31 December 2023.

# MARKET & ECONOMIC UPDATE

The economic landscape in the concluding quarter of 2023 exhibited a substantial amelioration of inflationary pressures, defying earlier market projections. Both the quarter-on-quarter (q/q) and year-on-year (y/y) headline inflation rates stood at 0.6% and 4.1%, respectively, significantly below the market's prior expectations. The Reserve Bank of Australia's (RBA) favoured metric for underlying inflation, the trimmed mean, mirrored this trend, decelerating to 0.8% q/q, surpassing both RBA predictions and broader market expectations.

## Services and Goods Prices:

Delving deeper into sectoral dynamics, domestic market services prices reflected a discernible deceleration, indicating not only weakened demand but also a slowdown in wage cost growth. Concurrently, tradables prices, excluding fuel, fruit, and vegetables, experienced a marked decline, with consumer durable goods prices notably affected.

## Inflation Breadth Measures:

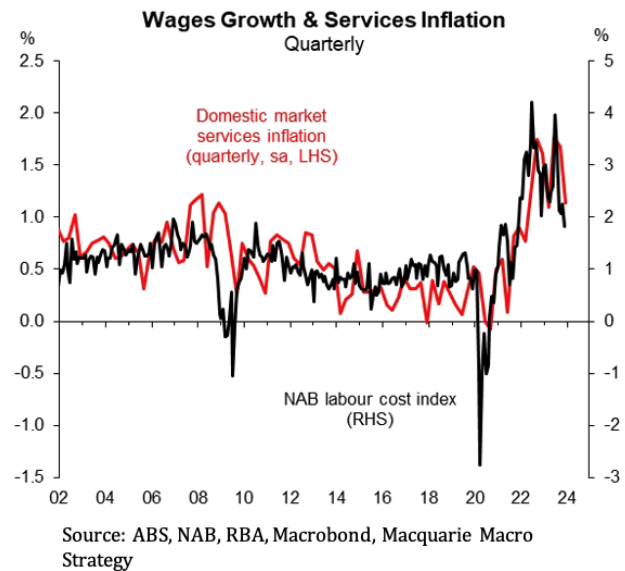
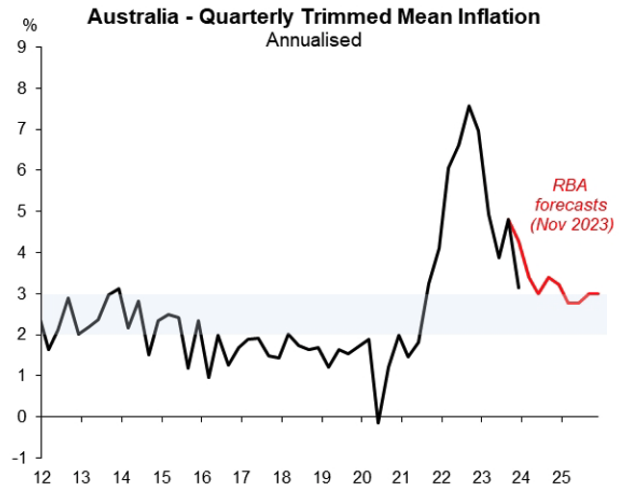
While certain inflation breadth measures exhibited signs of improvement, the distribution of price increases remained skewed. A substantial share of items recorded increases exceeding 3%, painting a nuanced picture of inflationary dynamics.

## Sector-Specific Insights:

Within the domain of domestic market services prices, a substantial easing was observed, primarily propelled by a slowdown in the growth of meals out and takeaway food. Insurance and financial services, on the other hand, displayed a solid uptick, attributed to rising insurance fees, particularly in categories like motor vehicle, house, and home contents insurance. Consumer durables inflation witnessed its most significant decline in over a decade, marked by noteworthy price reductions in furniture, household appliances, and clothing & footwear.

New motor vehicle prices seemed to have reached a peak, while international holiday travel and accommodation prices experienced a decline. Simultaneously, domestic holiday travel and accommodation prices registered a third consecutive quarterly decrease.

Healthcare prices demonstrated an upward trajectory, driven by increases in health insurance premiums. This was partially offset by lower pharmaceutical prices, resulting from an increase in the share of consumers qualifying for subsidies under the Pharmaceutical Benefits Scheme. Electricity and gas prices displayed mixed



trends, with electricity prices witnessing a substantial year-on-year increase.

In the realm of housing inflation, focusing on rents and new dwelling purchase prices, there was a moderation primarily due to a decline in rents inflation. In contrast, new dwelling purchase price inflation continued its upward trajectory, driven by the ongoing pass-through of labour and material costs.

### **Australia and New Zealand Private Equity Activity**

Against this economic backdrop, the private equity landscape witnessed noteworthy activity in the December 2023 quarter. Seven acquisitions and eight exits were announced or completed across diverse sectors, including business services, real estate, and software. Despite economic uncertainties affecting deal activity in 2023, as evidenced by bid-ask spreads and higher funding costs, there is a palpable shift as market confidence grows with stabilised inflation.

Anticipations for heightened deal activity in 2024 are rooted in equity markets pricing in a soft landing, open credit markets, and businesses becoming more assessable, fostering a favourable deal environment. Forecasts indicate a potential surge in secondary transactions as a backlog of private equity assets are expected to enter the market. Additionally, the latter half of 2024 may witness an increase in sponsor-backed Initial Public Offerings (IPOs) if the IPO market presents favourable conditions.

## CONTACT DETAILS

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