Hamilton Lane®

The Truth Revealed, **Fact 2:**

The perception that private equity is inherently riskier than public equities doesn't always match up with reality.

What you should know

- If you invested $1.00 in the stock market in 2018, it would be worth $1.23 in January 2023, while $1.00 invested in private equity over the same time frame would be worth $2.24.[1]
- When considering private market opportunities, investors can tailor their strategies to include small cap growth, large cap value and everything in between.
- In 2022, the U.S. Securities and Exchange Commission recommended expanding high-net-worth (HNW) investor access to private investments, citing how private markets often outperform public markets while adding considerable diversification to investors' portfolios.[2]

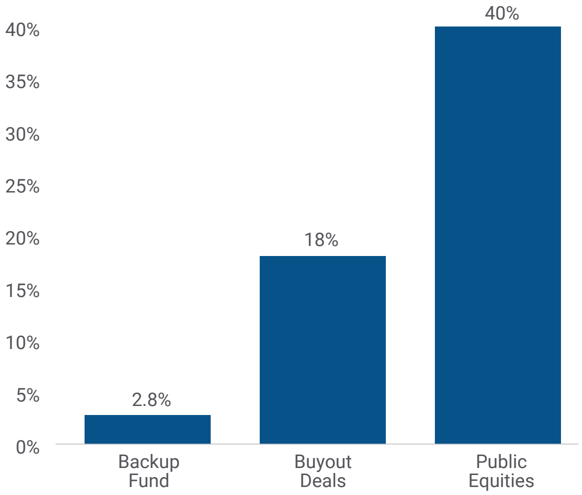
Once considered speculative, private markets continue to evolve, especially as the structural hurdles for ultra-high-net-worth (UHNW) investors have come down. Still, no matter the level of expertise or the market environment, investors and advisors who understand this segment of the market are well positioned to make informed and comprehensive decisions about their portfolios.

This Truth Revealed series explores private market investing with three objectives in mind:

- To dispel some of the incorrect notions about private markets
- To help investors and advisors better understand private markets' potential to outperform public markets
- To assist investors and advisors as they consider how private markets investing may align with their investment objectives

[1]Hamilton Lane Data via Cobalt, Bloomberg (August 2022)
[2]SEC Proposes to Enhance Private Fund Investor Protection, U.S. Securities and Exchange Commission, 2022

Catastrophic Losses –
Private Markets vs. Public Equities



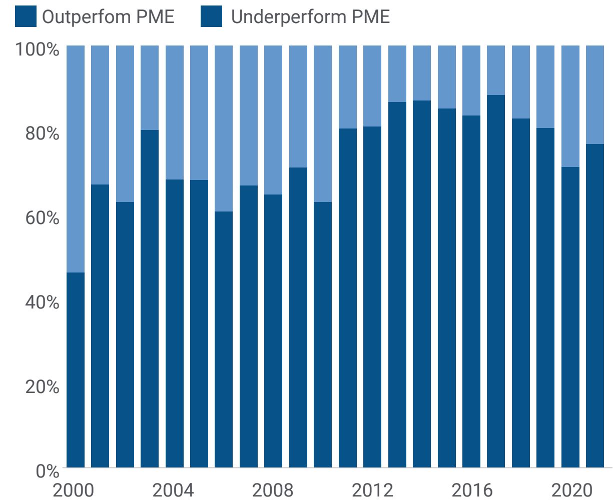
Source: "Hamilton Lane data, Factset, JP Morgan" JP Morgan Asset Management (period for stocks is 1980 -2014)

There's a notion among investors that private equity is too risky relative to public equities. As it turns out, this generalization fails to account for a number of important factors, such as the wide array of target companies to choose from in private equity markets, the minimal likelihood of catastrophic losses and the power of a well-diversified portfolio.

The key takeaway for investors who are considering the risk/return tradeoff for private equity is that it can represent a target-rich environment, the market potential of which is dramatically larger compared to publicly traded companies.

Private Equity Has an Impressive Track Record Outperforming Public Equity

% of Private Equity Funds Outperforming PME
by Vintage Year (MSCI World used for the PME)



Source: Hamilton Lane Data, Bloomberg (January 2022)

Additionally, not all private market opportunities are the same. Investors can choose from small cap growth to large cap value, and everything in between. This is because each portfolio is designed with a different objective in mind, which translates to a wide array of investment opportunities — each with different risk/return profiles.

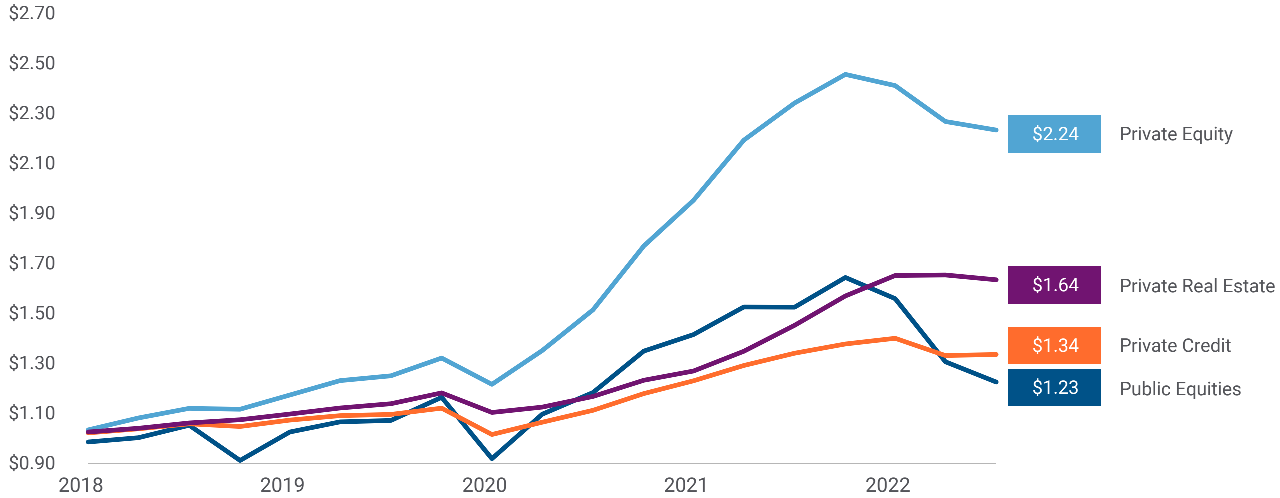
Perhaps you're more concerned about a catastrophic loss, whereby companies experience a 70% decline in value from their peak coupled with minimal recovery. Within a buyout fund, these types of losses can be infrequent. Why? Buyout managers don't build overly concentrated portfolios because they understand the power of diversification to potentially mitigate risk exposure.

As noted in our prior piece "The Truth Revealed: The private markets universe is less concentrated and larger today than any other time in history", between 2000 and 2022, the private market landscape ballooned from $600 billion in assets under management (AUM) to $9.7 trillion in AUM.[3] Also consider that $1.00 invested in public equities in 2018 would be worth $1.23 in 2022, while that same dollar invested in private equity would have grown to $2.24.

[3]Hamilton Lane Data (August 2022)

The Growth of $1 Invested in Public Equities vs. Private Equities

MSCI World used as proxy for public equities



Source: Hamilton Lane Data via Cobalt, Bloomberg (January 2023)

We should also highlight how private markets have a long track record of performing during up and down markets. This includes outperforming the public markets almost every year between 2002 and 2022. Further, Hamilton Lane's proprietary market data, which spans 27 years, finds that the average private equity buyouts are returning 6x more and growth equity 11x more.

Further, the Securities and Exchange Commission's Asset Management Advisory Committee in 2022 recommended expanding HNW investor access to private investments. The committee's report showed that private equity, private debt and private real estate investments often outperformed public investments and added diversification to a portfolio.[4] This should give HNW investors a greater degree of confidence, especially since private market investing is one of the best ways to play in the large, growing universe of smaller companies worldwide.

Looking ahead, we anticipate that private markets will continue to attract a much larger share of HNW investors' wallets than they have traditionally represented, so much so that a traditional 60/40 equity/fixed income portfolio may soon be a thing of the past. What's more, we are convinced that by 2042, investors may have portfolios with 50% allocated to private equity, while still managing their levels of risk, return and duration.

[4]SEC Proposes to Enhance Private Fund Investor Protection, U.S. Securities and Exchange Commission, 2022

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