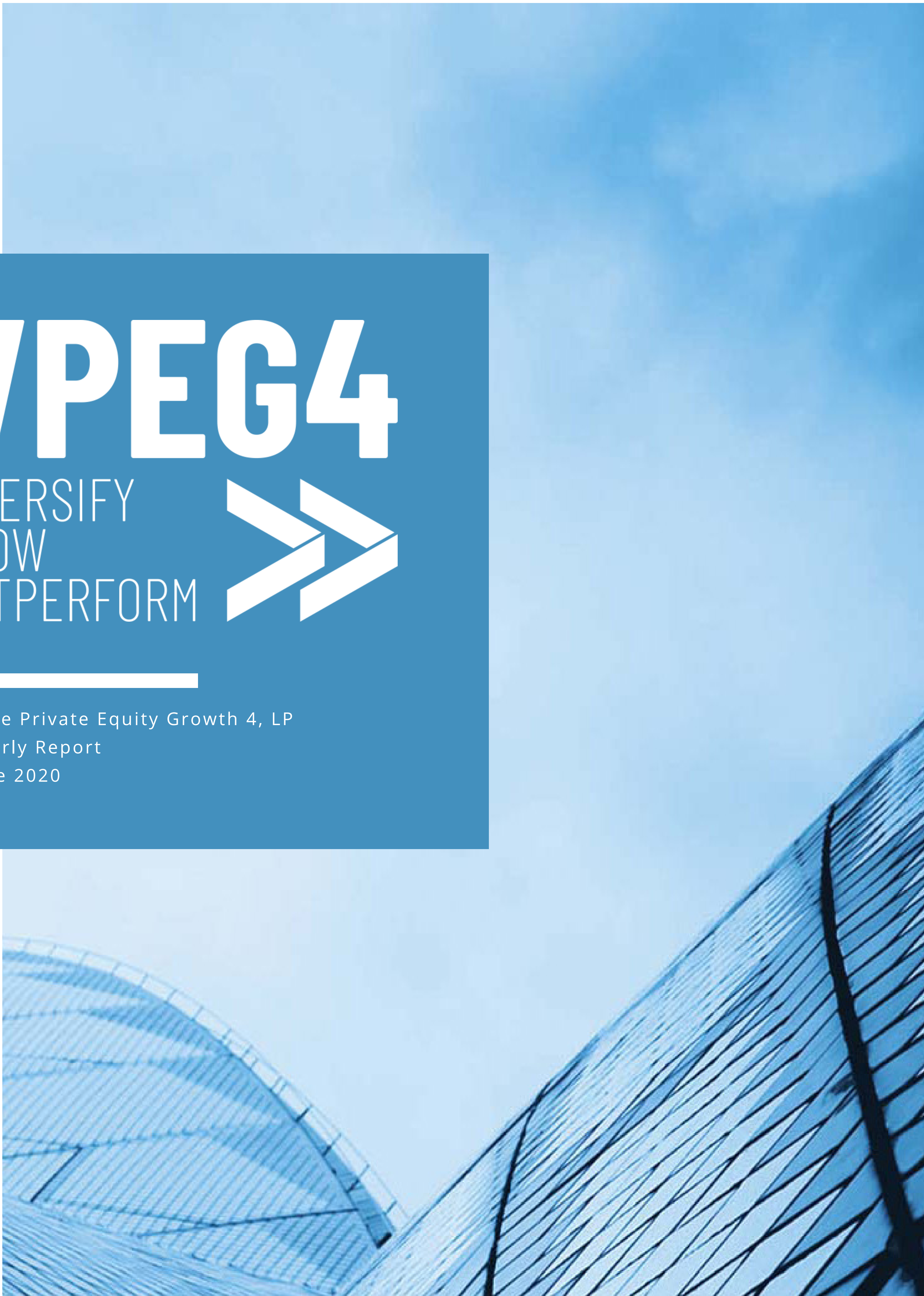

# VPEG4

DIVERSIFY
GROW
OUTPERFORM

Vantage Private Equity Growth 4, LP
Quarterly Report
30 June 2020

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**IMPORTANT INFORMATION**

# SUMMARY

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 Health Care, Consumer, Industrials, Information Technology and Agricultural Products sectors.

To date, VPEG4 has made a total of $30 million of investment commitments across three Primary Private Equity funds. As a result, two underlying company investments exist within VPEG4's underlying portfolio at quarter end. VPEG4's investment commitments include; $10 million to each of Riverside Australia Fund III, CPE Capital 9 and Adamantem Capital Fund II.

# PERFORMANCE

During the period 1 April 2020 to 30 June 2020, an additional $5 million in Private Equity Commitments were completed by VPEG4, increasing the total investment commitments by the Fund to $30 million.

As at 30 June 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 June 2020 quarter, VPEG4 continued its Private Equity investment program with the completion of an additional investment commitment to one previously existing underlying fund. During June 2020, VPEG4 completed an additional investment commitment of **$5 million to Riverside Australia Fund III (RAF III)**, increasing **VPEG4's total commitment to RAF III to $10 million.**

VPEG4's underlying Private Equity managers and investee company executives continue to adapt to the evolving business environment as a result of the disruptions caused 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, the management teams of each underlying company continue to develop strategies and implement procedures, to mitigate the risks that may impact the operations and financial performance of each company due to the COVID situation, allowing each company to continue to focus on growth as the broader economy deals with and emerges from the current crisis.

## *SPECIAL POINTS OF INTEREST*

VPEG4 commits an additional $5 million to Riverside Australia Fund III (RAF III) increasing the total investment commitment to RAF III to $10 million

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Alpha-H achieves record sales across the June 2020 quarter as a result of Management's strategic pivot to optimise revenue growth through online partner channels and their own direct to customer offerings

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Independent Living Specialists exceeds earnings forecasts across the quarter, supplemented by an increase in demand for oxygen products and hospital mattresses in response to the COVID-19 outbreak

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Strong diversification across Vantage's funds reduces the impact of COVID-19 restrictions on portfolio performance

# UPDATE ON UNDERLYING INVESTMENTS

To date, VPEG4's portfolio consists of two underlying Private Equity investments. These investments completed by underlying fund Riverside Australia Fund III include; Alpha-H, completed in April 2019 and Independent Living Specialists (ILS), which was acquired in March 2020. The following information provides an update on each underlying portfolio company's trading performance over the June 2020 quarter:

## ALPHA-H - RIVERSIDE AUSTRALIA FUND III

The COVID-19 Government imposed restrictions on retailers had a direct impact on Alpha-H product sales during March 2020.

The widespread shut down of the retail industry around the world with the closure of physical stores, resulted in many of Alpha-H's major customers initially delaying or cancelling orders, impacting company revenue toward the end of March. Alpha-H management reacted quickly to these changes to pivot the company's strategy to optimise revenue opportunities through online orientated partners and their own Direct to Customer online offerings. This significant transition to online allowed Alpha-H to perform strongly across April, May and June 2020, with record sales achieved for those months from customers in Australia, the UK and Europe. Online sales, which historically have represented approximately 30% of revenue, delivered over 60% of total sales in May and June 2020. Alpha-H's own website has also delivered significantly stronger sales across the June quarter as a result of this focus to online. Management expect this trend to continue across the remainder of 2020 and into 2021, with the increase in revenue also driving an increase in earnings due to the higher margins associated with online sales over physical stocking of products in stores.

With the head office and manufacturing facility of Alpha-H located in Queensland, the recent stage 3 and 4 lockdowns currently in place in Victoria have had no impact on the ability of Alpha-H to continue to service demand for their products globally.

## INDEPENDENT LIVING SPECIALISTS - RIVERSIDE AUSTRALIA FUND III

Following Riverside Australia Fund III's acquisition of Independent Living Specialists (ILS) in March 2020, the company traded ahead of budget throughout the June 2020 quarter.

This was assisted by an uptick in direct sales across Oxygen products and Hospital mattresses in response to the COVID-19 outbreak. Store rollout / retail performance was slightly delayed / impacted by COVID-19, however management were still able to open two new stores whilst working remotely, increasing the total store network to 24 across Australia. Show rooms are located predominately along Australia's East Coast with 17 in New South Wales, four in Victoria, two in Queensland and one in South Australia.

While store foot traffic declined across the period, the company traded strong throughout the period as customers shifted to use online and phone (1300) channels for their purchases.

Independent Living Specialists head office is in Sydney and they have 24 store locations across Australia of which only 4 (17%) are located in Victoria. Given that they are an essential service business their Victorian stores can remain open for sale of new equipment, service and repairs. As such, the recent stage 3 and stage 4 lockdowns currently in place in Victoria will likely only cause a minor disruption, on the ability of ILS to continue to service demand for their products nationally.

# PORTFOLIO STRUCTURE

## VPEG4's PORTFOLIO STRUCTURE - 30 JUNE 2020

The tables and charts below provide information on the breakdown of VPEG4's investments as at 30 June 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.

As at 30 June 2020, VPEG4's investment portfolio consisted entirely of cash and fixed interest investments with capital due to be called from VPEG4 by RAF III during September / October 2020, to repay the RAF III bridge funding facility that was utilised to fund their two underlying company investments, Alpha-H and Independent Living Specialists.

| Cash | Short Term Deposits | Private Equity | |
|---|---|---|---|
| 0.2% | 99.8% | Later Expansion | 0.0% |
| | | Buyout | 0.0% |

## PRIVATE EQUITY PORTFOLIO

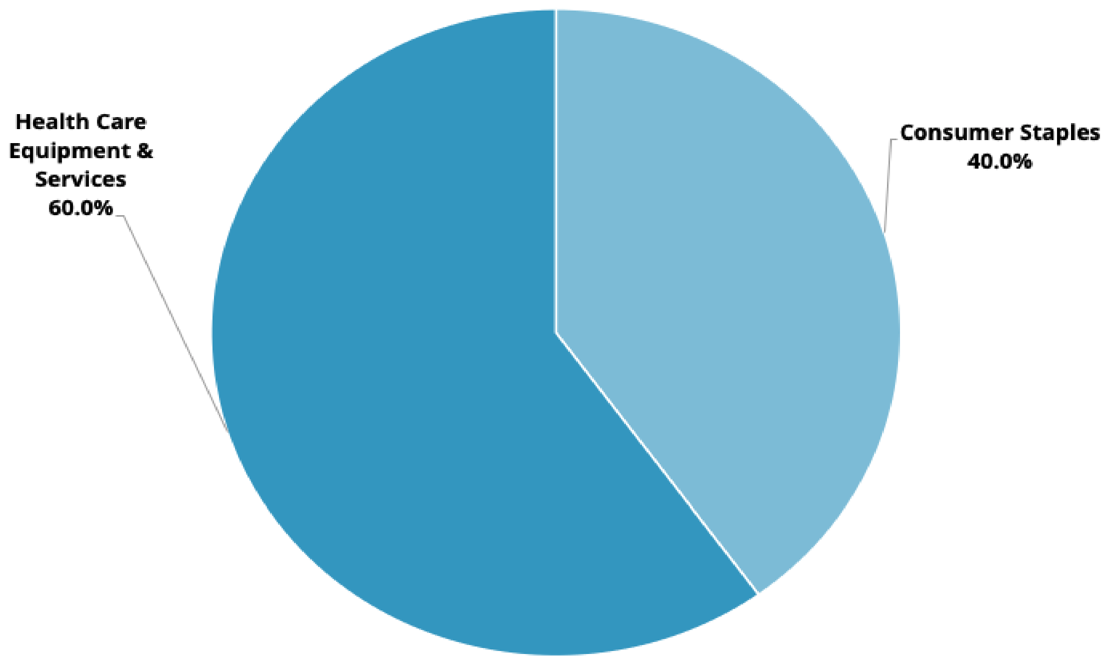
The table below provides a summary of VPEG4's Private Equity commitments and investments as at 30 June 2020.

| Private Equity Fund Name | Fund / Deal Size | Vintage Year | Investment Focus | VPEG4 Commitment | Total No. of Investee Companies | No. of Exits |
|---|---|---|---|---|---|---|
| Riverside Australia Fund III | *$350m | 2019 | Lower to Mid Market Expansion / Buyout | $10.0m | 2 | 0 |
| CPE Capital 9 | *$800m | 2020 | Mid Market Buyout | $10.0m | 0 | 0 |
| Adamantem Capital Fund II | *$750m | 2020 | Mid Market Expansion / Buyout | $10.0m | 0 | 0 |
| * Target Fund size | | | **Total** | **$30.0m** | **2** | **0** |

## INDUSTRY SPREAD OF VPEG4's UNDERLYING PORTFOLIO

The completion of the acquisition of Independent Living Specialists by RAF III at the end of March 2020 commenced VPEG4's exposure to the "Health Care Equipment & Services" industry sector at 60% representing VPEG4's largest industry sector exposure.

The Consumer Staples industry sector represented by Alpha-H makes up 40% of VPEG4's industry exposure.



# VANTAGE FUNDS COVID-19 UPDATE

### *STRONG DIVERSIFICATION ACROSS VANTAGE'S FUNDS REDUCES THE IMPACT OF COVID-19 RESTRICTIONS ON PORTFOLIO PERFORMANCE*

While most States across Australia have managed to either suppress or eliminate the spread of COVID-19 in recent months, the emergence of the second wave of the virus in Victoria during July and August has seen stage 3 and 4 restrictions being imposed across that State. These new restrictions, which will be in place until at least September 2020, will cause a significant slowdown of the Victorian economy as well as drastically impact the operations and financial performance of many non-essential businesses operating in Victoria.

As the Victorian economy represents approximately 25% of Australia's GDP, any halt to economic activity in that State will also impact the recovery of the broader Australian economy. As such, Vantage regards it as necessary at this time to assess the degree to which the situation in Victoria will impact the operations and performance of the portfolio of investments of all Vantage managed funds.

As reported last quarter, the underlying portfolios of Vantage's Funds 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. In addition, Vantage's portfolios are also highly diversified geographically, with underlying companies operating in numerous locations across most regions and states of Australia and New Zealand.

Due to the high level of diversification of Vantage's underlying portfolios, the effect of Victoria's recently imposed restrictions on the operations of each portfolio company will vary. However, recent analysis conducted by Vantage reveals that a significant majority of underlying companies across all Vantage Private Equity Growth Fund portfolios will likely experience no or a low impact to their financial performance as a result of Victoria's move to Stage 3 / 4 restrictions.

As reported earlier, no company in VPEG4's current portfolio has or is likely to be impacted by the recent Victorian lockdowns, due to a majority of their operations being based in other Australian States, as well as the ability for their customers to continue to purchase their products online without any restrictions.

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

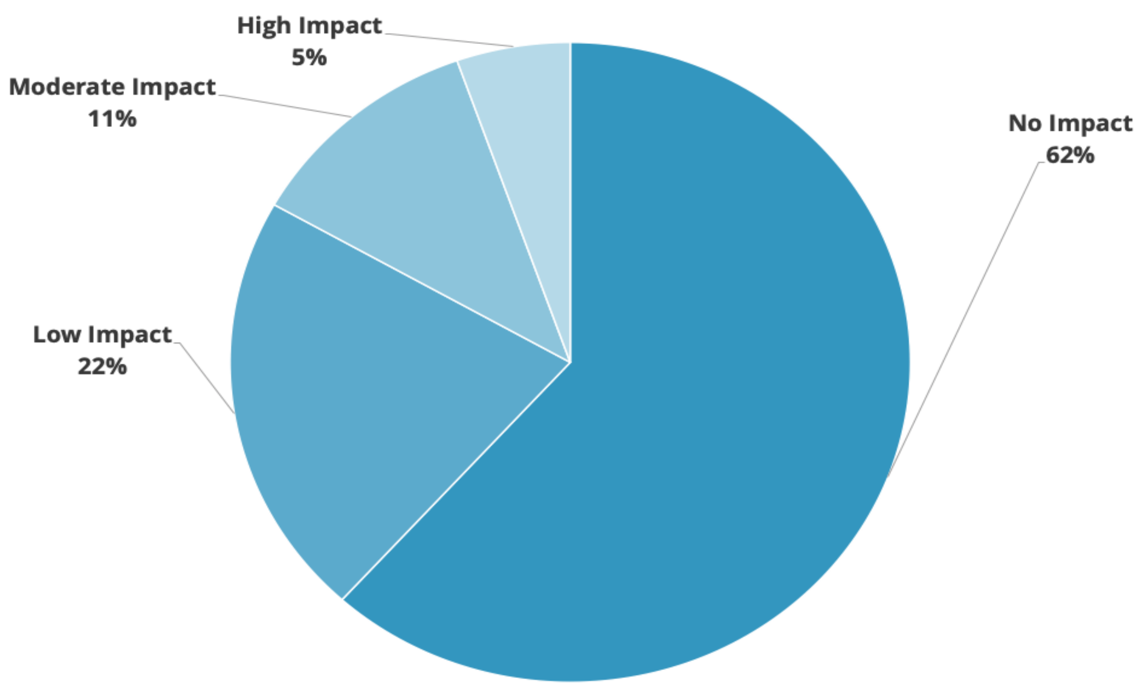
- A total of **70 underlying** company investments currently exist **within Vantage Private Equity Growth Fund Portfolio's**, which are diversified across a range of industry sectors and geographic regions within Australia and New Zealand, all of which have been impacted in different ways and at different times over recent months due to the timing and severity of the various State and National restrictions imposed by Governments resulting from the various COVID-19 waves.

- **61 portfolio companies representing 83.2% of the total consolidated Net Asset Value (NAV)** of all Vantage Private Equity Growth Fund Portfolios have reported that there will be **no impact (61.7% of NAV)** or possibly only a **low impact (i.e. less than 20%) to their financial performance** as a result of the Victorian Government's recently imposed COVID-19 restrictions on that State.

- **5 portfolio companies representing 11.4% of NAV** reported the possibility of only a **moderate impact (i.e. less than 50%)** to their financial performance as a result of the Victorian restrictions.

- **4 portfolio companies representing only 5.4% of NAV** are likely to experience a **High impact to their operations and financial performance** as a result of the Victorian restrictions.

## POTENTIAL IMPACT TO REVENUES ACROSS ALL UNDERLYING COMPANIES IN VANTAGE PRIVATE EQUITY GROWTH FUND PORTFOLIOS AS A RESULT OF STAGE 3 & 4 RESTRICTIONS IN VICTORIA




Note; Consolidated breakdown as a % of NAV of all underlying companies in Vantage Private Equity Growth Fund Portfolios as at 30 June 2020

In summary, the high level of diversification across Vantage's underlying investments significantly reduces the impact of any new Government imposed COVID restrictions impacting the overall performance of each Vantage Fund. In addition, given the strong oversight of Vantage's underlying fund managers and the ability for each underlying company to rapidly adapt their strategies to meet the challenges presented by the virus, Vantage is confident that a significant majority of underlying companies across the portfolios will continue to grow, which will ultimately contribute to deliver superior risk adjusted returns to Vantage Fund investors.

# MARKET AND ECONOMIC CONDITIONS

Disruptions caused by the COVID-19 pandemic have continued to impact both global and domestic demand in Australia and New Zealand during the June 2020 quarter. As a result of a largely successful suppression of the virus (despite the recent outbreak in Melbourne) and significant Government stimulus, Australian equity markets strongly rebounded, reversing most of the losses experienced during the close of the March 2020 quarter. The Australian economy experienced a significant downturn throughout April as restrictions were strictly enforced. However, as governments began to gradually ease restrictions over May and June, economic activity began to subsequently increase. These movements in economic activity where represented by the Performance of Manufacturing Index (PMI), which crashed in April 2020 to 35.8, down from 53.7 in March, before rebounding to 51.5 at 30 June 2020 quarter end, due to an overall improvement in demand. The services segment of the PMI however continued its decline throughout the period, dropping from 38.7 in March 2020 to 31.5 in June 2020 – despite the economy beginning to open up from the COVID-19 restrictions. Business sentiment bounced back from its -65 low at the end of March, though the latest May 2020 reading, which remains negative at -20. Similarly, consumer confidence fell sharply from 91.9 in March 2020 to 75.6 in the following month, before rebounding to 88.1 in May 2020.

Real GDP in Australia is forecast to have experienced its sharpest fall on record during the June quarter. Activity is expected to pick up in the September quarter and beyond, with the continued easing of restrictions in most parts of the country. Real GDP is forecast to fall by 0.25% in 2019-20 fiscal year and by 2.5% in 2020-21 fiscal year. In calendar-year terms, real GDP is forecast to fall by 3.75% in 2020, before increasing by 2.5% per cent in 2021.

A confident sentiment however is viewed among economists as it is expected that both Australian and New Zealand economies are forecast to recover much sooner than in past recessions due to the gradual easing of restrictions in both countries, though it is expected that it will be a long road back to full recovery with the unemployment rate remaining elevated for some time. Both the Federal Government and the Reserve Bank of Australia have remained highly accommodative in their response to the coronavirus pandemic with fiscal and monetary packages being appropriately allocated.

## AUSTRALIA / NEW ZEALAND ECONOMIC RESPONSE

In Australia, the Federal Government revised the size of its economic support package to $289bn, representing 14.6% of annual GDP. Australia's JobKeeper scheme has paid out over $30 billion to 3.5 million workers from more than 960,000 businesses. The government has decided to extend multiple support packages beyond September, including;

- A tapered extension of the income support measures, including an additional $20.4bn in reduced payments for JobKeeper (until March 2021) and JobSeeker (until December 2020).

- Additionally, further support packages include $525 million to infrastructure projects in VIC and NSW, a $680 million Home Builder grant and an additional $2 billion JobTrainer skills program.

While Australia's net debt is expected to increase with the expanded support, the country's robust finances prior to the current downturn means that net debt is expected to climb to 35.7% of GDP in June 2021. Treasury estimates a $85.8 billion deficit in 2019-20 and a $184.5 billion deficit in 2020-21, which includes the $16.6 billion JobKeeper extension.

New Zealand's decision to ease most, if not all, restrictions early on in the onset, has materially improved its country's economic position. In May 2020, the New Zealand government announced that it would borrow an additional NZ$50 billion in the June 2021 fiscal year to be mitigate impact of the COVID-19 pandemic. The government's response to the 8 week extension of its wage subsidy scheme is now up to NZ$14 billion and is being set aside in the event of the country experiencing a second wave outbreak. As a result of the economic support, New Zealand posted a rise in net debt to 25.1% of GDP at the end of May 2020.

In comparison to other world economies, the consensus among professional economists, is that Australia and New Zealand will emerge from the current crisis better than most economies. For instance, the IMF forecasts the Australian economy to contract by 4.5% before rebounding by approximately 4% in 2021. This represents is a 2.2-point improvement on its April outlook and makes Australia second to South Korea in terms of economic resilience. According to S&P, New Zealand is expected to contract by 5% in 2020 before rebounding by 6% in 2021.

## CONTACT DETAILS

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