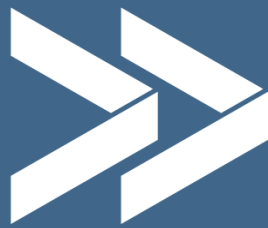


# VPEG3

DIVERSIFY  
GROW  
OUTPERFORM



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Vantage Private Equity Growth 3, LP  
Quarterly Report  
31 December 2019

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## 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 3, LP. 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 3 (VPEG3) is a multi-manager Private Equity investment fund consisting of Vantage Private Equity Growth 3, LP (VPEG3, LP) an Australian Fund of Funds (AFOF) Limited Partnership and Vantage Private Equity Growth Trust 3A (VPEG3A) an Australian Unit Trust.

VPEG3, LP is 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.

VPEG3A has been established to undertake private equity investments that are not permitted to be made by an AFOF, in accordance with Australian regulations. As such only VPEG3 Investors that are not SIV investors, are unit holders in VPEG3A. VPEG3A also qualifies as a Managed Investment Trust (MIT) for Australian Tax purposes.

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 the seven underlying Private Equity funds in which it has made investment commitments, who in turn are focused on investments into profitable companies in growth industry sectors including the Healthcare, Information Technology, Consumer Discretionary, Education and Tourism sectors.

## SPECIAL POINTS OF INTEREST

Advent Partners 2 invests in Mandoe Media, an Australian founded software provider with unique platforms in digital signage and customer engagement

Allegro Fund III acquires the Value Retail Group, which includes iconic retail brands Best & Less and Postie (NZ)

Mercury Capital Fund 3 invests in MessageMedia, Australasia's largest business-to-person messaging business with international operations in the United States and the United Kingdom

Next Capital Fund IV commences its invested program with two new investments completed, Silver Chef and InterHealthCare

VPEG3's portfolio expands to 27 underlying company investments, operating across a broad range of industry sectors

## SUMMARY cont.

As at 31 December 2019 VPEG3 had committed \$67.30m across seven Primary Private Equity Funds and two co-investments. As a result, a total of 27 underlying company investments exist within the portfolio at quarter end. VPEG3's investment commitments include; \$12m to Allegro Fund III; \$10m to each of Adamantem Capital Fund 1, Advent Partners 2 Fund, Anchorage Capital Partners Fund III and Next Capital Fund IV, \$7.5m to Mercury Capital Fund 3 and \$7m to Odyssey Private Equity Fund 8. VPEG3 co-investments include; \$0.25m into Fitzpatrick Financial Group and \$0.5m into Tribe Brewing.

## PERFORMANCE

The period 1 October 2019 to 31 December 2019 was an extremely active quarter across the Fund's underlying Private Equity portfolio.

During the period, five new underlying company investments were completed and added to VPEG3's portfolio. New acquisitions were completed by Advent Partners 2, Allegro Fund III, Mercury Capital Fund 3 and Next Capital Fund IV. In addition, one further underlying company investment was announced at quarter end by VPEG3 investee Anchorage Capital Partners Fund III. Also during the period one significant bolt-on acquisition was completed to an existing portfolio company by Allegro Fund III. As a result of these completed and announced investments, the total number of underlying Private Equity investments in VPEG3's portfolio increased to twenty-seven at quarter end.

The number and size of underlying investments within the VPEG3 portfolio is set to further accelerate throughout the 2020 calendar year with all underlying fund managers actively evaluating several new and bolt-on investment opportunities.

As at 31 December 2019, all VPEG3 Investors had Paid Capital to VPEG3, LP totalling 53% of their Committed Capital to VPEG3. Furthermore, all VPEG3 investors, with the exception of SIV investors, had Paid Capital to VPEG3A, totalling 8% of their Committed Capital to VPEG3 at quarter end.

# KEY PORTFOLIO DEVELOPMENTS

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During the December 2019 quarter, VPEG3 continued the development of its Private Equity portfolio with five new underlying company investments completed, with another investment announced at quarter end.

Drawdowns during the quarter from VPEG3, totaling \$2,736,723 were paid to Advent Partners 2, Allegro Fund III, Mercury Capital Fund 3 and Next Capital Fund IV.

The majority of calls paid during the quarter were to fund new underlying company investments and additional funding for one bolt-on acquisition. Additional capital was also called to fund other costs associated with the operations of underlying funds, including management fees and due diligence costs incurred in completing new investments.

During October 2019, Advent Partners 2 completed an investment into Mandoe Media an Australian founded software provider with unique platforms in digital signage and customer engagement.

In November 2019, Mercury Capital Fund 3 signed an agreement to acquire a minority shareholding in MessageMedia, Australasia's largest business-to-person messaging business with international operations in the United States and the United Kingdom.

During December 2019, Allegro Fund III completed the acquisition of the general merchandise division of Greenlit Brands, which included iconic retail brands Best & Less and Postie (NZ). The combined entities were subsequently renamed Value Retail Group.

Also, in December 2019, Next Capital Fund IV completed the acquisition of the Silver Chef hospitality business from ASX listed Silver Chef Limited.

In addition, during December 2019, Next Capital Fund IV completed an initial investment into InterHealthCare Pty Limited, a business comprised of a range of allied health practices providing a portfolio of diversified health services to patients across Australia.

Finally, in December 2019, Anchorage Capital Partners Fund III announced the acquisition of CF Asia Pacific, a leading full-service rail leasing business in Australia and the fourth largest owner of assets on the Defined Interstate Rail Network.

The number of underlying company investments in VPEG3's portfolio is set to further increase across 2020, with each underlying Private Equity fund manager reporting a solid pipeline of investment opportunities which is expected to lead to the addition of further new company investments to VPEG3's underlying portfolio.

## OVERVIEW OF NEW INVESTMENTS

### MANDOE MEDIA - ADVENT PARTNERS 2 FUND

During October 2019, Advent Partners 2 completed an investment into Mandoe Media. Mandoe is an Australian founded software provider with unique platforms in digital signage and customer engagement. The business is a market leader in the rapidly growing digital signage industry.



Mandoe's proprietary cloud-enabled software allows any business to seamlessly control a digital signage network of any size, with the ability to create, manage and display personalised content. The software allows the creation of engaging and dynamic animated content through the use of an extensive library of pre-built, customisable templates and a vast catalogue of stock videos, images, and graphics to create bespoke, yet targeted, advertising for businesses in just a few clicks.

Mandoe's customer base includes some of Australia's largest retailers and quick-service restaurants, such as McDonalds, David Jones, Caltex and Dominos Pizza. The business also serves many medium to small businesses across the Australia.

### MESSAGE MEDIA - MERCURY CAPITAL FUND 3

During November 2019, Mercury Capital Fund 3 acquired a minority shareholding in MessageMedia. Based in Melbourne, MessageMedia is Australasia's largest business-to-person messaging business with international operations in the United States and the United Kingdom.



Message Media operates nine brands with an active customer base of ~ 29,000 businesses who are primarily small and medium enterprises and with a small base of enterprise and government customers. The business is well established with robust systems and processes and a term of ~200 staff.

Message Media was established by Grant Rule in 2000 and since then has grown to become the market leader with an estimated 30% share of the Australian Application-to-Person (ATP) business messaging market. More than 5.3 billion messages are sent per year and growing at 10% per year of which 1.6 billion were sent via the Message Media gateway in FY18 across Australia, New Zealand, the United States and the United Kingdom.

Mercury Capital first invested in MessageMedia in July 2018 via Mercury Capital Fund 2. Since then, Mercury has built a strong and trusted relationship with MessageMedia's Management, which has helped the Fund to implement a number of changes, to position the company to deliver strong business performance.

### VALUE RETAIL GROUP - ALLEGRO FUND III

During December 2019, Allegro Fund III completed the acquisition of the general merchandise division of Greenlit Brands which included iconic retail brands Best & Less and Postie (NZ). The combined entities were subsequently renamed Value Retail Group.



Value Retail Group comprises a portfolio of well-known and trusted brands, offering its customers a broad range of clothing, footwear and other personal apparel. Best & Less, founded in 1965, is a national leader in the specialty discount apparel market in Australia. Postie was founded in Reefton, New Zealand in 1909 and started as a drapery and boot shop. Since then it has grown to become a leader in the discount apparel market with a network of 63 stores and employs around 420 people in New Zealand.

As at December 2019, the Value Retail Group had 319 stores and more than 6,100 employees.

### SILVERCHEF - NEXT CAPITAL IV

On 4 December 2019 Next Capital Fund IV completed the acquisition of the Silver Chef hospitality business from ASX listed Silver Chef Limited. Silver Chef is a market leading hospitality equipment funding business, operating across Australia, New Zealand and Canada.



Following the completion of the acquisition by Next Capital of the Silver Chef assets, the listed company name was changed to SIV Capital Limited.

Established in 1986 by its founder and major shareholder Allan English, Silver Chef provides commercial equipment rental and financing to small and medium sized businesses in the hospitality sector. It offers a range of financing solutions including its popular and successful Rent-Try-Buy product.

Next Capital's significant experience in the financial services space, including Scottish Pacific (Next Fund II asset) and Alpha Group (Next Fund III asset) means that they are ideally placed to drive the ongoing management of the business and will invest to grow Silver Chef through improving systems and reporting, and applying stronger discipline in risk, credit and compliance across all geographic regions.

### INTERHEALTHCARE - NEXT CAPITAL IV

On 6 December 2019, Next Capital Fund IV completed an initial investment into InterHealthCare Pty Limited (IHC). IHC was established by CEO Jason McMillan for the purpose of aggregating individual allied health practices across Australia.



IHC enters a supportive and mutually beneficial relationship with leading health providers. This enables health professionals to extend their influence by focusing on clinical outcomes and expansion of their business network, whilst IHC takes care of centralised functions.

IHC represents all allied health modalities, providing a broad range of health services under a diversified business model.

IHC's initial portfolio of assets include multi-disciplinary physiotherapy, osteopathy and chiropractic practices operating across the eastern states of Australia.

## OVERVIEW OF RECENTLY ANNOUNCED INVESTMENT

### CF ASIA PACIFIC - ANCHORAGE CAPITAL PARTNERS FUND III

On 18 December 2019, Anchorage Capital Partners ("ACP") announced the acquisition of CF Asia Pacific ("CFAP").



CFAP is the leading full-service rail leasing business in Australia and the fourth largest owner of assets on the Defined Interstate Rail Network. The business has a dominant market position, controlling ~90% of leasable assets (~80 locomotives, ~1,500 wagons) in the rail leasing market. It has a high-quality asset profile with the youngest fleet in the market and strong cash flow conversion. CFAP has a blue-chip customer base, including Qube and Pacific National, as well as diversification across the intermodal, agriculture, mining, maintenance and infrastructure sectors.

CF Asia Pacific offers customised transportation solutions for the Australian market, and will continue to explore growth through the following areas of potential diversification:

- Expanding services and asset classes in existing markets,
- Branching into new markets in familiar regions, particularly Asia Pacific, and,
- Aligning with strategic partners in an open-access operating environment.

## OVERVIEW OF NEW BOLT-ON ACQUISITION

### QUESTAS GROUP - ALLEGRO FUND III

In December 2019, Questas completed its first bolt on acquisition, Nordon Hydraulics. Established in 1972 Nordon Hydraulics has been servicing the oil hydraulic industry as well as various Original Equipment Manufacturers for over 40 years.



Nordon manufactures cylinders in its Brisbane based state of the art facility. The company retains a strong commitment to quality, service and Customer Satisfaction which has enabled them to be the industry leader within their category.

Nordon will add substantial strategic value to Questas' existing hydraulics businesses. This acquisition further provides Questas with a substantial pipeline of live bolt-on opportunities which has enabled Allegro to recruit an M&A Operating Partner to drive further M&A activity within the business.



## PORTFOLIO STRUCTURE

### VPEG3's PORTFOLIO STRUCTURE - 31 DECEMBER 2019

The tables and charts below provide information on the breakdown of VPEG3's investments as at 31 December 2019.

#### CURRENT INVESTMENT ALLOCATION

The following tables provide the percentage split of each of the VPEG3 entities, 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 31 December, the Private Equity component of VPEG3, LP's investment portfolio consisted of twenty-two completed investments, which include; Hygain Holdings, Ngahua Group, Endeavour Learning Group, Servian Group, Adventure Holdings Australia Pty Ltd (Oztrail), Mining Technologies Holdings Pty Limited, SILK Laser & Skin Holdings Pty Ltd, Compass Education, South Pacific Laundries, Zenitas Healthcare, Hellers, Delta Agribusiness, Sushi Sushi, Questas Group, FRANKiE4, Perth Radiology Clinics, Legend Corporation Limited, Squiz, MessageMedia, Mandoe and Value Retail Group.

VPEG 3,LP			
Cash	Fixed Interest	Private Equity	
1.8%	11.9%	Later Expansion	41.3%
		Buyout	45.0%

As at 31 December 2019, the Private Equity component of VPEG3A's investment portfolio consisted of four investments including; Heritage Lifecare, Fitzpatrick Financial Group, Tribe Brewing and Silverchef.

VPEG 3A			
Cash	Fixed Interest	Private Equity	
0.0%	0.1%	Later Expansion	26.3%
		Buyout	73.7%

## PRIVATE EQUITY PORTFOLIO

VPEG3, with commitments to seven Private Equity funds and two co-investments, ultimately held interests in 27 underlying company investments at quarter end. As a result, VPEG3'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	VPEG3 Commitment	Capital Drawn Down	Total No. of Investee Companies	No. of Exits
Adamantem Capital Fund 1	\$591m	2017	Mid Market Expansion / Buyout	\$10.0m	\$7.09m	6	-
Odyssey Private Equity Fund 8	\$275m	2017	Mid Market Growth Capital	\$7.0m	\$3.78m	5	-
Advent Partners 2 Fund	\$300m	2017	Mid Market Expansion / Buyout	\$10.0m	\$2.76m	3	-
Allegro Fund III	\$290m	2017	Mid Market Expansion / Buyout	\$12.0m	\$4.15m	5	-
Anchorage Capital Partners Fund III	\$350m	2017	Mid Market Expansion / Buyout	\$10.0m	\$2.36m	1	-
Mercury Fund III	\$600m	2019	Mid Market Expansion	\$7.5m	\$1.28m	2	-
Next Capital Fund IV	\$275m	2019	Mid Market Expansion	\$10.0m	\$1.28m	3	-
Co-invest (Fitzpatrick Financial Group)	\$200m	2017	Mid Market Expansion	\$0.25m	\$0.27m	1	-
Co-invest (Tribe Brewing)	\$30m	2018	Mid Market Expansion	\$0.75m	\$0.61m	1	-
			<b>Total</b>	<b>\$67.50m</b>	<b>\$23.57m</b>	<b>27</b>	<b>-</b>

## SUMMARY OF VPEG3's UNDERLYING PRIVATE EQUITY INVESTMENTS

The table below provides an overview of the top ten underlying private equity investments in VPEG3's portfolio.

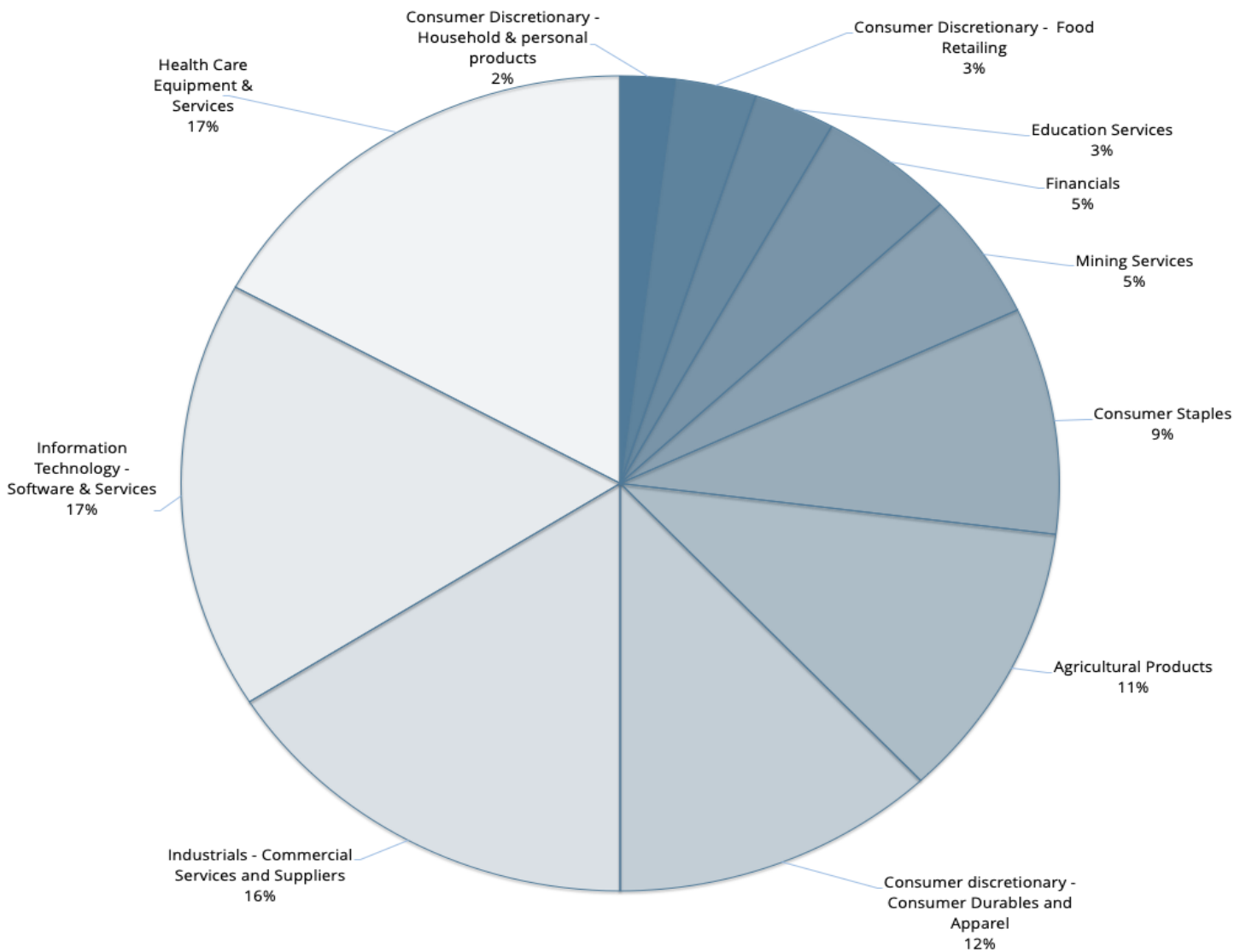
Rank	Investment	Fund	Description	% of VPEG3's Private Equity Investments	Cumulative %
1	Hygain	Adamantem Capital Fund 1	Australian Horse Feed & Supplement Manufacturer & Distributor	9.2%	9.2%
2	South Pacific Laundries	Anchorage Capital Partners Fund III	Leading National Laundry Operator	8.8%	18.0%
3	Hellers	Adamantem Capital Fund 1	Producer of Processed Meats in New Zealand	6.3%	24.3%
4	Heritage Lifecare Limited	Adamantem Capital Fund 1	New-Zealand Age-Care & Retirement Village Operator	5.8%	30.1%
5	Zenitas Healthcare	Adamantem Capital Fund 1	Community-based Healthcare Provider	5.2%	35.2%
6	Mining Technologies Holdings	Odyssey Private Equity Fund 8	Leading Global Provider of Data & Voice Communications	4.8%	40.0%
7	Value Retail Group	Allegro III	Retail Merchandising Brands Best & Less & Postie (NZ)	4.8%	44.8%
8	Silver Chef	Next IV	Rental & Financing of Commercial Equipment	4.7%	49.5%
9	Legend Corporation Pty Ltd	Adamantem Capital Fund 1	Wholesaler & Distributor of Electrical & Gas Products	4.7%	54.2%
10	Servian Group	Adamantem Capital Fund 1	Leading Specialist Data and Analytics Consulting Firm	4.3%	58.5%

### INDUSTRY SPREAD OF VPEG3's UNDERLYING INVESTMENTS

The completion of the acquisition of Silver Chef by investee Next Capital Fund IV during the quarter commenced VPEG3's exposure to the "Financials" industry sector increasing from 0% to 5%.

VPEG3's investment into MessageMedia by investee Mercury Capital Fund 3 during the quarter increased the Funds exposure to the "Information Technology – Software & Services" industry sector from 16% to 17%. This subsequently became VPEG3's largest industry exposure alongside the "Health Care Equipment & Services" industry sector representing a further 17% of VPEG3's overall portfolio industry exposure.

As a result of these new investments, VPEG3's exposure to the "Industrial – Commercial Services and Suppliers" industry sector, which holds underlying investments South Pacific Laundry, Questas Group and Legend Corporation Pty Ltd reduced from 21% to 16%.



## MARKET AND ECONOMIC CONDITIONS

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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 VPEG3'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 VPEG3'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 VPEG3'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 a number of new investments will be added to VPEG3's portfolio across 2020 as VPEG3'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 VPEG3's underlying fund's portfolios. Should exit conditions remain positive, the first sale of an underlying company from within VPEG3's portfolio is likely to occur during the second half of 2020, as several companies have now achieved their growth targets while in Private Equity ownership.

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