

# QUARTERLY REPORT

# VANTAGE PRIVATE EQUITY GROWTH 3

QUARTERLY INVESTOR REPORT  
31 MARCH 2022

**VPEG3** DIVERSIFY  
GROW  
OUTPERFORM



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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 lower to mid-market sized companies headquartered in Australia and New Zealand, with enterprise value of between \$25 million and \$250 million at investment.

VPEG3 has developed a diversified portfolio of underlying investments by investing into seven underlying Private Equity funds in which it has made investment commitments, who in turn are focused on investments into profitable companies in defensive and growth industry sectors including the Healthcare, Consumer Staple, Information Technology and Agricultural Products.

## SPECIAL POINTS OF INTEREST

*Allegro Fund III executes the further partial sell-down of 16.9 million shares of previously exited and now ASX listed portfolio company Best & Less Group (ASX:BST)*

*Allegro Fund III portfolio company Questas Group completes the bolt-on acquisition of Australian Surface Technologies, a Melbourne-based hydraulics business, further increasing Questas' growing customer base*

*Mercury Capital 3 portfolio company, Are Media Group completes the bolt-on acquisition of leading ecommerce business Hard to Find (HTF)*

*VPEG3's consolidated performance continues to improve as the portfolio matures, with VPEG3 delivering a net return of 29.2% p.a. since inception to 31 March 2022*

## SUMMARY cont.

As at 31 March 2022, VPEG3 had committed \$67.55 million across seven Primary Private Equity Funds and two co-investments. As a result, a total of 44 underlying company investments exist within the portfolio at quarter end. VPEG3's investment commitments include; \$12 million to Allegro Fund III; \$10 million to each of Adamantem Capital Fund 1, Advent Partners 2 Fund, Anchorage Capital Partners Fund III and Next Capital Fund IV, \$7.5 million to Mercury Capital Fund 3 and \$7 million to Odyssey Private Equity Fund 8. VPEG3 co-investments include; \$0.25 million into Fitzpatrick Financial Group and \$0.80 million into Tribe Brewing.

## PERFORMANCE

The period 1 January 2022 to 31 March 2022, saw elevated levels of Private Equity activity across VPEG3's portfolio, with the further partial sell down in shares of a previously exited now ASX listed company. In addition, two significant bolt-on investments were added to the operations of two existing underlying portfolio companies at quarter end. The bolt-on acquisitions were completed by VPEG3 investee's Mercury Capital Fund 3 and Allegro Fund III.

Across the quarter, VPEG3's underlying managers continued to work alongside management teams as they progress along with their investment agendas to deliver growth in the value of each portfolio company.

VPEG3's managers' report that the Australian and New Zealand lower to mid market segment of Private Equity continues to represent an attractive investment proposition for foreign and domestic acquirers, due to the continuation of comparatively stable economies and strong risk/return profiles. VPEG3's portfolio is well positioned to capitalise on the increasing appetite of these acquirers as managers enter into the final stages of negotiating the sale of a number of portfolio company investments.

On a consolidated basis across both VPEG3, LP and VPEG3A the total NAV per dollar of Committed Capital to VPEG3 increased 16.1% across the quarter from \$1.414 at 31 December 2021 to \$1.643 at 31 March 2022. A portion of the increase in NAV during the quarter was attributable to the additional 6.00% of investors Committed Capital called by VPEG3, LP on 25<sup>th</sup> February 2022. Excluding the increase in NAV caused by the investors Paid

Capital, the increase in VPEG3’s NAV was 11.8%. The increase in VPEG3’s NAV across the quarter was as a result of an uplift in the unrealised value of a number of VPEG3’s portfolio companies attributable to strong earnings performance throughout the March 2022 quarter.

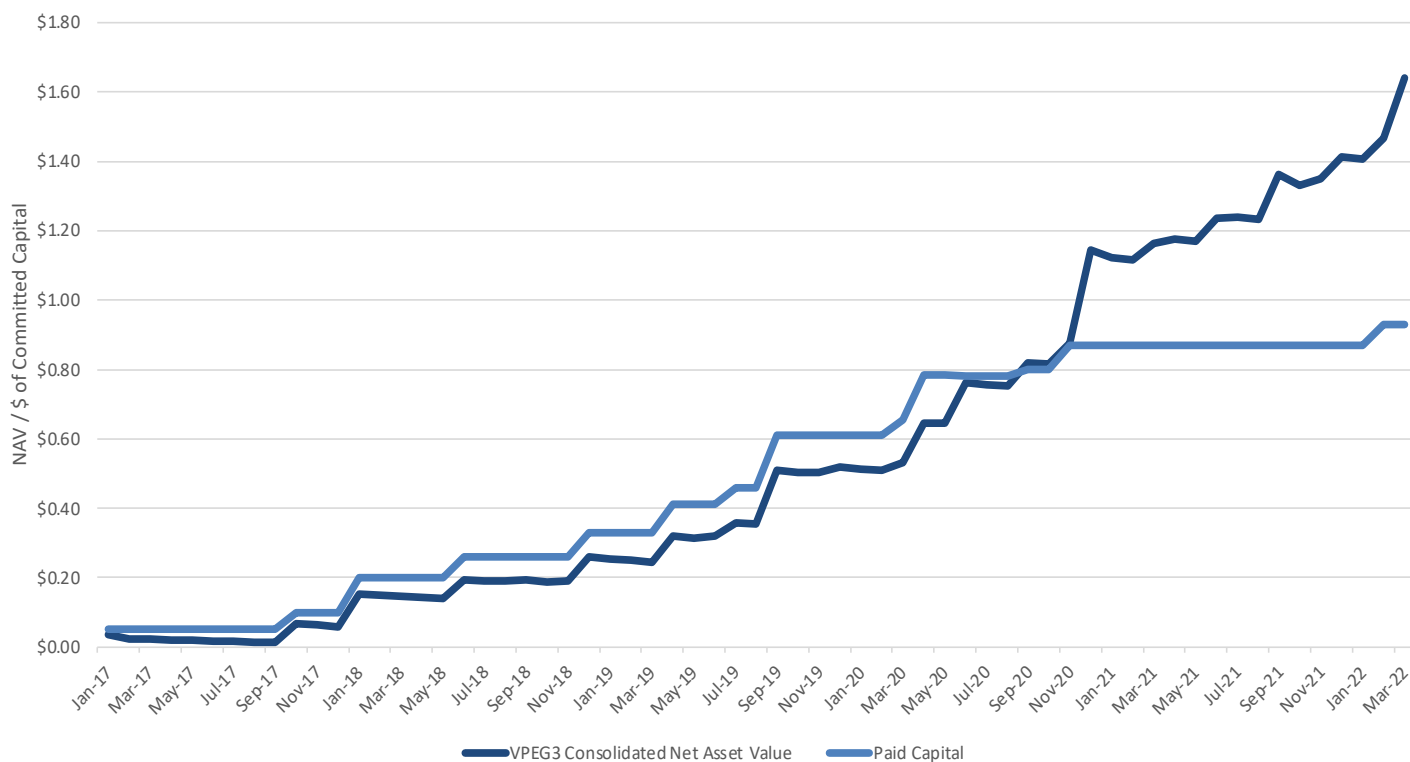
**VPEG3 SUMMARY PERFORMANCE AT 31 MARCH 2022**

Fund	Paid Capital (per \$ of Committed Capital)	NAV (per \$ of Committed Capital)	Cumulative Distributions Paid + Franking Credits	Total Value + Cumulative Distributions Paid	Net Return Since Inception* (p.a.)
<b>VPEG3 CONSOLIDATED</b>	<b>0.93</b>	<b>1.643</b>	<b>0.099</b>	<b>1.742</b>	<b>29.2%</b>

\* Since inception, net Internal Rate of Return after all fees from final close January 2019

The below graph demonstrates VPEG3’s Consolidated NAV / \$ of Committed Capital performance since inception to 31 March 2022 is well above investors Paid Capital per Dollar of Committed Capital to VPEG3 to date.

VPEG3 Consolidated Net Asset Value / \$ of Committed Capital Since Inception to 31 March 2022



Figure; VPEG3’s Consolidated Net Asset Value / \$ of Committed Capital movements since first close to 31 March 2022

Due to the continual increase in portfolio value of VPEG3 across the quarter, VPEG3’s returns to Investors continues to improve as the fund matures.

As a result, VPEG3 has delivered investors a net return of 29.2% p.a since final close of the fund on 31 January 2019 to 31 March 2022.

As at 31 March 2022, all VPEG3 Investors had Paid Capital to VPEG3, LP totalling 68% of their Committed Capital to VPEG3. Furthermore, all VPEG3 investors, with the exception of SIV investors, had Paid Capital to VPEG3A, totalling 25% of their Committed Capital to VPEG3.

VPEG3's portfolio is well placed, with the value of the portfolio expected to continue to grow as underlying fund managers further maximise the value of each portfolio company prior to exit. It is anticipated that as managers enter into the final stages of negotiating the sale of a number of portfolio company investments, the number of exits from VPEG3's portfolio is expected to further increase across the remainder of 2022. These exits will deliver further distributions and value to VPEG3 investors across the 2022 calendar year, ultimately delivering investors with a strong risk adjusted return over the term of the Fund.

## KEY PORTFOLIO DEVELOPMENTS

The March 2022 quarter saw continued activity across VPEG3's portfolio with the further partial sell down in shares of a previously exited now ASX listed company. In addition, two significant bolt-on investments were added to the operations of two existing underlying portfolio companies during the quarter. No new underlying portfolio investments were announced or completed during the period, however a number of opportunities are being pursued by managers, with a number of new investments expected to be added to finalise VPEG3's portfolio of underlying company investments. As at 31 March 2022 VPEG3's portfolio is comprised of 44 underlying company investments.

Drawdowns during the quarter from VPEG3, totaling \$1,176,763 were paid to Odyssey Fund 8 and Allegro Fund III.

The majority of the called capital from VPEG3 was for the due diligence and deal costs associated with a potential acquisition by one VPEG3 investee, which is expected to be completed during the June 2022 quarter. Further details of this new underlying investment will be provided within the June 2022 Quarterly Investor Report. In addition to this, capital was also called from VPEG3 for a follow-on investment into an existing portfolio company, as well as management fees, working capital expenses and the repayment of loan facilities used to acquire a previously announced portfolio company investment.

During February 2022, Allegro Fund III sold 16.9 million shares in previously exited now ASX listed company Best & Less Group (ASX:BST). Allegro III still retains 33.7 million shares in BST, which is to be further partially sold upon the release of the Company's FY22 results, with a final release of escrowed shares upon release of the Company's H1 FY23 results.

In February 2022, VPEG3 investee Allegro Fund III portfolio company Questas Group completed the bolt-on acquisition of Australian Surface Technologies, a Melbourne-based hydraulics business.

In addition to this, Mercury Capital Fund 3 portfolio company Are Media Group completed the bolt-on acquisition of Hard to Find (HTF), a leading ecommerce platform based in Melbourne.



During the quarter, VPEG3 received distributions totaling \$1,507,171 from underlying fund manager Allegro Fund III. The distribution related to VPEG3's share of proceeds received from the further partial sell down of Best & Less Group (ASX:BST) shares, as well as dividends paid by BST during the period.

VPEG3's underlying Private Equity fund managers' continue to engage in active communications with the management of each portfolio company ensuring that they continue to remain well positioned for growth. As a result of the continual improvement in valuations of portfolio companies across the March quarter, VPEG3's total risk-adjusted return is expected to continue to increase as underlying managers enter into the later stages of exit discussions for their investments, with the expectation that these are announced and completed in the short to medium term and the subsequent proceeds are distributed back to investors.

## OVERVIEW OF NEW BOLT-ON ACQUISITIONS

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### AUSTRALIAN SURFACE TECHNOLOGY (QUESTAS) – ALLEGRO FUND III

Questas is one of Australia's largest independent hydraulics and water companies operating through a suite of brands including Berendsen Fluid Power, Water Dynamics, Nordon Hydraulics, Meadow Industries, Swanson Industries, Hardchrome Sales and Aussie Fluid Power.



Questas' national branch network has ~800 staff servicing the mining, construction, agricultural and industrial sectors.

VPEG3 investee Allegro Fund III acquired Questas in June 2019, which ultimately partnered with the founder to support the business through its next stage of transformation.

During the March 2022 quarter, Questas Group completed the bolt-on acquisition of Australian Surface Technology. Founded in 1992, Australian Surface Technology is a leading hydraulics business specialising in hardchrome plating, cylindrical grinding and pump shaft repair. The acquisition of Australian Surface Technology further increases Questas' growing customer base spread across the heavy industrial, manufacturing and resource industries. The acquisition represents the third major bolt-on investment for Questas, with a number of additional opportunities being pursued by Allegro in an effort to continue delivering on their investment plan for growth via acquisition.

## HARD TO FIND (ARE MEDIA GROUP) – MERCURY CAPITAL 3

ARE Media Group is Australia's leading magazine publisher with a strong presence also across digital, books and other media. ARE operates 48 print titles and 30 digital platforms spanning multiple categories including Women's, Homes, Food, Fashion & Beauty, Specialist Motoring and Industry. Key master heads in the ARE ANZ portfolio include Australian Women's Weekly, Woman's Day and New Idea.



Mercury Capital Fund 3 acquired ARE Media in June 2019, which at the time of acquisition operated 4 offices across Australia with a total FTE base of 662 which includes 267 editorial and 163 advertising permanent staff.

During the March 2022 quarter, Mercury Capital 3 portfolio company, Are Media Group completed the bolt-on acquisition of leading ecommerce business Hard to Find (HTF). The acquisition represents a major milestone for the company as Mercury Capital Fund 3 continues to pursue its' investment plan of establishing new, diversified revenue streams to support the core publishing business, as well as to grow the ecommerce presence of the Group. Through the acquisition, ARE plans internalise HTF's proprietary ecommerce capability, which will be upgraded and leveraged across the rest of the Group in order to drive enterprise quality and leveraged across the Group in selected ecommerce activations.

## PORTFOLIO STRUCTURE

### VPEG3's PORTFOLIO STRUCTURE - 31 MARCH 2022

The tables and charts below provide information on the breakdown of VPEG3's investments as at 31 March 2022

### CURRENT INVESTMENT ALLOCATION

The following table provides 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.

VPEG3 Portfolio Breakdown			
Cash	Fixed Interest Investments	Private Equity	
9.97%	0.09%	Later Expansion	27.31%
		Buyout	62.63%



## PRIVATE EQUITY PORTFOLIO

VPEG3, with commitments to seven Private Equity funds and two co-investments, ultimately had invested in 44 underlying company investments with 4 exits completed (partially or fully realised) from the portfolio at quarter end. As a result, VPEG3's Private Equity portfolio and commitments, as at 31 March 2022, 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 I	\$591m	2017	Mid Market Expansion / Buyout	\$10.0m	\$7.93m	6	1
Odyssey Private Equity Fund 8	\$275m	2017	Mid Market Growth Capital	\$7.0m	\$5.58m	6	-
Advent Partners 2 Fund	\$300m	2017	Mid Market Expansion / Buyout	\$10.0m	\$8.71m	7	1
Allegro Fund III	\$290m	2017	Mid Market Expansion / Buyout	\$12.0m	\$7.49m	6	2
Anchorage Capital Partners Fund III	\$350m	2017	Mid Market Expansion / Buyout	\$10.0m	\$7.81m	4	-
Mercury Capital Fund 3	\$600m	2019	Mid Market Expansion	\$7.5m	\$5.10m	8	-
Next Capital Fund IV	\$275m	2019	Mid Market Expansion	\$10.0m	\$3.65m	5	-
Co-invest (Fitzpatrick Financial Group)	\$200m	2017	Mid Market Expansion	\$0.25m	\$0.28m	1	-
Co-invest (Tribe Brewing)	\$30m	2018	Mid Market Expansion	\$0.75m	\$0.71m	1	-
<b>Total</b>				<b>\$67.50m</b>	<b>\$47.27m</b>	<b>44</b>	<b>4</b>

Note; 1. total no. of investee companies only includes completed investments as at 31 March 2022

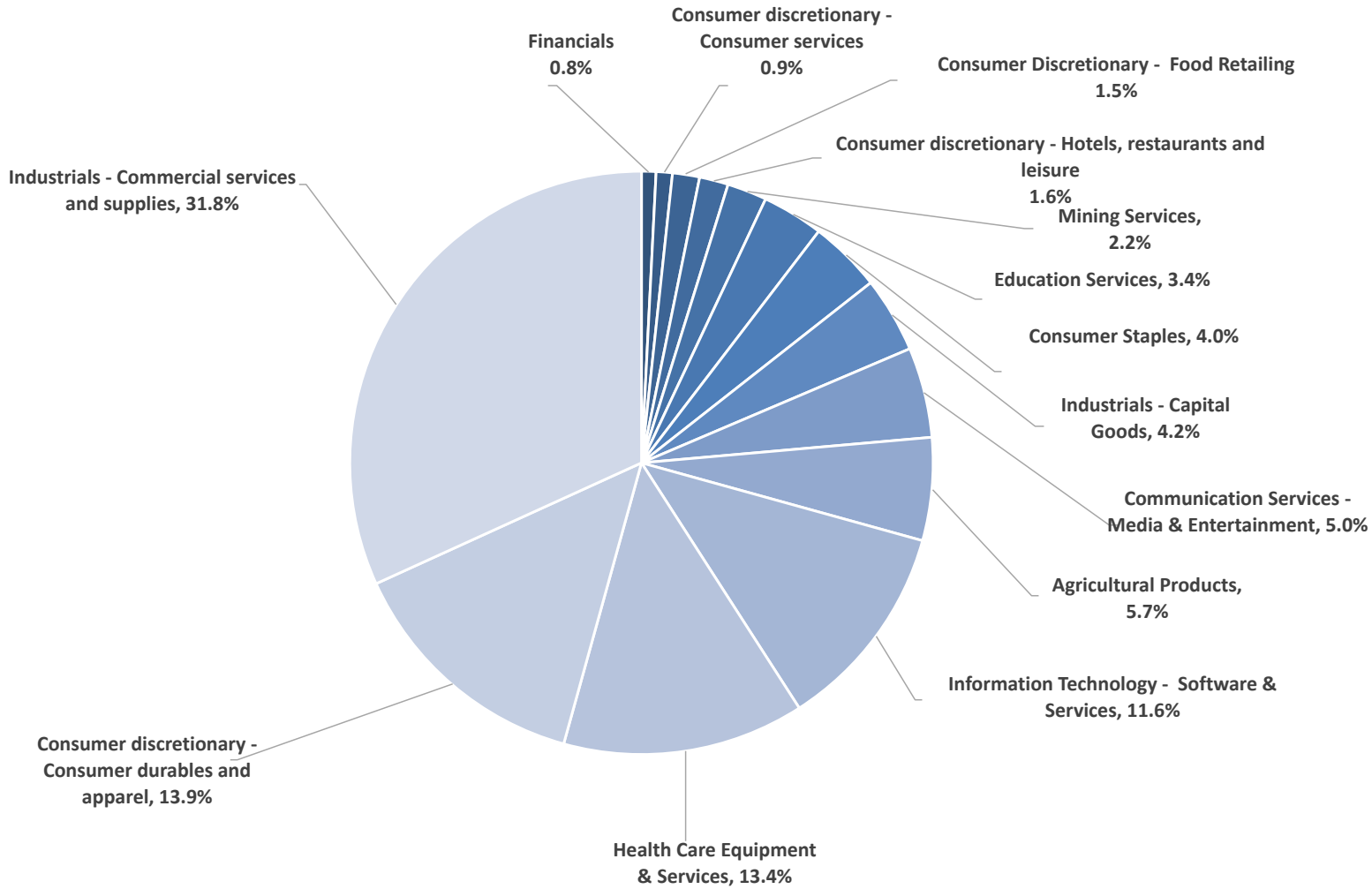
## SUMMARY OF VPEG3's UNDERLYING PRIVATE EQUITY INVESTMENTS

The table below provides a summary of the top ten underlying private equity investments in VPEG3's portfolio for which capital had been called from VPEG3 as at 31 March 2022. As VPEG3 investee Allegro Fund III retains a significant minority in Previously exited now ASX listed portfolio company Best & Less Group (ASX:BST), the remaining value is represented in VPEG3's investment portfolio pending the completion of that funds escrow arrangements with the market, until release of the Company's H1 FY23 financial results in February 2023.

Rank	Investment	Fund	Description	% of VPEG3's Private Equity Investments	Cumulative %
1	Best & Less Group	Allegro Fund III	Australia's leading value apparel specialty retailer	9.6%	9.6%
2	Toll Group	Allegro Fund III	An Australian transportation and logistics company with operations on road, rail, air, sea and warehousing	8.7%	18.3%
3	Railfirst Management	Anchorage Capital Partners Fund III	Rail Leasing Business	7.3%	20.5%
4	Compass Education	Advent Partners 2	Student Information System Software / Services Provider	5.0%	25.6%
5	Questas Group	Allegro Fund III	Network of niche industrial businesses across Australia	4.6%	30.2%
6	Silverchef	Next Capital IV	Rental & Financing of Commercial Equipment	4.2%	34.4%
7	Heritage Lifecare Ltd	Adamantem Capital I	New Zealand Age-care & Retirement Village Operator	3.9%	38.3%
8	ARE Media Group	Mercury Capital Fund 3	Australia's leading magazine publisher	3.6%	41.9%
9	Endeavour Learning Group	Allegro Fund III	Australia's largest higher education provider in natural therapies	3.4%	45.3%
10	Medtech	Advent Partners 2 Fund	Provider of Practice Management Software (PMS)	3.2%	48.5%

### INDUSTRY SPREAD OF VPEG3’s UNDERLYING INVESTMENTS

VPEG3’s exposure to the “Industrial – Commercial Services and Supplies” industry sector which consists of; Questas Group, RailFirst Management, Silverchef, Toll Global Express, Specialised Linen Services, Scott’s Refrigerated Logistics, Legend Corporation, ResourceCo, Eptec Group, TM Insight, Enviropacific and Architectus represents VPEG3’s largest industry sector exposure, at 31.8% of VPEG3’s total private equity portfolio at March quarter end. This is an increase from 26.7% from the previous quarter as a result of increases in valuations of a few of the underlying companies.



Figure; Industry exposure of VPEG3’s underlying investments

# MARKET & ECONOMIC UPDATE

Although there are many macroeconomic shocks rolling around the globe and Australia has challenges to overcome, overall the Australian economy has more positives than negatives compared to most countries. The picture in New Zealand is similar although more muted. The current COVID outbreak is the most significant and most disruptive that New Zealand has experienced during the pandemic, and it is expected that growth will lag Australia for the rest of this year.

Notwithstanding this, there are positive indicators that the Australian economy has considerable prospects for a strong expansion for the remainder of the 2022 calendar year. Output is forecast to expand by 5.5% in 2022, including an 8% increase in consumer spending. Also, household wealth has increased strongly since the initial outbreak of COVID-19, with savings accumulating while spending opportunities were constrained by lockdowns. The tail end of the quarter saw a positive recovery in the labour market, with the unemployment rate, which peaked at 7.4% in mid-2020, set to move below 4% for the first time since 1974 and labour force participation at historically high levels. These growth areas will support both consumption and dwelling investment over the period ahead.

The Australian economic recovery was considered by the Reserve Bank of Australia board at its April meeting. The RBA announced a tightening of monetary policy to commence in June 2022 in response to increasing inflation, spurred by drivers across several industries, but primarily by petrol prices and construction costs. Interest rate increases are expected in most months in H2 2022, the quantum of which will be influenced by the rate of rising inflation over the next quarter. Accordingly, while the Australian economy has momentum coming out of a period of restriction and lockdown, future growth will be affected by the RBA's decision making and movements in inflation and interest rates over the rest of the calendar year.

Growth in 2023 is at this stage expected to be below trend at around the 2% level. There are, however, risks to achieving current year performance. Inflation surprised on the upside at 5.1% and will force the hand of the central bank on interest rates. From an investors perspective, inflation is the macroeconomic factor which is currently top of mind. The Australian statistics are not showing inflation at the same level as the US and markets are not pricing in the same pattern to yield curves. Nevertheless, it seems possible the local economy is experiencing an underlying structural shift that has ramifications for asset selection, portfolio management and capital structures.

The 2021 year was a record year for M&A in Australia underpinned by some very large corporate transactions. There has also been an uptick of activity across the December 2021 and March 2022 quarters, illustrated by the number of completed and announced exits by VPEG3's underlying managers. Over the next three to six months, VPEG3's underlying managers are expecting the number of exits to increase as they look to realise the sale of additional companies from their portfolios, ultimately delivering further returns to VPEG3 investors.

## CONTACT DETAILS

### **Vantage Private Equity Growth 3, LP**

Level 50, 120 Collins Street  
Melbourne, Victoria 3000 Australia

### **Vantage Private Equity Growth Trust 3A**

Level 39, Aurora Place  
88 Phillip Street  
Sydney, NSW 2000 Australia

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## GENERAL PARTNER & INVESTMENT MANAGER

**General Partner: Vantage Private Equity Management Partnership, LP**

**ILP No. L000417A**

**Investment Manager and VPEG3A Trustee: 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.vpeg3.info](http://www.vpeg3.info)  
Website: [www.vantageasset.com](http://www.vantageasset.com)

