

Understanding Secondary Valuations in Evergreen Funds

KEY TAKEAWAYS

- For an evergreen fund, secondaries can help create a more mature, diversified, and potentially faster cash-flowing portfolio.
- A secondary purchase may trade below the most recently reported NAV¹ because the price is negotiated between the buyer and seller, sellers have varying reasons for selling, and the price may reflect an older valuation.
- For investors, the more important question is the quality of the assets and their long-term performance.

Secondary transactions help power evergreen private market funds by creating a mechanism for liquidity and supporting ongoing portfolio management. But their pricing works differently from both other private market investments and public market trades.

Secondary Pricing and Reported Value May Differ

- A secondary transaction is a privately negotiated sale between a willing seller and a willing buyer.
- Sellers often accept a discount to the reported net asset value because sellers value liquidity, certainty, and portfolio management flexibility.
- Because valuations in private markets are typically reported with a delay, secondary pricing may be based on a valuation date that is several months or quarters old by the time the trade closes.
- As a result, the secondary trade price often reflects liquidity needs and timing, not a revised view of the underlying assets.
- A buyer, therefore, may purchase an asset at a discount to NAV and then mark and hold it at the reported NAV. That is the same value reported to all limited partners in that fund.

What That Means for Fund Value

A negotiated price for the sale of one limited partner's interest does not reset the fair value² of the underlying fund for the other investors in that fund. That value continues to be based on the GP's (general partner's) valuation process, which is the same framework used for all limited partners in the fund. In many cases, the transaction price is not disclosed to the underlying manager because it does not affect asset ownership, management or valuation. This secondary valuation process has been consistently used throughout the industry for several decades.

- » For evergreen investors, the more important consideration is access to seasoned private market assets and the opportunity to participate in their long-term value creation.

The Hamilton Lane Advantage

At Hamilton Lane, secondaries have been a core strength for more than 25 years, and our secondaries platform represents \$20 billion in AUM. Our data, relationships, and underwriting capabilities help us identify high-conviction opportunities in seasoned private market portfolios.

DEFINITIONS

¹NAV (net asset value): the fund's estimate of the fair value of its underlying holdings.

²Fair value: the current value of the underlying portfolio based on established valuation policies, not the price a seller may accept for liquidity.

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