

	NAV (\$)	Quarter (%)	CY22 (%)	Since Inception <sup>1</sup> Cumulative (%)
Perennial Private to Public Opportunities Fund No.3	1.006	-4.4	-3.5	+0.6

## Performance Update

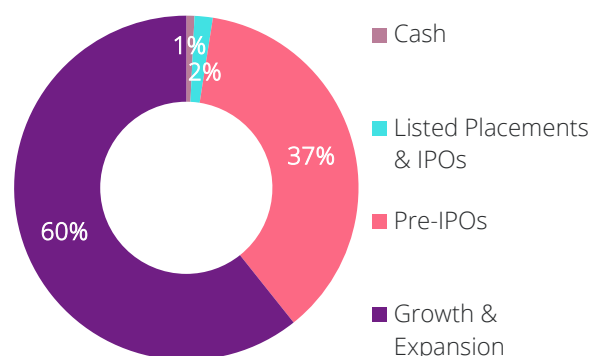
The Private to Public Opportunities Fund No.3 (PPP3) returned -4.4% (net of fees) for the quarter ending December 2022, and over CY22 delivered -3.5% (net of fees). Since inception in August 2021, PPP3 has returned +0.6% (net of fees) and is now fully deployed.

PPP3 had a busy quarter regarding portfolio activity and transactions, which resulted in an overall negative performance. This included a lower-priced follow-on round by Willow, and the write-off of our Brosa investment. Brosa is an online furniture retailer which faced financial difficulties and was acquired by ASX-listed Kogan for a nominal value. In more positive news, PPP3 was able to sell down part of its private holding in Xpansiv to a group of new investors following the Blackstone transaction in mid CY22.

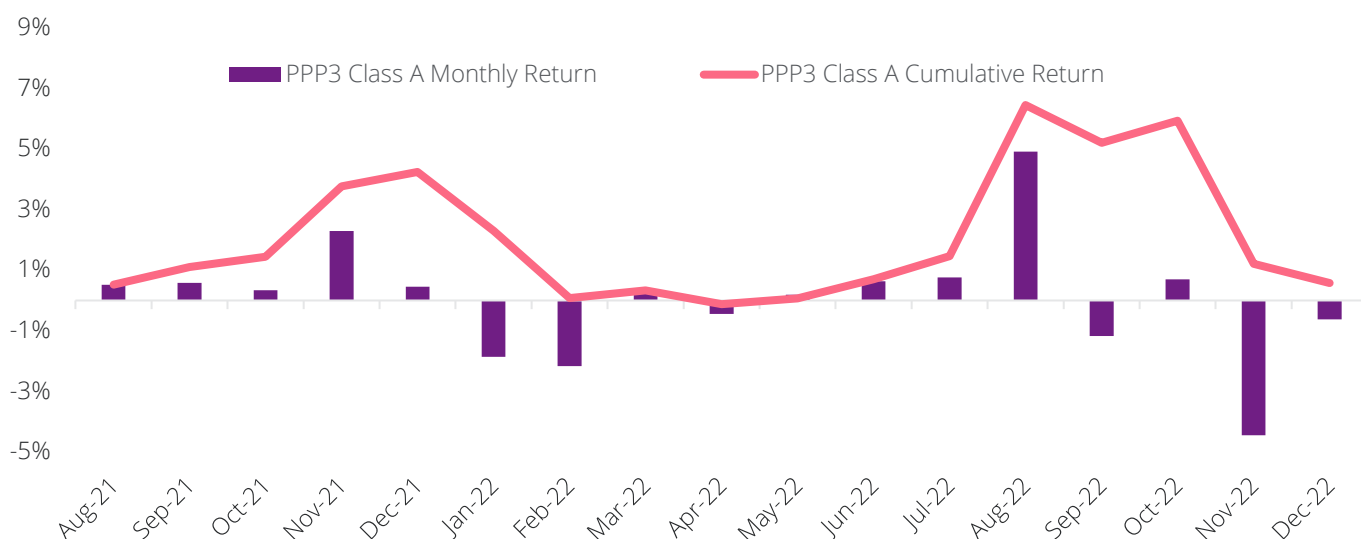
During the quarter, PPP3 completed three small follow-on investments in a HR tech business, an ecommerce platform, and a fintech which were all existing positions. We continue to spend time with all our private companies to ensure they remain on strong financial footing in the current uncertain macro environment. To this end, we have completed a review of carrying values for PPP3's investment as at the end of the quarter with no valuation changes proposed at this time.

In general, the private investments held in PPP3 continue to perform well as they represent structural growth businesses across multiple industry sectors. However, as a result of the current macro volatility, we expect the private positions in PPP3 to take longer to reach an ASX listing. On the other hand, M&A activity within the fund's private company portfolio has seen a marked increase in recent months, and we expect this to be a key driver of returns during CY23.

## Current Fund Allocation



## Return Since Inception<sup>1</sup> Net of Fees (%)



<sup>1</sup> Inception date for PPP3 is 18 August 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 in 2022

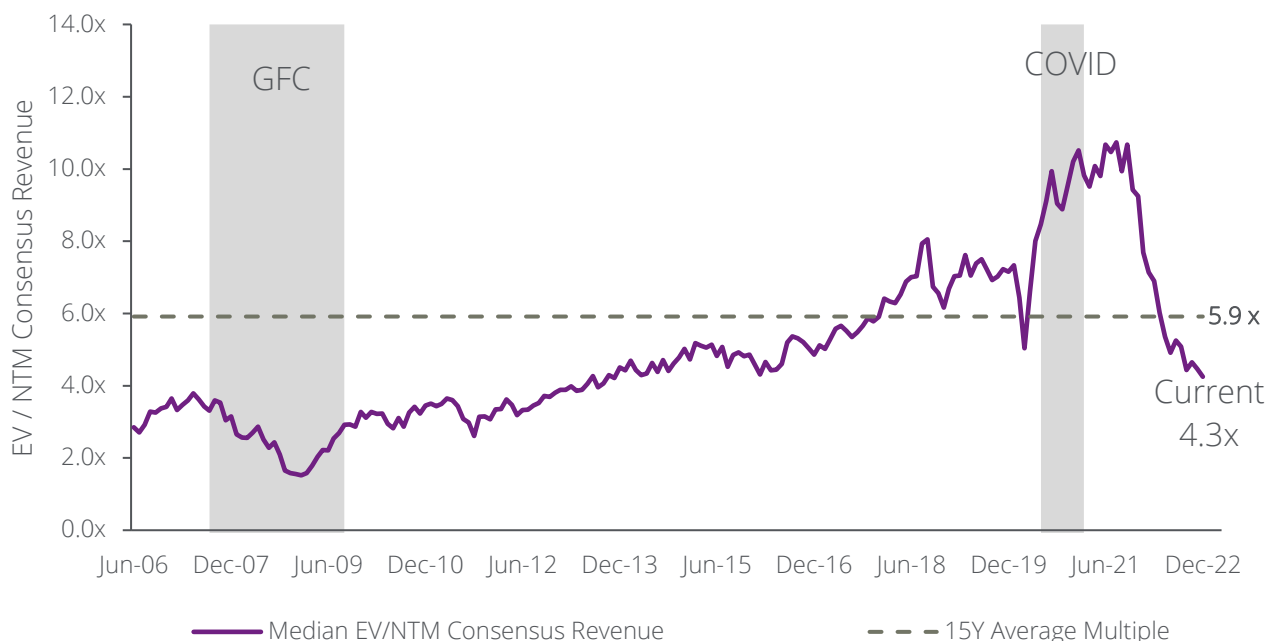
When it comes to financial markets, every year is different and that was certainly the case in 2022. Within private markets, we observed a sharp reversal of the euphoria of 2021 into a reality reset last year. While this has created challenges, it is also fundamentally healthy for the private market, and is providing excellent opportunities to invest in high-quality private companies on attractive valuations and terms.

The key trends observed during the last year included:

- ✓ **Private for Longer** – The thematic of founder-led private companies wishing to “stay private for longer” was reinforced during 2022. While this trend has been developing over recent years, the recent volatility of the IPO market resulted in many private companies delaying their listing plans further. Overall, we think this is a positive development as it enables companies to get bigger & better prior to considering a public listing or private exit.
- ✓ **Private Markets More Cautious** – During 2022 there was a reduction in private transactions in terms of both volume and value domestically, which in both cases fell to around half the level seen in 2021. In addition, deal cadence also reduced, with many transactions taking longer to negotiate and close. In our view, this was a welcome development as it rebalanced the private market back in favour of investors.
- ✓ **Private Valuation Reset** – The public equity market sell-off over the last year (see chart on the next page) has resulted in more attractive valuations & terms within private markets. As a guiding principle, we have always applied a significant private valuation discount due to illiquidity. It is critical to enter every investment on an appropriate valuation, and the current macro environment is generating more of those opportunities. In a few cases, follow-on investments have resulted in mark-downs to the carrying value of our holdings, in line with our valuation policy.
- ✓ **Increased Private M&A Activity** – An increase in M&A activity within the listed market has also become evident in the private market during 2022. We have successfully exited a number of private investments via trade sale over the last year, and ~10 other portfolio companies are currently under approach. While some of these transactions may not be successful, we expect private takeovers to be a key driver of fund performance in 1H 2023.
- ✓ **IPO Market Subdued** – We saw a marked decline in IPO activity on ASX over 2022, with the lowest dollar value raised in over 20 years (see chart on the next page). The 89 IPOs in 2022 represented a -56% decline from the 202 new listings in 2021. In addition, 85% of the IPOs last year were resources & energy companies, which are two sectors that our private funds do not invest in due to their inherent cyclical nature. In terms of share price performance, last year's IPOs were again mixed with the majority trading below issue price by year end. As we have commented in previous newsletters, overall IPO performance in Australia has been very poor over the last three years due to a combination of high pricing, unfavourable deal structure and volatile equity markets.
- ✓ **High Activity in Our Portfolios** – Despite the comments above, activity levels within our private funds remained high in 2022. As evidence of this, we saw ~35 separate capital transactions occur last year which represents approximately two-thirds of the private companies within our private portfolios. Therefore, despite the lower level of activity in the overall market, our private companies had a very busy year.
- ✓ **Private Pipeline Remains Strong** – We are fortunate to have an incredibly strong pipeline of proprietary deal flow, which continues to grow each year. This pipeline is driven by the growing private capital ecosystem in Australia over the last decade, with more capital available for founders from seed & start-up stage right through to IPO or private exit. Perennial's ability to be a lifecycle funder of private companies often makes the partner of choice for founders.
- ✓ **Less Private Capital Competition** – With international markets also experiencing a reset in 2022, the offshore providers of private capital have returned to their core markets. With the availability of private growth funding in Australia already limited, the exit of the offshore players has further restricted the capital available to private companies. This reduction in competition has strengthened the position of our Perennial private funds in the market.

## Valuation Reset for Tech Stocks

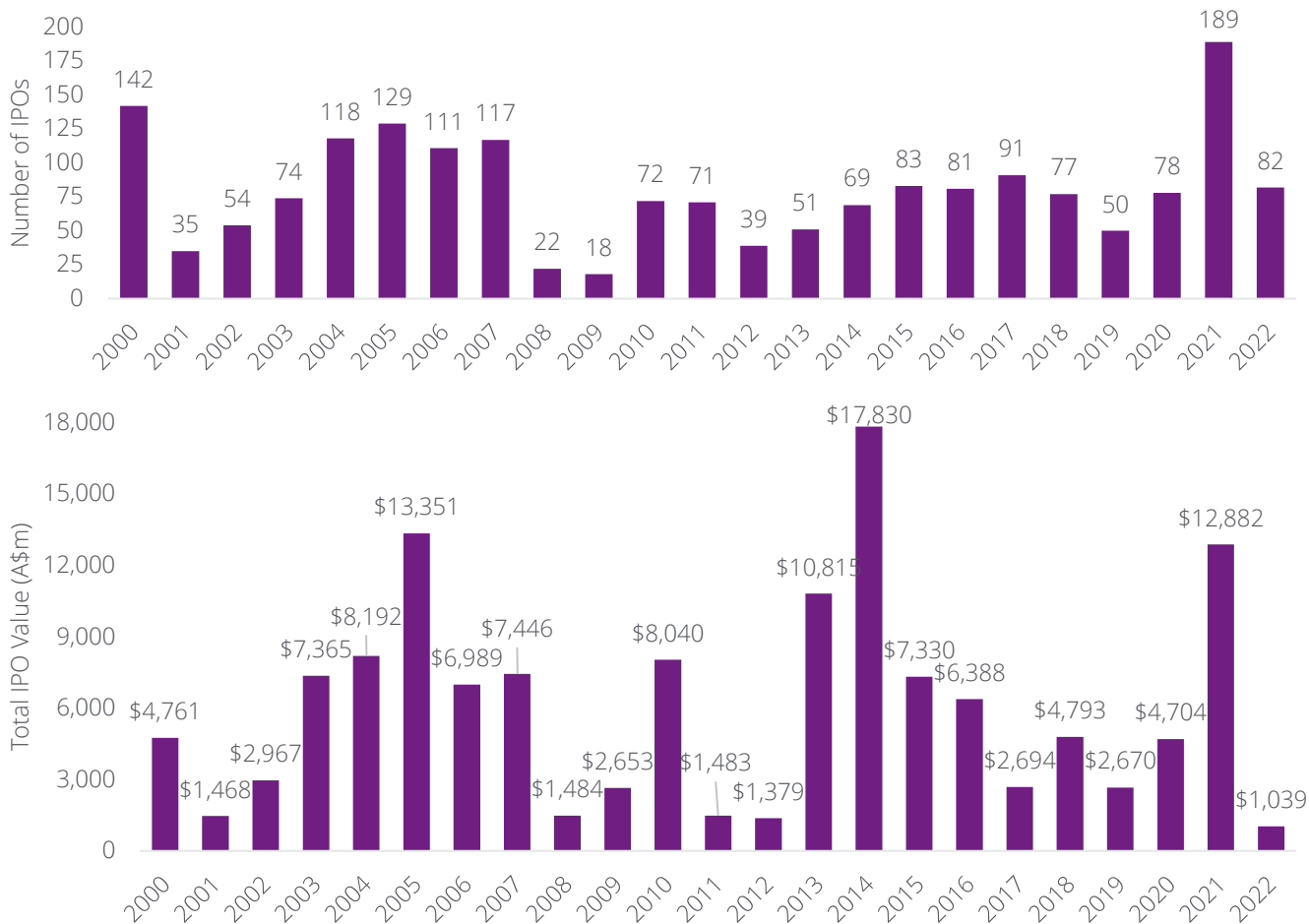
The chart below highlights the valuation reset for Australia and US listed technology companies over the last year:



Source: Perennial, Citi and Factset

## History of IPOs on ASX

The first chart shows the number of ASX IPOs per year since calendar year 2000. The majority of the listings in 2022 were smaller mining and exploration companies. The second chart shows the total value of ASX IPOs per year since calendar year 2000 with a sharp decline in during 2022.



Source: Perennial and Ord Minnett

## Outlook for 2023

In terms of the outlook for 2023, we expect many of the recent themes to continue while the global macroeconomic outlook remains uncertain. The domestic IPO market is unlikely to be tested until March/April 2023 at the earliest, and will take its lead from the behaviour of the listed equity market. Typically, the better quality IPOs are generally the first to emerge following a market selloff, and so we will continue to watch the ASX's IPO pipeline with interest.

Given the high level of M&A activity we are currently seeing across our private portfolios, this will remain an important dynamic for the next quarter or two at a minimum. In an environment of slowing global growth, large companies will increasingly look to bolt-on acquisitions in order to drive earnings and valuation. So while many private companies on an IPO pathway will continue to wait for better market conditions, others will opt for a private takeover instead, which can often be executed at a higher valuation than the listed market given the premium paid for control.

In our view, the pipeline of private investment opportunities will continue to expand into 2023, as founders will opt to stay private for longer should the capital be available to support them. Many of the structural-growth business that we have invested in can thrive in any environment, as they did during the various COVID interruptions over the past few years. Following the recent reset in valuations & terms in private markets, we expect the ability to make great investments into great companies will continue in 2023 for our Perennial private funds.

## Corporate Updates

### Industry Awards

A number of our portfolio companies were featured in the Deloitte Tech Fast 50 Awards for 2022 including Indebted (ranked #16), WithYouWithMe (#26), Expert360 (#34), InstantScripts (#35) and Lumi (#36). In addition, Expert360 was ranked #5 in the Leadership category, and Bare was ranked #11 in the Rising Star category.

### Xpansiv

Mid last year, ESG commodities exchange Xpansiv secured a large primary investment from PE group Blackstone. Subsequent to that transaction, Xpansiv coordinated a secondary sell-down from existing shareholders to satisfy excess demand from new investors. The Perennial private funds participated in this secondary sell-down to realise the valuation uplift for a portion of our holding. A link to the AFR article regarding this sell-down can be found [here](#).

### Superhero / Swyftx

Superhero and Swyftx have recently agreed to de-merge the two businesses. This effectively unwinds the previous transaction and allows each company to move forward to pursue its own strategy. Perennial supported the de-merger transaction, with the deferred cash payment from Swyftx being converted into equity in new Superhero. Our private funds will hold separate equity positions in both entities going forward.

### Willow

Digital twin business Willow undertook a sizeable follow-on private raising last quarter in which Perennial did not participate. The share price for this raising was below our prior carrying value which was reflected in the updated unit price in November 2022. A link to the AFR article regarding this capital raising can be found [here](#).

### Koala

Ecommerce company Koala hired former Hipages executive Melissa Fahey as co-CEO to work alongside co-founder and CEO Mitch Taylor. A link to the AFR article regarding this appointment can be found [here](#).

Thank you again for your continued interest in PPP3.

Yours sincerely

The Perennial Private Investments Team



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