

# Vantage Private Equity Growth 2

Quarterly Investor Report — Quarter Ended 30 September 2017



## Special points of interest:

- Next Capital III sells its interest in Infinite Aged Care to Moelis Australia delivering a strong top quartile return on investment.
- Six new investments announced / completed during the quarter, bringing the total of underlying company investments in VPEG2's portfolio to 28.
- VPEG2 completes a \$0.5m co-investment with Yorkway Partners into Fitzpatrick Financial Group.

## Inside this report:

<b>Performance</b>	<b>2</b>
<b>Key Portfolio Developments</b>	<b>2</b>
<b>Overview of New Investments</b>	<b>3</b>
<b>Portfolio Structure</b>	<b>6</b>
<b>Industry Spread of VPEG2's Underlying</b>	<b>7</b>
<b>Contact Details</b>	<b>8</b>

## SUMMARY

### Background

Vantage Private Equity Growth 2 (VPEG2) is a multi-manager Private Equity investment fund structured as twin Australian unit trusts (VPEG2A & VPEG2B). VPEG2 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 to long-term returns on 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 manager, geographic region, financing stage, industry sector and vintage year.

VPEG2 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 at initial investment of between \$20m and \$500m.

VPEG2's private equity investment portfolio will be developed over time and will ultimately make investment commitments into between six to eight private equity funds, including new (or Primary) private equity funds being established as well as into existing (or Secondary) private equity funds.

VPEG2 has made \$51.1m<sup>1</sup> of commitments across eight Private Equity funds and completed one co-investment and as a result, currently holds interests in 28 underlying company investments. As at 30 September 2017, VPEG2's investment commitments include; \$10m to Adamantem Capital Fund 1; \$8m to each of CHAMP IV, Next Capital Fund III and Odyssey Private Equity Fund 8; \$6m to Allegro Fund II, \$5m to Mercury Capital Fund 2, NZ\$4m to Waterman Fund 3, NZ\$2m to Pencarrow Bridge Fund and a \$0.5m co-investment with Yorkway Partners in Fitzpatrick Financial Group.

Note 1. Assumes an average AUD / NZ exchange rate 1.07 for VPEG2's investment commitments to Waterman Fund 3 & the Pencarrow Bridge Fund.

### Important Information

This report has been prepared by Vantage Asset Management Pty Limited (ABN 50 109 671 123) AFSL 279186 (VAM) (in its capacity as Investment Manager and Trustee of Vantage Private Equity Growth (Trusts 2A & 2B)). It has been prepared without taking into account the objectives, financial situation or needs of any investor, which should be considered before investing. Investors should seek their own advice about an appropriate investment or investment strategy. It should not be relied upon as personal advice nor is it an offer of any financial product. All \$ referred to in this report are Australian dollars.

## Performance

The period 1 July 2017 to 30 September 2017 saw continued growth in VPEG2's portfolio of Private Equity investments.

During the period, six new Private Equity investments and one bolt-on acquisition, were added to VPEG2's Private Equity portfolio. In addition, there was one follow on investment to an existing underlying portfolio company. Furthermore, one underlying company investment was exited from VPEG2's underlying investment portfolio which provided a strong distribution to VPEG2.

During the September quarter, eleven capital calls were made on VPEG2, by underlying funds with the majority of these calls required to fund the acquisition of six new underlying private equity company investments, one follow on investment and one bolt on acquisition.

The first table to the right provides a summary of the performance of VPEG2A's portfolio during the September 2017 quarter. As demonstrated, VPEG2A's Net Asset Value (NAV) increased by 9.5% across the quarter, from \$0.452 per partly paid unit at 30 June 2017 to \$0.495 per partly paid unit at 30 September 2017. The increase in VPEG2A's NAV during the quarter resulted predominately from the additional call of capital from unitholders, of \$0.05 per partly paid unit, received by VPEG2A during September 2017.

The second table to the right provides a summary of the performance of VPEG2B's NAV per unit during the September 2017 quarter.

As demonstrated, VPEG2B's NAV decreased slightly during the quarter from \$1.055 to \$1.051 per unit, primarily due to VPEG2B's underlying fund costs during the period slightly exceeding the earnings of underlying portfolio companies and VPEG2B's cash and fixed interest investments.

Month Ending	VPEG2A Paid Capital / Partly Paid Unit (\$)	VPEG2A NAV / Partly Paid Unit (\$)
30-Sep-17	0.51	0.495
31-Aug-17	0.46	0.436
31-Jul-17	0.46	0.449
30-Jun-17	0.46	0.452

Month Ending	VPEG2B NAV / Fully Paid Unit (\$)
30-Sep-17	1.051
31-Aug-17	1.042
31-Jul-17	1.055
30-Jun-17	1.055

## Key Portfolio Developments

During the September 2017 quarter, VPEG2 continued to grow its underlying Private Equity portfolio.

Draw downs during the quarter from VPEG2, totaling **\$3,233,050** were made to **Allegro Fund II** ('Allegro II'), **Adamantem Capital Fund 1** ('Adamantem 1'), **Next Capital Fund III** ('Next III'), **Odyssey Private Equity Fund 8** ('Odyssey 8'), **Waterman Capital Fund 3** ('Waterman 3'), **Mercury Capital Fund 2** ('Mercury 2'), **Pencarrow Bridge Fund** ('Pencarrow') and **Yorkway Partners**.

The majority of these draw downs were used to fund VPEG2's share of six new underlying company investments, one bolt-on acquisition and one follow on investment, completed during the quarter with the remaining capital called to fund additional working capital requirements of underlying funds.

In July 2017, **Mercury Capital Fund 2** invested in **Nirvana Health Group** the largest primary care operator in New Zealand.

Also during July 2017, **Waterman Fund 3** acquired a majority shareholding in New Zealand early childhood education provider, **Provincial Education Group Limited**.

In August 2017, VPEG2 completed a \$0.5m co-investment with Yorkway Partners into **Fitzpatrick Financial Group** who together with Quadrant Private Equity also funded the strategic acquisition of **Retirement Victoria**.

During September 2017, capital was also called from VPEG2 to fund the following investments;

- **Allegro II's** acquisition of **Everest Foods**, a leading manufacturer and distributor of ice cream, gelato, sorbet and frozen desserts;
- **Pencarrow's** acquisition of **Netlogix Group Holdings Ltd** a technology enabled freight logistics company; and
- **Waterman 3's** acquisition of a majority stake in **PBT Group** a New Zealand national transport, courier and logistics operator.

**"Next Capital III sells its interest in Infinite Aged Care to Moelis Australia delivering a strong top quartile return on investment."**

## Key Portfolio Developments (Continued)

Finally, on 30 September 2017, **Next Capital III** announced the sale of its interest in **Infinite Aged Care** delivering Next Capital III investors including VPEG2 a strong top quartile return on investment.

As a result, VPEG2 received distributions totaling **\$1,631,131** in early November 2017 representing VPEG2's share of the sale proceeds. See page 4 for further details.

The proceeds from this exit will be distributed to all VPEG2 investors in late November / December 2017. VPEG 2A investors received a *non-cash* distribution of 4.5 cents per partly paid unit which was directed to settle, in part, Capital Call No. 11 as per the notice sent to all VPEG 2A investors dated 20 November 2017. VPEG 2B investors are due to receive a distribution of 4.6 cents per unit during December 2017.

With eight investments completed by Allegro II, five by Next III, four by CHAMP IV, three by each of Mercury 2, Pencarrow and Waterman 3, one by Adamantem Capital Fund 1 and one co-investment in Fitzpatrick Financial Group, the total number of underlying Private Equity company investments completed within VPEG2's portfolio as at 30 September 2017 was 28.



## OVERVIEW OF NEW INVESTMENTS

### Fitzpatrick Financial Group – Co-investment with Yorkway Partners

On 31 August 2017, Vantage Private Equity Growth 2 completed a \$500,000 co-investment into Fitzpatrick Financial Group.

VPEG2 co-invested with Yorkway Partners in Fitzpatrick Financial Group who, together with Quadrant Private Equity, funded the strategic acquisition of Retirement Victoria. Yorkway and Quadrant will partner with the key management team and shareholders of Fitzpatrick's including John McMurdo, Alex Hone, John Woodley and Chris Cuffe to continue growing the business.

Fitzpatrick's was founded in 1987 as a financial planning group with a client-centric advice model and since then has grown to be one of Australia's leading wealth management firms. The expanded Fitzpatrick's Group will create a market leading wealth manager with over \$7 billion of client funds under advice and some \$1.5bn in funds under management within its fund management subsidiary, Atrium Investment Management.

The group is well capitalised and in addition to ongoing strong organic growth, Fitzpatrick's will be pursuing a number of acquisitions to further accelerate growth and expand its footprint and service offering for clients.



### Nirvana Health – Mercury Capital Fund 2

In July 2017, Mercury Capital Fund 2 acquired 50% of Nirvana Health Group ("Nirvana"), from the founding family shareholders and minority shareholders.

Nirvana is the largest primary care operator in New Zealand operating 37 large urgent care and general practice clinics primarily across Auckland. Established 40 years ago from a single GP practice in South Auckland, Nirvana has grown to become New Zealand's largest primary care operator with ~200,000 enrolled patients, ~350,000 casual patients per year and over 800 employees including ~350 "contractor" doctors. Nirvana operates a portfolio of 40 clinics primarily located in "high needs" areas, including 17 Urgent Care Clinics largely across Auckland. The group operates two core brands East Tamaki Healthcare and White Cross as well as sub brands for other geographical areas (West Auckland Healthcare, and Mt Roskill Healthcare).

Nirvana also owns a minority investment in Qualitas Australia, a primary care company with 26 GP clinics and 2 dental units in Australia.

Mercury's investment strategy is focused on pursuing organic opportunities within the existing clinic portfolio as well as ongoing acquisition and greenfield led growth.

## OVERVIEW OF NEW INVESTMENTS (continued)

### Provincial Education Group Limited – Waterman Capital Fund 3



On 31 July 2017, Waterman 3 acquired a majority shareholding in early childhood education provider, Provincial Education Group Limited ('Provincial').

Provincial was founded in 2013 by Katie and Andrew Phillipps who alongside experienced Australian childcare operator Chris Giufre have grown the business from a single childcare centre to a group of 21 centres predominantly in provincial New Zealand towns.

Waterman 3's investment assisted with the funding of a further 19 centres bringing the group to a total of 40 centres. As a result, Provincial will be the fourth (close to third) largest operator of childcare centres in New Zealand with a total of 2,733 license places and over 300 teachers. The core values of Provincial are to put parents and children first. It aims to promote passion, professionalism, and family values across all of Provincial's centres to bring out the best in children and develop their capabilities in readiness for primary school.

Early childhood education is a regulated sector in New Zealand and is dependent on government funding as its primary source of revenue. There continues to be support from all political parties for early childhood education as evidence of its long-term benefits, gain widespread acceptance. Increasing levels of regulation and compliance tend to favour larger, better organised organisations like Provincial that have the systems and processes in place to respond accordingly.

There are approximately 2,500 childcare centres in New Zealand and the large majority of these are independently owned and operated. Waterman has invested to support three highly capable industry experts in expanding Provincial's national footprint as it continues to acquire and improve further childcare centres.

### Everest – Allegro Fund II

In early October 2017, Allegro Fund II completed the acquisition of Everest Foods, a leading manufacturer and distributor of ice cream, gelato, sorbet and frozen desserts distributed to the foodservice sector including ice creameries, cafes, restaurants, and institutions such as hospitals. The Everest brand stable also includes Nörger Vaaz, a premium ice cream range



Established in 1958 in Melbourne, Australia, Everest Foods has created a unique platform underpinned by leading agile production capabilities, long-standing customer relationships and national distribution infrastructure. The company is fully licensed and food safety accredited.

Allegro intends to transform Everest Foods to become the number two player in the ice cream foodservice sector, and potentially a leading player in the broader dessert food service market.

### Netlogix – Pencarrow Bridge Fund



In October 2017, The Pencarrow Bridge fund invested in Netlogix Group Holdings Ltd. Netlogix is a technology enabled freight logistics company that was introduced in New Zealand in 2013. The company connects independently contracted freight carriers with customer freight demand.

Netlogix has developed a highly specialised offering that optimises a freight customers transport and logistics cost by finding the most efficient route and rate card across a network of carriers.

This technology is built around best in class third party software programmes and integrates with both the freight customer and the freight carriers' systems. Netlogix is highly skilled at analysing, determining and codifying the specific rules that govern the freight and logistics elements of a freight customers' supply chain.

## Key Portfolio Developments (Continued)

### PBT Group Ltd – Waterman Capital Fund 3



In October 2017, Waterman Capital acquired a majority stake in PBT Group alongside founder Peter Baker. PBT, founded in 1972, is a national transport, courier and logistics operator across New Zealand providing services including the transport of palletised freight, courier service for smaller packages, container pick-up and delivery and third-party logistics.

The business has a nationwide depot network of 20 branches and a workforce of 800 people, including 400 owner drivers. PBT moves more than 13 million individual freight items each year.

This sector within New Zealand has a robust outlook with freight task expected to grow by 48% in tonne-kilometres by 2048. PBT is well placed to build upon its comprehensive national network and integrated service offering as it begins a new chapter in its long and successful history.

## Overview of Recent Exit

### Infinite Aged Care – Next Capital Fund III



In September 2017, Next Capital Fund III announced the sale of its interest in Infinite Aged Care to Moelis Australia who will partner with the management to execute the business plan Next Capital Created. The sale to Moelis was completed on 31 October 2017, following approval by the Foreign Investment Review Board, with VPEG2's share of the sale proceeds received during November 2017.

On 10 December 2014, Next Capital III acquired a controlling interest in Infinite Aged Care, which had been established by two experienced operators in the aged care and property sectors, to acquire five seed assets in South Australia with the objective of building a national leasehold aged care business.

During the investment period, Next Capital played an instrumental role in assisting management across a range of material initiatives including identification and execution of series of brownfield development opportunities which added earnings, bed capacity and "future proofed" the existing sites. In addition, Next Capital commenced and secured a pipeline of 1500 additional bed licences to cater for a significant greenfield development program across a range of other priority locations.

Next Capital recognised that while the opportunity had the potential to deliver further incremental value by executing these long term strategies, the equity and timeframes required were too great relative to their targeted investment parameters. Hence, a longer-term investor, targeting longer term returns, would value the opportunity more highly.

The long term strategy under the new owners, Moelis Australia, remains to leverage a strong management and operational platform, to develop a material greenfield development pipeline, ultimately delivering an industry leading 2,000 bed aged care business.

The sale of Infinite Aged Care was completed in late October 2017, for \$45.7m (as reported in the media), delivering Next Capital Fund III investors including VPEG2 a strong top quartile return on investment.



## PORTFOLIO STRUCTURE

### VPEG2's Portfolio Structure – 30 September 2017

The tables and charts below provide information on the breakdown of VPEG2's investments as at 30 September 2017.

#### Current Investment Portfolio Allocation\*

The following tables provide the percentage split of the current investment portfolio of each of VPEG2A and VPEG2B, across cash, fixed interest securities (term deposits) and Private Equity.

The Private Equity component of each portfolio is further broken down by the investment stage (Later Expansion or Buyout) of the underlying investments that currently make up each trust's Private Equity portfolio.

VPEG2A			
Cash	Fixed Interest	Private Equity	
1.0%	4.0%	Later Expansion	35.0%
		Buyout	60.0%

VPEG2B			
Cash	Fixed Interest	Private Equity	
0.0%	50.0%	Later Expansion	17.0%
		Buyout	33.0%

**“Six new investments announced / completed during the quarter, bringing the total of underlying company investments in VPEG2's portfolio to 28.”**

#### Private Equity Portfolio

VPEG2, with commitments to eight Private Equity funds, ultimately held interests in 28 underlying company investments, including one co-investment, at quarter end. As a result, VPEG2's Private Equity portfolio and commitments, as at 30 September 2017, were as follows:

Private Equity Fund Name	Fund / Deal Size	Vintage Year	Investment Focus	VPEG Commitment		Capital Drawn Down		Total No. of Investee Companies	No. of Exits
				VPEG2A	VPEG2B	VPEG2A	VPEG2B		
Next Capital Fund III	\$265m	2014	Small to Mid Market Expansion / Buyout	\$6.0m	\$2.0m	\$3.14m	\$1.04m	5	1
Allegro Fund II	\$180m	2014	Small to Mid Market Expansion / Buyout	\$4.0m	\$2.0m	\$2.66m	\$1.33m	8	1
Mercury Capital Fund 2	\$300m	2015	Small to Mid Market Expansion / Buyout	\$3.8m	\$1.2m	\$1.86m	\$0.59m	3	0
CHAMP IV	\$735m	2016	Mid Market Buyout	\$6.0m	\$2.0m	\$2.09m	\$0.70m	4	0
Waterman Fund 3	NZ\$200m	2016	Small to Mid Market Expansion / Buyout	NZ\$3.0m	NZ\$1.0m	\$1.35m	\$0.43m	3	0
Pencarrow Bridge Fund	NZ\$80m	2016	Small to Mid Market Expansion / Buyout	NZ\$1.5m	NZ\$0.5m	\$0.92m	\$0.30m	3	0
Adamantem Capital Fund 1	\$600m*	2017	Mid Market Expansion / Buyout	\$7.6m	\$2.4m	\$0.18m	\$0.06m	1	0
Odyssey Fund 8	\$275m	2017	Mid Market Expansion / Buyout	\$6.0m	\$2.0m	\$0.12m	\$0.04m	0	0
Co-Invest 1 (Fitzpatricks Financial Group)	\$200m	2017	Mid Market Expansion	\$0.4m	\$0.1m	\$0.40m	\$0.13m	1	0
<b>Total **</b>				<b>\$38.0m</b>	<b>\$13.1m</b>	<b>\$12.71m</b>	<b>\$4.6m</b>	<b>28</b>	<b>2</b>

\* Target Fund Size

\*\* Assumes AUD / NZD exchange rate of 1.07 for VPEG2's investment commitments to Waterman Fund 3 & the Pencarrow Bridge Fund.

## PORTFOLIO STRUCTURE – continued

### Summary of VPEG2's Underlying Private Equity Investments

The table below provides an overview of the top 10 underlying private equity investments within VPEG2's portfolio, for which funds had been drawn from VPEG2 (on a pro rata basis across both trusts A & B), as at 30 September 2017.

Rank	Investment	Fund	Description	% of VPEG2's Private Equity Investments	Cumulative %
1	Infinite Aged Care	Next Capital III	Aged care operator and developer	9.3%	9.3%
2	Lynch Group	Next Capital III	Flower and potted plant operator	6.9%	16.2%
3	Pepperstone	CHAMP IV	Online retail investment platform	6.9%	23.1%
4	Carpet Court NZ	Allegro Fund II	Carpet retailer	6.8%	29.9%
5	Funlab	Next Capital III	Developer & operator of entertainment & leisure venues	5.5%	35.4%
6	Nexus Day Hospitals	Mercury Capital 2	Day hospital owner and operator	5.2%	40.6%
7	Forest Coach Lines	Next Capital III	Urban bus fleet owner and operator	4.9%	45.5%
8	Terrex Seismic	Allegro Fund II	Seismic services provider	4.5%	49.9%
9	Nirvana Health Group	Mercury Capital 2	New Zealand primary care operator	4.1%	54.0%
10	My Food Bag	Waterman Fund 3	Home food delivery provider	4.0%	57.9%

### Industry Spread of VPEG2's Underlying Investments

The completion during the quarter of the Provincial Education Group investment by VPEG2 investee Waterman 3, increased VPEG2's exposure to the "Consumer Discretionary—Diversified Consumer Services" sector from 0% to 3%.

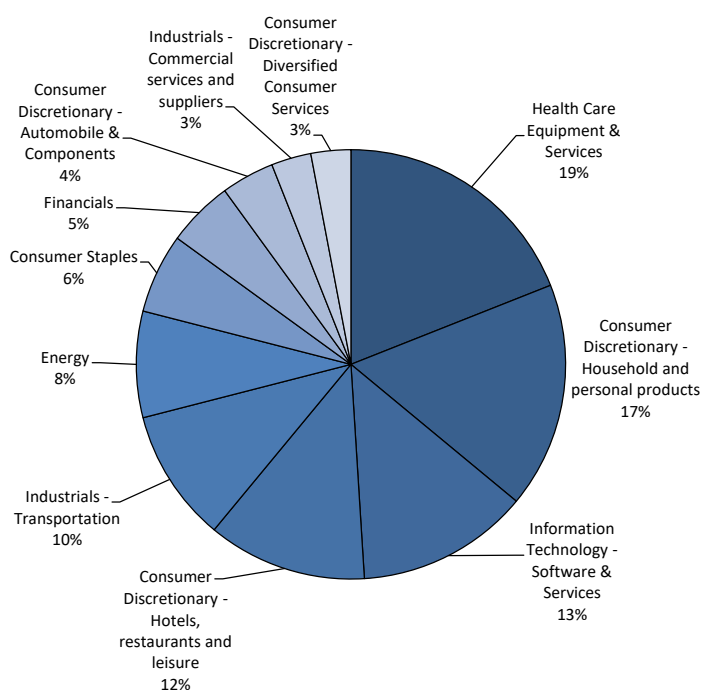
In addition, the completion of Fitzpatrick Financial Group co-investment, increased VPEG2's exposure to the "Financials" sector from 3% to 5%.

Furthermore, the acquisition of PBT Group by VPEG2 investee Waterman 3, increased VPEG2's exposure to the "Industrial—Transportation" sector from 9% to 10%.

Finally the acquisition of Nirvana Health Group by VPEG2 investee Mercury 2 resulted in an increase in VPEG2's exposure to the "Health Care Equipment & Services" sector from 16% to 19%.

Further movements in VPEG2's exposure to other industry sectors across the quarter, were caused the aforementioned movements in within the portfolio.

The "Health Care Equipment & Services" sector is currently VPEG2's largest industry exposure, representing 19% of the total Private Equity Portfolio as at 30 September 2017.



## CONTACT DETAILS

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