



# QUARTERLY REPORT



# VANTAGE PRIVATE EQUITY GROWTH 3

QUARTERLY INVESTOR REPORT  
31 DECEMBER 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' 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

*Mercury Capital Fund 3 announces an investment in Avive Health Pty Ltd, an early-stage private hospital operator with a specialisation in mental health.*

*VPEG3A distributes \$0.01 per Dollar of Committed Capital to all unitholders during October 2022*

*VPEG3's underlying managers have successfully exited 7 investments to date, representing a gross 5.0x MoIC and an average gross IRR of 139%*

*VPEG3's consolidated performance continues to improve as the portfolio matures with VPEG3 delivering a net return of 20.1% p.a. since inception to 31 December 2022*

## SUMMARY cont.

As at 31 December 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 48 underlying company investments with 7 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 has consistently delivered investors strong returns outperforming traditional asset classes as the Fund matures. In the past year alone, two portfolio company exits were successfully completed, delivered a gross 3.7x Multiple of Invested Capital (MoIC), which generated an average gross Internal Rate of Return (IRR) of 48.0%.

Since VPEG3's Final Close (January 2019), seven underlying portfolio company exits have now been successfully completed, have delivered an gross 5.0x MoIC, generating an average gross IRR of 139.0%. As the portfolio continues to mature and managers realise their investments, VPEG3 will distribute the Fund's share of the realised proceeds, further delivering strong risk-adjusted returns to investors.

To date, this activity combined with the successful management of unrealised portfolio companies has led to VPEG3 delivering a net return to investors of 20.1% p.a. since inception to 31 December 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>1.537</b>                      | <b>0.112</b>                                     | <b>1.649</b>                                | <b>20.1%</b>                       |

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

# KEY PORTFOLIO DEVELOPMENTS

Across the December 2022 quarter, VPEG3 made further progress in building out its portfolio, with the addition of one new company investment announced during the quarter.

During December 2022, Mercury Capital Fund 3 announced an investment in Avive Health Pty Ltd, a developing private hospital operator with a specialisation in mental health.

VPEG3 received distributions totaling \$6,330,461 during the quarter, from:

- Anchorage Capital Fund III, following the completed sale of Railfirst Asset Management to DIF Capital Partners and Amber Infrastructure in October 2022.
- Mercury Capital Fund 3, following a distribution from ARE Media as a result of the strong operating performance of that portfolio company
- Odyssey Private Equity Fund 8, following the final distribution from the previously exited portfolio company MST (July 2022), as well as the dividend received from underlying portfolio company Delta Agribusiness
- Allegro Fund III, following the dividends received from Perth Radiological Clinic, Best & Less Group and Questas

During October 2022, VPEG3A distributed \$0.01 per Dollar of Committed Capital to all unitholders as a result of the net taxable income of VPEG3A for the period ended 30 June 2022. The distribution was paid to all VPEG3A unitholders on 31 October 2022.

Drawdowns during the quarter from VPEG3, totalled \$2,206,927 were paid to Odyssey Fund 8, Allegro Fund III, Anchorage Capital Fund III and Next Capital Fund IV. A majority of the called capital was required to pay for VPEG3's share of a previously announced new investment, as well as for the follow-on investment into two portfolio companies. In addition, capital was also called to fund management fees and working capital requirements of underlying funds.

As at 31 December 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 the Fund. On a consolidated basis, the total paid capital to VPEG3 by all investors, except SIV investors, is 93% of their Committed Capital to VPEG3.

In the midst of the ongoing economic uncertainty, VPEG3's private equity managers continue to focus on utilising their knowledge and skills to grow earnings across their portfolio of companies. Private Equity managers are actively engaged with management teams, to ensure that each company is sufficiently resourced and well positioned for growth and well prepared for sale once their investment thesis is achieved.

Given the maturity of the portfolio, a number of existing underlying company investments are now ready for exit, with managers reporting that they are in negotiations with a range of potential acquirers that are interested in a number of portfolio companies. 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. As at quarter end, VPEG3 had ultimately invested in 48 underlying company investments with 7 exits completed (partially or fully realised) from the portfolio.

## OVERVIEW OF NEW ANNOUNCED INVESTMENTS

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### AVIVE HEALTH PTY LTD (AVIVE) – MERCURY CAPITAL FUND 3

During December 2022, Mercury Capital Fund 3 announced an investment into Avive Health Pty Ltd, a developing private hospital operator with a specialisation in mental health.



The Fund has chosen to invest into Avive alongside a high-quality management team led by three deeply experienced founders, Greg Procter, Mark Sweeney and Dr Matt McDornan. Avive's ambition is to become the #2 specialist mental health operator with a network of 10 specialist mental health hospitals across Australia.

The investment into Avive represents the tenth and final investment by Mercury Capital Fund 3, with completion of the deal having occurred in late January 2023.

# PORTFOLIO STRUCTURE

## VPEG3's PORTFOLIO STRUCTURE - 31 DECEMBER 2022

The tables and charts below provide information on the breakdown of VPEG3's investments as at 31 December 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  |       |
| 1.7%                      | 8.9%                       | Later Expansion | 29.8% |
|                           |                            | Buyout          | 59.6% |

## PRIVATE EQUITY PORTFOLIO

VPEG3, with commitments to seven Private Equity funds and two co-investments, ultimately had invested in 48 underlying company investments with 7 exits completed (partially or fully realised) from the portfolio at quarter end. As a result, VPEG3's Private Equity commitments and investments, as at 31 December 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           | \$5.66m            | 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          | \$8.17m            | 6                               | 2            |
| Anchorage Capital Partners Fund III     | \$350m           | 2017         | Mid Market Expansion / Buyout | \$10.0m          | \$9.32m            | 5                               | 1            |
| Mercury Capital Fund 3                  | \$600m           | 2019         | Mid Market Expansion          | \$7.5m           | \$6.08m            | 9                               | 1            |
| Next Capital Fund IV                    | \$275m           | 2019         | Mid Market Expansion / Buyout | \$10.0m          | \$6.18m            | 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                               | -            |
| <b>Total</b>                            |                  |              |                               | <b>\$67.55m</b>  | <b>\$53.31m</b>    | <b>48</b>                       | <b>7</b>     |

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



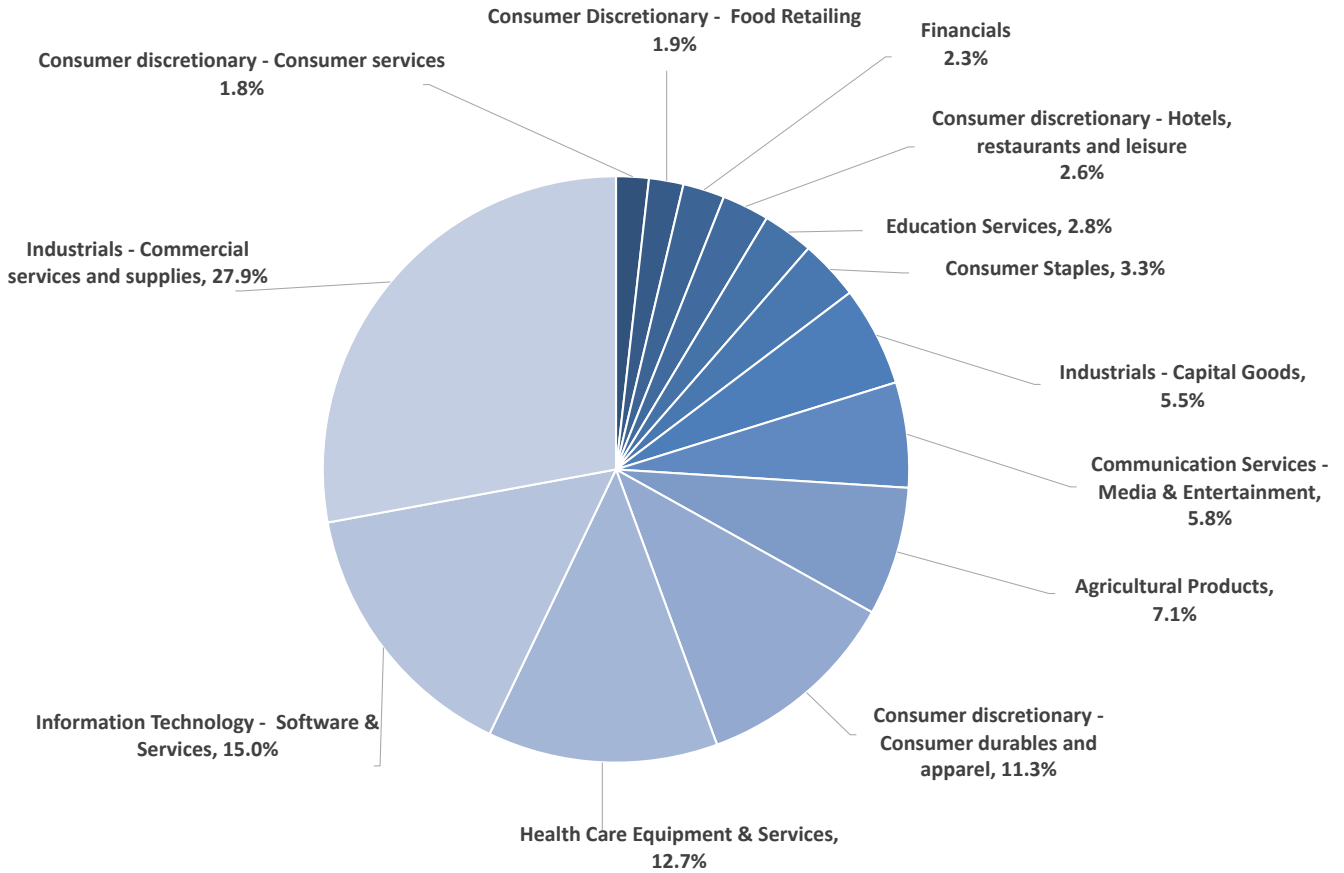
## SUMMARY OF VPEG3's Top 10 UNDERLYING PRIVATE EQUITY INVESTMENTS

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 December 2022. The largest single exposure belongs to Allegro Fund III's residual holding in ASX-listed Best & Less Group (ASX:BST). The top 10 investments held within the portfolio comprise 51.3% of the total private equity exposure.

| 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   | 7.0%                                    | 7.0%         |
| 2    | Questas Group   | Allegro Fund III                    | Network of niche industrial businesses across Australia  | 6.5%                                    | 13.5%        |
| 3    | Team Global Express<br>(previously Toll Global Express) | Allegro Fund III                    | An Australian transportation and logistics company with operations on road, rail, air, sea and warehousing | 6.4%                                    | 19.9%        |
| 4    | Compass Education                                       | Advent Partners 2 Fund              | Student Information System Software / Services Provider  | 5.6%                                    | 25.5%        |
| 5    | Silverchef  | Next Capital IV                     | Rental & Financing of Commercial Equipment   | 5.5%                                    | 31.0%        |
| 6    | GBST Wealth Management                                  | Anchorage Capital Partners Fund III | Financial services technology provider to the global wealth market   | 5.1%                                    | 36.1%        |
| 7    | Medtech   | Advent Partners 2 Fund              | Provider of Practice Management Software (PMS)   | 4.5%                                    | 40.6%        |
| 8    | ARE Media Group   | Mercury Capital Fund 3              | Australia's leading magazine publisher   | 4.3%                                    | 44.9%        |
| 9    | Hellers   | Adamantem Capital fund I            | Producer of Processed Meats in New Zealand   | 3.2%                                    | 48.1%        |
| 10   | South Pacific Laundries                                 | Anchorage Capital Partners Fund III | Leading National Laundry Operator  | 3.2%                                    | 51.3%        |

## INDUSTRY SPREAD OF VPEG3’s UNDERLYING INVESTMENTS

VPEG3’s exposure to the “Industrial – Commercial Services and Suppliers” industry sector which consists of: Questas Group, 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 27.9% of VPEG3’s total private equity portfolio at December quarter end.



Figure; Industry exposure of VPEG3’s underlying investments

# MARKET & ECONOMIC UPDATE

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The Australian economy continued to show resilience during the final quarter of 2022, with consumption activity remaining buoyant despite a significant drop off in consumer sentiment. Aggregate spending was held up by high levels of employment, a drawing down of savings, and the remnants of catch-up spending associated with the pandemic. Australia's GDP expanded +0.6% quarter on quarter and +5.9% year on year in Q3-22.

Inflation continued to edge higher during the December quarter, with annual headline and core inflation running at 7.8% and 6.9% respectively, the highest levels since the early 1980s. Australia's labour market is operating beyond full capacity, with an unemployment rate of 3.5% and nominal wages growing by 1.2% over the September quarter and 3.4% over the past 12 months.

This quarter, the new Albanese Government handed down their first Budget, with new spending initiatives largely offset by savings measures to ensure fiscal policy was not stoking inflation. The RBA ratcheted up the cash rate by 325 basis points over nine consecutive months, which is now sitting at 3.35% as at mid-February.

The current consensus macroeconomic forecast is for Australia to experience a slowdown in economic growth in 2023 to 1.9% but not to enter a recession.

In New Zealand, a similar trend in can be observed, with real GDP growth set to slow to 1% in 2023, owing to weakening private demand and falling real incomes. Following the gradual easing of COVID-19-related restrictions, growth has picked up and consumer and business sentiment has improved, although remains quite depressed. Border re-opening has contributed to a surge in tourist arrivals, albeit to levels that remain much lower than before the pandemic.

Private equity activity remained quite robust in Q4 with 8 new buyout transactions announced or completed over the period. Most of these were at the smaller end of the market, with limited availability of financing and tighter covenants impacting deal execution for large buyouts. Despite the IPO window being shut, the market remains attractive and open to exits via trade or secondary sales, with underlying managers in the midst of a number of discussions and negotiations for the exit of portfolio companies which will generate strong returns through 2023. In terms of origination, VPEG3 will continue to expand the portfolio as opportunities arise, however its' underlying funds are approaching or have reached the end of their investment periods, and so Vantage is not expecting high levels of acquisitions during 2023. Managers report that there has been an uptick in activity across the December 2022 quarter, with a number of high quality bolt-on opportunities to add to the operations of underlying portfolio companies, in line with VPEG3's managers investment thesis. In addition, the market remains attractive and open to exits via trade or secondary sales. VPEG3's underlying managers report that there are a number of ongoing discussions and negotiations for the exit of portfolio companies, which are expected to be completed over the next three to six months, ultimately delivering further returns for VPEG3 investors.

## CONTACT DETAILS

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## GENERAL PARTNER & INVESTMENT MANAGER

General Partner: Vantage Private Equity Management Partnership, LP

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Investment Manager and VPEG3A Trustee: Vantage Asset Management Pty Limited

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