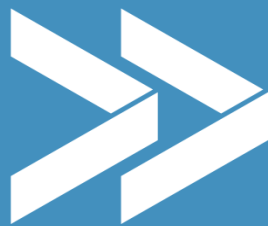


# VPEG4

DIVERSIFY  
GROW  
OUTPERFORM



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Vantage Private Equity Growth 4, LP  
Quarterly Report  
31 March 2020

# TABLE OF CONTENTS

- 3 SUMMARY
- 4 PERFORMANCE
- 4 KEY PORTFOLIO DEVELOPMENTS
- 5 OVERVIEW OF NEW INVESTMENT COMMITMENTS
- 6 OVERVIEW OF NEW UNDERLYING COMPANY INVESTMENT
- 7 PORTFOLIO STRUCTURE
- 8 MARKET & ECONOMIC CONDITIONS
- 9 VANTAGE FUNDS COVID-19 UPDATE

## 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 4, 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. 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.

# SUMMARY

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Vantage Private Equity Growth 4 ('VPEG4') is a multi-manager Private Equity investment fund structured as an Australian Fund of Funds Limited Partnership.

VPEG4 is also 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.

VPEG4 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 from its Private Equity investments while keeping the volatility of the overall investment portfolio low. This will be achieved by investing across a highly diversified portfolio of Private Equity assets, particularly profitable companies with proven products and services, with diversification obtained by allocating across fund manager, financing stage, industry sector, geographic region and Vintage Year.

VPEG4 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 \$25m and \$250m at investment.

VPEG4 will develop a diversified portfolio of underlying investments by investing into between 6 to 8 underlying Private Equity funds, focused on investments into profitable companies in growth industry sectors including the Healthcare, Consumer Staple, Information Technology and Agricultural Products.

To date, VPEG4 has made investment commitments totalling \$25 million across three Primary Private Equity funds. As a result, two underlying Private Equity investment exist within VPEG4's underlying portfolio. VPEG4's investment commitments include; \$5 million to Riverside Australia Fund III, \$10 million to CPE Capital 9 and a VPEG4 investment committee approval for \$10 million to Adamantem Capital Fund II.

## SPECIAL POINTS OF INTEREST

Riverside Australia Fund III acquires Independent Living Specialists, an Australian supplier of hospital and home-care equipment

VPEG4 commits \$10 million to CPE Capital 9, an \$800 million mid-market buyout fund, managed by CPE Capital (formerly CHAMP Private Equity) of Sydney, Australia

VPEG4's Investment Committee Approves a \$10 million commitment to Adamantem Capital Fund II a \$750 million mid-market expansion and buyout fund managed by Adamantem Capital Management of Sydney, Australia

Vantage funds are well positioned to ride out the current economic downturn caused by COVID-19 due to a high level of diversification across a broad range of industry sectors

## PERFORMANCE

During the period 1 January 2020 to 31 March 2020, an additional \$20 million in Private Equity Commitments were approved by the VPEG4 Investment Committee, bringing the total Private Equity commitments of the Fund to \$25 million. In addition one new underlying Private Equity investment was added to VPEG4's Private Equity portfolio during the period.

As at 31 March 2020, VPEG4 had called 5% of investor's Committed Capital (Call No. 1) into the Fund's operating account, to cover initial establishment costs and management fees and to provide the capital required to meet the initial call notices, from underlying funds, to invest in new underlying company investments as they are completed.

## KEY PORTFOLIO DEVELOPMENTS

During the March 2020 quarter, VPEG4 continued its Private Equity investment program receiving investment committee approval to make additional investment commitments to two new (primary) Private Equity funds.

During March 2020, VPEG4 completed an investment commitment of **\$10 million to CPE Capital 9 (CPEC 9)**, managed by Sydney, Australia based mid-market buyout specialist, CPE Capital (formally CHAMP Private Equity). In addition to this investment commitment, VPEG4 also received investment committee approval for a **\$10 million investment commitment to Adamantem Capital Fund II (ACF II)**, managed by Sydney, Australia based mid-market expansion / buyout firm, Adamantem Capital Management Pty Ltd.

Also, during March 2020, Riverside Australian Fund III (RAF III) completed the acquisition of Independent Living Specialists, an Australian supplier and registered NDIS provider of hospital and home-care equipment.

# KEY PORTFOLIO DEVELOPMENTS cont.

While the longer-term financial implications of COVID-19 are still unknown, the volatility in global markets has already created a re-rating of risk amongst market participants. Arguably these events are signifying the beginning of a new cycle in financial markets and the end of a prolonged period of asset inflation and increasing acquisition multiples. As a result of the current environment, VPEG4's underlying Private Equity fund managers are adopting a conservative approach to any new underlying investment activity.

Once the public health and safety issues have been addressed and the economic ramifications can be more clearly assessed, we expect there will be meaningful opportunities for underlying fund managers to invest capital at attractive valuations throughout the second half of the calendar year 2020. This will ultimately, create a robust platform for VPEG4 to deliver superior risk adjusted returns to investors over the term of the Fund.

## OVERVIEW OF NEW INVESTMENT COMMITMENTS

### CPE CAPITAL 9

In March 2020, Vantage Private Equity Growth 4 completed a \$10 million investment commitment to CPE Capital 9 (CPEC 9).



CPE Capital 9, formerly CHAMP Private Equity, is managed by CPEC Management Pty Ltd ([www.cpecapital.com](http://www.cpecapital.com)) of Sydney, Australia. CPEC 9 is a (target) \$800 million buyout fund, focusing on investments into profitable private companies operating within the middle market segment in Australia and New Zealand with enterprise values of \$100 million to \$500 million.

CPE Capital was founded by industry pioneers Bill Ferris AC and Joe Skrzynski AO in 1987. Over the past 33 years, CPEC has made 75 investments across eight funds deploying \$3.8 billion of investment capital under CHAMP Private Equity and its predecessor Australian Mezzanine Investments Pty Limited.

Since 2014, the firm has been managed by its next generation of investment professionals under the leadership of Chief Executive Officer & Chief Investment Officer, John Haddock who joined CPE Capital in 2003. The firm is comprised of a uniquely structured team within the Australasian Private Equity market, which combines internal functional specialists who support the deal team across all aspects of the investment process. This deep and locally orientated team structure enables CPEC 9 to assess multiple investment opportunities concurrently, undertake and progress transactions with greater speed and flexibility, and execute with greater consistency and quality.

## ADAMANTEM CAPITAL FUND II

In February 2020, the VPEG4 investment committee approved a commitment of \$10 million to Adamantem Capital Fund II (ACF II).

**ADAMANTEM  
CAPITAL**



Adamantem was established in 2016 by Anthony Kerwick and Rob Koczkar to make control investments in companies with an enterprise value of between \$100 million and \$300 million. Anthony and Rob have known each other for over 20 years and have worked closely together across this time during their roles at Bain & Co. and Pacific Equity Partners (PEP) prior to establishing Adamantem.

Anthony and Rob were instrumental in delivering much of the early track record for PEP having successfully managed 12 investments during their PEP tenure from 2004 through to 2014. They each have 26 years of relevant experience and are among the most experienced Private Equity professionals currently active in the Australian mid-market. In addition, the Adamantem team of 25 professionals, including 17 investment and operations professionals and six Managing Directors, are one of the most experienced private equity teams in Australia with an average of 20 years' relevant experience across the team.

Adamantem Capital regard the middle market in Australia and New Zealand as the most attractive segment for opportunities for Private Equity to invest into. These beliefs are derived from the limited Private Equity capital focussed on this segment, consistent deal flow and multiple exit opportunities, which allow Adamantem to produce top tier performing returns for their investors.

## OVERVIEW OF NEW UNDERLYING COMPANY INVESTMENT

### INDEPENDENT LIVING SPECIALISTS - RIVERSIDE AUSTRALIA FUND III

On 31 March 2020, Riverside Australia Fund III completed an investment into Independent Living Specialists, a leading Australian supplier and registered NDIS provider of hospital and home-care equipment.



Independent Living Specialists (ILS) was founded in 2004 by current, co-MDs Ian Farquharson and Peter Reid. The company sells and rents Assistive Technology products, operating via two main divisions: Retail and Clinical Services that are similar in size. The Retail division includes a bricks and mortar network of 22 showrooms as well as virtual (online and phone) channels both aimed primarily at individuals. The Clinical Services division has a field force of 35 clinically trained individuals that sell largely to organisations.

In recent years growth has accelerated, with ILS taking advantage of favourable market and government funding conditions to expand both divisions.

In an interview with *'Crain's Cleveland Business'* RAF III Partner Nick Speer explains "Riverside's support will accelerate the national expansion, both organically and through bolt-on investments. We are delighted to be working closely with (co-founders Ian Farquharson and Peter Reid), who have built a wonderful platform, to support ILS in becoming the standout industry leader with the scale and capability to further service Australia's aging and disabled population."

## PORTFOLIO STRUCTURE

### VPEG4's PORTFOLIO STRUCTURE - 31 MARCH 2020

The tables and charts below provide information on the breakdown of VPEG4's investments as at 31 March 2020.

### CURRENT INVESTMENT ALLOCATION

The following tables provide the percentage split of VPEG4'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 VPEG4's Private Equity portfolio. As at 31 March 2020, VPEG4's investment portfolio consisted entirely of cash and fixed interest investments, with capital due to be called from VPEG4 by RAF III for their two underlying company investments during the June 2020 quarter.

Cash	Short Term Deposits	Private Equity	
28.8%	71.2%	Later Expansion	0.0%
		Buyout	0.0%

### PRIVATE EQUITY PORTFOLIO

The table below provides a summary of VPEG4's approved Private Equity portfolio and commitments, as at 31 March 2020.

Private Equity Fund Name	Fund / Deal Size	Vintage Year	Investment Focus	VPEG4 Commitment	Capital Drawn Down	Total No. of Investee Companies	No. of Exits	
Riverside Australia Fund III	*\$350m	2019	Lower to Mid Market Expansion / Buyout	\$5.0m	\$0.0m	2	0	
CPE Capital 9	*\$800m	2020	Mid Market Buyout	\$10.0m	\$0.0m	0	0	
Adamantem Capital Fund II	*\$750m	2020	Mid Market Expansion / Buyout	\$10.0m	\$0.0m	0	0	
* Target Fund size				<b>Total</b>	<b>\$25.0m</b>	<b>\$0.0m</b>	<b>2</b>	<b>0</b>

## MARKET AND ECONOMIC CONDITIONS

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In late March 2020, the Australian and New Zealand Governments implemented strong containment measures to reduce the spread of COVID-19 among our communities. To date these measures have proved effective in reducing the rate of new infections. However, these measures have come at a cost of significantly disrupting the economy and the many vast industries it is comprised of. As a result, both Governments have recently commenced rolling back restrictions across states and territories to essentially restart each economy.

The economic ramifications of the virus is being largely felt in unemployment rates. As some businesses inevitably downsize, employees have been stood down under Fair Work Act s.524-525, which allows an employer to stand down employees due to a number of unforeseeable circumstances. Indeed, unemployment rates are increasing in many countries across the world especially those most impacted by the virus. Based on preliminary analysis it is estimated that Australia's unemployment rate will cap between 7% to 10% during the next three to six months.

The banking and capital markets sector have not gone unscathed and may be facing difficult times ahead. The banks are witnessing credit challenges with both their business and retail customers, as they face increasingly problematic circumstances over the coming months and into 2021. Added to these headwinds, is the historically low interest rates at 0.25%. Having said that, there is a realisation that banks are generally better capitalised now than during the Global Financial Crisis (GFC).

Globally, stock markets have also been drastically impacted. The quarter ended 31 March saw rapid sell offs in most equity markets around the world. During this period the Dow Jones Industrial Average, the FTSE and the ASX All Ordinaries experienced declines of over 30% in a two-week period.

Economists around the world are expecting that the downturn will be most acute in the next two to three quarters, with growth to return thereafter. The timing of the recovery will, however, depend on the duration of the containment measures, the rate of testing/contact tracing and the effectiveness of policy responses.

### AUSTRALIA / NEW ZEALAND ECONOMIC RESPONSE

The Australian and New Zealand governments have moved quickly to legislate a wide range of measures to provide financial assistance to individuals and businesses.

In response to the impact on the Australian economy, the Government has implemented three stimulus packages worth over \$214 billion. These have included a range of payments to individuals and businesses representing approximately 10.6% of Australia's GDP. The New Zealand Government has also announced a spending package equivalent to 4% of GDP in an attempt to fight the effects of COVID-19 on its economy.



In addition to the fiscal support, other important liquidity measures have also been implemented. A range of federal and state taxes have been either waived or deferred. Banks have provided an amortisation holiday and covenant relief for many companies for a period of up to six months. Many commercial landlords, under direction of the Government, have provided tenants with deferral and partial waiver of rents throughout the lockdown period.

Fortunately, the balance sheets and credit ratings of both Australia and New Zealand are strong with net debt to GDP ratios relatively low, around 19%. This compares with the rather staggering average ratio of 74% for other advanced economies.

As containment measures have proved to have lowered the spread of infection rates, the priority for the Australian and New Zealand Governments now is to support jobs, incomes and businesses, so that when the health crisis subsides, these countries are well placed to recover strongly.

## VANTAGE FUNDS COVID-19 UPDATE

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### VANTAGE FUNDS ARE WELL POSITIONED TO RIDE OUT THE CURRENT ECONOMIC DOWNTURN CAUSED BY COVID-19

Vantage's Funds underlying portfolios are strongly diversified across a broad range of industry sectors, with the majority of Vantage's underlying company investments occupying non-cyclical, defensive or growth industry sectors including;

- Health and Aged Care,
- Consumer Staple / Food,
- Industrials,
- Information Technology and
- Agricultural Products

Vantage portfolio companies within these industry sectors may experience some disruption to their supply chains during this time, however demand for their products or services is likely to remain steady in the near term.

Due to the high level of diversification of Vantage's underlying portfolios, the effect of COVID-19 restrictions on the operations of each portfolio company varies. Recent analysis conducted by Vantage, reveals that a significant majority of underlying companies across all Vantage Private Equity Growth Fund portfolios have experienced either a benefit or negligible / low impact to their financial performance as a result of COVID-19.

Summary points to note across all Vantage Private Equity Growth Fund portfolios (consisting of VPEG, VPEG2, VPEG3 and VPEG4) include;

- A total of **69 underlying company investments** currently exist within Vantage Private Equity Growth Fund Portfolio's, which are diversified across a range of industry sectors and geographic regions within Australia and New Zealand, all of which are impacted in different ways by COVID-19
- **51 portfolio companies** representing **72.8% of the total consolidated Net Asset Value (NAV) of all Vantage Private Equity Growth Fund portfolios operate Essential Service businesses** or provide a majority of their products and services to Essential Service businesses as defined under current Australian and New Zealand Government COVID-19 business definitions,
- **50 portfolio companies** representing **76.1% of the consolidated NAV of all Vantage Private Equity Growth Fund Portfolios** have reported either a **net benefit or a low impact to their financial performance** as a result of each government's imposed COVID-19 restrictions on the economy,
- Vantage's underlying investments generally have a **low to moderate level of gearing**, with a **majority of companies still generating good cashflows, with either sufficient cash reserves or the ability to draw down on existing finance facilities to satisfy their financial obligations**, should a prolonged economic downturn persist.

Vantage's underlying Private Equity managers and investee company executives have quickly adapted to the changing business landscape imposed by COVID-19. Where possible they have pivoted the operations of their companies to benefit from new opportunities and reallocated resources to service the resulting increase in demand for their products and services. At the same time, management of each company have developed strategies and implemented procedures, to mitigate other risks that could impact operations and financial performance during the crisis. As a result, Vantage is confident that each underlying fund within Vantage's portfolio's have established a robust platform for each underlying company to recover and focus on growth once the pandemic subsides and the economy emerges from the downturn caused by the COVID-19 crisis.

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