

Vantage Private Equity Growth 3

Quarterly Investor Report — Quarter Ended 30 June 2017

< Diversify
< Grow
< Outperform

Special points of interest:

- VPEG3 commits \$7m to Odyssey Private Equity Fund 8, a \$275m growth capital fund, managed by Sydney, Australia based, Odyssey Private Equity.
- VPEG3 Investment Committee approves \$8m commitment to the Advent Partners 2 Fund a \$300m mid-market expansion and buyout fund managed by Melbourne, Australia headquartered, Advent Partners.
- VPEG3's underlying Private Equity fund managers' report solid deal flow with several transactions expected to be completed during the 2nd half of 2017.

Inside this report:

Performance	2
Key Portfolio Developments	2
Overview of New Investment Commitments	3
Strong PE Deal Flow in VPEG3 Target Market Segment	4
Portfolio Structure	5
Contact Details	5

SUMMARY

Background

Vantage Private Equity Growth 3 ('VPEG3') is a multi-manager Private Equity investment fund structured as an Australian Fund of Funds Limited Partnership.

VPEG3 is also unconditionally registered with the Australian Government Department of Industry, Innovation and Science as a complying investment for the Significant Investor Visa (SIV), focused on investing in the lowest risk sector, of the Venture Capital or Private Equity (VCPE) segment, Growth Private Equity.

VPEG3 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 its 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 fund manager, geographic region, financing stage, industry sector and vintage year.

VPEG3 will invest the majority of its Investment Portfolio into Australian based Private Equity funds who in turn are focused on investing into small to mid-market sized companies headquartered in Australia and New Zealand, with enterprise value of between \$25m and \$250m at investment.

VPEG3 will develop a diversified portfolio of underlying investments by investing into between 6 to 8 underlying Private Equity funds, focused on investments into profitable companies in growth industry sectors including the Healthcare, Consumer Discretionary, Education and Tourism sectors.

VPEG3 has to date made three investment commitments of \$20m across three Primary Private equity funds who in turn hold interests in one underlying company. As at 30 June 2017, VPEG3's investment commitments include; \$5m to Adamantem Capital Fund 1; \$7m to Odyssey Private Equity Fund 8 and a VPEG3 investment committee approval for \$8m to the Advent Partners 2 Fund.

Important Information

This report has been prepared by Vantage Private Equity Management Partnership, LP, an authorised representative of Vantage Asset Management Pty Limited (ABN 50 109 671 123) AFSL 279186 ('VAM') (in its capacity as Investment Manager of Vantage Private Equity Growth 3LP). 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.

Performance

The period 1 April 2017 to 30 June 2017 saw an additional \$15m in Private Equity commitments approved by VPEG3 bringing total Private Equity commitments of the fund to \$20m.

There were no new Private Equity investments added to VPE3's Private Equity portfolio during the period, however the number of underlying investments is set to increase over the coming six months with underlying fund managers actively evaluating several investment opportunities.

As at 30 June 2017, VPEG3 had called 5% of investor's Committed Capital (Call No. 1) into the Fund's operating account, to cover initial establishment costs and to provide the capital required to meet the initial draw downs by underlying funds for working capital as well as investments into new underlying companies as they are completed.

It is anticipated that a further 5% capital call will be issued to investors in late August 2017 to fund additional underlying company investments as they are finalised.

Key Portfolio Developments

Two capital calls by VPEG 3's underlying funds were made during the June 2017 quarter. The calls were required to fund working capital requirements and establishment costs of underlying funds.

During the June 2017 quarter, VPEG3 continued its private equity investment program receiving investment committee approval to make additional investment commitments to two new (primary) private equity funds.

During the quarter, capital was called from VPEG3 by **Adamantem Capital Fund 1** and **Odyssey Private Equity Fund 8**, totaling \$104,579.

Draw downs from VPEG3 during the quarter were required for initial establishment costs and other working capital requirements (including due diligence costs associated with new investments) of these underlying funds.

During the quarter, VPEG3 completed an investment commitment of **\$7m to Odyssey Private Equity Fund 8** ('Odyssey 8'), managed by Sydney, Australia based private equity mid-market specialist, Odyssey Private Equity. In addition, VPEG 3 also received investment committee approval for an investment commitment of **\$8m to Advent Partners 2 Fund** ('Advent Partners 2'), managed by Melbourne, Australia based private equity small to mid-market specialist, Advent Partners.

The number of underlying company investments in VPEG3's portfolio is set to increase over the coming year with fund managers reporting solid pipelines of investment opportunities which is expected to lead to the completion of a number of new investments in the second half of this year.

In addition, Vantage is currently undertaking Due Diligence on two direct co-investment opportunities as well as reviewing a number of additional underlying private equity funds that will be raised in the coming six months, managed by top performing private equity fund managers in Australia.

"VPEG3 commits \$7m to Odyssey Private Equity Fund 8 a \$275m growth capital fund, managed by Sydney, Australia based, Odyssey Private Equity."

"VPEG3 Investment Committee approves \$8m commitment to Advent Partners 2 Fund a \$300m mid-market expansion and buyout fund managed by Melbourne, Australia headquartered, Advent Partners."

OVERVIEW OF NEW INVESTMENT COMMITMENTS



Odyssey Private Equity Fund 8

During May 2017, Vantage Private Equity Growth 3 committed \$7m to Odyssey Private Equity Fund 8, a \$275m growth capital fund, managed by Sydney, Australia based, Odyssey Private Equity (Odyssey).

Odyssey was established in early 2017 by Gareth Banks, Jonathan Kelly and Paul Readdy, former CHAMP Ventures directors, as well as George Penklis, a co-founder and former partner of Quadrant Private Equity.

Odyssey's partners bring a wealth of experience, drawn from more than 50 private equity investments completed during their careers.

The partners have successfully invested across a broad range of industry sectors, including consumer products, retail, financial services, industrial products and services, equipment rental, distribution, aged care, manufacturing and building products.

Managing Partner, George Penklis said: "The formation of Odyssey was driven by a number of factors. The timing was right for the team, which has a solid performance track record. The market segment is attractive, with strong deal flow and a history of strong returns for investors."

The fund will invest in leading, mid-sized growth companies in Australia and New Zealand that have the potential to be future leaders in their market segment.

Odyssey is targeting expansion capital, replacement capital and management buy-out opportunities across a broad range of industry sectors in Australia and New Zealand. The fund will invest in both control and minority equity positions.

The fund will typically invest between \$15m and \$40m of equity, in private businesses with enterprise values up to \$100m. Odyssey will also target larger opportunities through co-investment with Odyssey's investors.



Advent Partners 2 Fund

In April 2017, the Vantage Private Equity Growth 3 investment committee approved a commitment of \$8m to the Advent Partners 2 Fund.

The Advent Partners 2 Fund is managed by leading Australian mid-market buyout firm, Advent Partners of Melbourne. Advent Partners 2 is targeting total commitments from investors of \$300m, for investment into lower to mid-market expansion and buyout opportunities in Australia and New Zealand. Advent completed a first close of Advent Partners 2 Fund in early August 2017.

Advent Partners (formerly Advent Private Capital) were established in 1984 and is one of Australia's oldest private equity fund managers. The Firm has operated continuously for over 30 years, establishing and managing many funds and investing in more than 80 private businesses.

The Advent Partners 2 Fund will focus on lower to mid-market buyouts, investing in profitable companies with earnings (EBITDA's) between \$5m to \$30m and an enterprise value of \$30m to \$150m at investment.

Advent Partners 2 will seek to invest between \$15m to \$50m into businesses with low capital intensity and strong market positions, operating in industries experiencing strong growth. Advent Partners' target industry sectors include healthcare, consumer branded, proven technology & software, education & training and leading edge businesses.

Strong PE Deal Flow in VPEG3 Target Market Segment

According to the recent Pitcher Partners report: *Dealmakers: Mid-market M&A in Australia 2017*, 73% of all Merger and Acquisitions undertaken in Australia during 2016 were mid-market transactions, of deal value between \$10m to \$250m.

The report revealed that 2016 finished strongly with a flurry of activity and solid pipelines heading into 2017. The report also stated that the upswing was expected to continue well into the year with deal volumes in the first half of the year anticipated to be up by 30%-40% when compared to the same period in the previous year. The report concluded that it was anticipated that 2017 will finish well ahead of 2016 in terms of M&A volumes, by more than 20%.

Further evidence of the strong deal flow in the Australian mid-market were, detailed in law firm Minter Ellison's recently released *Directions in Public M&A Report 2017*, analysing key trends in Australian public M&A over the last financial year. The report found strong middle market activity over the financial year, with 28 deals in the \$50 million to \$400 million range.

The anticipated growth in acquisitions for the next few years is underpinned by a growing number of private businesses contemplating succession plans for those owned by aging baby boomers. According to Dun & Bradstreet, there are over 10,000 private companies with revenues between \$20m and \$150m headquartered in Australia. Most of them are family owned. Also according to PriceWaterhouseCoopers, over two thirds of family business owners will sell their business or pass it on to the next generation in the next five years. As a consequence there are a growing number of quality private companies for sale.

In addition, there are also a number of industry sectors that require innovation and technology to remain competitive hence requiring expansion capital. As stated in the Pitcher Partners report, it is anticipated that these factors will continue to underpin the deal making environment in the mid-market in Australia for the remainder of 2017.

Robust opportunities also appear to exist in industries including education, tourism, health and agribusiness. Australian Private Equity has a strong track record in sectors which have potential to benefit from macroeconomic factors unique to Australia, which is positioned near the growth economies in the Asian region.

VPEG3's underlying Private Equity fund managers report that the deal pipeline is solid and several new opportunities are being assessed in line with each of their firm's investment mandates. As a result, it is anticipated that VPEG3's underlying managers will announce additional acquisitions across the second half of 2017, which will ultimately grow the number of companies within VPEG3's underlying private equity portfolio, across a range of industry sector, thereby enhancing the diversification of VPEG3's private equity portfolio.

"VPEG3's underlying Private Equity fund managers' report solid deal flow with several transactions expected to be completed during the 2nd half of 2017."

PORTFOLIO STRUCTURE

VPEG3's Portfolio Structure – 30 June 2017

The tables and charts below provide information on the breakdown of VPEG3's investments as at 30 June 2017.

Current Investment Portfolio Allocation*

The following tables provide the percentage split of VPEG3's current investment portfolio, across cash, fixed interest securities (term deposits) and Private Equity.

The Private Equity component of the portfolio is further broken down by the investment stage (Later Expansion or Buyout) of the underlying investments that currently make up VPEG3's Private Equity portfolio. As at 30 June 2017, VPEG3's investment portfolio consisted entirely of cash and fixed interest investments, as the capital for VPEG3's first underlying company investment (Heritage Lifecare) is expected to be called from VPEG3 during the next 3 months.

"VPEG3 currently has \$20m in commitments across three underlying private equity funds."

VPEG3			
Cash	Fixed Interest	Private Equity	
25.1%	74.9%	Later Expansion	0.0%
		Buyout	0.0%

Private Equity Portfolio

VPEG3, with commitments to three Private Equity funds, ultimately held interests in one underlying company investments at quarter end. The acquisition of Heritage Lifecare Ltd is reflected below, as Adamantem 1 has funded the acquisition using a bridging facility. As a result, VPEG3's Private Equity portfolio and commitments, as at 30 June 2017, were as follows:

Private Equity Fund Name	Fund Size	Vintage Year	Investment Focus	VPEG3 Commitment	Capital Drawn Down	Total No. of Investee Companies	No. of Exits
Adamantem Capital Fund 1	\$600m*	2017	Mid Market Expansion / Buyout	\$5.0m	\$0.03m	1	-
Odyssey Private Equity Fund 8	\$275m	2017	Mid Market Growth Capital	\$7.0m	\$0.07m	-	-
Advent Partners 2 Fund	\$300m*	2017	Lower - Mid Market Expansion / Buyout	\$8.0m	\$0.00m		
Total				\$20.0m	\$0.10m	1	-

* Target Fund Size

CONTACT DETAILS

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