Private to Public Opportunities Fund No.3

Quarterly Report June 2022

	NAV ($)	Quarter (%)	Cumulative (%)
Perennial Private to Public Opportunities Fund No.3	1.007	0.37	0.70

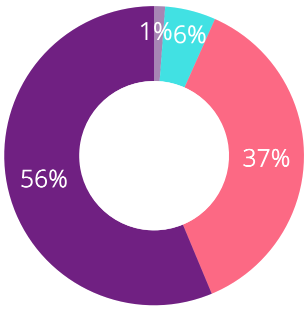
Performance Update

The Private to Public Opportunities Fund No.3 (PPP3) returned +0.37% (net of fees) for the quarter ending June 2022, and has returned +0.70% (net of fees) since inception.

PPP3 is approximately 10 months into its life, and is now fully deployed. Given the recent deployment of capital, all the underlying private companies are well-funded and performing in-line with expectations. During the quarter, PPP3 added two new pre-IPO positions (Equiem and Limitless) and a new Private Growth and Expansion position (Shippit). The Fund also increased its position in debt collection business InDebted through a top up round.

During the quarter, performance benefited from the merger of fintechs SuperHero and Swyftx. However the Fund was negatively impacted by the listed exposures.

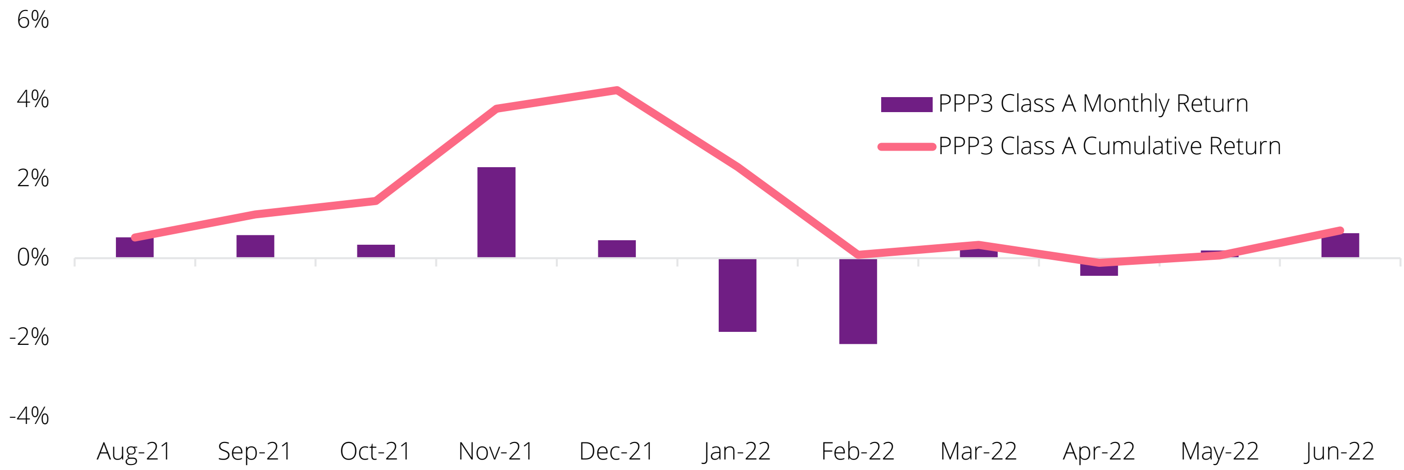
Current Fund Allocation



The exposure to listed equities in PPP3 has been intentionally reduced over the past 6 months from 15% as at end of December 2021 to 6% as at the end of June 2022. It was an active decision to redirect this capital towards private growth companies. During this period, the opportunity set has been the strongest in the Private Growth segment of the market, and as such the portfolio is skewed to these investments. This has enabled PPP3 to perform solidly despite the recent global equity market sell-off (for example, the ASX The Small Ordinaries Index was down 20.4% for the June quarter). As a result of this some of the pre-IPO positions in PPP3 may have to consider alternative exit strategies to an IPO.

In general, the private investments held in PPP3 continue to perform very well as they represent structural growth businesses across multiple industry sectors. Several portfolio holdings are attracting inbound M&A interest or financing rounds at significant premiums to our holding valuations. We expect this to be a significant contributor to the Fund's returns over the coming quarters. At the time of writing, we are not considering a valuation write-down for any of our PPP3 private investments, but as always, we are continuously monitoring and reviewing our portfolios. Almost all of the PPP3 private positions continue to be held at cost.

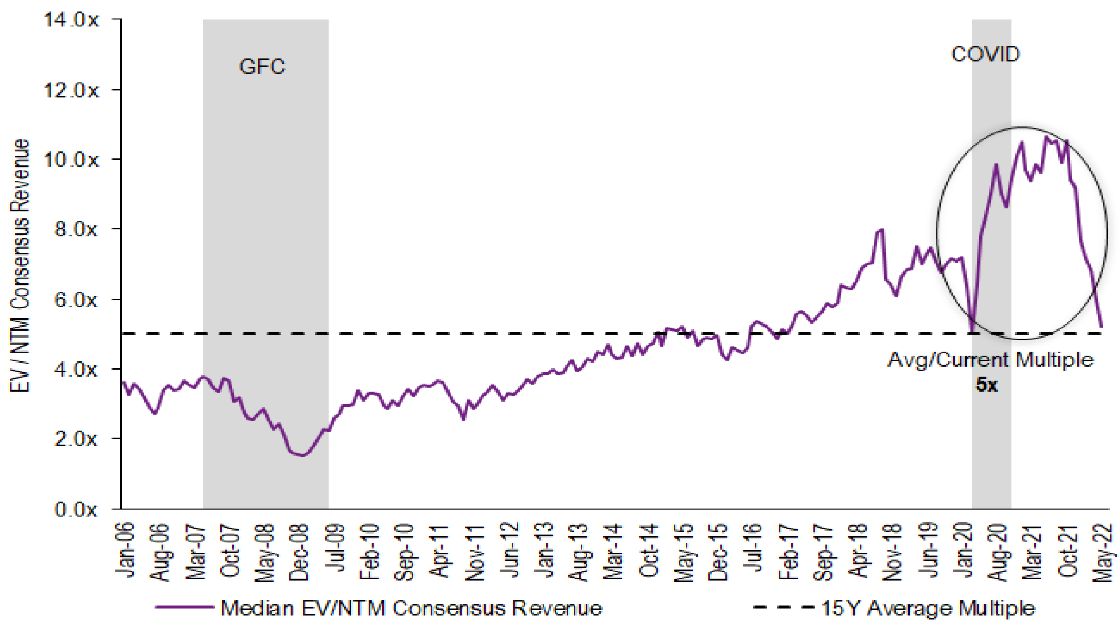
Return Since Inception[1] Net of Fees (%)



[1] Inception date for PPP3 is 18 October 2021. Performance shown is net of fees. It does not take into account any taxes payable by an investor. Past performance is not a reliable indicator of future performance.

Private Markets Focus

Our Perennial Private to Public (PPP) private investments are typically fast-growing, high-margin businesses with strong market positions, unique IP and good pricing power. We have engaged heavily with our portfolio companies since the start of the year to ensure their cash management and funding runway is optimised. Pleasingly almost all of PPP investment companies have sufficient cash runway at present, with a select few currently shoring up their balance sheet through cost cutting measures and/or capital raisings. Some other portfolio companies are pursuing capital raising to accelerate existing growth initiatives as well. Last year, we encountered elevated valuations in private markets, however we maintained our valuation discipline and only invested at attractive valuations, with adequate downside protection. Accordingly, the current correction in public and private market valuations has not materially impacted the PPP portfolio to date. We believe the valuations in both the private and public markets were extremely elevated during 2020 and 2021 because of low interest rates and monetary policies. A more appropriate benchmark for valuations would be to look backwards to 2019 and to the long term average. This is evident in the chart below which shows the medium Enterprise Value to Next Twelve Months Revenue (EV/NTM Revenue) for listed tech companies.



Source: Perennial, FactSet and Citi

When investing for the PPP Funds, we value private businesses using long-term averages and apply significant discounts to comparable public businesses. Our large and growing pipeline of private deals enables us to uncover the highest quality companies and invest at very attractive valuations and terms, usually on an exclusive or cornerstone basis, thereby setting the terms. Perennial's reputation, scale and style has positioned us as the lifecycle partner of choice for many private company founders. We pass on ~95% of the private opportunities we meet, and on regular occasions, this is due to excessive valuation expectations.

We maintain a conservative valuation policy once a private company enters the portfolio. All private investments are held 'at cost' until a verified material third-party transaction occurs, such as an IPO, private takeover/merger, subsequent equity raising in the same or lower security class, or a secondary selldown. In practice, this means many of our private investments are held at a historical value which is below the current operating performance of the business. Carrying values for all private investments are reviewed every quarter, with any underperforming company assessed at that time. Across the 87 private investments we have made over the past 5 years, there has been only 1 write-down due to poor operational performance (held in PPP1). In a couple of other cases, we have made small downward revisions when a new instrument is issued or a discounted secondary sale has taken place, in order to maintain our conservative valuation approach. Listed equity positions are marked to market every month.

The PPP Funds do not invest in ideas, start-ups, pre-product validation or unproven business models. Often at this stage, the business strategy is to grow at any cost, with a high failure rate. Many of these businesses have been funded at relatively high valuations and are operating at a large cash burn. Due to their less mature profiles, these business often do not have the scale or operating levers to get to profitability outside of large costs cuts and staff redundancies. As a result, the PPP Funds focus on businesses that are further along the maturity curve. We have always been attracted to this market segment for the following key reasons:

1. Our companies are of a revenue scale where they are often already profitable/cashflow breakeven or can achieve this quickly if required by market conditions. They have a maturity of operations and a successful product in market. Therefore, they have operational levers to either grow faster or slow down growth if required. Several of our portfolio holdings have recently pivoted from cash burn to cash preservation and profitability.
2. Our companies have a financial track record that we can assess. We can then make informed decisions on unit economics and valuations, as well as future growth potential.
3. The PPP Funds are more often than not the last financial investor in the business. Therefore, we position ourselves to have the highest class of shares on issue. This provides the PPP Funds with strong downside protection.
4. These companies are closer to an exit event with multiple options including IPO, Trade Sale or Private Equity buyout. In the current market, we are witnessing an increase in both Trade Sale and Private Equity buyout interest.

In addition, we do not invest in cyclical businesses which includes resources (mining & energy), agriculture, commodities, direct property, and mature domestic industrials – this helps to protect the PPP portfolios from both domestic and global macro shocks.

IPO Market Update

We have observed the significant slowdown in IPO activity over recent months and remain cautious on this sector of the market. Since the global COVID sell-off in early 2020, new IPOs on the ASX have delivered mixed results. On our analysis, approximately 75% of the 20 largest domestic IPOs over this period are now trading below their issue price. This reflects the quality, pricing and structure of these transactions, as well as a volatile equity market.

During that period, our PPP Funds only invested in a single name on the top 20 IPO list, and that company was one of the few to perform well on debut. As with all our PPP investments, we remain highly selective regarding which IPO companies we decide to invest in. Our preferred IPO candidate is a mid-sized, founder-led, fast–growing, highly-predictable business with an attractive transaction structure and valuation. The secret to a successful IPO is usually the belief within the owners and counterparties that a company's value is built with consistent execution against a good strategy over time, not based on a singular event or transaction.

The Small Ordinaries Index was down 20.4% for the June quarter, with the prospect for successful IPOs unlikely in the near term. Some of our companies that were on track for a September quarter listing are finding strong Private Equity and/or strategic interest instead, and we expect more positive newsflow in this regard over the coming months.

History suggests that while IPO windows can be shut for a period (typically six months), they always reopen, and the early IPOs are usually more attractive as valuation expectations have been reset. We will monitor the pipeline of coming IPOs to screen for any high-quality investments. We also expect some of our pre-IPO positions to move towards IPO in the December 2022 or March 2023 quarters.

Company Update – Superhero

Sector	Investment Stage	Brief Description
FinTech	Pre-IPO	Online stockbroking & superannuation platform

Superhero is a convertible note investment in a number of Perennial Funds including PPP3. Perennial led an investment round in March 2021, and then followed with a top-up investment in October 2021. Last month, Superhero announced a merger with Swyftx to create a $1.5b diversified trading services platform for retail investors.

Founded in Sydney in 2018 by John Winters (CEO) and Wayne Baskin (CTO), Superhero is an online retail investment platform focussed on equity trading and superannuation investment. The platform was launched in September 2020 after 2.5 years of IT development and regulatory approvals.

We made our investments in Superhero for the following reasons:

- The two founders are strongly aligned and committed to the business with significant equity holdings. They possess highly relevant but differentiated experience and skillsets. John Winters' background is in stockbroking and wealth management, while Wayne Baskin brings technology and B2C interface skills from his prior role as Deputy CEO / CTO of Booktopia. We have known the founders prior to Superhero, and have watched the business as it has developed and delivered over the last 2 years.
- Superhero has built its own proprietary and unique wealth trading and administration platform with a novel trade processing mechanism. This has resulted in a 'next-gen' product which is fast, low-cost, user-centric and highly scalable, with its own regulated custody capability. The IT build and regulatory approvals to get to this point have been significant. Due to its purpose-built and automated technology platform, Superhero exhibits strong unit economics and high gross margins.
- The domestic market was overdue for a new challenger brand, offering a low-cost and more efficient user experience driven by the latest technology available. Superhero's marketing strategy has been differentiated and effective, with the business carving out an increasingly strong position in the industry. By attracting first-time investors, Superhero has also effectively increased the size of its own target market. Superhero has entered a number of key partnerships with household names such as Qantas and the AFL.
- In exciting news recently, Superhero announced a merger with cryptocurrency trading platform Swyftx. The combined company will hold over 800k domestic client accounts, and have meaningful scale in terms of revenue and earnings. As part of this transaction, our convertible notes will be partially converted into an equity position in the new group.

Overall, we continue to be strong supporters of the Superhero business, and look forward to further success as part of the Swyftx merged group going forward.

Thank you again for your continued interest in PPP3.

Yours sincerely,
The Perennial Private Investments Team

L to R: Brendan Lyons, Ryan Sohn, Karen Chan, Andrew Smith, James McQueen

Contact us

Level 27, 88 Phillip Street
Sydney NSW 2000

1300 133 451

invest@perennial.net.au

www.perennial.net.au