

QUARTERLY REPORT

VANTAGE PRIVATE EQUITY GROWTH 3

QUARTERLY INVESTOR REPORT
30 SEPTEMBER 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

Vantage Private Equity Growth 3 ('VPEG3' or the 'Fund') 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 has invested 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 values 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

Anchorage Capital Partners Fund III announces the sale of RailFirst Asset Management for a media reported \$425 million, generating a ~4.0x Multiple of Invested Capital to Anchorage Fund III investors including VPEG3

Next Capital Fund IV completes the investment in Compare Club, one of Australia's leading personal finance marketplaces, currently offering comparison and brokerage services across health and life insurance, as well as home loan products

Anchorage Capital Partners Fund III announces the acquisition of Evolve Education Group's New Zealand business Evolve NZ, New Zealand's second largest early childhood education business consisting of a national portfolio of ~105 centres

VPEG3's consolidated performance continues to improve as the portfolio matures with VPEG3 delivering a net return of 22.1% p.a. since inception to 30 September 2022

SUMMARY cont.

As at 30 September 2022, VPEG3 had committed \$67.55 million across seven Primary Private Equity Funds and two co-investments. As a result, VPEG3 had ultimately invested in 47 underlying company investments with 6 exits completed (partially or fully realised) from 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

VPEG3's portfolio remains resilient throughout the current public market volatilities. This is attributable to Private Equity's ability to provide investors with an investment that is at a lower risk than that of equity markets. The annualised standard deviation of VPEG3's returns from Final Close (January 2019) to 30 September 2022 is 11.2%, which demonstrates less volatility than the S&P/ASX200 Accumulation index of 18.3% across the same period.

In addition, VPEG3's outperformance of 75% above the S&P/ASX200 Accumulation index across the same period highlights the superior returns delivered by VPEG3, at a lower risk than that delivered by investing listed markets such as the S&P/ASX200 Accumulation index.

The table below provides a summary of the performance of VPEG3's portfolio as at 30 September 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.) |
|---------------------------|--|-----------------------------------|--|---|------------------------------------|
| VPEG3 CONSOLIDATED | 0.93 | 1.570 | 0.099 | 1.669 | 22.3% |

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

The graph below demonstrates the performance of VPEG3 compared to that of the S&P/ASX200 Accumulation index since VPEG3’s final close in January 2019 to 30 September 2022.

Performance of VPEG3 vs ASX Accum. Index from 31 January 2019 to 30 September 2022

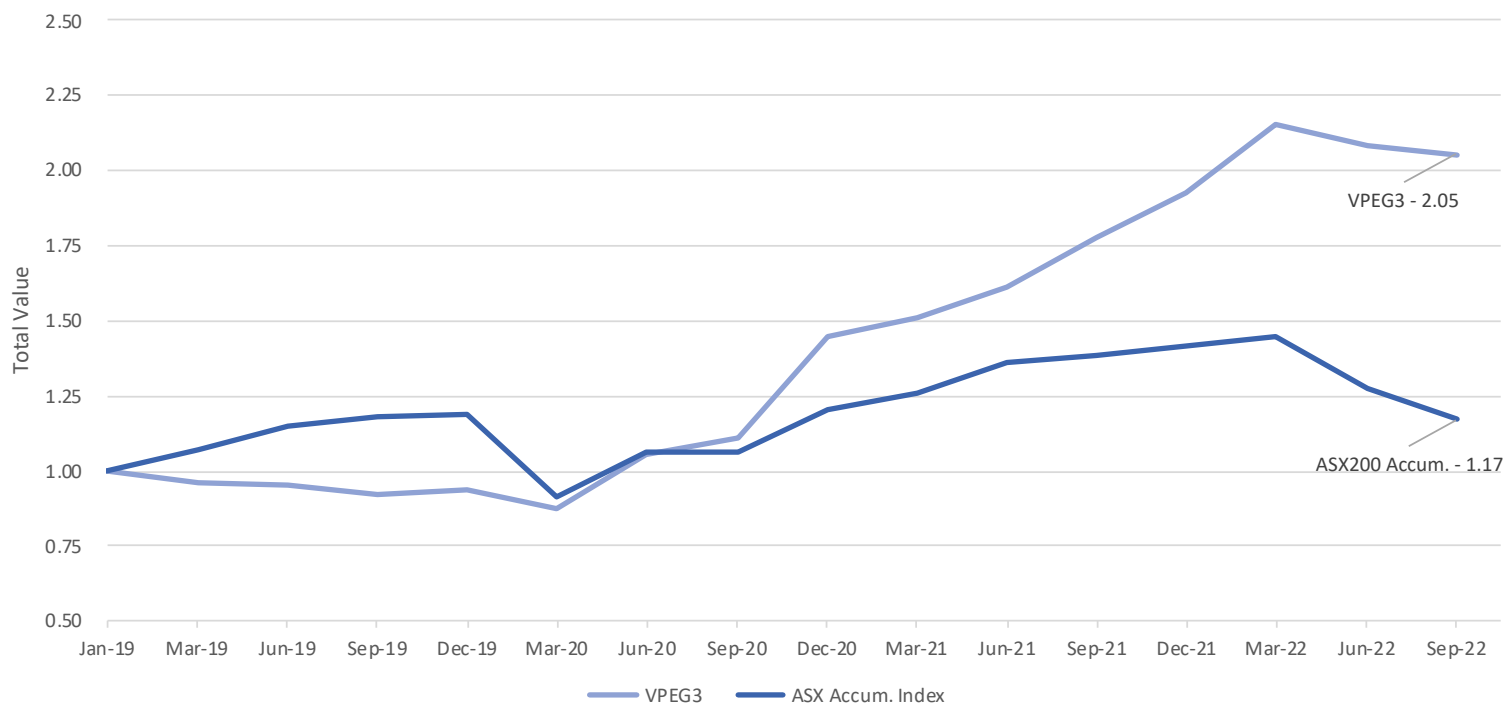


Figure: Representation of VPEG3’s performance Since inception to 30 September 2022

These strong, realised and unrealised returns have contributed to VPEG3 delivering a net return to investors of 22.3% p.a. since inception to 30 September 2022.

Across the quarter, total consolidated NAV across VPEG3’s entities reduced 1.1% from \$1.587 at 30 June 2022 to \$1.570 as at 30 September 2022.

The slight reduction in VPEG3’s NAV across the quarter was attributable to the underlying costs and working capital requirements of the fund and underlying managers exceeding increases in VPEG3’s portfolio valuations across the period.

KEY PORTFOLIO DEVELOPMENTS

Across the September 2022 quarter, VPEG3 made further progress in the sell down of its portfolio, with the announced exit of one portfolio company.

During September 2022, Anchorage Capital Partners Fund III announced the sale of RailFirst Asset Management for a media reported \$425 million, delivering a ~4.0x Multiple of Invested Capital to Anchorage Fund III investors including VPEG3. The proceeds of the sale, which was finalised during October 2022, were distributed to VPEG3 in late October 2022, providing an exceptionally strong return on investment to VPEG3. Proceeds from this exit will be distributed to all VPEG3 investors during December 2022.

In addition, VPEG3 made further progress in building out its portfolio, with the addition of two new company investments, which were either announced or completed during the quarter.

During August 2022, Anchorage Capital Partners announced the acquisition of 100% of Evolve Education Group's New Zealand business, "Evolve NZ". Evolve NZ is New Zealand's second largest Early Childhood Education business consisting of a national portfolio of ~105 centres.

During September 2022, Next Capital Fund IV completed the investment in Compare Club, one of Australia's leading personal finance marketplaces, currently offering comparison and brokerage services across health insurance, life insurance and home loan products.

During the quarter, VPEG3 received distributions totaling \$2,844,742, from:

- Odyssey Private Equity Fund 8, following the completion of the 100% sale of Mining Technologies Holdings Pty Ltd (July 2022) to Komatsu Ltd.
- Mercury Capital Fund 3, following the sale of the fund's remaining shares in Nasdaq Stockholm listed company Sinch, as a result of the sale of previously exited portfolio company MessageMedia (November 2020).
- Allegro Fund III, following the fund's partial selldown of 11.1% holding in previously exited and now ASX listed portfolio company Best & Less Group (ASX:BST) (July 2021). Subsequent to this selldown, Allegro Fund III retains a holding of 32.4% in Best & Less Group.

Drawdowns during the quarter from VPEG3, totaling \$1,375,676 were paid to Advent Partners 2, Allegro Fund III, and Next Capital Fund IV. The majority of the called capital was required to pay for VPEG3's share of a new underlying investment added to the portfolio. In addition, capital was also called from VPEG3 to fund management fees and working capital requirements by underlying funds.

As at 30 September 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. On a consolidated basis, the total paid capital to VPEG3 by all investors, except SIV investors, is 93% of their Committed Capital to VPEG3.

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 sufficiently resourced and well positioned for growth. In addition, managers have recently reported an increase in deal flow, with many opportunities having more attractive acquisition metrics than had been the case across the previous 12 months. Should any of these opportunities satisfy underlying managers criteria and their extensive due diligence process, then the final set of companies will possibly be acquired and added to finalise VPEG3's portfolio, across the remainder of 2022 and into 2023. As at quarter end, VPEG3 had ultimately invested in 47 underlying company investments with 6 exits completed (partially or fully realised) from the portfolio.

Finally, as VPEG3's portfolio continues to mature, underlying managers are preparing more companies for exit. As further portfolio company sales occur, proceeds received from these exits will be distributed back to investors, ultimately delivering a strong risk-adjusted return to investors across the term of the Fund.

RECENTLY ANNOUNCED EXIT

RAILFIRST ASSET MANAGEMENT – ANCHORAGE CAPITAL PARTNERS FUND III

During September 2022, Anchorage Capital Partners Fund III announced the 100% sale of RailFirst Asset Management to investment firms DIF Capital Partners and Amber Infrastructure for a media reported \$425 million, delivering a ~4.0x Multiple of Invested Capital to Anchorage Fund III investors including VPEG3.




Anchorage Fund III acquired RailFirst Asset Management in December 2019, which at the time had a dominant market position, however was an underperforming non-core Australian asset owned by a large American group. Under Anchorage III's ownership the Company was repositioned to focus on Australia's growing intermodal sector, made material investment in implementing new systems and processes which delivered strong sustainable growth.

Rail First Chairman, Beau Dixon, said "Rail First is an excellent example of Anchorage management identifying a complex special situation opportunity of an underperforming non-core asset, implementing a highly successful change program, repositioning Rail First's strategic direction, bringing in world-class management, and fixing the bottom line."

The sale of RailFirst Asset Management completed in early October 2022, delivered an exceptionally strong return for Anchorage Capital Fund III, including VPEG3 across a 2.7 year hold period. VPEG3's share of the sale proceeds was distributed to VPEG3 during October 2022.

OVERVIEW OF NEW INVESTMENTS


COMPARE CLUB – NEXT CAPITAL FUND IV

During September 2022, Next Capital completed the acquisition in Compare Club ('CC'), one of Australia's leading personal finance marketplaces, currently offering comparison and brokerage services across health insurance, life insurance and home loan products. 

Originally created in 2017 via the merger of ChooseWell (health insurance sales brokerage business) and Alternative Media (a specialist digital lead generation business), CC has engaged over 3.7 million members over time across its key verticals of health insurance. The business is uniquely positioned in the comparison site marketplace through its data-driven digital marketing and lead generation, and full-service end-to-end conversion and sales capability.

Next Capital are partnering with a high quality management team to organically grow earnings across the business' three key verticals, explore new channel and product offerings and increase marketing capabilities.

EVOLVE EDUCATION NEW ZEALAND – ANCHORAGE CAPITAL PARTNERS FUND III

During September 2022, Anchorage Capital Partners announced the acquisition of Evolve Education Group's New Zealand business, "Evolve NZ". 

Evolve NZ is New Zealand's second largest Early Childhood Education business consisting of a national portfolio of ~105 centres. The New Zealand Early Childhood Education Sector is an essential service and benefits from strong and growing government support as well as increased workforce participation, rising household income and population growth.

Over the past two and a half years, Evolve's performance has been challenged as a result of being directly impacted by Government-mandated closures in response to COVID-19 and closed borders, leading to teacher shortages and a significant impact to overall centre occupancy.

Anchorage have identified several key growth drivers that provide a clear path to earnings uplift for Evolve, leveraging Anchorage's previous experience in the childcare sector through successfully growing and ultimately selling Affinity Education Group from Anchorage Capital Fund II.

PORTFOLIO STRUCTURE

VPEG3's PORTFOLIO STRUCTURE - 30 SEPTEMBER 2022

The tables and charts below provide information on the breakdown of VPEG3's investments as at 30 September 2022.

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.

| VPEG3 Portfolio Breakdown | | | |
|---------------------------|----------------------------|-----------------|-------|
| Cash | Fixed Interest Investments | Private Equity | |
| 1.3% | 3.7% | Later Expansion | 30.7% |
| | | Buyout | 64.3% |

PRIVATE EQUITY PORTFOLIO

VPEG3, with commitments to seven Private Equity funds and two co-investments, ultimately had invested in 47 underlying company investments with 6 exits completed (partially or fully realised) from the portfolio at quarter end. As a result, VPEG3's Private Equity commitments and investments, as at 30 September 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 | \$5.61m | 6 | 1 |
| Advent Partners 2 Fund | \$300m | 2017 | Mid Market Expansion / Buyout | \$10.0m | \$8.98m | 7 | 1 |
| Allegro Fund III | \$290m | 2017 | Mid Market Expansion / Buyout | \$12.0m | \$7.91m | 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 | \$6.08m | 9 | 1 |
| Next Capital Fund IV | \$275m | 2019 | Mid Market Expansion | \$10.0m | \$5.78m | 7 | - |
| Co-invest (Fitzpatrick Financial Group) | \$200m | 2017 | Mid Market Expansion | \$0.25m | \$0.28m | 1 | - |
| Co-invest (Tribe Brewing) | \$30m | 2018 | Mid Market Expansion | \$0.80m | \$0.72m | 1 | - |
| Total | | | | \$67.55m | \$51.10m | 47 | 6 |

Note; 1. total no. of investee companies only includes completed investments as at 30 September 2022

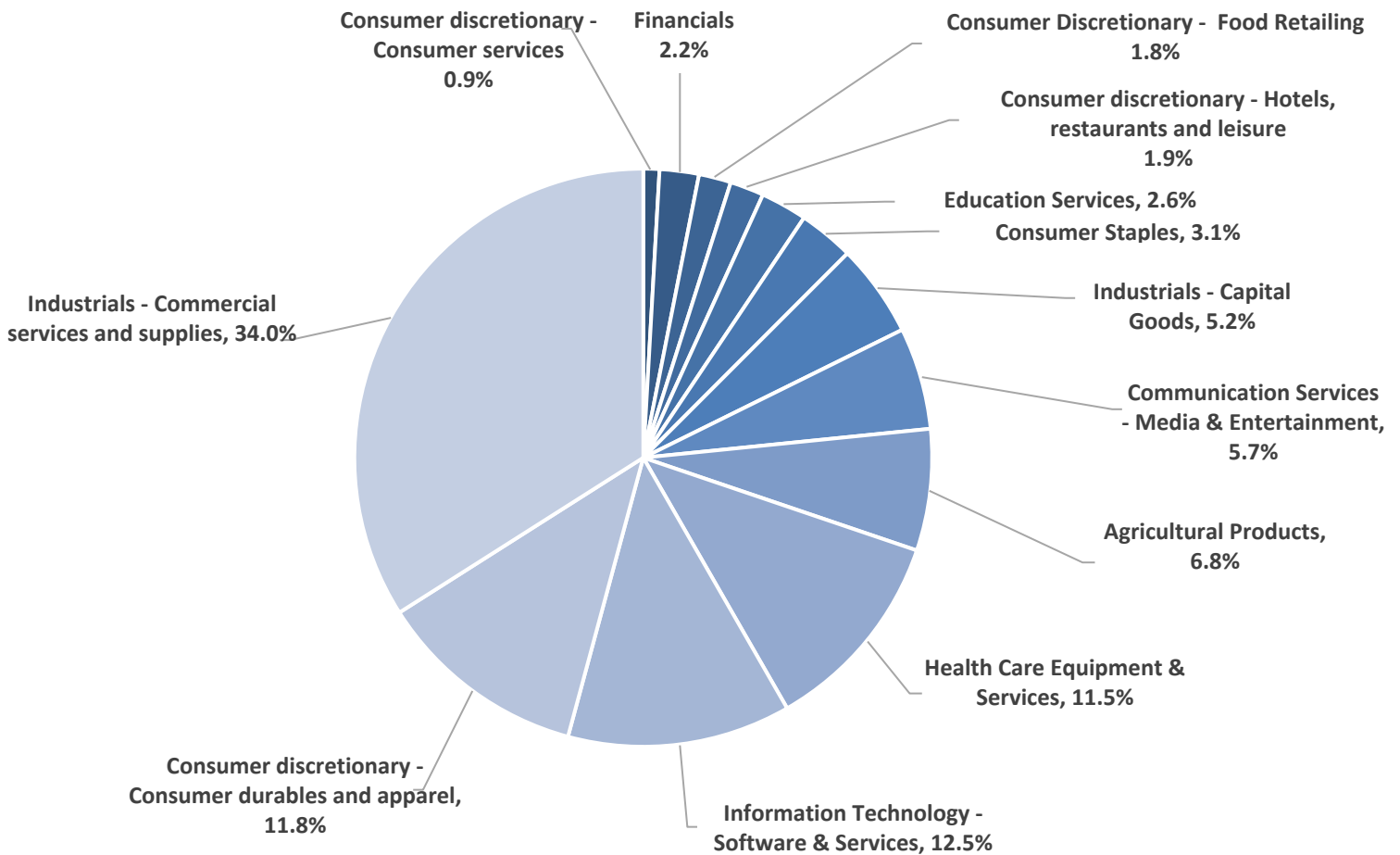
SUMMARY OF VPEG3'S UNDERLYING PRIVATE EQUITY INVESTMENTS

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 30 September 2022. Due to the exit of portfolio company RailFirst Asset Management being completed post September 2022 quarter end, the investment is still being represented in VPEG3's top ten underlying private equity investments as at 30 September 2022. Additionally, as VPEG3 investee Allegro Fund III retains a significant minority share 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 fund's 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 | RailFirst Asset Management | Anchorage Capital Partners Fund III | Rail Leasing Business | 9.1% | 9.1% |
| 2 | Best & Less Group | Allegro Fund III | Australia's leading value apparel specialty retailer | 7.7% | 16.8% |
| 3 | Team Global Express (previously Toll Global Express) | Allegro Fund III | An Australian transportation and logistics company with operations on road, rail, air, sea and warehousing | 6.6% | 23.4% |
| 4 | Questas Group | Allegro Fund III | Network of niche industrial businesses across Australia | 6.3% | 29.7% |
| 5 | Compass Education | Advent Partners 2 Fund | Student Information System Software / Services Provider | 5.3% | 35.0% |
| 6 | Silverchef | Next Capital IV | Rental & Financing of Commercial Equipment | 5.2% | 40.2% |
| 7 | ARE Media Group | Mercury Capital Fund 3 | Australia's leading magazine publisher | 4.3% | 44.5% |
| 9 | Medtech | Advent Partners 2 Fund | Provider of Practice Management Software (PMS) | 3.4% | 47.9% |
| 10 | Hellers | Adamantem Capital fund I | Producer of Processed Meats in New Zealand | 3.1% | 51.0% |
| 10 | Delta Agribusiness | Odyssey Private Equity Fund 8 | Provider of agricultural products and independent rural services | 3.0% | 54.0% |

INDUSTRY SPREAD OF VPEG3’s UNDERLYING INVESTMENTS

VPEG3’s exposure to the “Industrial – Commercial Services and Suppliers” industry sector which consists of: Questas Group, RailFirst Asset Management, Team 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, representing 34.0% of VPEG3’s total private equity portfolio at June quarter end.



Figure; Industry exposure of VPEG3’s underlying investments

MARKET & ECONOMIC UPDATE

Similar to conditions being experienced in most developed markets, the economic environment in Australia and New Zealand continues to be uncertain, with supply chain disruption, relatively high inflation, rising interest rates and a persisting tight labour market.

In response to these economic conditions, the RBA has continued to increase interest rates which are currently at 2.5% and expected to be at ~3.1% by the end of CY2022. Inflation continues to rise and is expected to peak at just over 7% in late 2022. Housing prices have fallen and are expected to fall by 15% by year end. However, the Australian economy continues to grow (4.1% expected 2022 growth), with low unemployment persisting (3.5% in August 2022). Unemployment seems likely to remain low but could rise slightly in 2023 once borders have been open for longer and normal migration has resumed, easing some of the current pressure on wages. Consumer spending has been strong over the last quarter, but sentiment indicators suggest this is starting to dampen as a result of higher interest rates and sustained inflationary pressures.

In listed markets, FY22 earnings were broadly in line with consensus, however forward earnings guidance had a skew towards downgrades. Trading in the September quarter was subdued in most sectors because of continuing disruption across many industries. Increasingly, market commentary is predicting an economic slowdown in the United States, and we are conscious that this could also occur in Australia and New Zealand.

M&A activity in YTD 2022 has been strong albeit lower than levels seen in 2021, with \$130 billion worth of deals being announced in Australia and New Zealand so far. In private equity, 32 buyout deals were announced in Australia in 2022 and the cadence of deal activity to September was robust, though activity is starting to slow in the large buyout end of the market.

VPEG3's underlying managers will continue to explore exit opportunities to realise their existing portfolio companies. With the IPO window having closed, in addition to recessionary worries permeating across the local and global economy, it's possible that this may make exits at attractive multiples increasingly challenging. However, significant levels of dry powder held by the larger buyout funds may alleviate these concerns, as it provides an opportunity for VPEG3's mid market managers, to exit businesses with defensive characteristics, proven by their performance despite the challenges in recent years. VPEG3's underlying managers are expecting the number of exits to increase as they look to complete exit negotiations of a number of portfolio companies, ultimately delivering further returns to VPEG3 investors.

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