Hamilton Lane

Alternative Investment Dictionary

A

Additional Fees: The amount of capital an investor pays into a fund/investment that does not count against the investors' commitment.

Add-On/Bolt-On: When a private equity firm acquires a company to add onto an existing portfolio company. In add-on deals, the existing portfolio company is called the platform and the private equity firm is called the sponsor. Bolt-on is used more often in Europe.

Adjusted Market Value: An approximated market value that is adjusted forward using market value affecting cash flows.

Alpha: Alpha refers to excess returns earned on an investment above the benchmark return. Active portfolio managers seek to generate alpha in diversified portfolios, with diversification intended to eliminate unsystematic risk.

Alternative Investment Vehicle (AIV): Many private equity fund agreements contain a provision permitting, or under certain circumstances requiring, the general partner to establish an "alternative investment vehicle," commonly referred to as an AIV, that, for a variety of tax or regulatory reasons, will make a portfolio investment in lieu of the main fund.

As of Date: The period end date for the fund. The amounts the fund has invested, distributed and remaining are presented through this date.

Asset Allocation: Asset allocation is an investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an investor's goals. Also known as diversification.

Asset Class: Major investment categories such as stocks or bonds, which are distinct from one another in terms of their main characteristics of risk, liquidity and return.

Assets Under Management (AUM): The total market value of the investments that a person or entity manages on behalf of clients.

B

Basis Points (bps): One hundredth of a percent (0.01%). Used to measure changes in or differences between yields or interest rates.

Benchmark: A point of reference against which the performance of a fund is measured. The benchmark can be a comparison to the performance of other similar funds, a specific threshold return or a public market index.

Break-Even: The point when a company's revenue equals its expenses.

Break-Up Fee: A fee paid by the seller if it breaches or decides to terminate a definitive acquisition agreement.

Bridge Loan: A temporary, limited amount of financing that serves as a "bridge" until a long-term debt or equity investment can be secured.

Brownfield: An investment in an existing asset, land or structure that typically requires repairs, upgrades and expansion.

Buyout: A strategy focused on acquiring controlling stakes in established companies with stable returns and cash flow. Buyout managers look to add value typically by improving revenue growth, optimizing costs and efficiency, making leadership changes or using leverage. Hamilton Lane determines sub-strategies by the following fund size and vintage year.

Vintage Year	Small Cap	Mid Cap	Large Cap
1970 – 1996	<$500M	$500M – $1B	$1B – $5B
1997 – 2005	<$750M	$750M – $2B	$2B – $5B
2006 – 2020	<$1B	$1B – $3B	$3B – $7B
2021 – Today	<$1.5B	$1.5B – $5B	$5B – $10B

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Buyout - Turnaround: Any buyout fund with a focus on investing in poorly-performing companies, with the goal of making them more profitable.

C

Cap Rate: The rate of return on a real estate investment property based on the income that the property is expected to generate. Cap Rate = Net Operating Income (NOI) / Market Value.

Capital Call/Drawdown/Paid In-Capital:A capital call, also known as a drawdown, is where the general partner ("GP") of a fund calls on LPs to supply a portion of the amount of capital they committed at the beginning of the investment. The timing and amount are at the GP's discretion, and once capital has been called, it is considered "paid-in capital."

Capital Overhang/Dry Powder: Capital that has been committed to a general partner but not yet invested. See also: Unfunded.

Capital Stack: A description of the totality of capital invested in a project, including pure debt, hybrid debt and equity .The stack is described as containing the most risk at the top, traveling down the stack to the position with the least risk. Higher positions in the stack expect higher returns for their capital because of the higher risk.

Carried Interest/Incentive Fee/Performance Fee: A bonus entitlement accruing to an investment fund's management company or individual members of the fund management team. Carried interest (typically up to 20% of the profits of the fund) becomes payable once the investors have achieved repayment of their original investment in the fund plus a defined hurdle rate. Carried interest is often also called an "incentive fee" or "performance fee".

Carveout: When a company sells all or part of its business.

Cash Drag: Cash drag is the result of a portfolio holding a portion of its assets in cash instead of higher returning assets. Cash drag can have an adverse impact on a fund in rising market environments.

Closed Fund: A fund that is no longer fundraising and is finished taking commitments from limited partners.

Closed-End Fund: A type of fund that has a fixed number of shares outstanding, which are offered during an initial subscription period, similar to an initial public offering. After the subscription period is closed, the shares are traded on an exchange between investors, like a regular stock. The market price of a closed-end fund fluctuates in response to investor demand as well as changes in the values of its holdings or its net asset value. Unlike open-end mutual funds, closed-end funds do not stand ready to issue and redeem shares on a continuous basis.

Closing Date: The date a client closes into a fund or investment, also known as acquisition date or commitment date.

Co-Investment: This strategy invests in deals alongside one or multiple GPs directly into the underlying investment, outside of the GP's traditional fund structure.

Collar: A financial contract wherein the issuer guarantees a price range of the underlying security for a specific period of time in exchange for a sum ("premium"), often determined by a formula involving the volatility of the underlying security.The buyer is obligated to deliver the underlying security if the price of the underlying security exceeds the upper bound.

Collateral: Assets pledged to a lender until a loan is repaid. If the borrower does not pay back the money owed, the lender has the legal right to seize the collateral and sell it to pay off the loan.

Commitment: An investor's financial obligation to provide a set amount of capital to the investment.

Contribution: Capital contributed from an investor's capital commitment to fund partnership investments, organizational expenses and management fees.

Contribution Pace: The portion of the unfunded commitment to a fund that is called each period.

Corporate Finance: See Buyout for more information.

Cost Basis: Summation of capital contributions less return of principal.

Credit: This strategy focuses on providing debt capital to a variety of companies. It can involve several different sub-strategiesdistressed debt, mezzanine, real estate debt, royalty debt, senior debt, special situations and turnaround.

Credit-Distressed: Distressed Debt investing involves purchasing debt at a discount from existing lenders, where the borrower is experiencing financial or operational distress, default or bankruptcy.

Credit-Mezzanine: An investment strategy involving the purchase of subordinated debt and equity that gives the lender (in this case the GP) the right to convert the debt to an equity interest in the company in case of default, generally, after venture capital companies and other senior lenders are paid. Subordinated debt carries a lower level of risk than pure equity structures because they generate current income and have a more senior position in the company's capital structure.

Credit-Real Estate: Any credit fund that primarily invests in the debt of real estate companies.

Credit-Royalty: Any credit fund that primarily invests in the debt of royalty companies.

Credit-Senior Debt: Senior debt includes investments that are secured by the assets or other collateral of a company.

Credit-Special Situations: Any credit fund with a focus on investing in the debt of companies experiencing unusual events. Partnerships that invest using a unique strategy. Examples include distressed and turnaround.

Credit-Turnaround: Any credit fund with a focus on investing in the debt of poorly performing companies, with the goal of making them more profitable.

Cumulative Contributions: The sum of all contributions made across a given period.

Custodian: A bank or professional service provider that safeguards financial assets for companies and their investors to minimize the risk of theft or loss. In addition to protecting assets, custodians usually offer additional services such as account admin, payment collection, transaction settlement, and tax support.

D

Debt Ratio: Measures of leverage, financial strength or flexibility of a company.The commonly used ratios are: debt-to-equity, debt-to-invested capital and debt-to-total capital.

Desmoothing: A mathematical process to remove serial autocorrelation in the return stream of assets that experience infrequent appraisal pricing, such as private equity. Desmoothed returns may more accurately capture volatility than reported returns.

Distribution: Cash or stock distributed to the limited partners from a fund. Distributions can be recallable or non-recallable.

Distribution Pace: The portion of the unrealized value of a fund that is distributed each period.

Distributions To Paid-In-Capital (DPI): DPI is calculated by dividing the cumulative distributions an investor has received by the amount of paid-in capital. This is also often called the "cash-on-cash return." This can provide the investors with some insight into how much of the fund's return has actually been "realized" or paid out to investors. Also known as Realization Multiple.

Drawdown Rate: The speed at which a general partner calls down the capital committed by its limited partners.

Due Diligence (DD): The vetting, analyzing and assessing of individuals, companies and investors before engaging in a transaction.

E

Early Stage: The period of venture capital investment between seed and late stage deals, when companies have a proven concept and little revenue.

EBITDA: It is a company's earnings before interest, taxes, depreciation and amortization – a financial measure that closely resembles cash operating income. It represents investment gains achieved by increasing the sales multiple relative to the original investment multiple.

End Market Value: The value of an investment at the end of the investment period. In private equity, it is the remaining equity that a limited partner has in a fund.

Enterprise Value (EV): A company's value calculated as market capitalization, including all debt and equity interests, minus excess cash.

Evergreen Fund: A fund that never closes and keeps fundraising to ensure consistent cash flows.

Exit: Exit is the process of liquidating a private market position. There are several possible ways that a private market position can exit a portfolio, including but not limited to management buyout, initial public offering (IPO), SPAC, sale to strategic buyer or sale to financial buyer.

Expansion Capital: Financing provided for the growth and expansion of a company, which may or may not break even or trade profitably. Capital may be used to: finance increased production capacity market or product development; or provide additional working capital. Also called development capital.

Exposure: The dollar amount of funds or percentage of a broader portfolio that is invested in a particular type of strategy, geography or industry. Exposure is usually expressed as a percentage of total portfolio holdings, for instance, as in 10% of a portfolio being exposed to buyout. See also: Asset Allocation.

F

Family Office: A firm that manages assets, investments and trusts for a wealthy family.

Final Close: The time at which a general partner stops fundraising for a fund.

First Close: The first date at which investors can commit capital to a fund.

Float: The number of common shares that are freely tradable in the public market or markets on which a company's securities are listed.

Freedom of Information Act (FOIA): FOIA is a United States law established in 1967 which allows the public the right to request access to records from any federal agency and many government entities. Government entities such as university endowments or public section pension funds are subject to disclose investment details under this law.

Fund: A private equity investment fund is a vehicle for enabling pooled investment by a number of investors in equity and equity-related securities of companies (investee companies). These are generally private companies whose shares are not quoted on any stock exchange. The fund can take the form either of a company or of an unincorporated arrangement such as a limited partnership.

Fund Age: The age of a fund (in years) in operations since the date of its first drawdown. See also Vintage Year.

Fund Focus: The strategy of specialization by stage of investment, sector of investment and/or geographical concentration.

Fund of Funds: An investment vehicle which invests in other private equity partnerships.A fund of funds that primarily invests in new funds is a primary fund of funds. One that focuses on investing in existing funds is referred to as a secondary fund of funds.

Fund Raising: The process in which a private equity company, the general partner, raises money from investors, the limited partners, to create an investment fund.

Fund Size: The total amount of capital committed by both the limited and general partners of a fund.

Fundraising: When general partners ask for capital commitments from limited partners.

G

General Partner (GP): The general partner is the manager of a private markets fund. These managers are in charge of calling and distributing capital to and from the limited partners (see "Limited Partner") in the fund.

Greenfield: An investment that involves an asset or structure that does not yet exist. Investors fund all stages of development, including design, construction, infrastructure and operations.

Gross IRR: Internal Rate of Return ("IRR") of investments at the 'fund level', excludes fees paid by LPs to the general partner such as management fees and carried interest. For investments held less than one year, IRR can be annualized in order to represent a more meaningful number.

Gross Performance: The performance of the general partner's vehicles at the net LP level that excludes of all fees, carried interest and expenses. Performance data is as reported by the general partner, using actual capital contributions, distributions and net asset value for either all limited partners, or a sample set of limited partners, in the respective funds.

Growth Equity: Also known as expansion capital, growth equity is a form of capital investment usually undertaken in the form of minority investment in relatively mature and large companies that are looking forward to some structural and transformational change.

H

Horizon Model: The Horizon Model is Hamilton Lane's proprietary modeling tool designed to forecast the expected cash flows and net asset value (NAV) growth of an investor's existing private markets portfolio as well as planned future commitments. The model can also suggest a commitment plan to reach an investor's target exposure to the private markets. Check out our white paper for more information.

I

Income: Income can refer to a company's remaining revenues after paying all expenses and taxes.Income can be recallable or non-recallable.

Infrastructure: An investment strategy that invests in physical systems involved in the distribution of people, goods and resources.

Initial Public Offering (IPO): The first time a private company's stock is available to the public. All companies undergoing an IPO must register with the SEC and take the necessary steps to comply with all applicable rules and regulations.

Institutional Investor: This refers to an entity or organization (such as banks, endowments, pension funds, insurance companies) that invests substantial sums of money in the securities marketplace on behalf of its constituents (members, clients, customers, etc.).

Internal Rate of Return (IRR): The discount rate that equates the net present value of the partnership's cash outflows with its inflows and residual value at the time of calculation. The calculation is net of management fees and the general partner's carried interest. It is calculated by taking the difference between the current or expected future value and the original beginning value, divided by the original value and multiplied by 100. For investments held less than one year, IRR can be annualized in order to represent a more meaningful number.

Interquartile Range: The interquartile range is a measure of variability, based on dividing a data set into quartiles. Q1 is the "middle" value in the first half of the rank-ordered data set. Q2 is the median value in the set. Q3 is the "middle" value in the second half of the rank-ordered data set. The interquartile range is therefore equal to Q3 minus Q1.

Invested Capital: The sum of all committed capital that has been drawn down by the fund for all the deals in the given range.

Investor Advisor: An individual or an organization who provides investment advice for compensation. Investment advisors that manage substantial assets must register with the SEC and comply with the Investment Advisers Act of 1940.

Investment Category: Used to identify investments in one of the following categories: co/direct investments, fund-of-funds, primary funds, secondary fund-of funds or secondary purchases.

Investment Strategy: A sub-classification of a partnership's investment type, such as co-investment, buyout, credit, venture capital, etc.

J

J-Curve: A J-Curve refers to the typical pattern of return of closed-end private markets funds over their lifecycle. In the early years of a fund's life, the internal rate of return ("IRR") of a fund is typically negative due to the relatively small amount of invested capital as compared to the management fees that have been paid. The return, if graphed over time, resembles a "J," as negative early performance turns increasingly positive over time as underlying investments within the portfolio begin to appreciate and generate a return.

L

Life Cycle Period: The current stage of a partnership depending on the percentage contributed to date. Life cycle periods are investment and realization.

Limited Partner (LP): Typically, a private equity fund is organized as a limited partnership.The individuals and institutions who invest in the fund are limited partners in the limited partnerships.Limited partners have limited liability and do not participate in the day-to-day management of the fund.

Liquidation Stage: Refers to the stage in the life of a fund in which, after expiration of the term of the fund, the remaining assets are sold to wind up the fund and distribute disposition proceeds to investors. During the liquidation stage, the corporate purpose of the fund changes to be focused solely on final termination of the fund.

Liquidity Ratio: The rate of distributions over contributions, for the entire private markets on an annual basis.

Loss Ratio: An analysis of the capital invested in realized transactions generating different multiples of invested capital. The proportion of invested capital that has a TVPI multiple below 1.0x.

M

Management Fee: Compensation received by a private equity fund's management firm. This annual management charge is equal to a certain percentage of investors' initial commitments to the fund ranging between 0.5-3%. This can be called by the GP inside or outside of commitment.

Mergers and Acquisitions (M&A): A general term that describes the consolidation of companies or assets through various types of financial transactions, including mergers, acquisitions, consolidations, tender offers, purchase of assets and management acquisitions.

Multiple On Invested Capital (MOIC): MOIC is a gross metric, meaning that it is calculated before fees and carry. It can be calculated at the deal level or the portfolio level to evaluate the performance of both realized and unrealized investments. This metric is highly valuable for both deal level and portfolio analysis and reporting. See also Total Value To Paid In ("TVPI"). MOIC = Realized Value + Unrealized Value / Total Amount Invested.

N

Natural Resources: A strategy that invests in companies involved in the extraction, refinement, or distribution of natural resources such as agriculture, energy, mining and timber.

Net Asset Value (NAV): Net asset value, also known as reported market value, is the value of a fund's assets minus any liabilities and expenses. Individual companies are valued and then aggregated to compute the fund's value or portfolio's value.

Net Performance: The performance of the general partner's vehicles at the net LP level that is inclusive of all fees, carried interest and expenses.Performance data is as reported by the general partner, using actual capital contributions, distributions and net asset value for either all limited partners, or a sample set of limited partners, in the respective funds.

Net Present Value (NPV): An approach used in capital budgeting where the present value of cash inflow is subtracted from the present value of cash outflows. NPV compares the value of a dollar today versus the value of that same dollar in the future after taking inflation and return into account.

Nominalized/Annualized IRR: Performance of an investment that is less than one year old. (Note:Excel will automatically annualize an IRR when using the XIRR function).

O

Open-End Fund: A fund which sells as many shares as investors demand. Also known as an Evergreen Fund.

Ownership Percentage: The investor's percent of ownership as measured by capital committed divided by fund size.

P

Paid-In: The amount of capital an investor has contributed to a partnership, which includes capital contributions and additional fees.

Partnership Expenses: All fees, costs, expenses, liabilities and obligations relating to the Partnership and/or its activities, business, portfolio companies or actual or potential investments, including with respect to any person formed to effect the acquisition and/or holding of a portfolio company (to the extent not borne or reimbursed by a portfolio company or potential portfolio company), including all fees, costs, expenses, liabilities and obligations. Can be called by the GP inside or outside of commitment.

Placement Agent: A third-party firm that helps general partners fundraise.

Pooled IRR: An IRR calculation which aggregates cash flows (paid-in capital and capital distributed) and the reported market values of each investment within a portfolio to create one portfolio investment and return.

Portfolio Company: Or investee company. The company or entity into which a private equity fund invests directly.

Portfolio Holding Exposure: The limited partner's pro-rata allocation to an underlying investment based on the ownership percentage of the partnership.

Preferred Return/Hurdle Rate: The preferred return, also commonly referred to as the "hurdle rate," is an annual return that limited partners are entitled to receive prior to the general partner receiving carried interest. In practice, it is a way to ensure limited partners make a profit before the GP earns their carried interest.

Pre-Seed: The stage before the seed stage. As seed-stage investing has become more popular, investors have started to invest in companies at this stage in the hopes of finding them early on. A pre-seed company is often just the founder(s) and an idea.

Primary Fund: A primary fund investment is an investment in a venture, buyout credit, or other private markets strategy through a fund vehicle at the time the fund is being raised by a general partner (as opposed to a secondary investment that is acquired from an investor selling their interests in a fund).

Private Placement Memorandum (PPM): Fund offering document, which outlines a sponsor's proposal for investment opportunity.

PME (Public Market Equivalent): A Public Market Equivalent (PME) is a relevant public market benchmark whereby the IRR, or internal rate of return, of a private market investment can be compared, assuming similar investment timeframes. PMEs are helpful to judge the opportunity cost of a private market investment relative to the equivalent strategy in the public markets.

R

Real Assets: Real Assets includes any private markets fund with a strategy of infrastructure, natural resources, or real estate.

Real Estate: An investment strategy that primarily invests in non-core real estate excluding separate accounts and joint ventures.

Realized Attribution Analysis: Analysis of the capital invested in, and performance of, the prior realized transactions according to the criteria indicated.

Realized Gain/Loss: A realized gain results from selling an asset at a price higher than the original purchase price. It occurs when an asset is sold at a level that exceeds its book value cost. If selling an asset results in a loss, there is a realized loss instead.Realized gain/loss can be recallable or non-recallable.

Realized Investments: Hamilton Lane classifies investments as 'realized' if it has i) an unrealized value of less than 20% of the total value; ii) a carrying value that has been written to zero or has been previously written-off; or iii) been fully exited and the GP has no remaining interest in the company.

Remaining NAV: The equity value remaining in the fund at the end of the reporting period.

Residual Value To Paid-In (RVPI): A realization ratio which is a measure of how much of a limited partner's capital is still tied up in the equity of the fund, relative to the cumulative paid-in capital. The RVPI measures the value of the investors' (limited partner's) interest held within the fund, relative to the cumulative paid-in capital. RVPI is net of fees and carried interest. This is a measure of the fund's unrealized return on investment. Remaining Value-to Paid In = (Current Net Asset Value) / (Total Amount of Capital Paid-In).

Retail Investor: Also known as private wealth investor, retail investors are high-net-worth individuals who commit capital to private market funds for their personal investment portfolios.

Return On Investment (ROI): A calculation based on the total value (market value plus distributions) divided by paid-in capital for an investment.

ROW Equity: Includes all buyout, growth and venture capital-focused funds, with a geographic focus outside of North America and Western Europe.

S

Secondaries: This strategy purchases existing stakes in private funds on the secondary market (where previously issued financial products are bought and sold). Due to the illiquidity of the market, these may be purchased at a discount, and the portfolio of companies purchased is often more mature and closer to exit than in a traditional primary investment. Direct interests is the purchase of existing stakes in private equity companies on the secondary market while fund interests is the purchase of private equity funds on the secondary market.

Sharpe Ratio: A measure of relative performance of investment managers. It is the excess return (above a risk-free rate) of a portfolio divided by its standard deviation.

Simple-Dietz Time-Weighted Return: Time weighted return calculation, which assumes that all cash flows occur at the mid-point of the evaluation period.

Single Period Return: The total return received from an asset over a given period of time.

Style/Focus: Style is a fund's primary investment strategy. Focus is a subset of style that identifies funds by their specific investment strategy.

Subordinated Debt: Debt that ranks lower than other loans and will be paid last in the case of liquidation.

T

Temporary Return of Capital: Return of capital previously called for underlying fund investments, fees, or expenses that can be called by the GP again at a later time.

Time-Weighted Return (TWRR): Time-weighted return is a measure of compound rate of growth in a portfolio.

Total Exposure: Calculated by the summation of market value and unfunded commitments. Total exposure is equal to NAV + unfunded commitment.

Total Value: Equivalent to market value + capital distributed.

Total Value to Paid-In (TVPI): The value of all remaining investments in a fund plus the value of all distributions relative to the amount limited partners have contributed to the fund. Total Value-to-Paid-In = (Amount of Distributions Received + Current Net Asset Value) / (Total Amount of Capital Paid-In). Also known as Investment Multiple. See also Multiple On Invested Capital (MOIC).

Tranche: Tranches are segments of a pooled collection of assets that are split up by characteristics such as risk, strategy/asset class or other client-specific distinguishing characteristics.

U

Underwriter: An investment bank which helps a company to organize a share offering to potential investors. The investment banks issue debt and equity securities on behalf of corporations and governments to generate investment capital. The managing underwriter assists the company in preparation of the prospectus and roadshow, and organizes the syndicate of underwriters to sell the securities.

Unfunded: Amount of committed capital that has not been drawn down by the fund. See also: Capital Overhang/Dry Powder.

Unicorn: A venture capital-backed company with a valuation of $1B or more.

U.S. Securities and Exchange Commission (SEC): The U.S. Securities and Exchange Commission (SEC) is an independent agency of the United States federal government, created in the aftermath of the Wall Street Crash of 1929. The primary purpose of the SEC is to enforce the law against market manipulation. The SEC enforces the statutory requirement that public companies and other regulated companies submit quarterly and annual reports, as well as other periodic reports.

V

Venture Capital: A strategy that focuses on financing seed, early and late stage startups, as well as emerging companies or a combination of multiple investment stages of startups.These businesses generally are not profitable at the time of investment.

Vintage Year: The year in which a partnership makes its first capital call for an investment into a portfolio company/holding.

Volatility: Volatility is a statistical measure of dispersion of return, specifically standard deviation.

W

Withholding Tax: A withholding tax, or a retention tax, is an income tax to be paid to the government by the payer of the income rather than by the recipient of the income. The tax is thus withheld or deducted from the income due to the recipient.

Write-Off: The write-down of a portfolio company's value to zero, typically a realization of permanent impairment or failure of an investee company.

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