

HL Hamilton
Lane

MARKET OVERVIEW

2025 EDITION

PRICE 1¢



WHAT, ME WORRY?



2025 Market Overview

Contents



03 Performance

15 Returns, Risk & Looking Ahead

79 Fundraising

33 Where Are We Now?

87 Evergreen Funds & Private Wealth

49 Liquidity

95 How Big Can Private Equity Get?

59 Deals & Exits

101 Sentiment Indicators

67 Investment Activity

107 Conclusion

Introduction

IMAGINE FOR A MOMENT that there was a group of wise investment professionals, a group that viewed the markets dispassionately and made observations based on facts and data, not bias and conjecture.

(Well, in fact, you're reading that group's Market Overview right now, but in fairness, we did ask you right now only to imagine such a group.) You went to that group in late 2024 or early 2025 and asked a simple question: "Oh, sage group, what's the buzz, tell me what's-a-happening today in the private markets?" That group might look around and, if brevity is the soul of wit, say:

Meh

\me\

Definition of meh

1: not impressive : SO-SO

a meh documentary

2: apathetic, indifferent

the movie left me feeling meh

Meh? What? The part of the markets drawing so much interest and attention? So much capital? The place where returns go to flourish? The place peopled with Masters of the Universe and Kings and Queens of Fund Asset Classes? That's the best word they can come up with to describe it? The group would explain that, if you look at it objectively, the private markets, particularly private equity, aren't doing all that great. Returns are lagging public markets, there aren't many exits happening so investors aren't getting much capital back, capital raising continues to be tough, valuations are high and there's not a lot of M&A activity happening out there. It's not terrible, but it isn't anything to get excited about if you're an investor.

Ok, fair enough, you think, but now let's ask the practitioners in those markets, general partners and limited partners. Admittedly, they might not be as dispassionate, but what are they saying about the private markets in late 2024 and early 2025 when you tell them what your group of wise observers said?



What, me worry?

We are taking the theme for this year's Market Overview from a magazine that flourished in the 1970s called "Mad Magazine" whose cover figure, Alfred E. Neumann, never seemed to worry about anything. We find that "what, me worry" attitude to be the prevailing view among both limited and general partners about the current private market environment.

Lackluster returns? Hey, they're ok overall and, by the way, mine are better than the other person's, and that's who you should worry about. Lousy fundraising? It's ok for me and better than the other group's, and that's who you should worry about. No exits? No problem because my portfolio companies are doing *GREAT* and much better than that other GP, and that's who you should worry about. Few deals? The ones I'm doing are really good and are much better companies than the ones my competitors are buying, and that's who you should worry about. Limited partners being told by their public equity teams that private returns are lousy, and less money should go to private markets? Not a problem here; we're all long-term investors and we'll be fine eventually. No one is worried. At least, no one is saying they are worried about themselves. They will tell you there's plenty to worry about if you look at everyone else in the market.

How do you make sense of all this? You start by reading this overview. We are going to take you on a tour of the private markets. We are going to do it with a ton of data, a fair bit of informed opinion, a smattering of humor, a critical eye and a dash of irreverence. (Would you expect anything else when the theme comes from "Mad Magazine"?) For those of you who have read these before (and we do express some surprise that you are back for more), you know we don't do executive summaries because then hey, why would you read the rest? But we will give you a hint of what's to come: We think the private markets are changing in some ways that are obvious (yes, the big are getting bigger) but in some ways that are not as obvious (in five years, how most groups invest in private markets will likely be completely different).

Do read on from here. We promise you will not be disappointed. No one who has read our annual missives ever feels that way. They might disagree with us. They might think we have missed points of emphasis. That is all ok with us. Our goal is to share thoughts and ideas and have them serve as a basis for more discussion. We all get smarter and make better investment decisions when we test each other's assumptions and conclusions.

Let's start testing.



HAMILTON

Performance

Private Markets: Recent Performance

*“When small men cast big shadows,
it means that the sun is about to set.”*

LIN YUTANG

LET’S START WITH THE ELEPHANT IN THE ROOM: private market performance compared to public markets since the end of 2021.

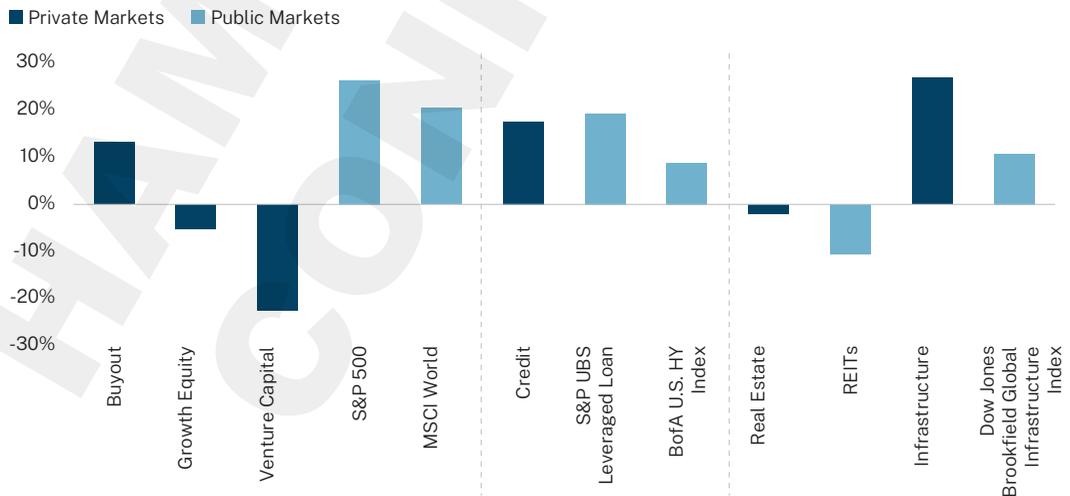


“I’m right there in the room, and no one even acknowledges me.”

Let’s be clear, private equity has lagged behind public markets. By a lot.

Private & Public Market Cumulative Returns

Cumulative Returns Q1 2022 – Q3 2024



Source: Hamilton Lane Data, Bloomberg (January 2025)

Infrastructure and real estate have done very well compared to public indices, private credit has been about even, and private equity has badly underperformed. It's not even close. The reaction from general and limited partners is to point out that returns, on an absolute basis for buyout, have been good – with the venture and growth folks telling you that you should only focus on the long-term and ignore that number in red. That's not the world we live in, is it? Underperformance for this long must be acknowledged. But is this current underperformance the end of private equity's historical outperformance? (You know the answer to that, but we'll leave you in suspense for a moment.)

One of Mad Magazine's most popular features was one called "The Lighter Side of..." It discussed, in cartoon format, various topics that amused the editors. We won't use too many cartoons, but we will use the feature...

The Lighter Side of... Investment Questions

Eighteen months ago, the most common question we were asked, as private markets were handily outperforming the declining public markets, was how could the valuations in private markets be believed? They had to be fraudulent, with private markets hundreds of basis points ahead of publics. Surely those numbers would decline. They didn't decline. They weren't bogus or inflated. Now, with the public markets hundreds of basis points ahead of private markets, we don't hear a word about valuations other than the question of why private markets aren't revaluing their companies more aggressively and increasing returns. We'd say valuations 18 months ago more accurately reflected values, and public markets increased to meet the private valuations, and it could be that the opposite is going to happen over the next 18 months.

Is there a reason private equity has had such a lag? One often-discussed factor is the concentration of the public market returns.

The 10 largest stocks in the S&P 500 currently account for over a third of total market cap

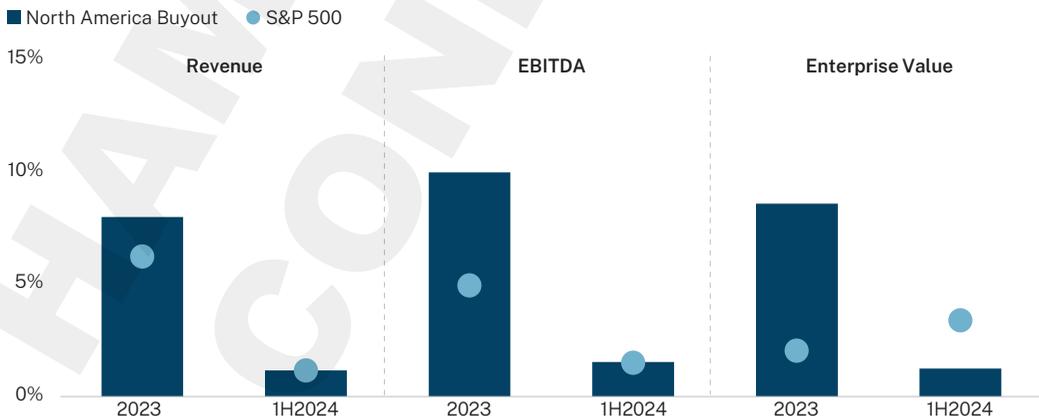
Market Cap of 10 Largest S&P Firms (% of Index Total)



Source: FactSet, Compustat Goldman Sachs GIR (November 2024)

You never like to use the word “unprecedented” if you want to be taken seriously as a writer, but there’s not much doubt that the returns from the public markets are as narrow as they have been in a long time. That narrow set of companies is dominated by large-cap, AI-focused names such as NVDA, GOOG and MSFT. Let’s be blunt: Those are the types of companies that are not represented in private portfolios. When they are outperforming every stock in the world, and represent such a large percentage of public indices, there is no scenario in which you should expect private equity to outperform public markets. But there is an even more fundamental reason why we think public markets have outperformed.

Median Operational Performance



Source: Hamilton Lane Data, Bloomberg (January 2025)

In last year's Market Overview, we explained that private markets' historical outperformance of public markets, particularly on the equity side, was a function of better performance of the companies in private portfolios. Our argument was that valuations on the private side were not artificially inflated but an accurate assessment based on performance. The previous chart shows that dramatic outperformance in 2023 on the EBITDA and enterprise value side and a little less dramatically for revenue. What about 2024? There is no outperformance. Revenue and EBITDA growth are roughly the same as the public markets' growth, and there is a small underperformance in the growth of enterprise value. Why, then, the dramatic difference in performance? We'll argue it's the inverse of 2023 and tied to the concentration of performance we showed in the earlier chart. The public market performance has been a function of a large multiple expansion in a small group of AI-focused, large-cap companies. These are not companies found in private portfolios. We suspect that, as in prior cycles, the high multiple companies will see some multiple contraction, while the private markets' continued financial performance will keep multiples there stronger, and this public market outperformance will, as it has over the last 30 years, not continue. But, hey, maybe this time it's different...

Longer-Term Performance

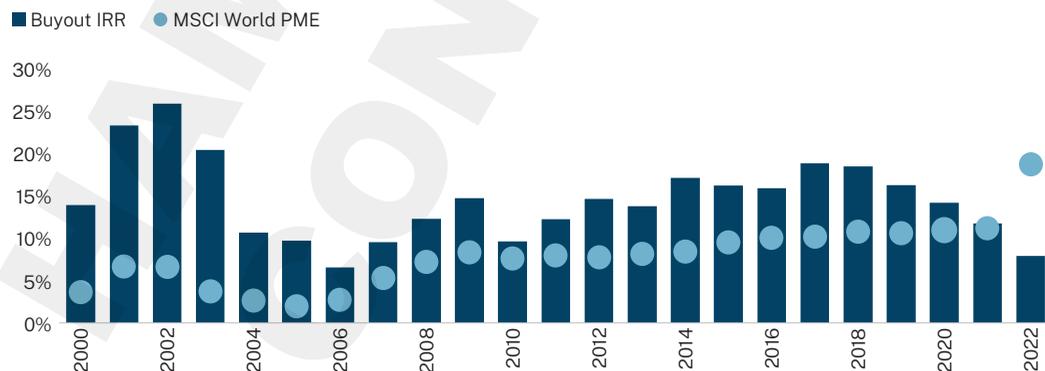
*“However beautiful the strategy,
you should occasionally look at the results.”*

WINSTON CHURCHILL

Very few of us are investing solely for short-term returns. They matter, but the longer term is why we are in markets, especially the private markets. What have those returns looked like?

Pooled Returns by Vintage Year: Buyout IRR vs. PME

2000-2022

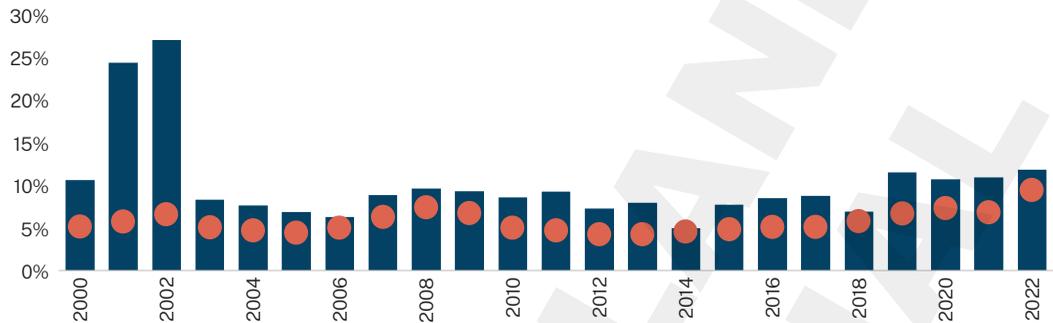


Source: Hamilton Lane Data via Cobalt, Bloomberg (January 2025)

Pooled Returns by Vintage Year: Private Credit IRR vs. PME

2000-2022

■ Private Credit IRR ● S&P UBS Leveraged Loan PME

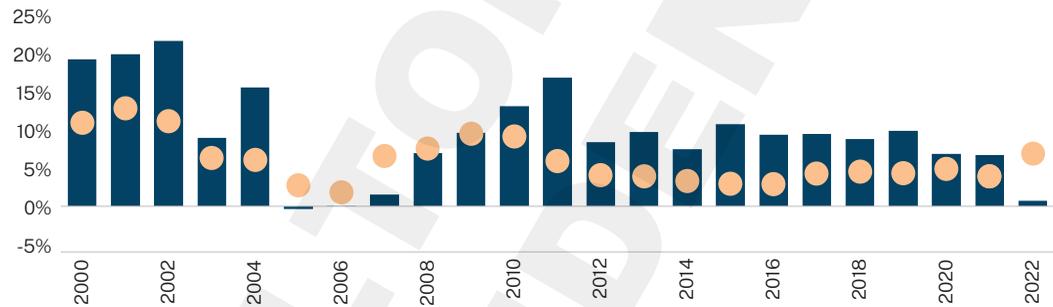


Source: Hamilton Lane Data via Cobalt, Bloomberg (January 2025)

Pooled Returns by Vintage Year: Real Estate IRR vs. PME

2000-2022

■ Real Estate IRR ● FTSE/NAREIT Equity Index PME

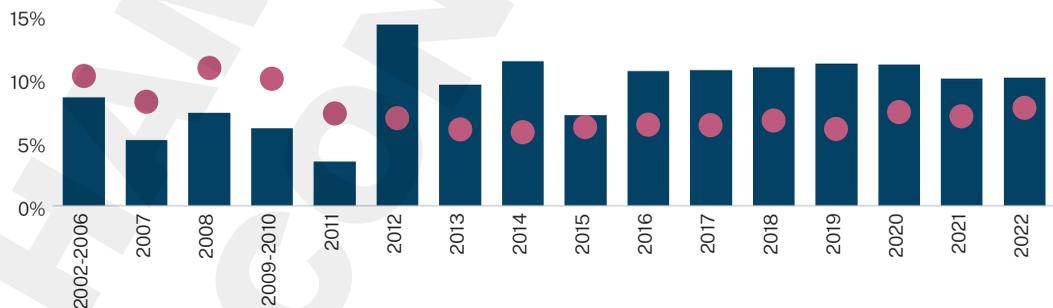


Source: Hamilton Lane Data via Cobalt, Bloomberg (January 2025)

Pooled Returns by Vintage Year: Infrastructure IRR vs. PME

2002-2022

■ Infrastructure IRR ● DJ Brookfield Global Infrastructure PME

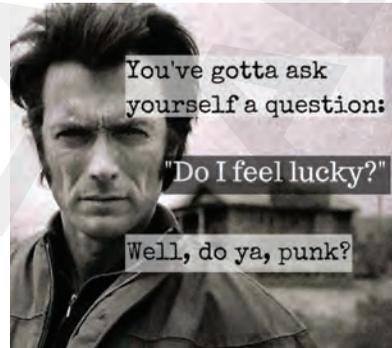


Source: Hamilton Lane Data via Cobalt, Bloomberg (January 2025)

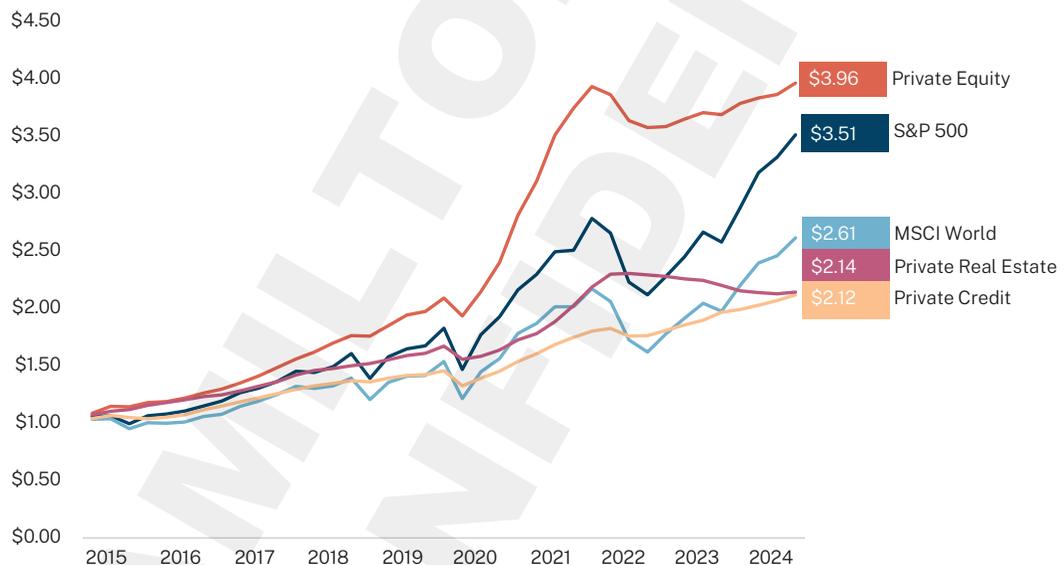
Let's start with a vintage year look. A few things jump off the page. First, private credit remains undefeated: 23 straight years of outperforming the public markets. Infrastructure has done so for the last 12 years. It is only private equity buyout and real estate that saw the streak end in the last year. We aren't betting people (Ok, we are, but you can't really admit that in a serious tome like this one), but if we were, we would bet both that the one year is an anomaly as of today and that, in five years, when we look at the vintage returns, the buyout IRR will outperform public returns in every year. Investors assuming that the last year is a window into future performance are ignoring the prior 30 years. Is that the bet you want to make today?

That is the real question posed by that chart: Do you want to believe the consistent outperformance has ended and alter your portfolio accordingly?

Let's leave Dirty Harry's sound investment advice and stay with the longer-term perspective.



Growth of \$1



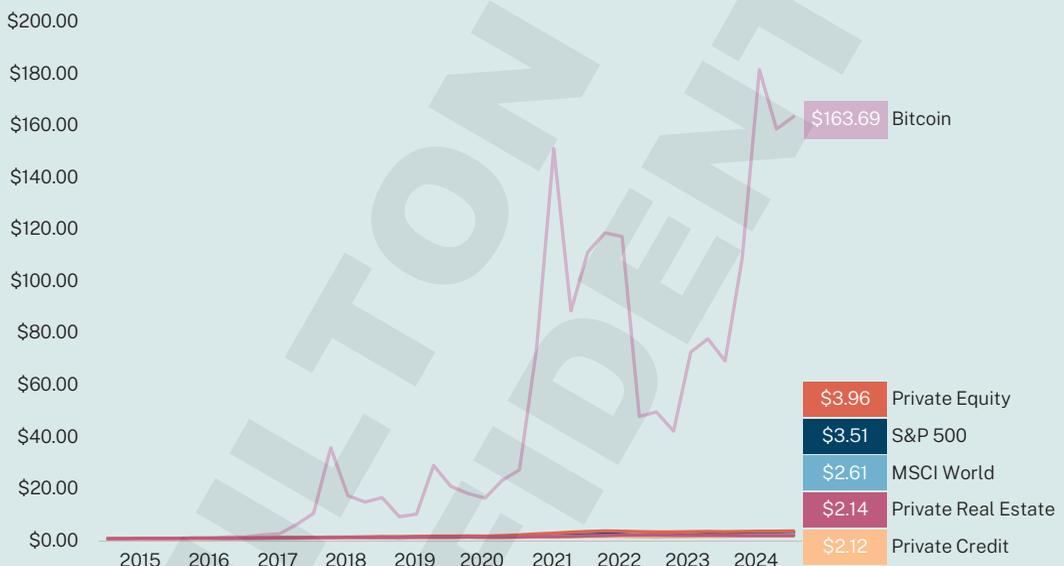
Source: Hamilton Lane Data, Bloomberg (January 2025). Indexed at Q4 2014

We are measuring the growth of \$1 invested in various markets over the last 10 years. Even with the recent underperformance, private equity has given investors much better returns over that period. The chart also shows what a difference the public comparable benchmark you use makes. The S&P 500, one of the world's best performing indexes, is getting closer to private equity returns, now only about 5% lower. The MSCI is not close and, in fact, has returns that are comparable to what you are getting from private credit and real estate, two strategies with far different risk/return profiles compared to equity.

The Lighter Side of... Investment Choices

Pretty proud of yourself for going big on the S&P? Feeling great over the last 10 years for being 100% in private equity? Crowing at the latest cocktail party about your massive push into private credit and infrastructure? Check out this chart.

Growth of \$1



Source: Hamilton Lane Data via Cobalt, Bloomberg (January 2025).

How big a part of your portfolio is Bitcoin? We aren't talking about marginal outperformance here. Using this normal scale, the returns from all the other asset classes don't even register. We aren't dealing with a peripheral market. Bitcoin's current market capitalization (Bitcoin, not all cryptocurrencies) is about \$2 trillion, which is equal to private credit's current NAV and about 30% of total private equity net asset value. This is a real thing. We aren't showing this to suggest you rush out and add crypto to your portfolio (if for no other reason than there is some volatility that the chart suggests might result in cardiac issues for many of us). We are showing this to suggest that we stay humble about our returns and our ability to foresee the future, and our talent for picking the right places to invest. Also to suggest that crypto, where, as a general matter the investors are younger, might foreshadow a lot of changes in the way we all invest in assets like public and private markets. Oh, by the

way, we'll also mention that, with the new governing group in the United States, the price of Bitcoin is now one of the top two or three items that group is considering for determining whether their policies are succeeding. They want higher Bitcoin prices.



You hitching a ride?

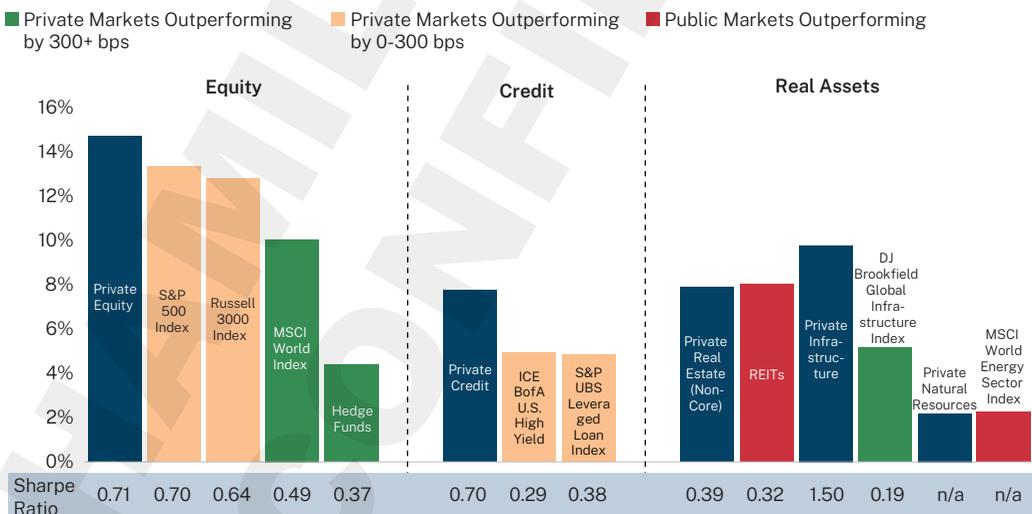
Let's stay with 10-year performance benchmarks. (Everyone uses even numbers for these comparisons. Maybe next year we'll use a seven-year and four-month benchmark and watch virtual heads explode...)



Sorry, back to the 10-year...

10-Year Asset Class Performance

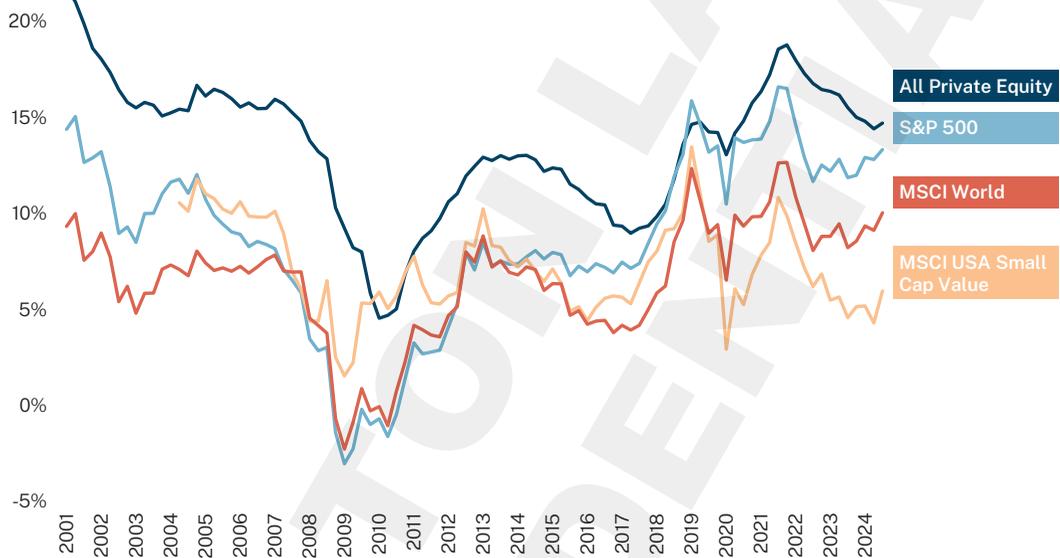
Annualized Time-Weighted Return as of 09/30/2024



Source: Hamilton Lane Data via Cobalt, Bloomberg. Indices used: Hamilton Lane All Private Equity with volatility de-smoothed; S&P 500 Index; Russell 3000 Index; MSCI World Index; HFRI Composite Index; Hamilton Lane Private Credit with volatility de-smoothed; ICE BofA US High Yield Index; S&P UBS Leveraged Loan Index; Hamilton Lane Private Real Estate with volatility de-smoothed; Hamilton Lane Private Infrastructure with volatility de-smoothed; Hamilton Lane Private Natural Resources with volatility de-smoothed; FTSE/NAREIT Equity REIT Index; DJ Brookfield Global Infrastructure Index; MSCI World Energy Sector Index. Geometric mean returns in USD. Assumes risk free rate of 2.4%, 10-year treasury over the last 10 years. (January 2025)

Similar to the earlier chart, private infrastructure has outperformed handily. Private equity historically outperforms, but marginally against the heavily U.S.-oriented indices and handily against the global public indices. Your benchmark matters! We throw in hedge funds, as we have every year we have done these overviews, both because we aren't sure where to list them (some investors categorize them as alternative investments) and because we have told ourselves that there will be an overview where hedge fund returns will outperform something. Somewhere. Somehow.

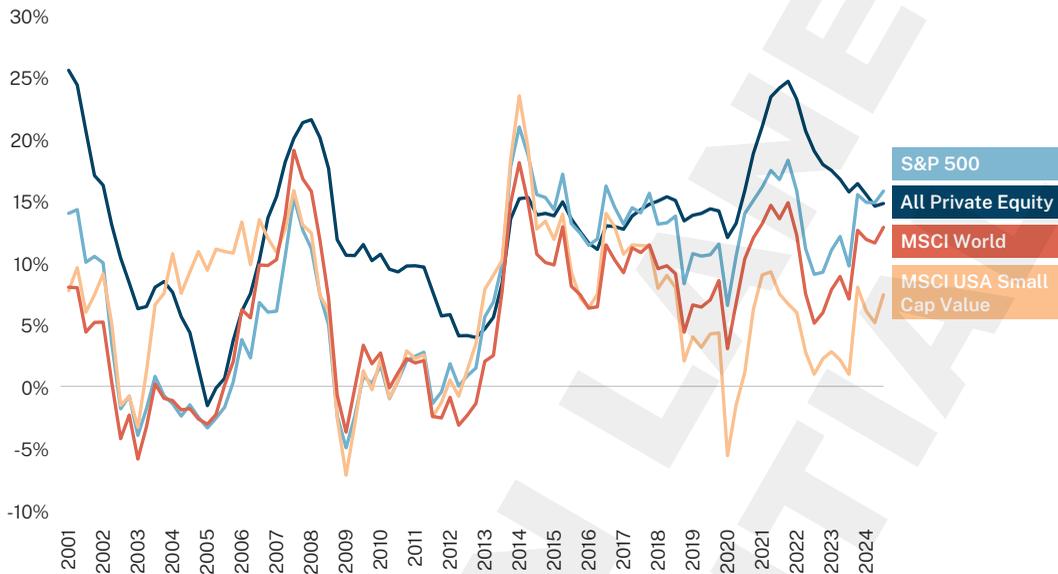
All Private Equity 10-Year Rolling TWRs



Source: Hamilton Lane Data, Bloomberg (January 2025)

We prefer the rolling performance charts to the more static charts because this is how most investors experience their returns: at various points in time. You can see that, regardless of the index, over most 10-year periods private equity has outperformed public markets. There are periods, notably 2010 and 2019, where public markets outperformed. However, those periods were brief. Would we be surprised if we were in the middle of such a period of underperformance? We would not. But there doesn't seem to be anything structural in the markets that suggests that any current period would also be brief.

All Private Equity Five-Year Rolling TWRs



Source: Hamilton Lane Data, Bloomberg (January 2025)

Let's go back to a shorter, five-year rolling time frame. This is noisier as you would expect with shorter timeframes. There are longer periods in this framework in which private equity underperforms. What is interesting is how rare it is for private equity to underperform all the different public indices. It will generally underperform one that is in vogue in the public market while outperforming the rest. Again, an important feature of private market performance is how much broader a set of companies and performance you are gaining in your portfolio.

Let's turn to the periodic table of returns, one of our more colorful charts in the overview.

Periodic Table of Returns

Pooled IRR by Vintage Year

| 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|----------------------------|------------------------------|------------------------------|------------------------------|-------------------------------|-------------------------------|------------------------------|------------------------------|------------------------------|
| | | Late Stage VC 13.3% | U.S. SMID 12.0% | | | | | Seed/Early VC 27.2% |
| | Seed/Early VC 13.1% | Growth Equity 8.4% | Seed/Early VC 11.0% | | | | Seed/Early VC 27.5% | Multi-Stage VC 20.0% |
| Natural Resources 26.8% | Growth Equity 12.0% | U.S. SMID 8.2% | U.S. Large/Mega 10.3% | Growth Equity 17.0% | | | Multi-Stage VC 18.8% | U.S. Large/Mega 18.3% |
| Real Estate 15.5% | EU Buyout 10.7% | Distressed Debt 7.4% | Multi-Stage VC 10.1% | Seed/Early VC 16.8% | | | Growth Equity 17.6% | U.S. SMID 15.9% |
| EU Buyout 13.8% | U.S. Large/Mega 10.0% | U.S. Large/Mega 7.0% | Distressed Debt 9.1% | U.S. Large/Mega 13.6% | | Seed/Early VC 40.5% | U.S. SMID 17.3% | Infrastructure 14.3% |
| ROW Buyout 11.5% | U.S. SMID 9.9% | Multi-Stage VC 7.0% | Growth Equity 9.0% | U.S. SMID 13.6% | U.S. SMID 20.1% | Growth Equity 16.5% | Real Estate 16.8% | Growth Equity 13.9% |
| U.S. Large/Mega 10.6% | Infrastructure 9.4% | Credit - Origination 6.7% | Credit - Origination 8.8% | EU Buyout 12.0% | Multi-Stage VC 15.8% | Multi-Stage VC 16.4% | U.S. Large/Mega 15.3% | EU Buyout 13.2% |
| All PM 10.6% | All PM 7.9% | All PM 5.3% | All PM 7.6% | All PM 10.9% | All PM 12.1% | All PM 13.4% | All PM 13.6% | All PM 13.1% |
| U.S. SMID 9.5% | Credit - Origination 7.2% | EU Buyout 4.7% | ROW Buyout 7.2% | Credit - Origination 10.8% | EU Buyout 11.4% | Real Estate 13.1% | EU Buyout 12.4% | ROW Buyout 10.3% |
| Distressed Debt 8.6% | Multi-Stage VC 6.0% | Infrastructure 4.2% | EU Buyout 5.8% | Multi-Stage VC 10.6% | Credit - Origination 10.1% | U.S. SMID 12.7% | Distressed Debt 9.4% | Credit - Origination 9.6% |
| Multi-Stage VC 8.1% | ROW Buyout 5.8% | ROW Buyout 3.2% | Infrastructure 5.2% | Late Stage VC 10.3% | Distressed Debt 9.9% | EU Buyout 10.7% | Credit - Origination 8.7% | Real Estate 8.4% |
| Seed/Early VC 7.6% | Real Estate -0.4% | Seed/Early VC 3.1% | Natural Resources 4.1% | Distressed Debt 10.3% | Real Estate 9.6% | Credit - Origination 9.3% | Infrastructure 3.5% | Distressed Debt 6.0% |
| | | Real Estate 0.0% | Real Estate 1.5% | ROW Buyout 7.6% | Seed/Early VC 8.9% | Distressed Debt 7.9% | ROW Buyout 1.6% | Natural Resources -1.3% |
| | | Natural Resources -4.8% | | Infrastructure 7.3% | Infrastructure 8.3% | ROW Buyout 0.4% | Natural Resources 0.8% | |
| | | | | Real Estate 7.0% | ROW Buyout 5.0% | Natural Resources -0.6% | | |
| | | | | Natural Resources -2.9% | Natural Resources -5.3% | | | |

Negative returning strategy

| 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | | Late Stage VC 35.6% | | | | | | U.S. SMID 13.8% |
| | U.S. Large/Mega 19.4% | | | | EU Buyout 21.8% | | | EU Buyout 11.6% |
| Multi-Stage VC 20.1% | Seed/Early VC 19.0% | | | | U.S. Large/Mega 19.3% | | | Credit - Origination 11.1% |
| Seed/Early VC 17.9% | Seed/Early VC 19.0% | | | | Natural Resources 18.3% | | | Distressed Debt 10.9% |
| Growth Equity 17.1% | EU Buyout 18.9% | Seed/Early VC 20.0% | | U.S. SMID 20.6% | Growth Equity 18.2% | Late Stage VC 23.1% | Natural Resources 24.8% | ROW Buyout 10.7% |
| U.S. SMID 15.4% | Multi-Stage VC 18.2% | U.S. SMID 19.0% | Seed/Early VC 28.5% | U.S. Large/Mega 20.2% | Seed/Early VC 17.9% | U.S. SMID 19.0% | U.S. SMID 15.8% | Infrastructure 10.0% |
| Credit - Origination 15.3% | Growth Equity 17.3% | Growth Equity 18.9% | Growth Equity 23.7% | Growth Equity 19.1% | U.S. SMID 17.8% | U.S. Large/Mega 16.7% | ROW Buyout 15.5% | U.S. Large/Mega 9.2% |
| U.S. Large/Mega 14.8% | ROW Buyout 15.7% | U.S. Large/Mega 17.1% | U.S. SMID 19.1% | EU Buyout 17.3% | Late Stage VC 17.3% | Growth Equity 15.2% | U.S. Large/Mega 13.7% | Natural Resources 8.7% |
| EU Buyout 13.6% | U.S. SMID 15.1% | EU Buyout 14.8% | EU Buyout 15.3% | Multi-Stage VC 16.0% | Multi-Stage VC 16.1% | Natural Resources 14.4% | Seed/Early VC 12.7% | Seed/Early VC 8.4% |
| All PM 11.6% | All PM 13.7% | All PM 13.2% | All PM 14.6% | All PM 15.4% | All PM 15.0% | All PM 14.0% | All PM 12.0% | All PM 7.9% |
| Real Estate 9.7% | Infrastructure 11.4% | Multi-Stage VC 10.9% | U.S. Large/Mega 14.1% | Seed/Early VC 14.7% | ROW Buyout 14.8% | EU Buyout 13.0% | EU Buyout 12.0% | Real Estate 6.7% |
| Infrastructure 9.5% | Real Estate 7.5% | Natural Resources 10.8% | ROW Buyout 13.0% | Natural Resources 14.0% | Infrastructure 10.9% | Credit - Origination 11.8% | Distressed Debt 11.6% | Late Stage VC 4.9% |
| ROW Buyout 8.7% | Credit - Origination 5.1% | Real Estate 10.7% | Multi-Stage VC 12.1% | ROW Buyout 11.3% | Credit - Origination 10.2% | Seed/Early VC 11.6% | Growth Equity 11.5% | Growth Equity 2.1% |
| Distressed Debt 7.2% | Natural Resources 4.8% | ROW Buyout 10.5% | Infrastructure 10.6% | Infrastructure 10.7% | Real Estate 8.8% | Distressed Debt 11.5% | Infrastructure 11.1% | Multi-Stage VC -8.0% |
| Natural Resources 0.8% | Distressed Debt 4.6% | Credit - Origination 9.3% | Real Estate 9.3% | Credit - Origination 9.9% | Distressed Debt 5.7% | ROW Buyout 11.3% | Credit - Origination 10.2% | |
| | | Distressed Debt 7.7% | Credit - Origination 8.8% | Real Estate 9.4% | | Infrastructure 9.8% | Multi-Stage VC 9.6% | |
| | | Infrastructure 7.1% | Distressed Debt 8.8% | Distressed Debt 7.9% | | Real Estate 9.8% | Real Estate 6.8% | |
| | | | Natural Resources 6.4% | | | Multi-Stage VC 7.9% | Late Stage VC 5.9% | |

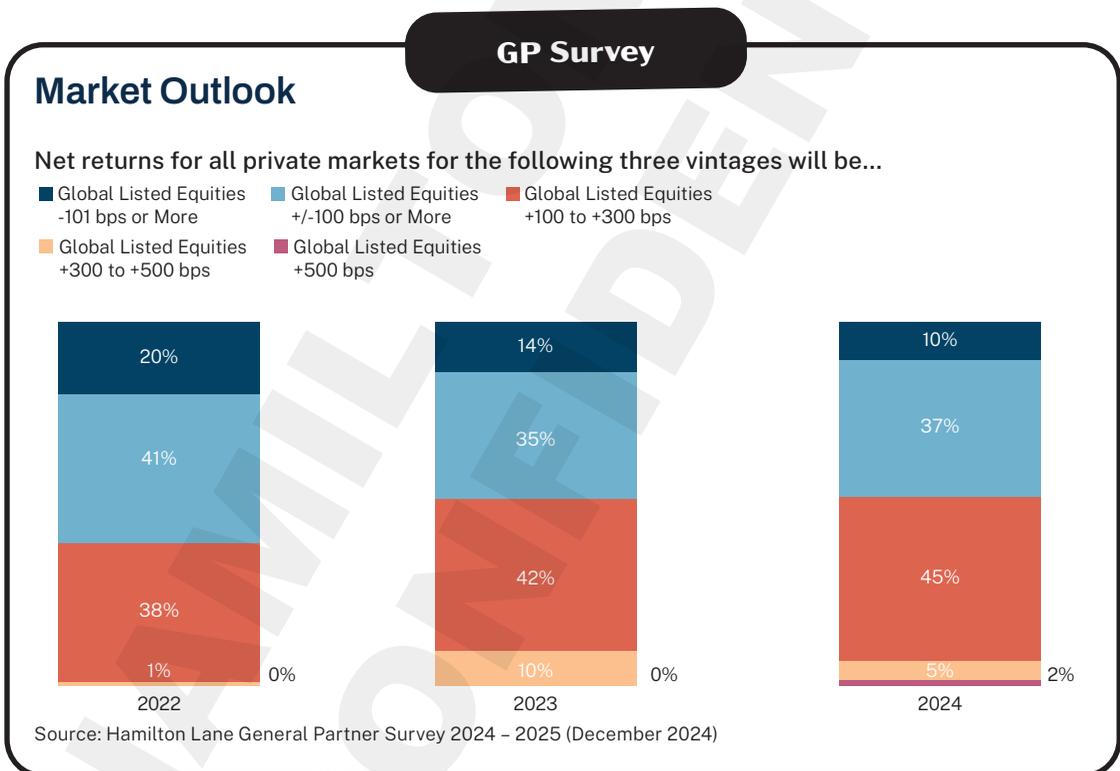
Negative returning strategy

Source: Hamilton Lane Data (January 2025)

There are several points to consider from this data as you construct your portfolio:

- Venture, which dominated the top of the charts during the teens, has moved to lower performance levels, which is typical of strategies that exhibit far more cyclical returns than some others.
- Look at some of the most consistent strategies over the decades, such as U.S. large/ mega or EU buyout: rarely top or bottom performers, but strategies that deliver reliable, strong returns.
- Growth equity has been a real standout for the last 20 years: consistently strong and often close to the best performance in mature vintages.
- Notice how rarely you see negative returns across strategies and vintages.

Annually, we survey 100 of our general partners across various strategies and geographies and ask them their thoughts on the market. You will see some of the results of that survey interspersed throughout this overview. We asked them what they thought net returns for private markets would look like for three recent vintages.



Let's acknowledge that this is a generally bullish group. They are more bullish about returns for the next three vintages than when surveyed the prior two years. In 2022, 20% believed that the next three vintages would never outperform the public markets. Is that a prediction or inside knowledge?

Returns, Risk & Looking Ahead

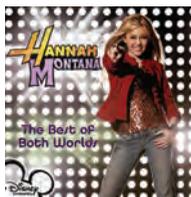
Does Home Presence Provide Excess Returns?

*“I rarely end up where I was intending to go
But often I end up somewhere that I needed to be.”*

“THE LONG DARK TEA-TIME OF THE SOUL”

DOUGLAS ADAMS

YOU HAVE HEARD THE CLASSIC SALES PITCH FROM THE MANAGERS: “We have a local team in [insert geography] and we are viewed as locals in that market and generate superior returns compared to competitors there because of our more global footprint.” What’s not to like? How can you not invest?



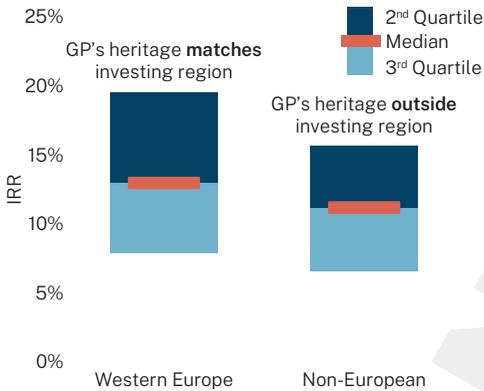


But is it true?

Let's look at returns in Western Europe and compare general partners founded in the region to general partners that are of non-European heritage.

Performance by GP Heritage

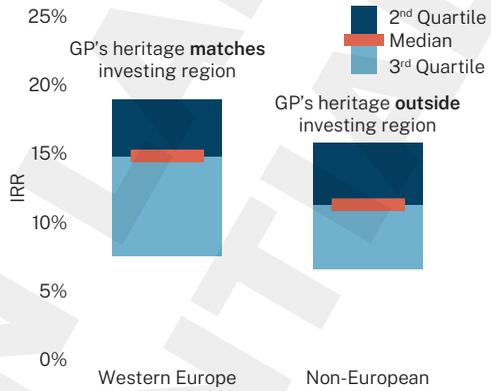
IRR quartiles, regionally-focused Buyout funds, all GPs



Source: Hamilton Lane Data, Hamilton Lane Diligence (January 2025) Note: GP Heritage refers to the traditional home of the General Partner, including their headquarters and founding location. Analysis for all regional buyout funds investing primarily in Western Europe.

Performance by GP Heritage

IRR quartiles, regionally-focused Buyout funds, global GPs



Source: Hamilton Lane Data, Hamilton Lane Diligence (January 2025) Note: GP Heritage refers to the traditional home of the General Partner, including their headquarters and founding location. Analysis for all regional buyout funds investing primarily in Western Europe.

Hmm, it looks like managers founded in the region deliver better returns. (If you're wondering, they also distribute more capital, so the return is not all paper-based.) "That's not fair," we can hear you say. "That's not a like-for-like comparison because some of those regional managers are smaller, focused players and you could be seeing returns based on the luck of being in a good region when it's doing well." Fair point. Let's look at just global general partners. Presumably, they have a wider lens and will gravitate toward the sub-regions they think are best.

The return spread (and, by the way, the amount returned to investors) is even higher when you compare global managers, as you see in the chart on the right.

The conclusion seems clear: If you want to get the returns from a particular region, you are going to be better off investing in a manager that hails from that region.



Deal Performance

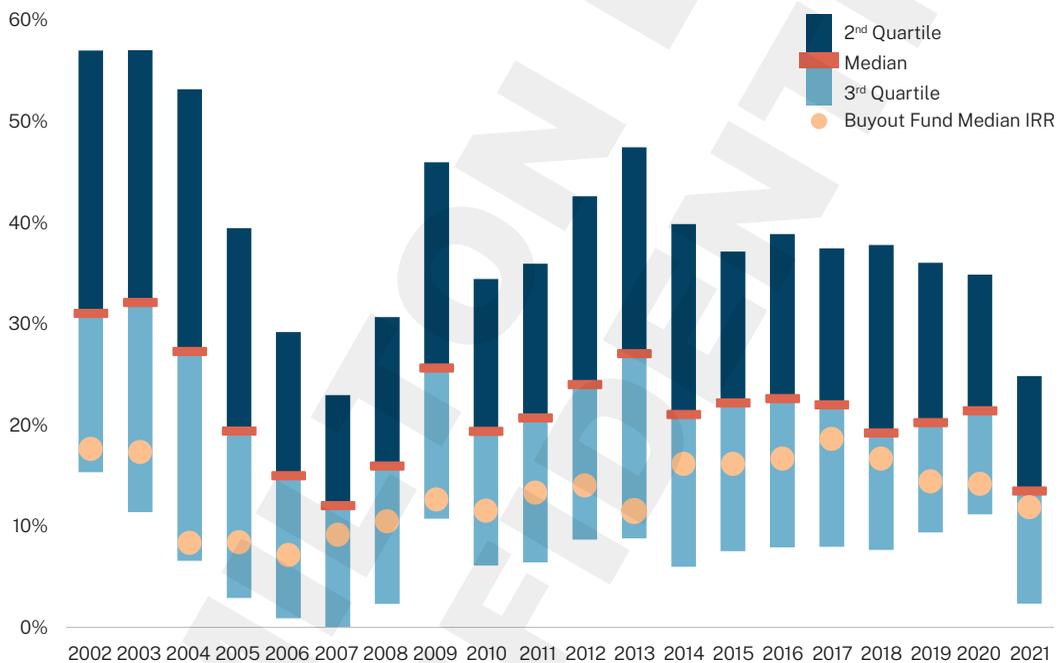
*“All I see is signs
All I see is dollar signs”*

“POUR IT UP,” RIHANNA

The prior charts looked at performance at the fund level. Let’s look at performance at the underlying deal level.

Gross Buyout Deal IRR Quartiles

By Deal Year



Source: Hamilton Lane Data (January 2025)

We have said it many times and will say it again here: It would be hard to find a more lucrative, consistent investment arena than buyouts. Buyouts show 20 years of median returns above 10% and with most years at or above 20%. There may be other places where you have a license to print money, but this isn’t a bad one, is it? But let us point out a cautionary note and that is to look at the 2021 vintage. Returns are lower than we have seen for almost the last 15 years. Is this just an early vintage comparison that will improve over time or a sign of a poor vintage? There’s no way to be certain today, but we lean toward the more bearish view for now.

Now let your eye wander around the chart where you see gold dots and follow that delta between the gold dot and the burnt orange bar, which is your median number. That, my friends, is the fee load that our friendly managers are taking.



That delta explains two almost immutable truths about private markets: (a) Everyone wants to be a general partner and (b) Limited partners always complain about private market manager fees.

A look at deal-level returns by sector highlights the strong returns and the areas where those returns are generated over the last 11 years.

Periodic Table of Gross Returns

Sector Median Gross IRR by Deal Year

| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | Comm. Services 38.10% | | Comm. Services 75.20% | | Materials 32.50% | | | | | | |
| | Information Technology 24.00% | Health Care 31.10% | Consumer Staples 45.90% | Comm. Services 37.00% | Information Technology 29.10% | Information Technology 28.10% | | | Financials 26.50% | Industrials 27.90% | |
| Comm. Services 34.40% | Materials 23.30% | Materials 29.40% | Information Technology 36.70% | Information Technology 31.20% | Comm. Services 28.40% | Health Care 23.50% | Information Technology 33.90% | Information Technology 25.40% | Consumer Staples 24.20% | Materials 24.20% | Industrials 16.50% |
| Consumer Staples 25.10% | Consumer Staples 21.70% | Industrials 29.20% | Materials 33.90% | Materials 30.40% | Consumer Staples 24.50% | Financials 23.00% | Health Care 24.80% | Industrials 20.20% | Information Technology 23.40% | Financials 23.50% | Financials 15.70% |
| Health Care 23.40% | Consumer Discretionary 21.30% | Financials 24.60% | Health Care 31.90% | Health Care 25.00% | Health Care 22.70% | Consumer Staples 22.90% | Industrials 22.50% | Consumer Discretionary 19.20% | Industrials 22.40% | Information Technology 23.30% | Consumer Staples 14.20% |
| All Deals 20.40% | All Deals 20.70% | All Deals 24.20% | All Deals 29.70% | All Deals 24.70% | All Deals 22.50% | All Deals 22.90% | All Deals 21.90% | All Deals 19.20% | All Deals 20.10% | All Deals 21.70% | All Deals 12.90% |
| Industrials 19.50% | Health Care 20.00% | Comm. Services 22.10% | Industrials 28.90% | Financials 21.50% | Industrials 21.20% | Industrials 22.70% | Materials 21.20% | Health Care 17.90% | Health Care 18.80% | Consumer Discretionary 21.60% | Information Technology 12.80% |
| Information Technology 19.30% | Industrials 17.60% | Information Technology 21.70% | Financials 25.40% | Consumer Discretionary 20.80% | Financials 19.90% | Comm. Services 20.00% | Consumer Discretionary 20.20% | Financials 17.80% | Comm. Services 16.20% | Health Care 16.30% | Consumer Discretionary 12.60% |
| Financials 18.00% | Financials 12.00% | Consumer Staples 19.90% | Consumer Discretionary 21.30% | Consumer Staples 20.60% | Consumer Discretionary 15.90% | Consumer Discretionary 16.30% | Financials 14.10% | Consumer Staples 15.00% | Consumer Discretionary 15.00% | Comm. Services 15.00% | Materials 11.60% |
| Consumer Discretionary 16.10% | | Consumer Discretionary 17.10% | | Industrials 19.30% | | | Materials 16.10% | | Materials 14.70% | Materials 11.70% | Consumer Staples 8.30% |
| Materials 12.60% | | | | | | | | Consumer Staples 13.10% | Comm. Services 5.80% | | Comm. Services 5.10% |

Source: Hamilton Lane Data (January 2025)

All the sectors make money, and most make a lot of money over the entire period. It is interesting that the industrial sector has become strong recently. Not surprisingly, information technology has been one of the stronger performers across the entire time frame.

Sorry, we also have to point out one blindingly obvious point: Please look at the white stripe across the chart and the median returns for all deals shown across that stripe. You have probably heard from all your trusted sources that returns in private markets have to come down. You've probably also been told they have been coming down as the asset class has gotten bigger.

In 2010, they were 20.4%. In 2020, they were 21.7%. Even if you live in the Southern Hemisphere and everything is upside down, they aren't going down. That myth about diminishing returns? Yes, we see that 2021 is quite a bit lower but, again, we'll argue that it is too soon to make a judgment about where that vintage will finish and, as we all know, one vintage does not a trend make.



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about where that vintage will finish and, as we all
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Risk, Performance and Future Returns

“No, that is a great fallacy: the wisdom of old men. They do not grow wise. They grow more careful.”

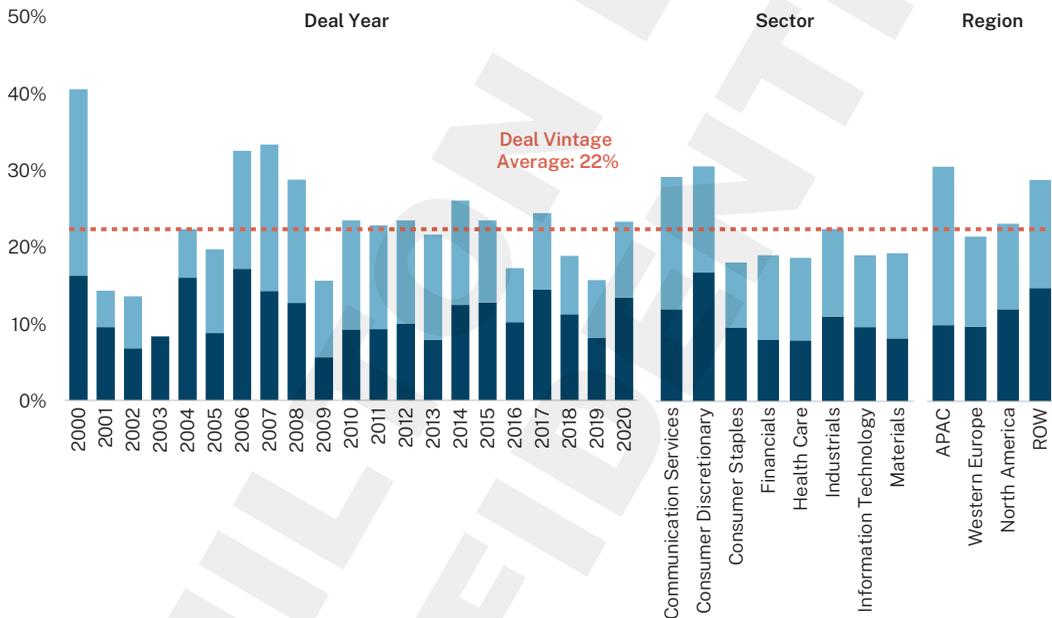
“A FAREWELL TO ARMS,” ERNEST HEMINGWAY

We have looked at returns thus far, but let’s look at risk for a moment.

Loss Ratio of Realized Buyout Deals

% of Deal Count

■ Write-Off ■ <Cost



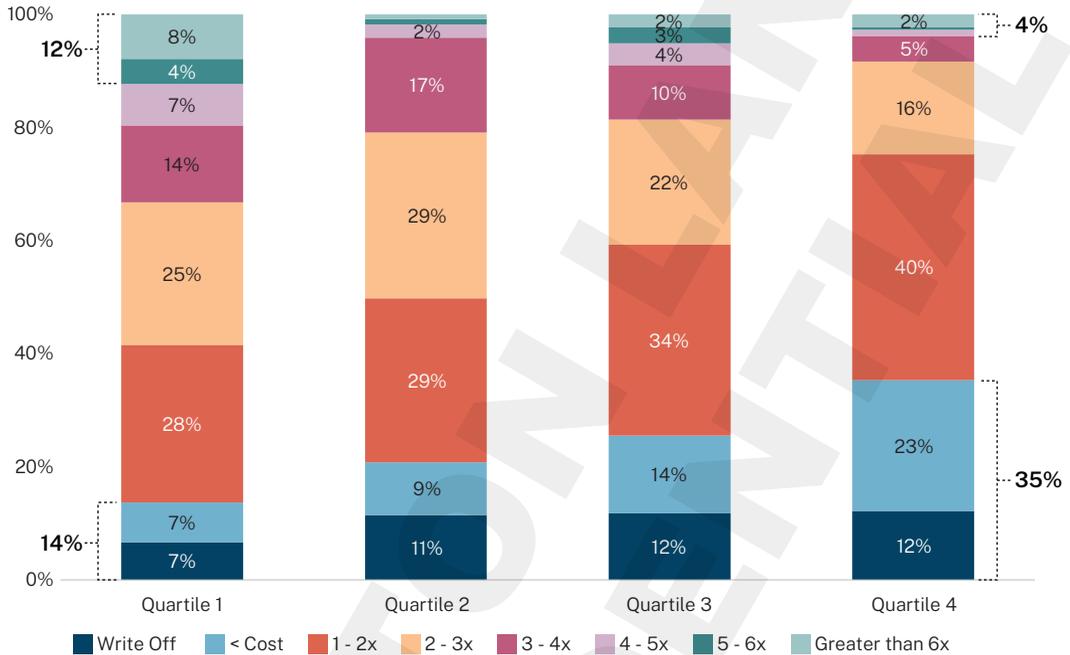
Source: Hamilton Lane Data (January 2025)

At the deal level, buyout investing continues to involve the risk of loss. Over the last 20 years, roughly a quarter of all deals experienced some loss, with about 10% of all deals being completely written off. Those numbers are consistent across vintages, sectors and geographies, with some increased risk from transactions outside the U.S. and Western Europe. This risk of loss is a particularly important consideration as many limited partners develop co-investment programs. Often the publicity risk, internally and externally, to a loss of a single co-investment is greater than some programs would like to accept.

Let's take one step up from the deal level and look at what those losses mean as you build your fund portfolio.

Loss Ratios per Fund Quartile

Deal Vintages 2000-2020, All Deals by Amount Invested



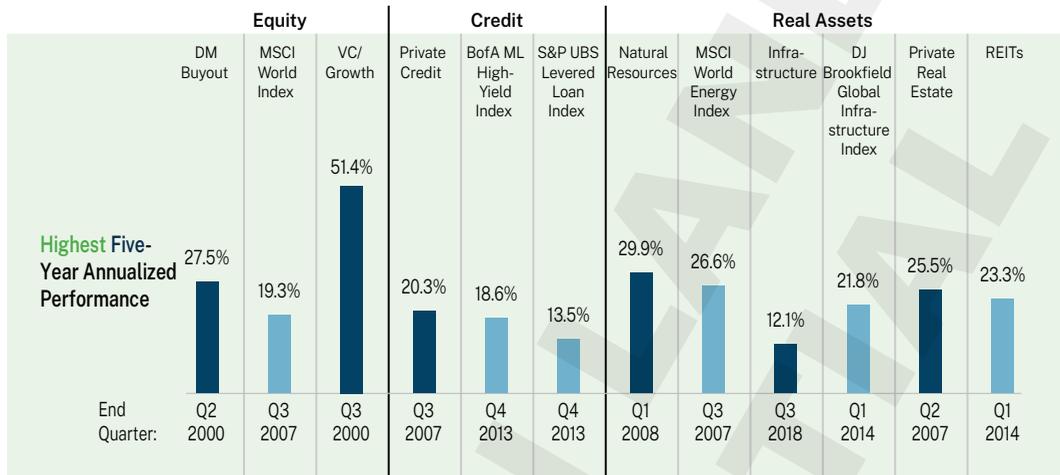
Source: Hamilton Lane Data (January 2025)

Note: Quartile category based on vintage year and strategy for each fund's TVPI

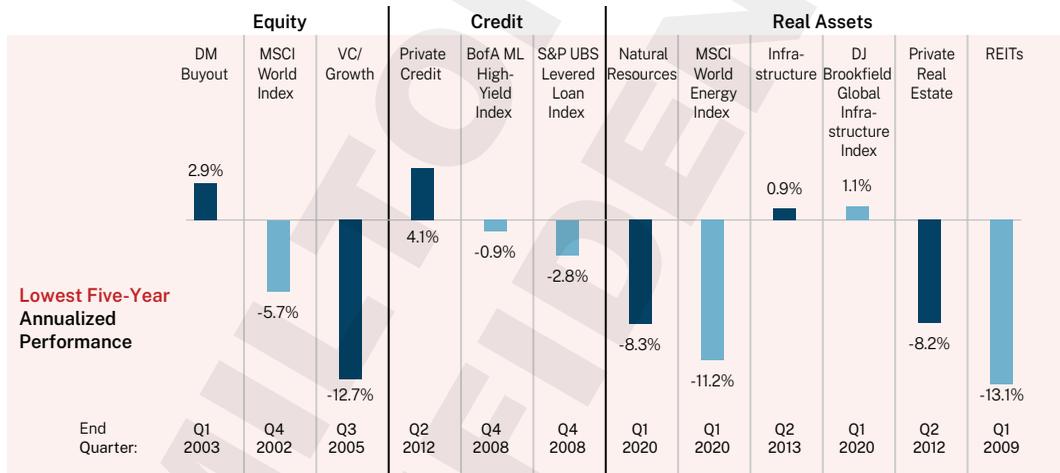
There are two important takeaways from this chart. One is that a real key to top-quartile and bottom-quartile performance is the level of losses your manager is taking. This chart looks at those numbers by amount invested, and bottom quartile managers are losing capital at roughly double the rates of first and second quartile managers. First and second quartile managers are also making larger multiples of money on invested deals at far higher levels than those bottom performers. We hear that investors are looking for consistency of return. You very well might, but you should also look to limit losses. The second takeaway is that we always hear that a key to performance is to pick top-quartile managers. Maybe. Let's offer another one: Avoid bottom-quartile managers. Losing capital on almost 40% of your deals is a large hurdle to overcome on both the fund and aggregate limited partner portfolio level.

We'll stay at the fund level and look at risk another way.

Highest Five-Year Annualized Performance



Lowest Five-Year Annualized Performance



Source: Hamilton Lane Data via Cobalt, Bloomberg (January 2025).
 Infrastructure from 2011-2024, Natural Resources from 1998-2024

Ok, this could be the most important chart in this overview. We are looking at the highest and lowest returns over a five-year period across various investment strategies. What jumps out at you? We'll help you in case you thought that was a trick question (it wasn't).

Over no five-year period did you lose money in buyout, private credit or private infrastructure. Didn't. Lose. Money. And, by the way, if you think you were giving up your upside return, you didn't do that either. More upside, less downside. What's not to like? We think this is one of the great unappreciated benefits of private market exposure in your portfolio: the protection against downside risk. Ok, we'll say it.

But, before we say it, we have to say the following, so our compliance people and lawyers won't put a giant X on this page:



DISCLAIMER

"We are kidding in our next paragraph; do not take us seriously; all investment involves risk of loss; past results are not predictive of future results; please read all 196 pages of disclaimer text in the back of this book and on our webpage and that we carry on our person at all times; this overview was written by a bot and we take no responsibility for its actions; what did you have for breakfast—see just checking if you read this..."



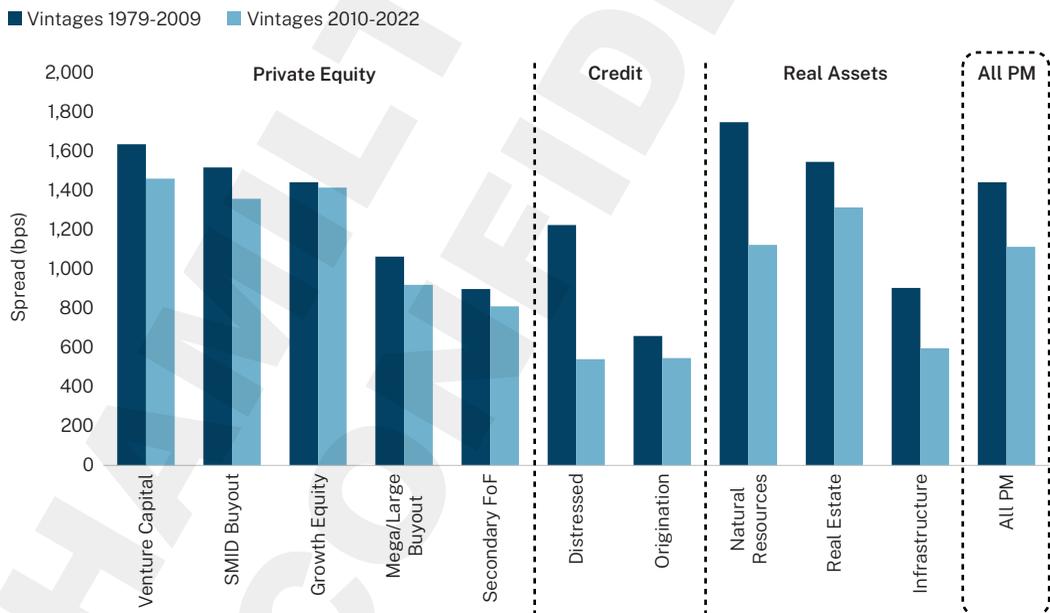
DISCLAIMER

A reasonably diversified buyout or private credit or private infrastructure portfolio will not lose money. It simply won't. Your risk in these markets is not from losing money. If you think that, you are looking at it the wrong way.

While we're on the subject of myths and generally accepted ideas about private markets just being wrong, let's flag another one. You've heard this: As private markets grow, returns will converge and dispersion will decrease. Makes sense, right?

Dispersion of Returns by Strategy

By Vintage Year Groupings; Ordered by Long-Term Spread of Returns



Source: Hamilton Lane Data via Cobalt (January 2025)

We're comparing dispersion of return for the 30 years ending in 2009 (dark blue bar) to the 2010 to 2022 period (light blue).

Dispersion of return hasn't really changed, has it? The markets don't seem to have become all that much more efficient, have they? Do you think it will change your habits in talking about the markets becoming more efficient as they get larger and have more participants?



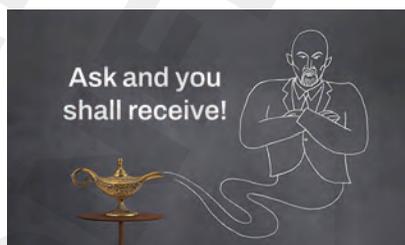
Nah, we don't think so either.

Future Return of Your Existing Vintages

JOE GARAGIOLA: *"Yogi, we're lost."*

YOGI BERRA: *"Yeah, I know it. But we're making good time, ain't we?"*

Among our many talents, we are omniscient. We know what you're thinking. "Thanks, Hamilton Lane, you are telling us what has happened, but we'd sure like to know what is going to happen, especially with our current portfolio!"

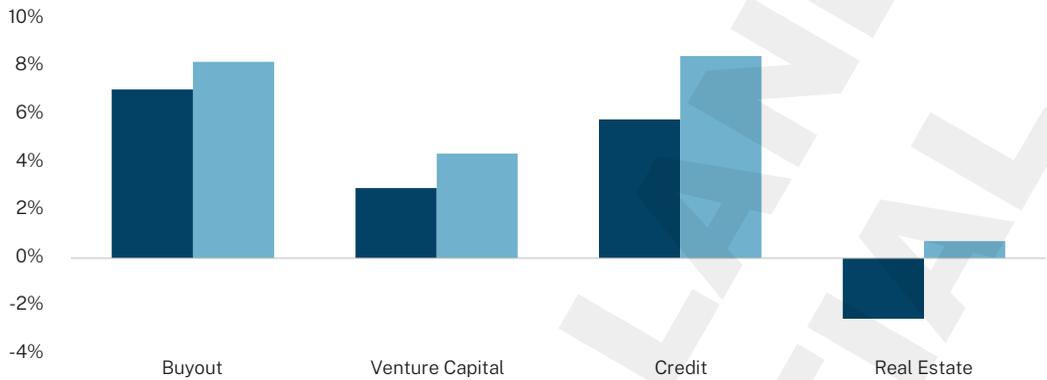


Future returns will obviously depend on a number of factors, but we can make some inferences based on what has happened before in the markets. We have noted in the past that the speed at which funds invest capital can have a bearing on future returns.

Median Since-Inception IRR by Pre-GFC Deployment Pacing

Vintage Years 2005-2007

■ Funds w/ > 50% Fund Size Deployed Through Q4 2007 ■ Funds w/ < 50% Fund Size Deployed Through Q4 2007



Source: Hamilton Lane Data as of Q3 2024 (January 2025)

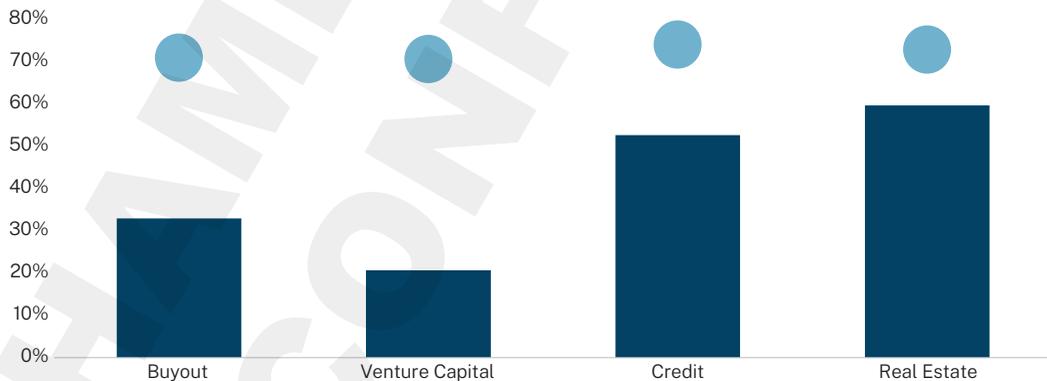
Note: Deployment pacing cutoff set to Q4 2007 for when the GFC began.

The last time funds invested rapidly was prior to the GFC. We looked at returns from funds that had invested more than 50% of their capital before the GFC compared to those that had invested less than 50%. You can see that, in all parts of the market, returns were far better from those funds that had invested more slowly. This is certainly due to the impact on existing portfolios of changed conditions during the GFC. Our argument here is that, while less dramatic than the GFC, there were changed conditions on existing portfolios over the last few years as interest rates rose rapidly and inflation increased. What gives us some concern about these existing portfolios today is the following information:

% of Funds Deploying >50% of Fund Size

By Fund Count

■ VY 2005-2007 (Through Q4 2007) ● VY 2021-2022 (Through Q3 2024)



Source: Hamilton Lane Data as of Q3 2024 (January 2025)

Note: Deployment pacing cutoff set to Q4 2007 for '05-'07 funds and Q3 2024 for '21-'22 funds.

The number of funds that deployed more than 50% of their capital prior to the time in which inflation and rates both rose substantially is far higher than the number of funds that deployed that amount of capital prior to the GFC. It's roughly 70% of all funds across all the different sub-sectors of the private markets. Past is not prologue and conditions are certainly different, but you can't feel great about the future return prospects when you are looking at this chart.

We are going to highlight the deterioration in coverage ratios later, but it is important in this context. Fast deployment, always a feature of bull markets, usually goes together with more leverage. More leverage in a zero-interest rate environment is wonderful. In a 5% interest rate environment, "wonderful" is not the characterization we would use. Companies using more cash to pay their lenders often have less cash to pay for things like sales and product development, let alone enough cash to pay those interest payments. We are not suggesting defaults are imminent. We are suggesting that it's another reason not to feel so great about some of these portfolio companies.

We wandered down to the local Private Markets Restaurant to ask the general and limited partners who dine there what they thought about our analysis.



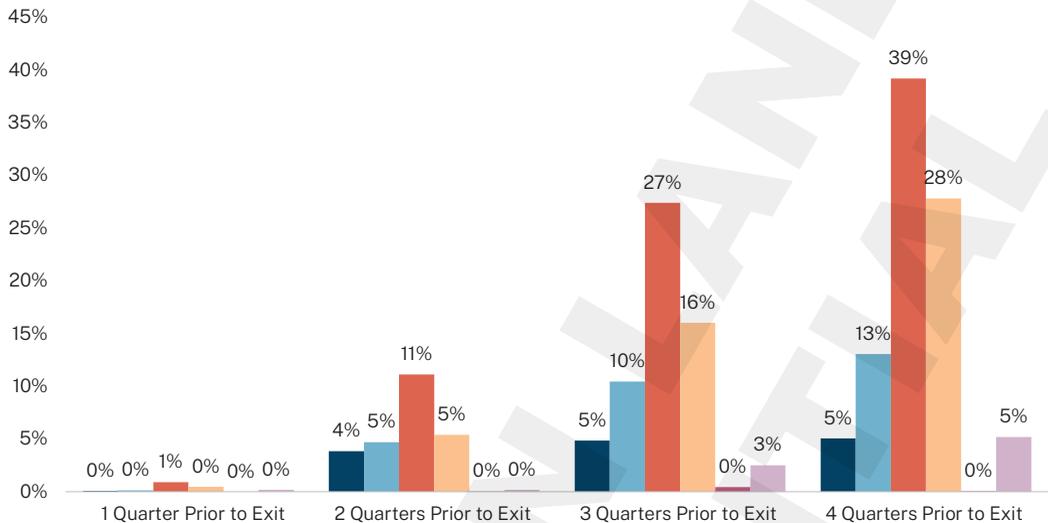
They told us their portfolios were fine. Now, about those other managers and their portfolios...

One source of return from portfolios has been the markups in values that have occurred on exits. We have calculated that the average markup from a portfolio company's NAV three or four quarters prior to exit has been about 20%. Usually, that is a function of the control premium that is not factored into NAV, but it also reflects a generally conservative valuation policy in the industry.

Median Exit Markups During the Year Prior to Exit

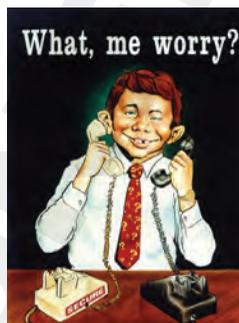
Global Buyout Deals Exited from Q1 2019 – Q2 2024

■ 2019 ■ 2020 ■ 2021 ■ 2022 ■ 2023 ■ 1H 2024



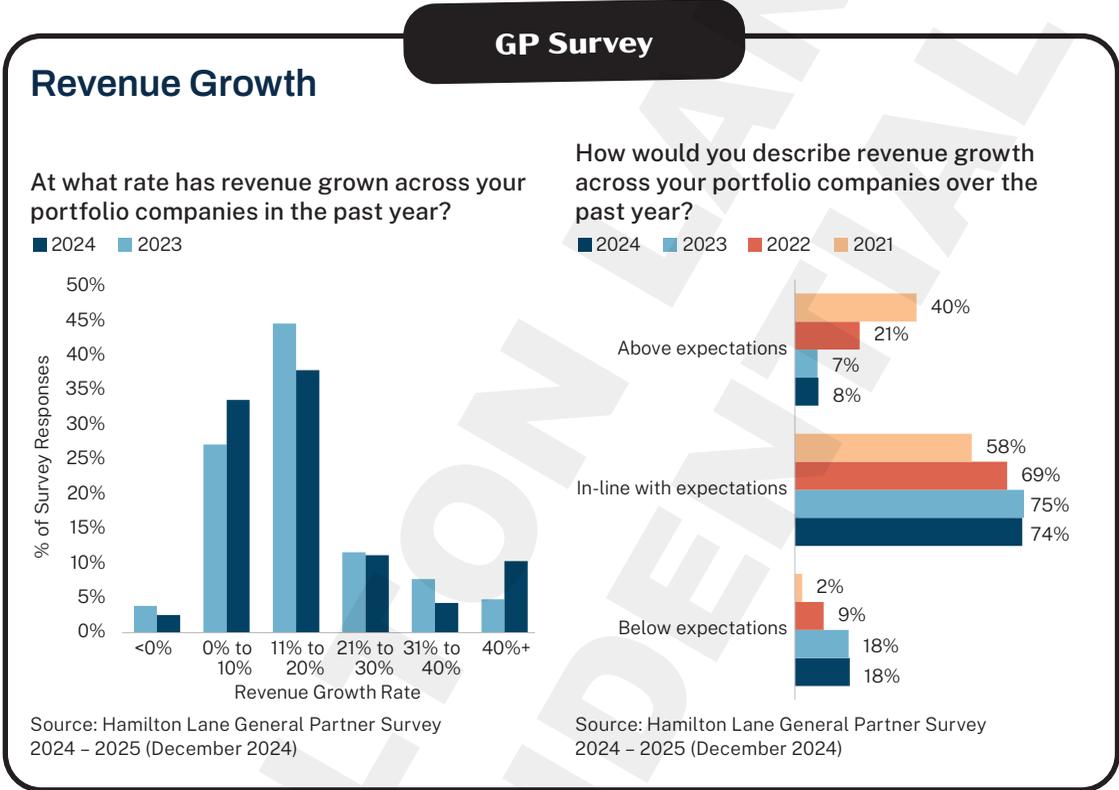
Source: Hamilton Lane Data (January 2025)

We looked at the exit markups between the date of exit and the NAV from one to four quarters prior to that exit over the last five years. Pay particular attention to the chart that shows the markup from the NAV four quarters ago. But, really, pay attention to the markups in any time period for 2023. It's zero. Nada. Nothing. We're not sure if this has ever happened before and certainly indicates that a source of return for existing portfolios may not be there for today's portfolios. We went to visit our favorite managers to get their reaction to these numbers and, while they were busy, they took a moment to give their reaction.



They told us their portfolios were fine. Now, about those other managers and their portfolios...

We discussed earlier how revenue and EBITDA growth was a major reason for private equity's outperformance in the '22 and '23 period. How are general partners feeling about revenue growth in existing portfolios?



While still generally good, you can see that the results have come down from prior years. We'd still say they're flat from 2023. That's probably good in terms of an outlook, but it still reflects a softening from two years ago. It doesn't make us feel as though robust earnings growth is going to drive portfolio performance in the future.

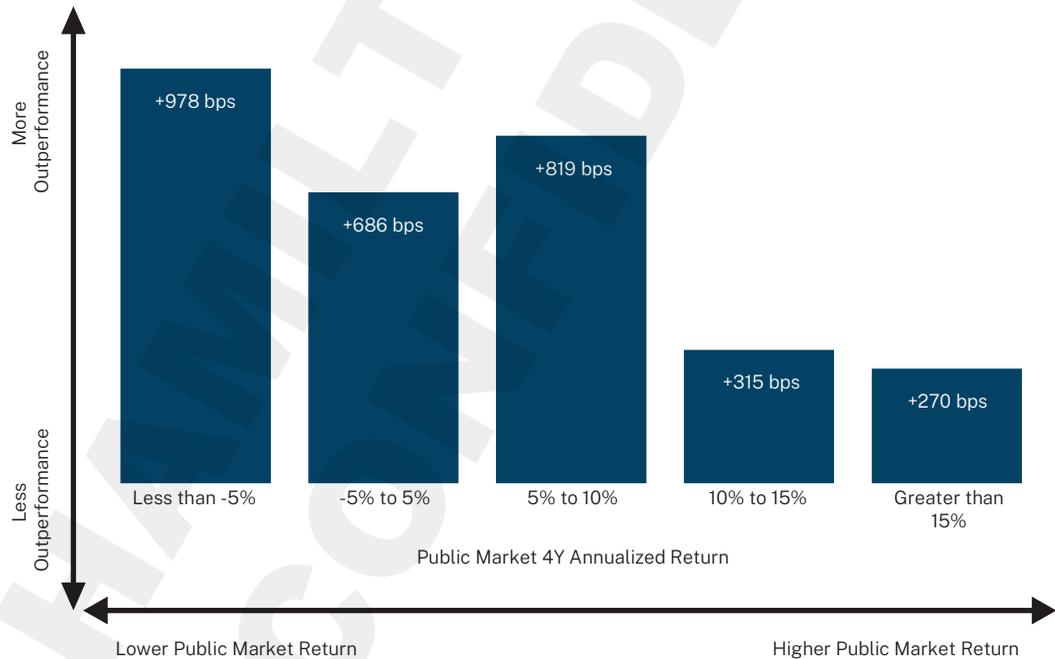
You asked us to make a prediction here and we will: We think recent vintages will struggle. There are no magic bullets or rabbits to be pulled out of a hat that will create exceptional returns out of these portfolios. Manager and asset selection will certainly make a difference, perhaps more so than in most markets.

**We think recent vintages will struggle.
There are no magic bullets or rabbits to be pulled out of a hat that will create exceptional returns out of these portfolios. Manager and asset selection will certainly make a difference, perhaps more so than in most markets.**

You know what might make the biggest difference for your future private equity performance? The public markets.

Performance by Public Market Regime

All Private Equity Average 4Y Excess Return By S&P Return Regime



Source: Hamilton Lane Data via Cobalt, Bloomberg (January 2025)

First, don't lose sight of the fact that, across any public market environment, private equity historically outperforms. But its outperformance is quite different across different public market return profiles. When the public markets have performed as well as they have in the last two years, you can see from this chart that it is those periods when private equity has the least amount of outperformance. If you think we are in for another three or four years of public equity returns above 15%, then we can almost assure you that your private assets will struggle to outperform. Do you genuinely believe that's the likeliest scenario? If, instead, you expect public markets to return to more average performance, then we are more confident predicting that your private returns will have a better return relative to those public markets. We noted that, recently, Goldman Sachs predicted public market equity returns over the next 10 years to be in the 3% range. Run your finger in the chart and look at what private equity returns have done in that type of environment. Not too shabby!

David Bonderman said it in 2008, "Private equity does better in bad markets than in good markets."

In Memoriam



David Bonderman:

The Investor Who Championed Conservation

(1942-2024)

We will take a pause from our Market Overview to say a word about David Bonderman, who died in 2024. The word "legend" is overused. Very few people are legends. David Bonderman was a legend, someone who was a very large part of creating the private equity industry and transforming it into what it is today. Some of us at Hamilton Lane got to know him throughout the course of our careers together. He was a man of enormous intellect, wit, kindness and creativity. Someone said to us, "A shock that such a life force could be extinguished."

He will be missed.



Where Are We Now?

“If everybody always lies to you, the consequence is not that you believe the lies, but rather that nobody believes anything any longer.”

HANNAH ARENDT

WHAT'S THE MACRO ENVIRONMENT through which our current portfolios will navigate, and our new investments are being made? We all read the same headlines — geopolitical friction, a new administration in the U.S. and the UK, political uncertainty and realignment across much of Europe, an ongoing Russian invasion of Ukraine, shifting expectations on inflation and interest rates. You know the stories and those are just a few of the ones we all see.

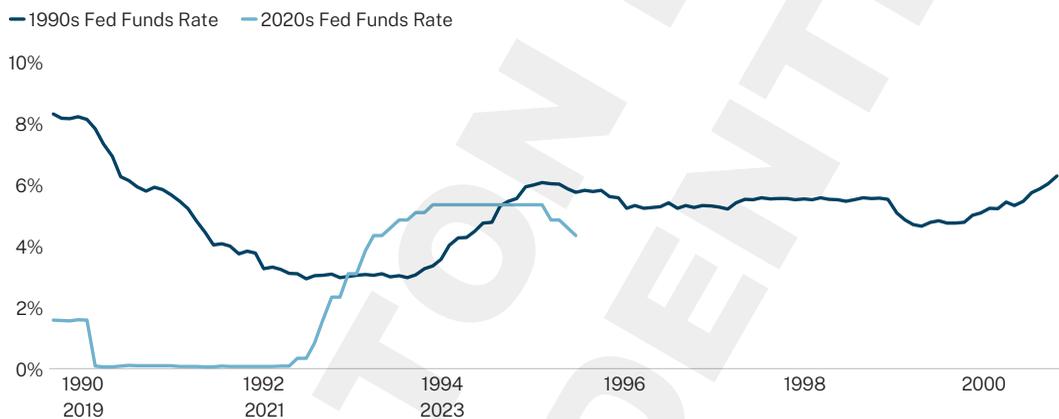
We have a theory. It's not as encompassing as Einstein's Grand Unified Theory, but with the modesty for which you know us, we will say that it's pretty damn close.

The last time the U.S. had rates being lowered that weren't in response to a recession – the fabled soft-landing economy – was in the 1990s. We think you should be looking to that era for a hint of where we are and where we might go over the next few years.



What makes us think it's a similar environment? Let's start with interest rates.

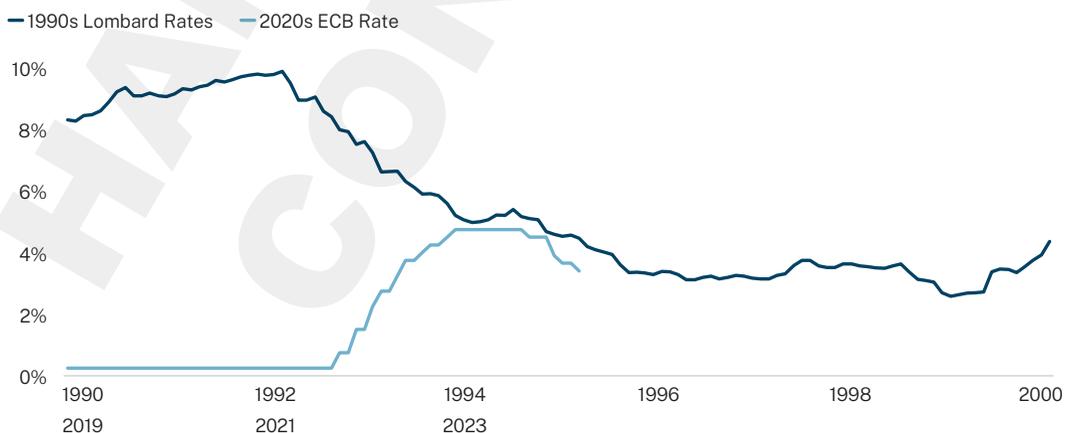
FED Funds Rate



Source: FRED (January 2025)

It's early in this phase, and the starting points are vastly different, but if the analogy holds, then U.S. rates will come down a little but flatten from there. This is important: *If we are in a similar environment, rates will not come down very much over the course of 2025.* Europe is in a similar situation.

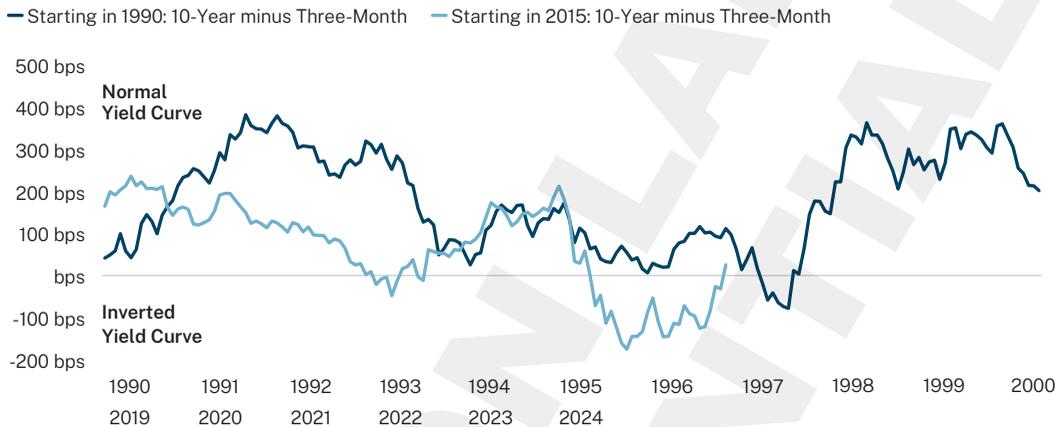
Lombard Rates ('90s) and ECB Rates (Now)



Source: FRED (January 2025)

We will argue that Europe may not be in the same position as the U.S. because the European economy has more serious headwinds, whether it is a war on its Eastern flank, energy issues or political upheaval in the EU's two largest economies. (Is it crazy to think that the UK is now the politically stable entity in Europe?) *We expect European rates to come down more than those in the U.S.*

10-Year Treasury Bill Spreads Against Three-Month T-Bills



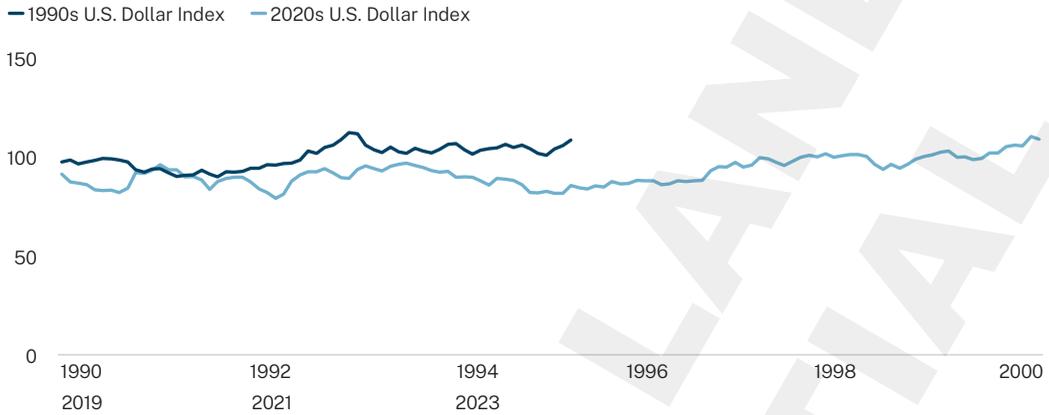
Speaking of the yield curve, we admit that we have, in the past, used this indicator for its almost infallible signal of a U.S. recession. We say “almost infallible” since it failed over the last three years, signaling the downturn that never came. So, we shed a tear...



...and say it didn't work in this cycle, and we will watch to see whether it returns to guide us sometime in the future.

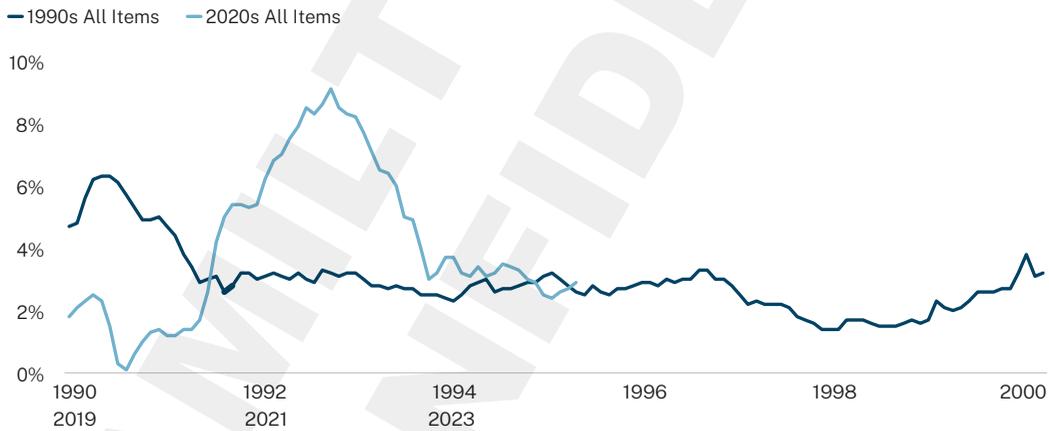
There are more similarities in these two eras.

U.S. Dollar Index



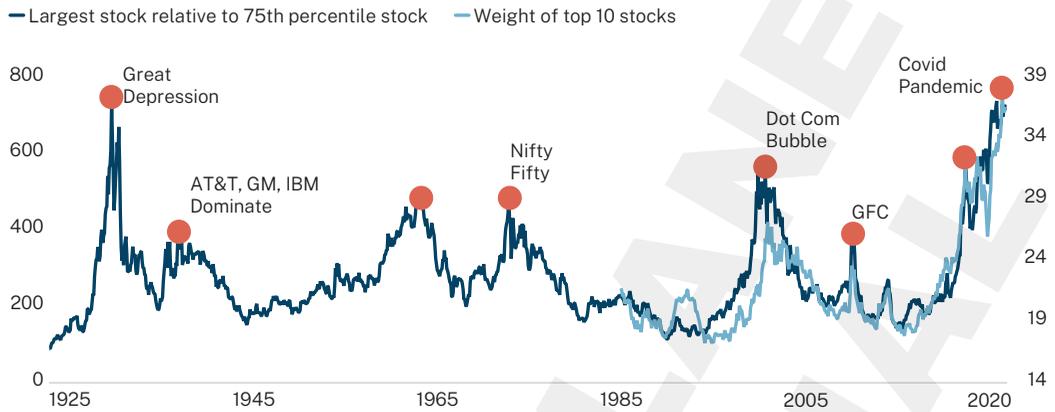
The U.S. dollar is in a period of relative strength and real stability at those levels. With history as a guide, we expect the dollar will strengthen over the next couple of years. We know the Trump administration has said it prefers a weaker dollar to help U.S. exports, but interest rate differentials and exogenous factors like tariffs are likely to strengthen it.

U.S. Inflation



While it appears that inflation has had a much higher rate than in the 1990s, the trajectory is similar. Then, as now, inflation had spiked. It came down rapidly, and the Federal Reserve waited out a longer period of price stability before lowering rates. However, the general movements are strikingly similar. If history is a guide, we can expect inflation to remain subdued before rising again. There's another important similarity.

Market Cap of the Largest Stock Relative to 75th Percentile Stock



Source: Compustat, CRSP, Kenneth French, Goldman Sachs GIR (November 2024)

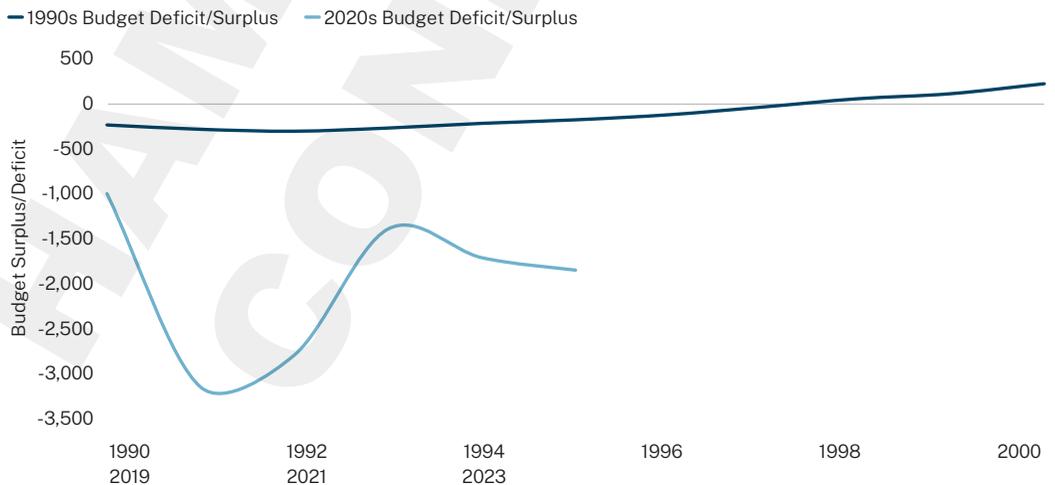
*Consists of U.S. stocks with price, shares, and revenue data listed on the NYSE, AMEX or NASDAQ. Series prior to 1985 estimated based on data from Kenneth French data library reflecting the market cap distribution of NYSE stocks

We discussed the concentration in the public markets in an earlier context. This chart clearly shows that the last time we reached these levels of concentration was in the 1990s. While we don't want to make too big a point of this, since levels can stay elevated for long periods, it is worth noting that every time we reached these levels of concentration...well... the public markets...



What is different between the eras?

U.S. Federal Government Budget

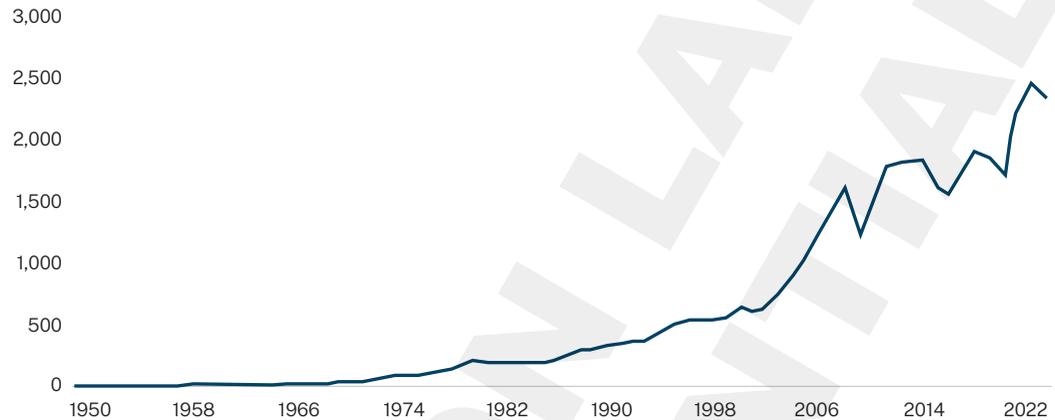


Source: FRED (January 2025)

The U.S. budget deficit in the 1990s was moving into surplus. (We know, that seems impossible to believe.) Today, the deficit is large and likely to increase. Our view is that will mean greater-than-consensus U.S. economic growth (a good thing) but will inhibit any reduction in interest rates (not a good thing). The other big difference is international trade.

Evolution of World Trade, 1950-2023

Values, Billion USD

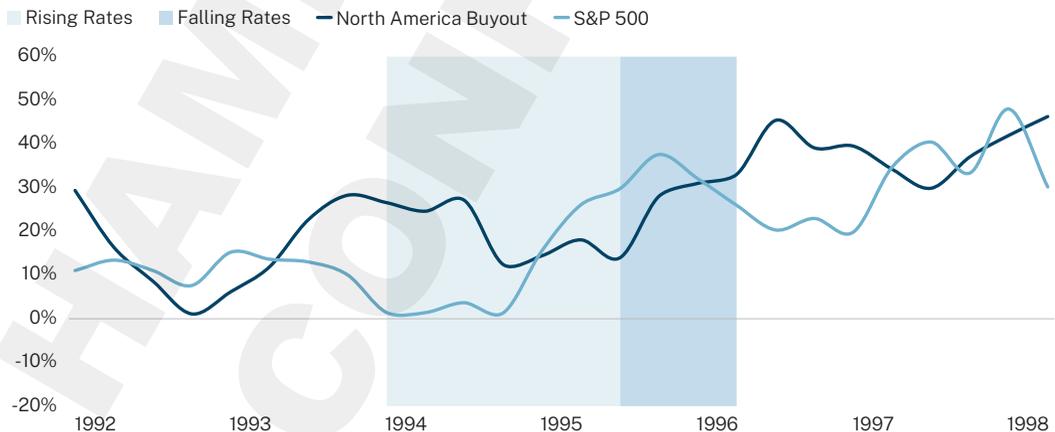


Source: WTO (December 2024)

The 1990s were an era of expanding free trade. It is likely that, while global trade will continue to grow, it will do so in fits and starts over the next few years as tariffs, trade restrictions and geopolitical tensions cause friction we have not seen in decades.

Ok, let's assume we are right, and we are closer to the 1990s era than any other from a macroeconomic perspective. What does that mean for us in the private markets? Plenty. Let's look at private equity performance in the '90s from a buyout perspective.

Mid 1990s Soft Landing – One-Year Rolling Performance



Source: Hamilton Lane Data as of 9/30/2024, Bloomberg (January 2025)

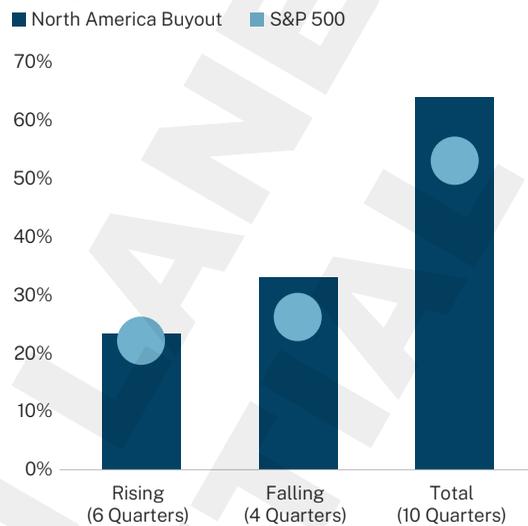
Note: Soft Landing period is defined as Q1 1994 – Q2 1996 for the mid-90s period and Q1 2022 – Q3 2024 for the current period. Mid 90s sample includes funds from vintages 1986 – 1995 with complete valuation history

Note a few things. As the period of rising rates was ending, public equity was outperforming private equity, same as today. As the period of lower rates started, public equity declined. Will that be the case now? Also, crucially important, during most of the late 1990s, U.S. buyout struggled mightily to outperform public equity. Outperformance went back and forth between the indices. While the data today is more limited, the movements are similar. If we are channeling the 1990s, then today we are somewhere in the 1996 timeframe. Let's look a little more carefully at this idea of the relative performance of the indices.

While rates were rising, the S&P 500 was in line with the private markets on a cumulative basis. As rates fell, private equity outperformed. That would indicate a future period of outperformance is coming. Overall, however, over both cycles, returns were better on the private side by 1,100 basis points. The results are similar if we look at them on an annualized basis.

Again, public equity was in line with private equity during the period of rising rates and underperformed during the falling rate period and overall. While we are looking at returns on both the public and private side on an absolute basis, there is a very interesting difference when we look at them on a relative basis.

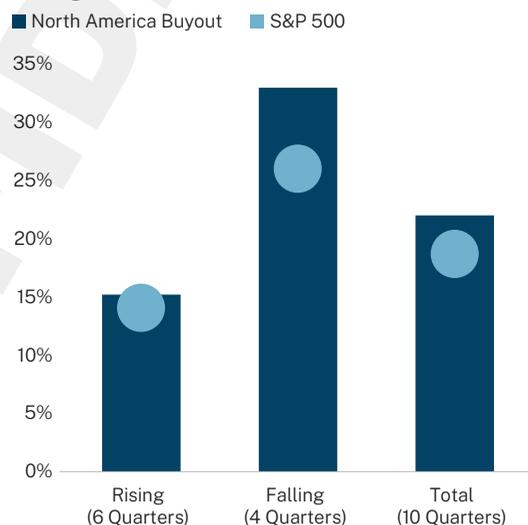
Mid 1990s Soft Landing, by Interest Rate Changes – Cumulative



Source: Hamilton Lane Data as of 9/30/2024, Bloomberg (January 2025)

Note: Soft Landing period is defined as Q1 1994 – Q2 1996 for the mid-90s period and Q1 2022 – Q3 2024 for the current period. Mid 90s sample includes funds from vintages 1986 – 1995 with complete valuation history

Mid 1990s Soft Landing, by Interest Rate Changes – Annualized

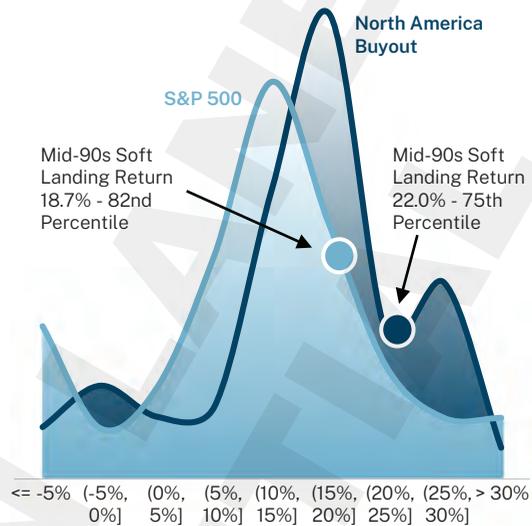


Source: Hamilton Lane Data as of 9/30/2024, Bloomberg (January 2025)

Note: Soft Landing period is defined as Q1 1994 – Q2 1996 for the mid-90s period and Q1 2022 – Q3 2024 for the current period. Mid 90s sample includes funds from vintages 1986 – 1995 with complete valuation history

In the 1990s' soft landing, both buyout returns and public equity returns were above their average return levels, particularly public returns, which were at the 82nd percentile of historical numbers. In other words, buyout returns were doing quite well and public returns even better than that. Today, both private and public returns are in the lower ranges of their historical returns. However, buyout is doing especially poorly relative to its historical return averages. Is this an anomaly to be made up in future returns or is this just a poor era historically for buyout returns?

Distribution of Rolling 10-Quarter Annualized Returns



Source: Hamilton Lane Data as of 9/30/2024, Bloomberg (January 2025)

Note: Soft Landing period is defined as Q1 1994 – Q2 1996 for the mid-90s period and Q1 2022 – Q3 2024 for the current period. Mid 90s soft landing return sample includes funds from vintages 1986 – 1995 with complete valuation history



Ok, ok, Hamilton Lane, I need the short version here.

You got it:

In the U.S., we expect stronger economic growth, stable (while still high) inflation, flat to slightly rising interest rates, and a stronger dollar.

In Europe, we expect a weaker pound and Euro, weak to very weak economic growth, flat inflation, and slightly declining interest rates.

In China, we expect slower growth, flat prices to deflation in some sectors, and weak currency.

On the private equity side, we see returns struggling against what we expect will be overall strong public markets, although we will see more downside volatility than in the last two years. This is the first year in a very long time where we do not share the bullishness of the private equity universe. Many may not be worried, but we are. Just a little.

Let's be clear what we are saying: AI will change things the way the internet did 25 years ago. The issue is not if, but when.

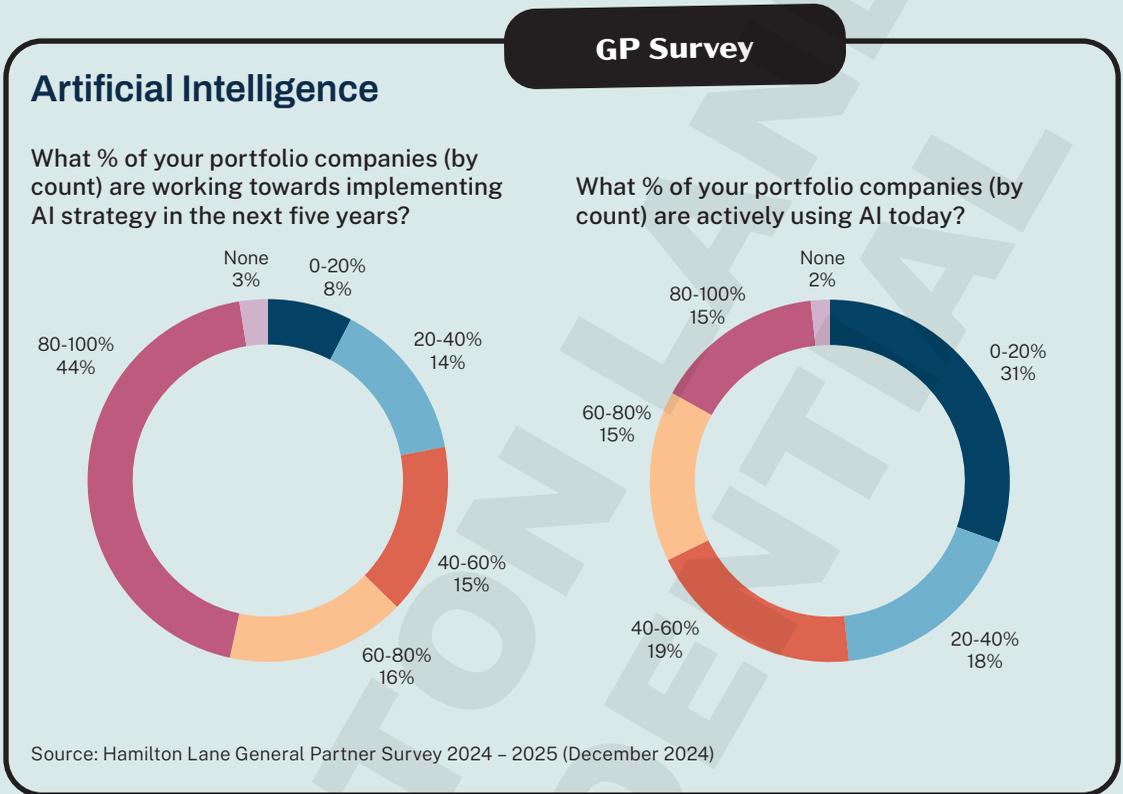
This brings us to another similarity between today and the 1990s: the AI boom. Everything associated with AI is increasing in value. Every company and business is looking for an AI angle or a way AI will change its business. In the public markets, it's AI all the time. One difference is that the venture world is not booming with AI-related companies. Part of the reason is that the AI world today is concentrated in large companies spending massive amounts to build large language models.

Here, then, is the most important question for public investors and, in all likelihood, for private investors. Will the revenue associated with AI expenditures, the revenue from all the AI applications that will be using those expensive and massive AI models, occur next year or five years from now? If next year, then markets will continue to move higher. If it's not for three or five years, then we could witness an AI bubble collapse similar to the internet bubble collapse.

Let's be clear what we are saying: AI will change things the way the internet did 25 years ago. The issue is not if, but when.



Our general partner survey offers a mixed view of the answer to this all-important question.



Roughly half of respondents indicated that less than half of their portfolio companies are using AI today. That strikes us as indicative that large revenue streams are not coming to AI companies in the very short term.

On the other hand, a huge majority of respondents indicate that a very large proportion of their portfolio companies are working toward implementing AI strategies over the next five years. But that is across five years, not now.

Our view is that it is more likely that the expected AI revenue stream will not occur in the next year, and that public market valuations will be pressured as a result. We can't predict by how much. But the corollary to that is that today, all manner of companies are developing AI applications that will change how we live and work. Just as in 1999, we didn't see how mobile devices, social media and the rest would change everything. But those companies will come from the private side, and that is where you want to be investing for tomorrow's winners, today.

**SHAMELESS
PLUG!**

DATA

*“The spheres are in commotion
The elements in harmony”*

“SHE BLINDED ME WITH SCIENCE,” THOMAS DOLBY

WE ARE TOLD THAT ONE OF THE THINGS YOU LOVE about our market overview is that it is not just a marketing piece. Sure, it's Hamilton Lane and it shows what we do and how we do it, but it's not filled with endless drivel the way too many financial commentaries are written, so that all you are reading is some PR puff piece for the company.

However, this section is – and we say it with both pride and as a warning – a shameless plug.



We just finished discussing how AI will change the way companies operate. What does AI depend on to be effective? Data. Good data and lots of it. Who has good data and lots of it? Hamilton Lane. How much data?

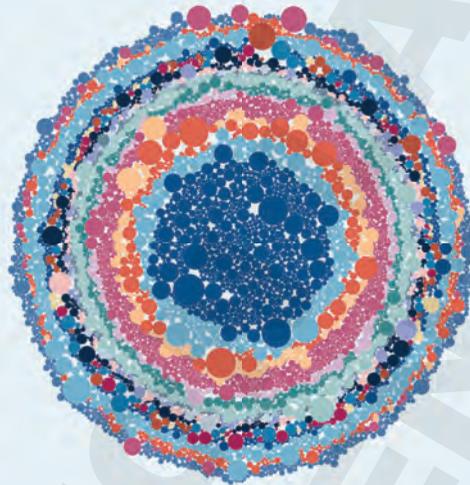
Our Private Markets Data Advantage

With today's volume of choices, it's challenging to identify "winners."

Managers with Funds Raised in the Trailing 10 Vintage Years

18,500+ Funds

11,500+ Fund Families*



58,060+
Funds Across
All Private Markets*

168,890+
Portfolio Companies
Monitored*

57
Vintage Years*¹

Source: Hamilton Lane Data (January 2025)

*As of December 31, 2024

¹ Includes projected funds

We have data on more than 58,000 funds across all private markets, on more than 169,000 portfolio companies across 57 years. This isn't data from public sources. This is data from the funds and companies themselves, scrubbed, cleaned and accurate. You want data?



Is that enough? It isn't. You know, or should know, our solutions technology is anchored around Cobalt. We strive to deliver transparency and portfolio reporting equivalent to the public markets.

Is that enough? It isn't. Hamilton Lane has invested with cutting-edge technology companies, off our own balance sheet, to drive innovation.

HL Innovations

10+ year track record investing in cutting-edge technology built for the private markets

| Enhancing Data & Analytics | Broadening Market Access | Driving Operational Efficiency |
|---|---|--|
|       |       |         |

*Reflects both realized and unrealized deals.

Impressive, isn't it? (We see you nodding...)

Let's finish this shameless plug by giving you two real-life examples of how companies in which we have invested and with whom we work are using AI to change the way we, you and the industry will do business.

On the pre-investment side, Daphne is an emerging platform that facilitates the distribution of private markets assets and increases fundraising efficiency. It digitizes a general partner's funds using its Fund Master, a centralized and standardized data model that serves as a single source of truth for fund information, capturing performance metrics and other crucial data. Once digitized, GPs can effortlessly publish fund data to our Cobalt software and other channels, reaching investment consultants, limited partners, independent broker dealers, wire houses and registered investment advisors.

Our clients can then analyze their portfolio performance and strategize for the future, including forecasting cash flows, building commitment plans and stress-testing their portfolios under various economic scenarios.

On the post-investment side, Canoe is a financial technology company committed to enhancing back-to-front office capabilities. Canoe automatically syncs financial reporting documents from investor portals, organizes files and extracts and validates data before sending it downstream to other systems, which for us means Cobalt. Our clients can then analyze their portfolio performance and strategize for the future, including forecasting cash flows, building commitment plans and stress-testing their portfolios under various economic scenarios.

Go find someone else doing all this and doing it well and continuing to innovate. Go ahead, find them.



Well, it felt good to do some bragging there...but let's go back and use that data to figure out what's going on in the private markets.

WORRY-O's

SUPER DRY!

Good source of heartburn



Liquidity

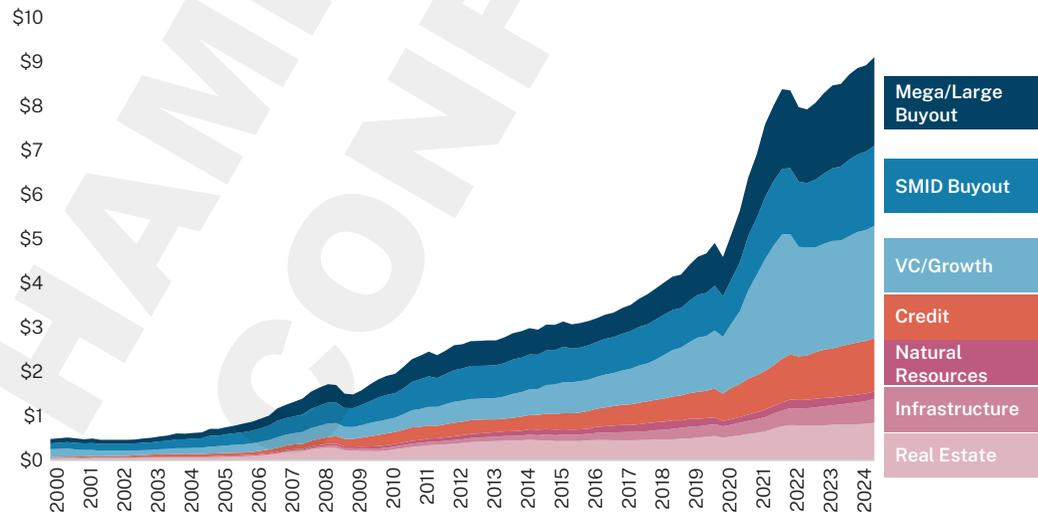
“Do it or don’t do it—you will regret both.”

“EITHER/OR,” SOREN KIERKEGAARD

THE TITLE OF THIS SECTION is “liquidity,” but it’s the lack of the stuff that is causing heartburn in the private markets.

NAV by Strategy

USD in Trillions



Source: Hamilton Lane Data as of 9/30/2024 (January 2025)

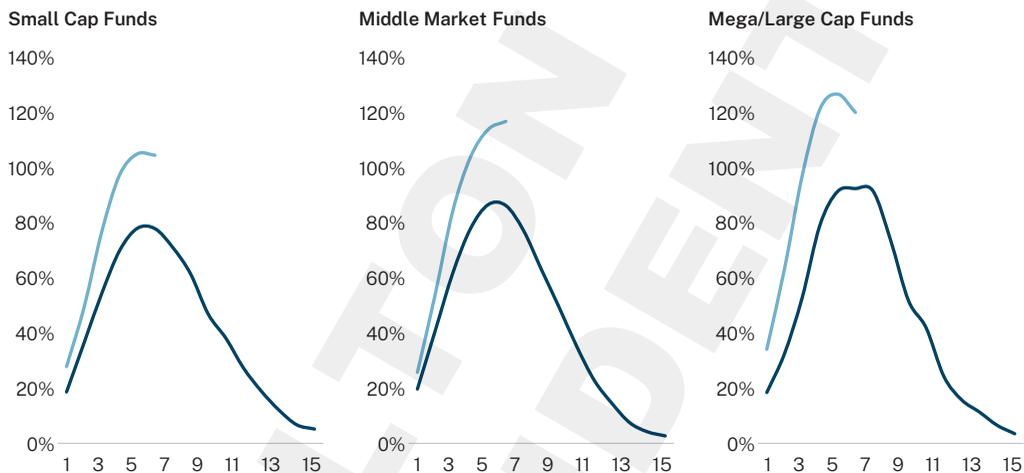
The good news is certainly that net asset values are increasing across all portfolios. This reflects healthy portfolio company performance, which is a good thing for all investors. However, it also reflects a lack of normal exit activity, and that is causing problems for many limited partners. It creates, as we'll discuss later, allocation pressures that reduce amounts available to invest. For limited partners, this can cause commitment levels to vary year-over-year, and we all know that is not an ideal way to build a portfolio. When we ask managers about this increased NAV, we get a blank look and some muttering that this is all normal and healthy.

Is it totally normal? Remember, we have the data, and we aren't afraid to use it.

Rising NAV as a % of Fund Size in Younger Buyout Funds

Vintage Years 2000 – 2021

— NAV 00-16 — NAV 17-21



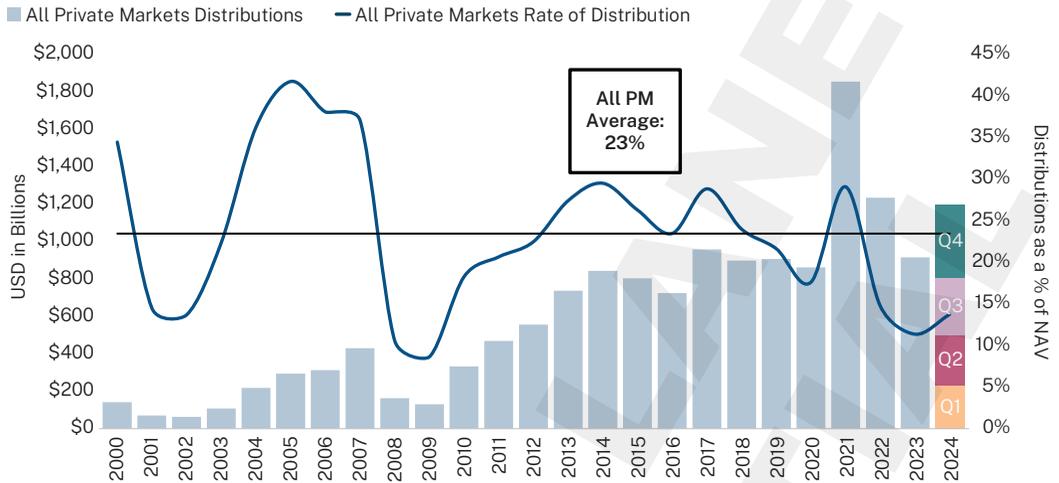
Source: Hamilton Lane Data as of 09/30/2024 (January 2025) Small Cap: <\$1B, Middle Market: \$1-10B, Large/Mega: >\$10B

When you combine that speed of deployment we discussed earlier, together with good (unrealized) performance and lack of exits, you have NAV growth in the buyout world that is well ahead of historical trends. Again, this is good news in terms of healthy portfolios, but bad news in terms of allocation models, available commitment levels and pressure to create liquidity for investors. Let's get real. For most investors, they gave the managers money in private markets with the expectation that it would come back in some reasonable time period.



We can get a good sense of how slowly the capital is coming back to investors.

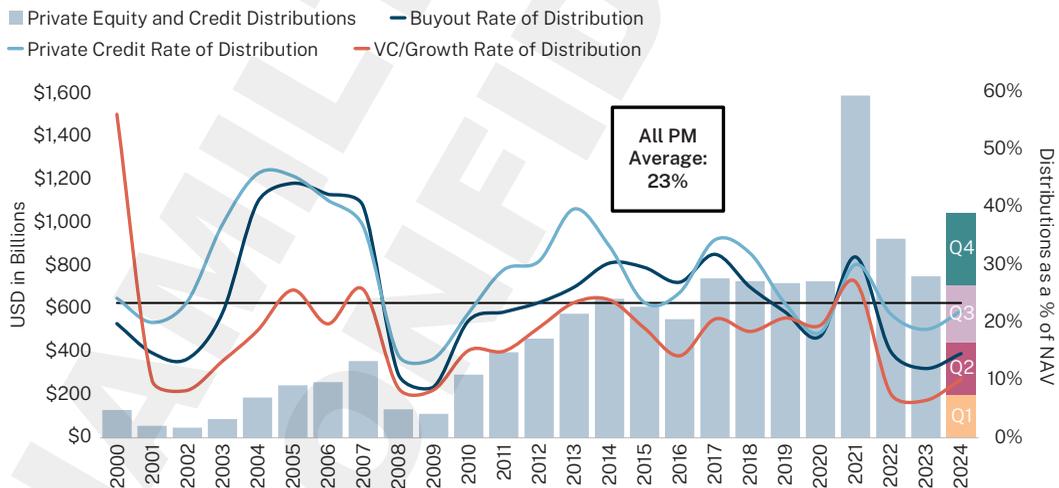
Annual Private Markets Distributions



Source: Hamilton Lane Data (January 2025)

2024 will see increased distribution activity from 2023, but that's small comfort for investors. We hear the refrain that distribution levels, on an absolute basis, are very high, but that fails to take into account the increase in NAV. The distribution level is at lows not seen since the GFC, a period of enormous strain in the capital markets. These low distribution levels are happening in a period of strong public equity performance. That is something that has not happened before in the private markets and strikes us as bad news.

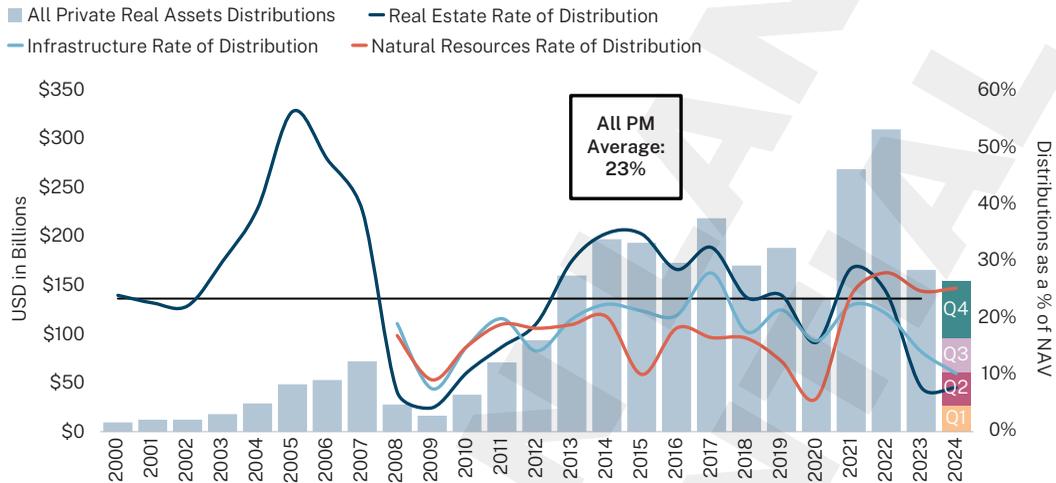
Annual Private Equity and Credit Distributions



Source: Hamilton Lane Data (January 2025)

If you look at the individual private markets strategies, they are all below average levels. Credit is the closest to average, but buyout and venture/growth, while marginally improved, are near record low levels of distribution activity.

Annual Private Real Assets Distributions



Source: Hamilton Lane Data (January 2025)

The same is true for the real assets group of investments, except for natural resources. There are simply inadequate levels of money being returned in the context of the increasing NAV in portfolios. The recycling mechanism that has been a feature of private investing has been seriously slowed.

Periodic Table of Distributions: Pooled DPI by Vintage Year (2012 – 2021)

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Seed/Early VC 3.7x | Multi-Stage VC 2.0x | Late Stage VC 3.9x | | | | | Natural Resources 0.7x | | |
| Multi-Stage VC 2.3x | Seed/Early VC 1.8x | Growth Equity 1.8x | | | | | Late Stage VC 0.7x | | |
| U.S. Large/Mega 1.6x | Credit - Origination 1.7x | Multi-Stage VC 1.7x | U.S. SMID 1.5x | | | EU Buyout 0.8x | Credit - Origination 0.6x | | Credit - Origination 0.4x |
| U.S. SMID 1.6x | Growth Equity 1.6x | U.S. Large/Mega 1.6x | Growth Equity 1.3x | Seed/Early VC 1.5x | U.S. Large/Mega 1.0x | U.S. Large/Mega 0.7x | U.S. SMID 0.5x | Natural Resources 0.5x | Distressed Debt 0.3x |
| Growth Equity 1.6x | EU Buyout 1.5x | EU Buyout 1.6x | Seed/Early VC 1.3x | Growth Equity 1.4x | U.S. SMID 1.0x | Credit - Origination 0.6x | ROW Buyout 0.4x | Distressed Debt 0.4x | Natural Resources 0.2x |
| EU Buyout 1.6x | U.S. SMID 1.4x | U.S. SMID 1.4x | U.S. Large/Mega 1.3x | U.S. SMID 1.2x | Credit - Origination 0.9x | Distressed Debt 0.6x | Growth Equity 0.4x | Credit - Origination 0.3x | Real Estate 0.2x |
| Infrastructure 1.5x | U.S. Large/Mega 1.4x | ROW Buyout 1.3x | EU Buyout 1.2x | EU Buyout 1.2x | Distressed Debt 0.9x | U.S. SMID 0.6x | U.S. Large/Mega 0.4x | ROW Buyout 0.3x | Infrastructure 0.2x |
| All PM 1.5x | All PM 1.3x | All PM 1.3x | All PM 1.1x | All PM 1.0x | All PM 0.8x | All PM 0.6x | All PM 0.4x | All PM 0.2x | All PM 0.2x |
| ROW Buyout 1.3x | Distressed Debt 1.2x | Seed/Early VC 1.3x | Credit - Origination 1.1x | Credit - Origination 1.0x | EU Buyout 0.8x | Growth Equity 0.6x | EU Buyout 0.3x | U.S. SMID 0.2x | U.S. Large/Mega 0.1x |
| Credit - Origination 1.3x | Infrastructure 1.1x | Infrastructure 1.1x | Real Estate 1.0x | Real Estate 0.9x | Real Estate 0.8x | Late Stage VC 0.6x | Real Estate 0.3x | Real Estate 0.2x | U.S. SMID 0.1x |
| Real Estate 1.2x | Real Estate 1.1x | Distressed Debt 1.0x | Natural Resources 1.0x | U.S. Large/Mega 0.9x | Growth Equity 0.8x | Real Estate 0.6x | Infrastructure 0.2x | EU Buyout 0.2x | EU Buyout 0.1x |
| Distressed Debt 1.1x | ROW Buyout 1.1x | Credit - Origination 1.0x | ROW Buyout 0.9x | Distressed Debt 0.9x | Infrastructure 0.8x | Infrastructure 0.6x | Seed/Early VC 0.1x | Infrastructure 0.2x | ROW Buyout 0.1x |
| Natural Resources 0.9x | Natural Resources 0.8x | Real Estate 1.0x | Distressed Debt 0.9x | ROW Buyout 0.9x | Natural Resources 0.7x | ROW Buyout 0.4x | Multi-Stage VC 0.1x | U.S. Large/Mega 0.2x | Growth Equity 0.0x |
| | | Natural Resources 0.8x | Multi-Stage VC 0.9x | Natural Resources 0.8x | Multi-Stage VC 0.5x | Multi-Stage VC 0.4x | | Growth Equity 0.2x | Seed/Early VC 0.0x |
| | | | Infrastructure 0.9x | Infrastructure 0.8x | ROW Buyout 0.5x | Natural Resources 0.3x | | Late Stage VC 0.1x | Multi-Stage VC 0.0x |
| | | | | Multi-Stage VC 0.4x | Seed/Early VC 0.2x | | | Multi-Stage VC 0.1x | Late Stage VC 0.0x |
| | | | | | | | | Seed/Early VC 0.0x | |

Source: Hamilton Lane Data (January 2025)

If you think the private markets world remained unchanged over the last few years, look at this chart. Venture capital funds, which led distribution activity for several years, are now gravitating toward the bottom of the list. We would argue that is normal as that part of the industry goes through boom-and-bust periods of distributions. What is different from the many years of equity strategies crowding the top of the list for funds returning capital is that they are now gone. Currently, the top of the distribution chart is populated with “Natural Resources,” “Credit-Origination” and “Distressed Debt” types of funds. Yes, those funds have some component of interest income that distributes money, but it’s been some time since that has been the primary source of distributed capital. (You might just write this off as us focusing on immature vintages but, while those are the most extreme examples, this is not limited to them. In fact, 2017 and 2018 are vintages that you’d hope would be approaching peak harvesting age.)

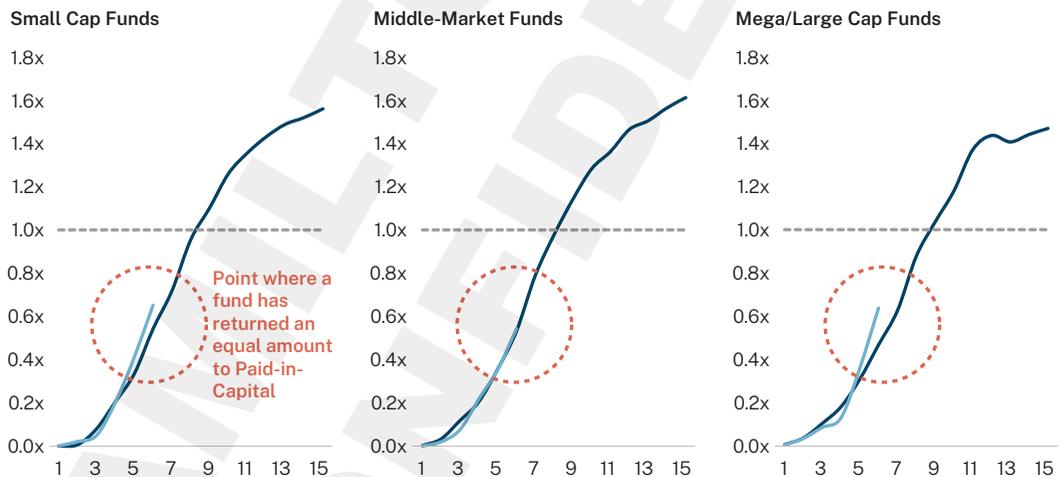


We wanted to look more closely at the buyout arena to see if there was any difference in distribution by size.

Faster Capital Returns from Younger Small and Mega/Large Funds

Vintage Years 2000 – 2021, Median Buyout DPI by Fund Age

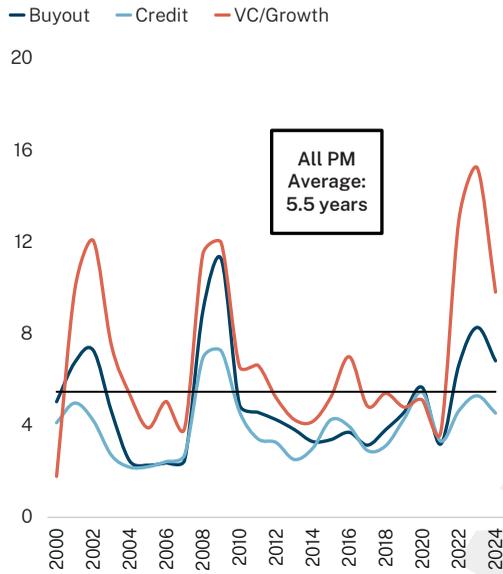
— DPI 00-16 — DPI 17-21 -- 1.0 DPI 1



Source: Hamilton Lane Data as of 09/30/2024 (January 2025) Small Cap: <\$1B, Middle Market: \$1-10B, Large/Mega: >\$10B

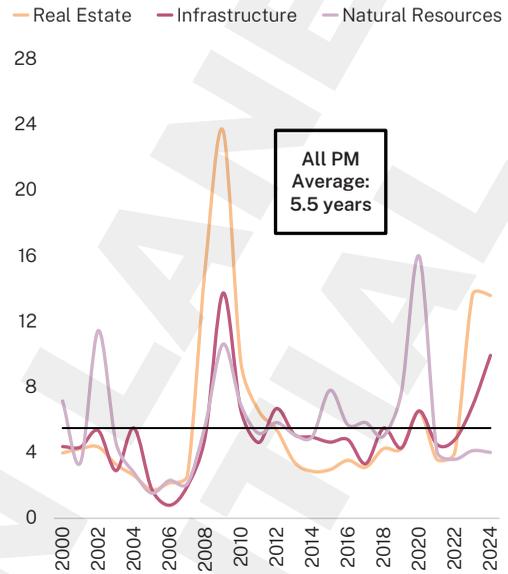
At least for funds from 2017-2021, it appears that the smallest and largest funds are where capital is coming back relatively faster, particularly in the smaller segment. Presumably, this makes sense given that these smaller funds have more exit options since larger funds tend to buy their portfolio companies. This data does not account for the large NAV buildup from the rapid deployment of funds in the '22 and '23 periods.

Years to Liquidate NAV: Private Equity & Private Credit



Source: Hamilton Lane Data (January 2025)

Years to Liquidate NAV: Private Real Assets

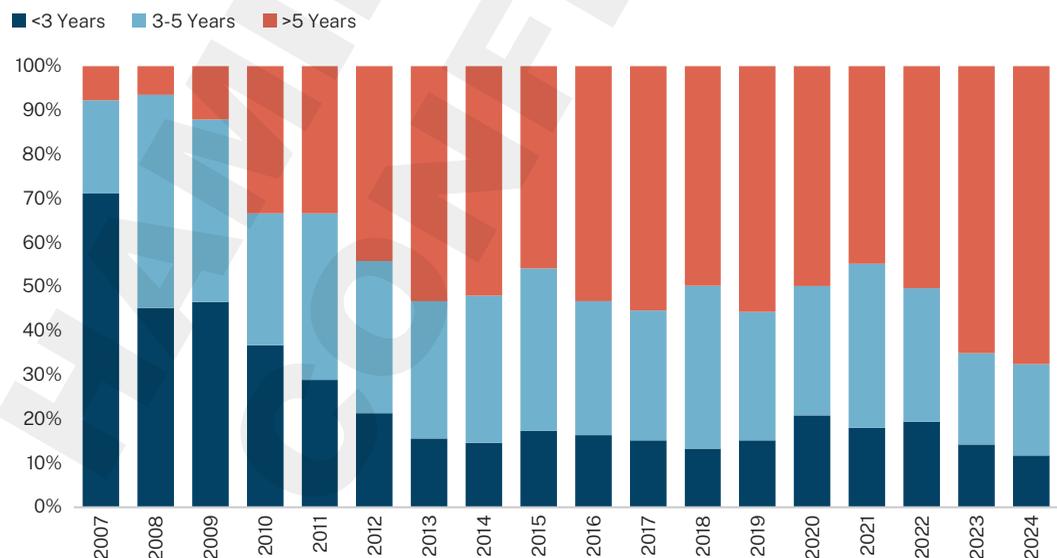


Source: Hamilton Lane Data (January 2025)

Not surprisingly, the time it will take to liquidate this NAV at the current pace is at or near record levels for almost all of the private markets sectors. (These charts take the current NAV and the current distribution pace.) Look at the lines for venture/growth. They are at heights near the dot-com bust in the early 2000s. We feel confident saying the portfolios are healthier than they were then but have little confidence predicting when this NAV will be liquidated.

Holding Period of Exited Buyout Deals

% of Deal Count by Year of Exit



Source: Hamilton Lane Data (January 2025)

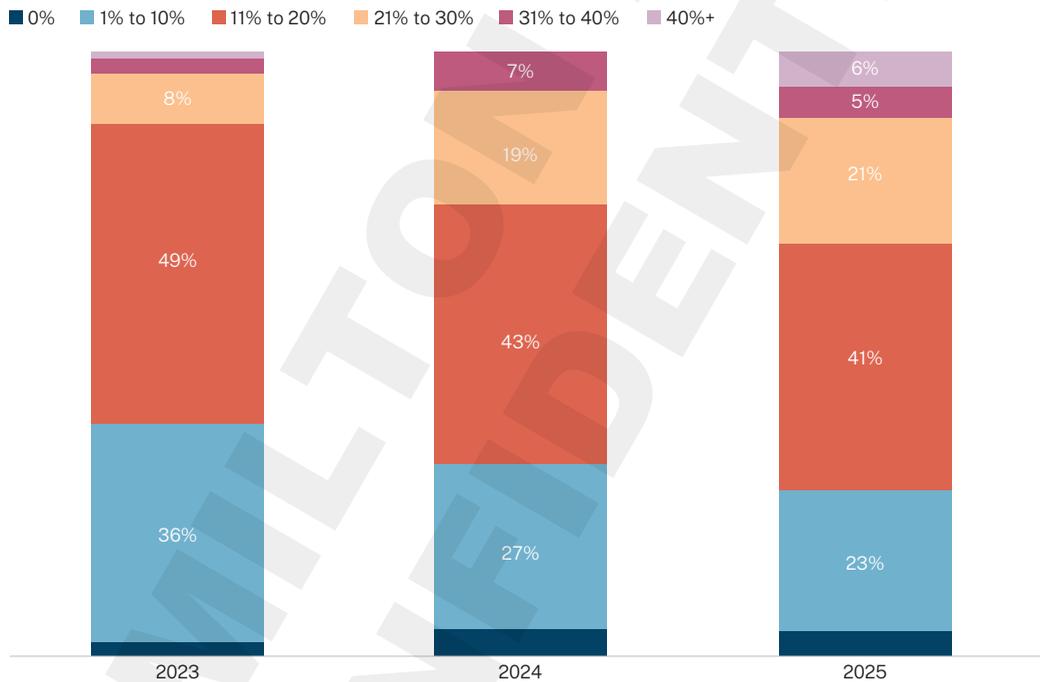
It is not surprising that holding periods are increasing for buyout transactions. (The same is true for growth deals.) There is another worry for limited partners of all this NAV growth and lack of exits: Will portfolio values increase rapidly enough to generate the kinds of returns that investors want from private markets? As we noted earlier, this gives us some concern in the current environment. Longer holding periods are another headwind to robust returns.

What do general partners think about the exit environment?

GP Survey

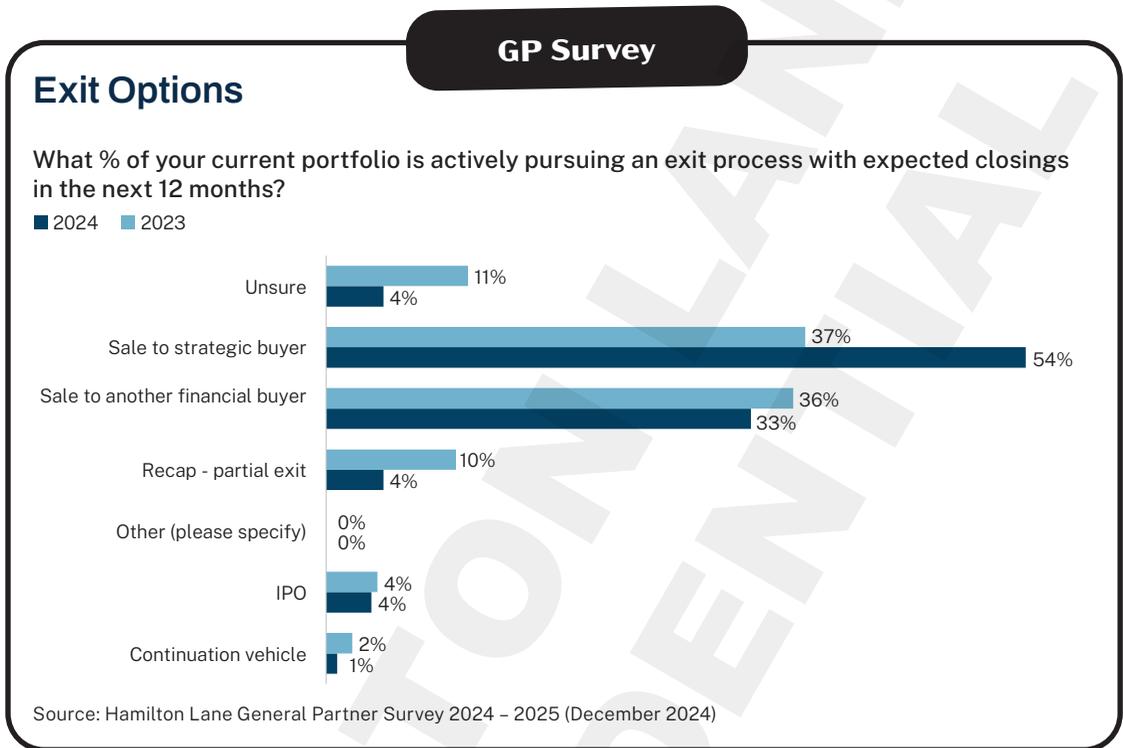
Exit Options

What % of your current portfolio is actively pursuing an exit process with expected closings in the next 12 months?



Source: Hamilton Lane General Partner Survey 2024 - 2025 (December 2024)

There is a meaningful increase in the number of companies that are in the process of being exited over the next 12 months compared to prior years. This is a hopeful sign for investors. How will those exits occur?



Two things jump out from this chart. The first is the large increase of expected sales to strategic buyers. Does this reflect robust public markets or inbound calls from these buyers? We aren't sure, but those tend to be a more stable source of buyers. The second item is the low percentage of exits through the IPO market; it's expected to be around 4%. We hear this phrase all the time: "Buyout exits are low because the IPO window is closed." The IPO route is relatively irrelevant to the buyout market. Sure, a good IPO market makes everyone feel better and increases M&A activity but equating the IPO market to buyout exits is simply wrong.

Sure, a good IPO market makes everyone feel better and increases M&A activity but equating the IPO market to buyout exits is simply wrong.

A Poetic Pause



We all know that Emily Dickinson, the poet, and Taylor Swift, the singer and songwriter, are distant cousins. That is interesting for a host of reasons but one in particular involves private markets. Taylor Swift has had her issues with private equity companies. Can this be an instance of something genetic, a family trait? We think yes! Dickinson became a recluse later in her life and disappeared from public view. Why? That question has vexed generations of scholars. We have scoured the dark web and searched troves of lost letters lying about New England and have found an early draft of Dickinson's famous poem, "Because I could not stop for Death." Oh, what a find! It is clear to us that this draft must refer to Dickinson, likely herself a general partner, in seclusion to avoid her limited partners because of her lack of exits! Why she turned this brilliant analysis of eternal questions related to private equity that are universal into a poem that dealt with mundane topics such as death and immortality is a mystery to us, as we are sure it will be to you.

But enough. You read and be the judge!

Because I would not take the Exit Ramp—(479)

Because I would not take the Exit Ramp—
She kindly came for me—
The Carriage held but just Ourselves—
And my Portfolio Companies.

We slowly drove— She knew no haste
And I had put away
My dreams and hopes so dear,
For my rapid first and only Close—

We passed the Street, where Bankers stared
Their Screens— Silent, Still—
We passed quiet Rooms where M&A was Done—
We rued our Prices Paid so High—

Or rather—She passed Us—
Deals drew shivering and Cold—
For but some EBITDA, my Revenue—
My Halting Growth— only Mediocrity—

We paused before a limited partner's
House that seemed
A Swelling of fund capital Profound—
The Commitment was scarcely there for me—
My NAV— still buried in the Ground—

Since then— 'tis Vintage Years— and yet
Feels like only Yesterday
I first surmised my Dreams of Future Billions raised
Were buried in these companies held for Eternity—



Deals & Exits

Unrealized Deals: Buyer's Remorse or Room for Rebound?

"Even the losers get lucky sometimes."

"EVEN THE LOSERS," TOM PETTY AND THE HEARTBREAKERS

LET'S STAY THEN, ALL OF US, ON THIS QUESTION OF EXITS and why they aren't happening. The cynics out there say it's simple: Companies are held at valuations, and purchase prices are being asked, that are too high for exits to happen. General partners have a variety of answers, including that they don't want to sell today because these companies have such upside, both in earnings and multiple expansion. That's at least a rational GP response. There are some that are not quite as rational.

Which is dumber?



What's the name of the boat in titanic?

8/31/17, 9:25 AM

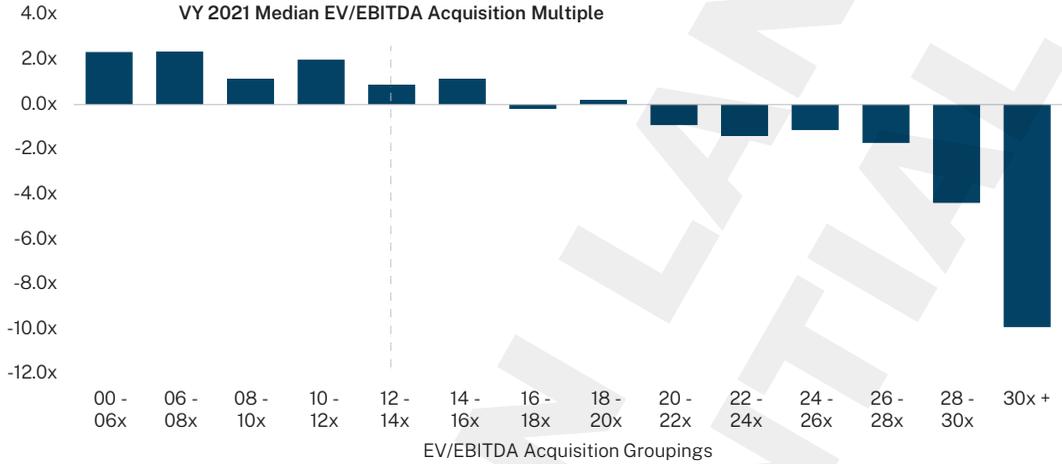
OR

GP statement to
HL investment professional:
"Our portfolio companies are
growing into their valuations."

Let's start with what might seem to have an obvious answer. Where have the greatest valuation pressures occurred in existing portfolios?

Median Change in EV/EBITDA Multiple by Acquisition Multiple

Unrealized VY 2021 Deals

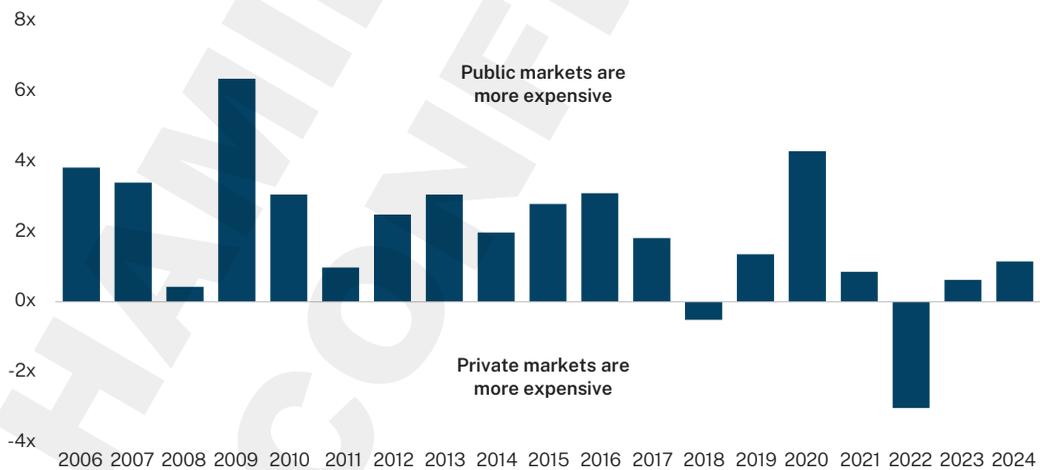


Source: Hamilton Lane Data as of 09/30/2024 (January 2025)

It is an obvious answer, but the almost perfectly linear correlation surprised us. The higher multiple you paid, the greater your multiple contracted. We often hear managers say that purchase prices don't matter, particularly in high-growth companies. Well, in tougher markets and in times when revenue might not grow so quickly, guess what, it matters a lot. Can we say it? Did managers overpay?

Relative Valuations: MSCI World Buyout Deal Purchase Price Spread

Difference in EV/EBITDA, Median by Deal Year



Source: Hamilton Lane Data, Bloomberg (January 2025)

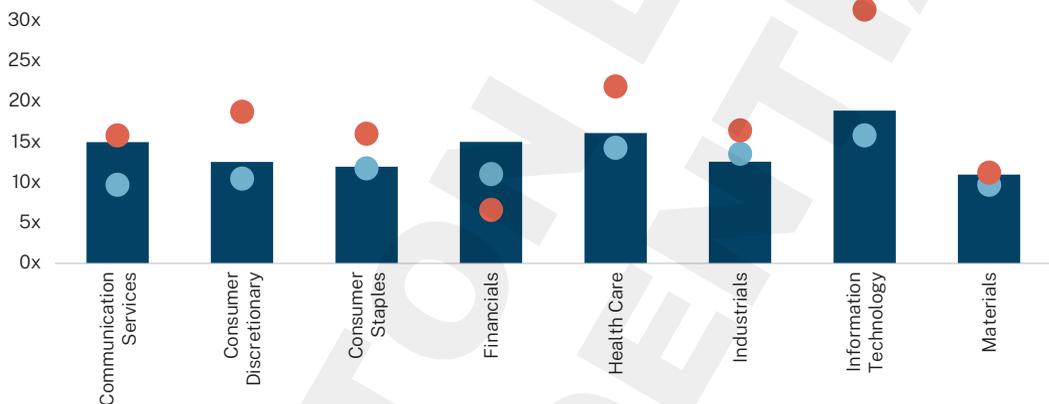
2022 has that outlier feel, doesn't it? A year when private managers chose to pay quite a bit more for companies than their public counterparts. 2021 and 2023 look expensive relative to normal years. This is certainly not to say that these will be bad deals. It is to say, however, that there's not a lot of margin for error when you are paying these prices, and you might indeed be holding these assets longer.

What has happened to multiples is only part of the equation. Are those multiples likely to grow? For that, we can compare private multiples to public multiples.

Unrealized Buyout Deals vs. MSCI World Valuations

Median EV/EBITDA by Sector, As of Q2 2024

■ Buyout Q2 2024 ■ MSCI World Q2 2024 ■ MSCI World Q2 2024 (Capital Weighted)



Source: Hamilton Lane Data, S&P Cap IQ (January 2025)

We're looking at private multiples across various industries and using both a cap-weighted and unweighted public index. We acknowledge this is a static look and multiples across all these indices change. But this chart blew us away.



If you look at the delta between the blue bars and the blue dots, valuations in the private world are generally a little higher than the public markets, but not so different that it is striking, and it does vary by sector. But look at the delta when you compare them on a capital-weighted basis (which is the way more public equity investors look at the world).

Cowabunga!

Strong exit prices are going to be a function of stronger revenue and EBITDA growth, not big multiple expansion.

Private equity valuations are, in most industries, vastly lower. Look at information technology: Public valuations are double what they are in the public markets. Now, if you are the eternally optimistic private equity investor, you look at this and say, “Wow, my portfolio is really undervalued and I’m going to be so rich!” We look at it and say it is another indication of what is driving performance in the public markets today: Large-cap companies with increasing multiples. We are skeptical that those types of companies will be useful as valuation comparisons to most private equity holdings. We will hold with our view that strong exit prices are going to be a function of stronger revenue and EBITDA growth, not big multiple expansion.

These Aren’t Exits... You’re Just Selling to Yourself

“If you ain’t got no haters, you ain’t poppin’”

“POPPIN,” RICO RICHIE

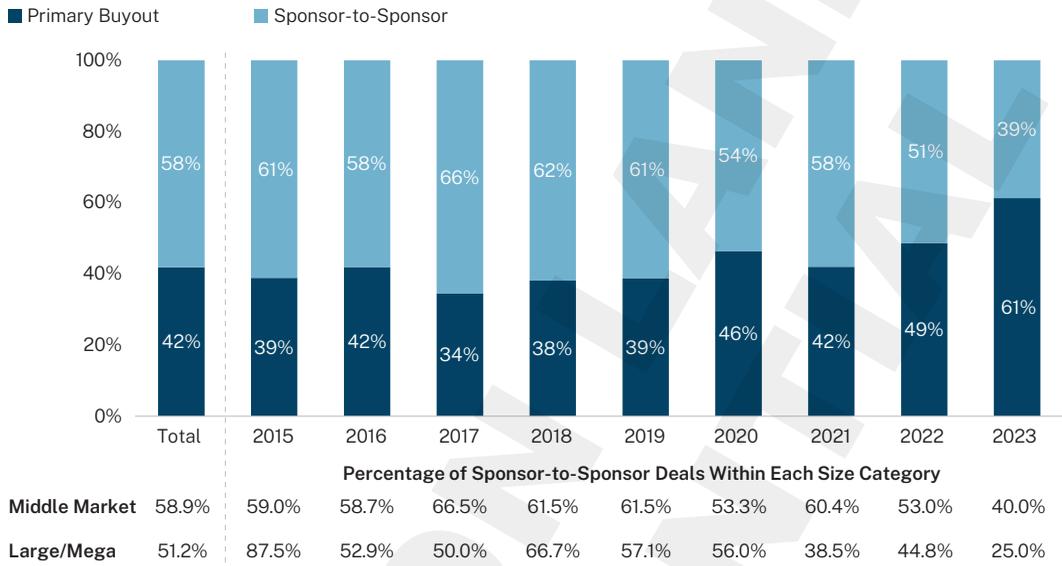
HERE’S HOW YOU ADD INSULT TO INJURY: When exits do happen, you criticize them because they are general partner to general partner deals and those “aren’t fair,” “that’s all that’s going on in the market today because no one else wants these companies” and “these are all insider trades, one GP to another.” Is any of this a valid criticism of the exits? In a word...



Once again, in data we trust, and we'll look at what's actually happening around these exits.

Composition by Deal Vintage Year

North American Buyout Deals by Deal Count, Deal Vintages 2015 - Present



Source: Hamilton Lane Data (January 2025)

Note: Middle Market defined as Buyout deals with a TEV less than \$3B USD at entry

We know, busy, but interesting information. First, note that middle-market deals make up the vast majority of this data set. That's important, because there is a view that all the exits today in that segment are going to another buyout shop. Second, note that sponsor-to-sponsor transactions have always been a majority of purchases over the last 10 years. *This is nothing new.* In fact, contrary to conventional wisdom, the share of primary buyouts has been growing compared to sponsor-to-sponsor deals over the last few years.

"Wow JUST...WOW." (Sorry, but we have to interject a shout out here to Hamilton Lane's data and research teams. Where else do you see this kind of stuff? Where else is so much data shared in such volume and with such specificity? You know the answer to that already. Nowhere else... Ok, returning to regularly scheduled programming...)

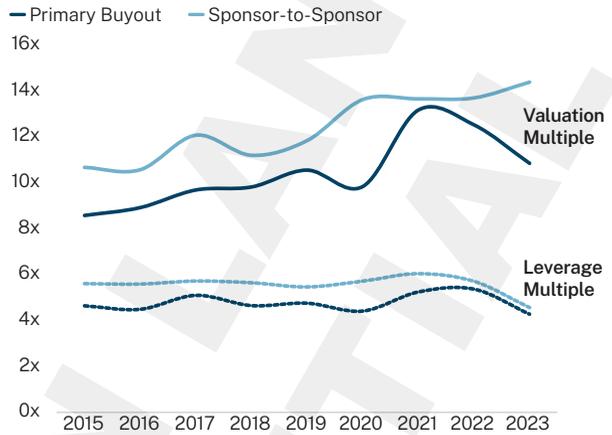
"Wow JUST...WOW."

Let's look at the underlying metrics of the different types of deals.

Primary buyout transactions are consistently priced at lower multiples and have lower leverage than sponsor-to-sponsor transactions. Why might that be? One argument is that sponsor-to-sponsor deals are better-run companies with less risk and, therefore, merit a higher price and more leverage since they're "safer" deals. The cynical response is it simply shows that general partners are adding to the risk of a well-run company. Ok, if you are paying more and using more leverage, are you getting better returns?

Purchase Price and Leverage at Entry: Median EV/EBITDA and Leverage at Entry by Deal Year by Buyer Type

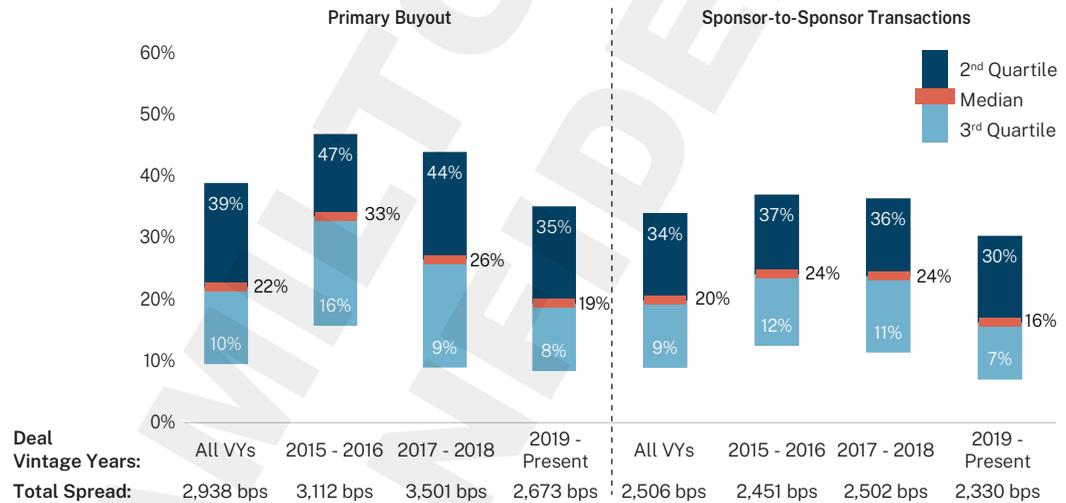
North American Buyout Deals, Deal Vintages 2015 - Present, All Deals



Source: Hamilton Lane Data as of 09/30/2024 (January 2025)

Performance by Transaction Type: Spread of IRR by Entry Deal Type

All North American Buyout Deals, Deal Vintage Years 2015 - Present

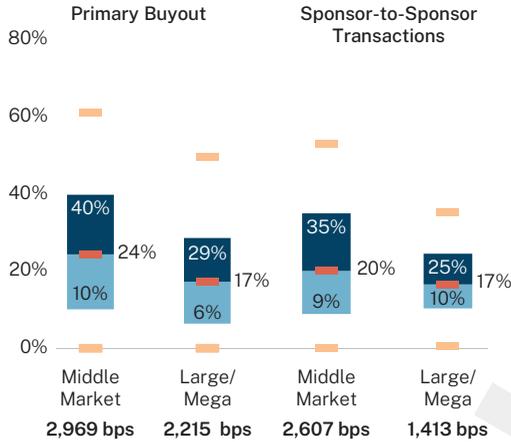


Source: Hamilton Lane Data (January 2025)

Let's start with the highlight of the chart: Returns, whether primary or sponsor-to-sponsor, are very good. This idea that, somehow, sponsor-to-sponsor generates lousy returns is not true. The data also tells us that throughout different time periods, primary buyouts historically generate higher median returns than sponsor-to-sponsor transactions. However, they do so with a much higher spread, or deviation. (The most recent period, from 2019, has seen that spread narrow, but we'd caution against seeing that as a trend as it's too small a data sample.) Nonetheless, that spread is all to the upside. In other words, your risk is an upside risk, which is a good place to be as an investor.

Performance by Buyer Type: Spread of IRR by Entry Deal Type

All North American Buyout Deals,
Deal Vintage Years 2015 - Present



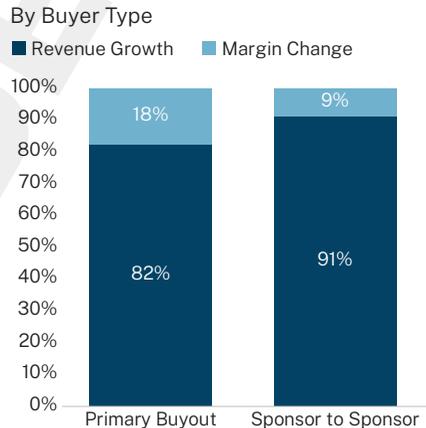
Source: Hamilton Lane Data (January 2025)
Note: Middle Market defined as Buyout deals with a TEV less than \$3B USD at entry

One last note about the drivers of return. Primary buyout transactions have margin improvement as a bigger driver of return than sponsor-to-sponsor transactions. That's not surprising, as there has not been another sponsor that has made many of the operational improvements. It's also worth noting that the myth of the industry driving companies into the ground is exactly that: a myth. Revenue growth is how buyout returns are created, whether it's a primary buyout or a sponsor-to-sponsor deal.

As for the criticism of sponsor-to-sponsor transactions as "fake deals"? Sorry, it's the criticism that's fake.

We are looking at the same data, but now categorized by the type of buyer. There are a few trends to notice: (a) It's remarkable how consistent returns have been in the mega/large space, regardless of the type of buyout involved; (b) The middle-market returns in either category are better than mega/large returns; (c) The spread on the middle-market returns is greater, so your risk is higher; (d) As we saw in the prior chart, the bottom-quartile returns for middle market historically are the same or better than the mega/large and the top-quartile returns have been much higher. As an investor, that would lean you towards the middle-market side.

Median North American Buyout Deal EBITDA Growth Composition



Source: Hamilton Lane Data as of 09/30/2024 (January 2025)



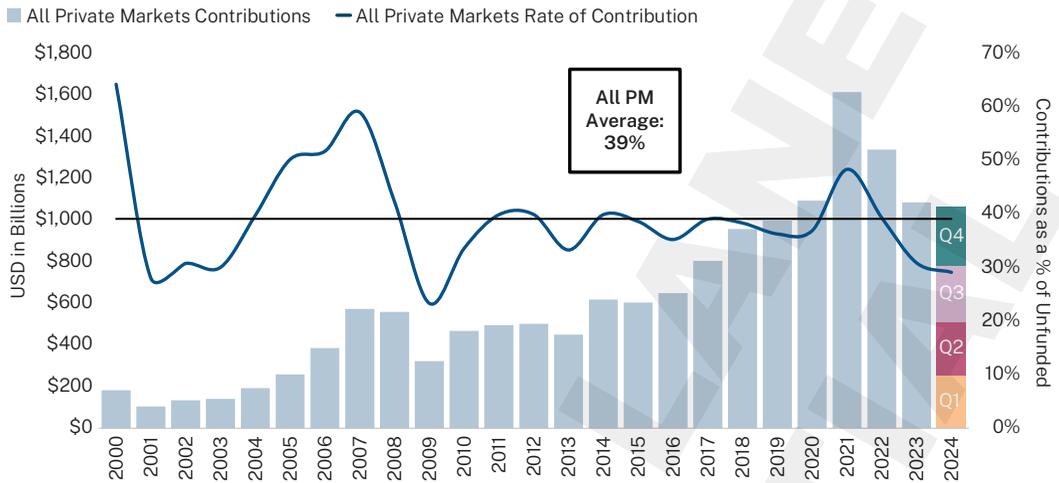
Investment Activity

“They’re long on ideas, but short on capital.”

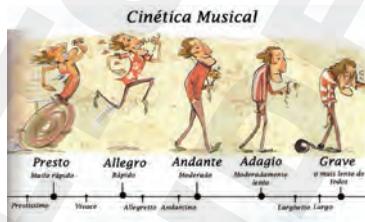
CHRISTIAN KALLEN, HAMILTON LANE

WE’VE COVERED A FEW of the hottest topics in the private markets today: Poor returns relative to the public markets and lack of exits in particular. There is another one that is a part of the lack of exits issue: The slow pace of M&A activity and the slow pace of overall deal activity.

Annual Private Markets Contributions

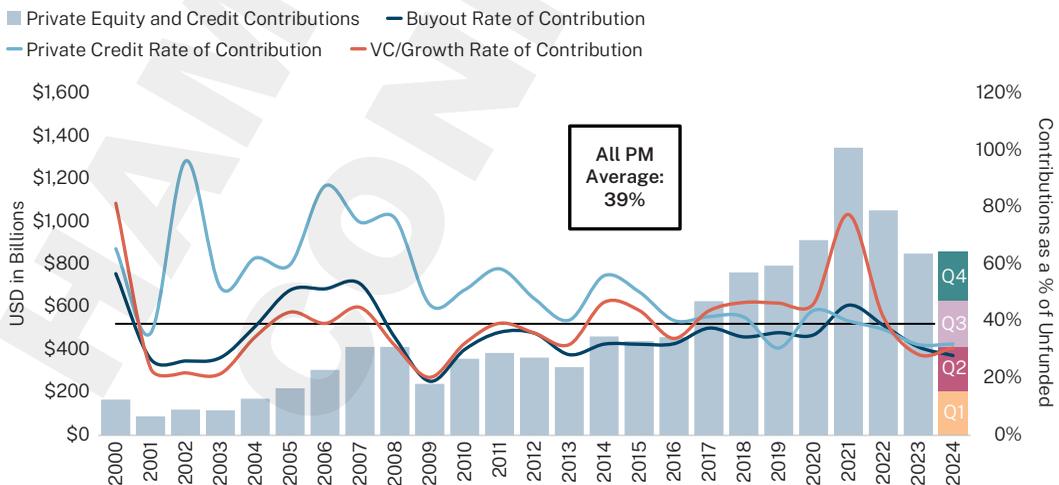


2024 saw contribution activity (deal activity) barely eke out a gain over 2023’s numbers, but we are still down almost 30% from the 2021 peak and back to 2019 levels. Similar to the liquidity discussion, you are seeing average contribution activity reach levels last seen during the GFC.



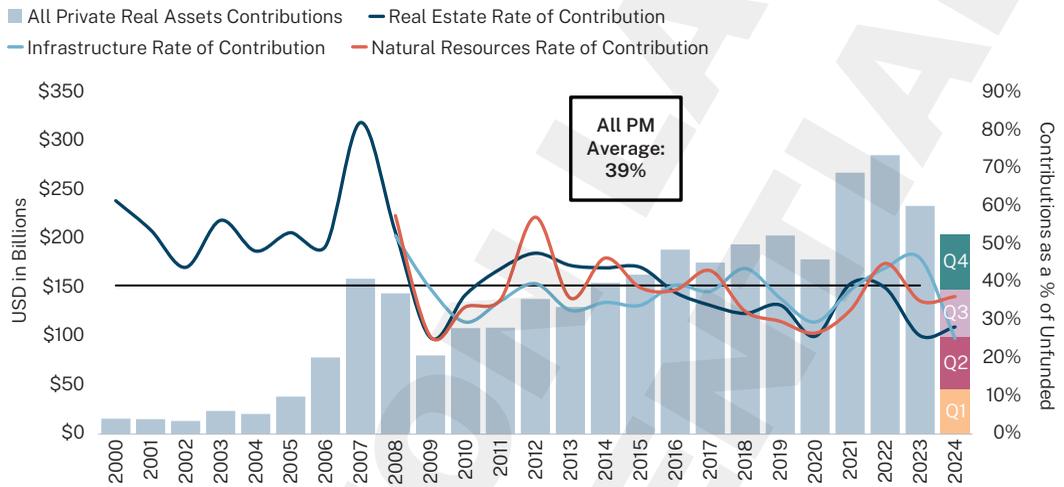
If the private markets were a musical score, we are somewhere between adagio and grave.

Annual Private Equity and Credit Contributions



This slow pace is reflected across all the equity sectors, and the best you can probably say is that it has at least stabilized at these low levels. We'll note something that we mentioned earlier: We are at relatively sluggish deal activity levels, which are similar to what we saw in 2002 and 2009, recessionary periods with declining public markets. Those are not the conditions we are seeing today. There's something rotten... Oops, sorry, that was last year's Market Overview theme....

Annual Private Real Assets Contributions

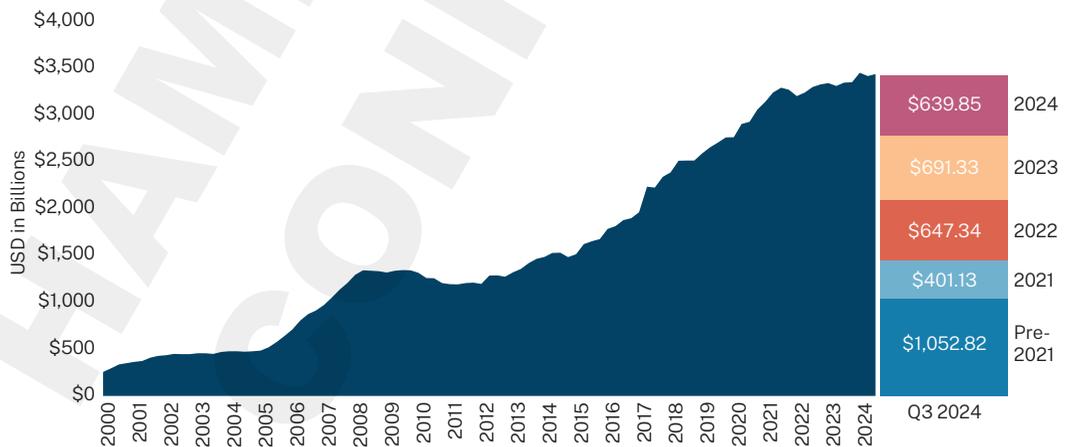


Source: Hamilton Lane Data (January 2025)

The real asset sectors are also well below average levels of contributions. Infrastructure has seen the largest drop over the last few years and continues to fall. High prices? Political uncertainty? It's hard to know.

Yes, we know, you've waited for this chart all year.

Capital Overhang: Private Markets Unfunded Capital

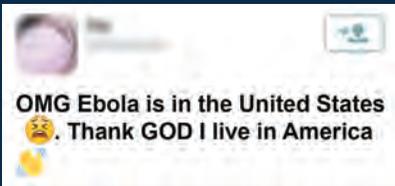


Source: Hamilton Lane Data (January 2025)

We've said repeatedly that this is one of the least important charts in the overview, but one that generates a huge amount of attention. We won't belabor our reasons why this chart is overrated. Go to any Hamilton Lane Market Overview from prior years and you will see our reasons set out. Actually, you'll see them screamed out. We've run out of new things to say about why it's the least important chart in the book.

Ok, you're right, we can't leave it alone.

Which is dumber?



OR

Comment made to Hamilton Lane investment professional in 2009 by the head of one of the largest global investors in private markets.

Investor: "I'm going to stop all my private equity investing."

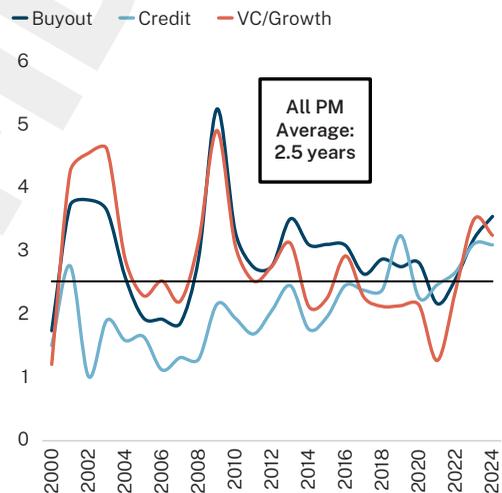
HL: "Why"

Investor: "Look at the capital overhang numbers...too much money and too few deals to generate decent returns."

We will point out that the capital overhang numbers have barely increased over the last few years. Additionally, 30% of that dry powder is from the pre-2021 vintages. It is unlikely that much of that capital will be called.

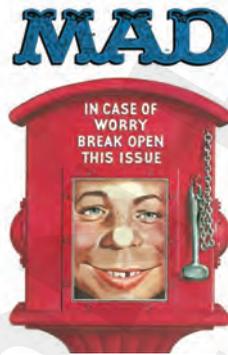
Here's the chart we do look at carefully.

Time to Deploy Capital Overhang: Private Equity & Private Credit



Source: Hamilton Lane Data (January 2025)

This is the one that matters but, interestingly, from the inverse question of, “Is there too much money in the private markets?” This measures the ratio of deal activity to dry powder, in this case, in the equity sectors. What is most interesting is that the times markets have done best are after periods in which there is a great deal of overhang. Generally, that is because deal activity is slowed, the exact environment we are in now. Notice that the overhang was at its lowest in the '21 and '22 periods. Those did prove to be relatively poor times to buy because of high prices and rapid deployment. So, next time someone tells you they are worried about capital overhang, what should you do?

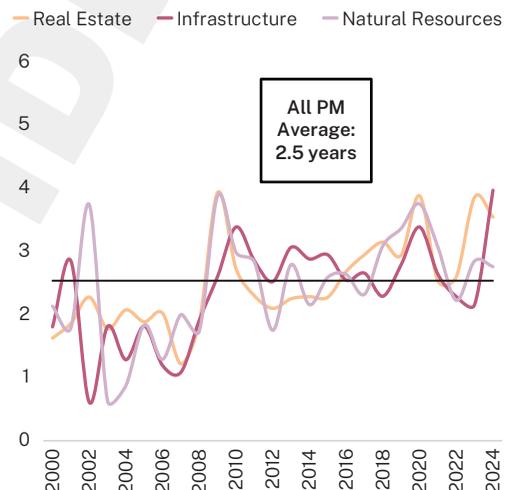


Not sure if you should open this issue, but you should certainly open this overview and look at the time to deploy that overhang chart.

The time to deploy the capital shows similar waves in the real assets side of the private markets. However, note that infrastructure is at record levels due to the lack of deal activity we noted earlier. Is that a signal of a stronger market over the next few years?

When we think about future deal activity and, in light of some of the data we have seen on the impact of high prices on the return potential of existing portfolios, where are prices today?

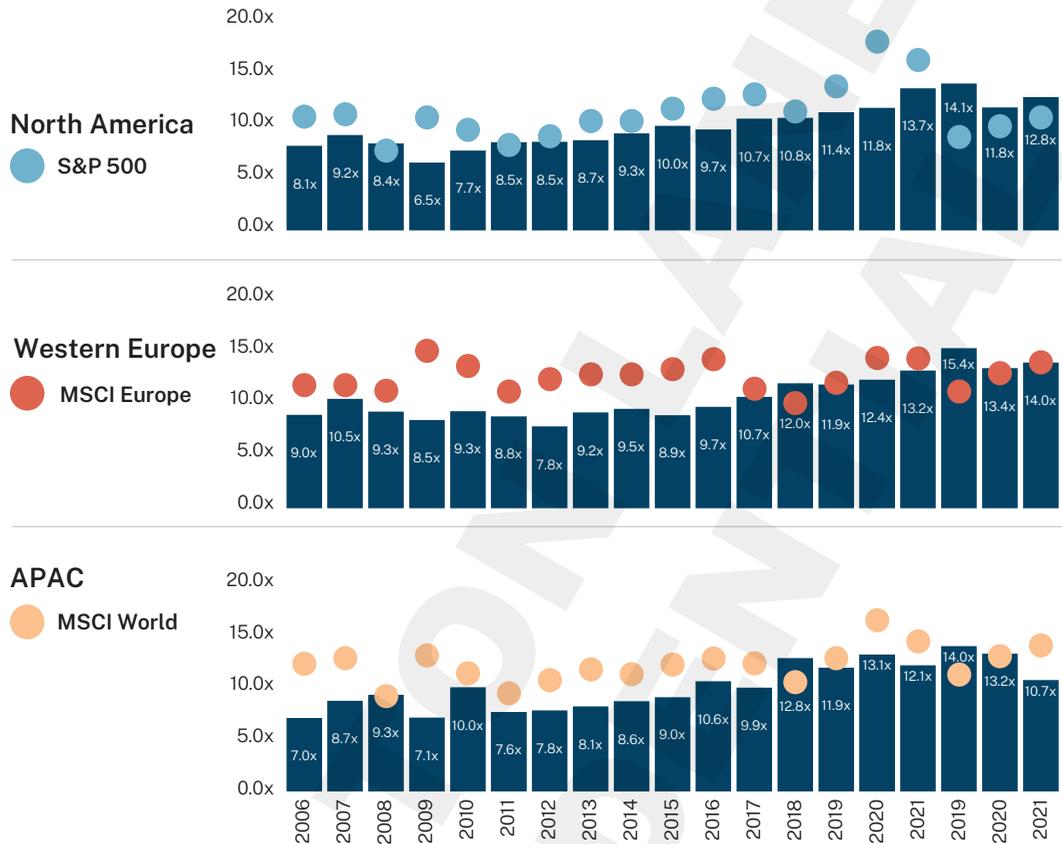
Time to Deploy Capital Overhang: Private Real Assets



Source: Hamilton Lane Data (January 2025)

Purchase Price Multiples at Acquisition: Buyout Purchase Prices

Median EV/EBITDA by Deal Year



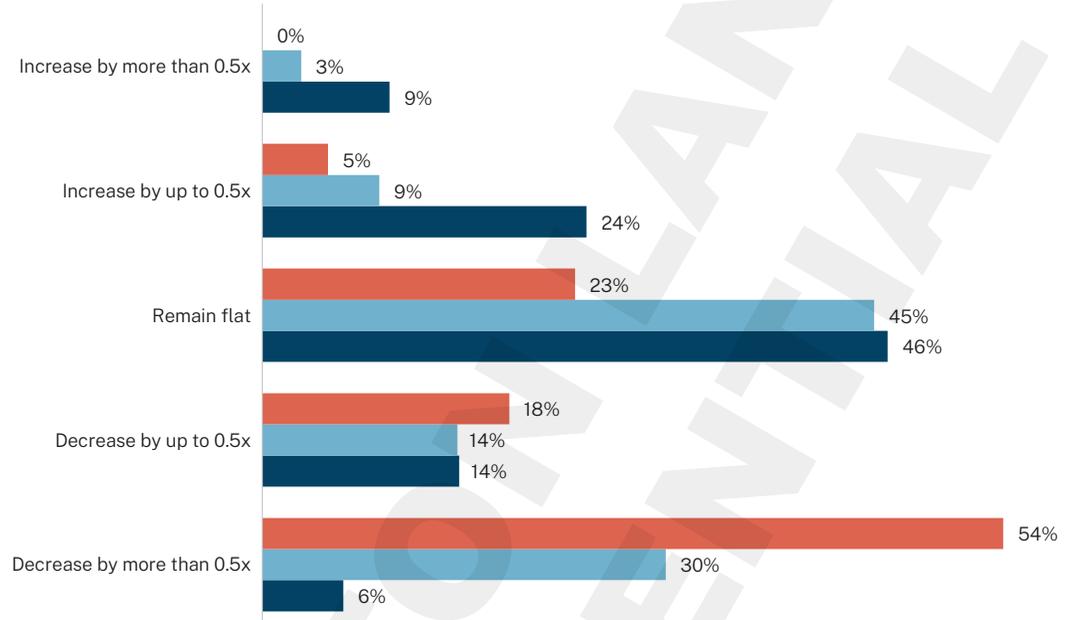
Source: Hamilton Lane Data, Bloomberg (January 2025)

For some, this is the only piece of information they need to determine the investment outlook. High prices equal poor returns. We are not convinced given the different factors involved: industry, growth rates, competitive position, etc. There is no doubt, however, that prices remain high. They rose again in 2024 in the U.S. and Western Europe and are now, in the U.S., higher than at any time other than '21 and '22 and, in Europe, higher than any year other than 2022. Admittedly in those two geographies, public multiples went up, but that's small consolation. Currently, private multiples are not too far off of those in the public markets. We discussed last year why that may not be as bad an omen as many assume (look at 2008, a very good vintage year). However, as we mentioned earlier, buying at consistently high prices leaves you less room for investment mistakes or lousy macro environments.

Purchase Price Multiples

Purchase price multiples (EV/EBITDA) over the next 12 months will:

■ 2024 ■ 2023 ■ 2022

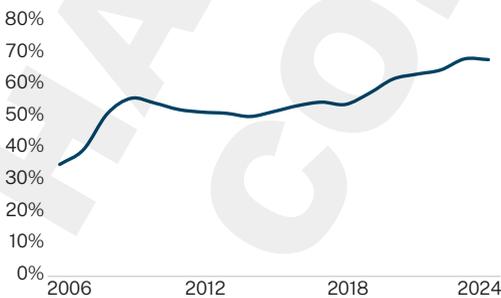


Source: Hamilton Lane General Partner Survey 2024 - 2025 (December 2024)

If you thought you were going to be paying lower prices over the next 12 months, general partners do not agree with you. Over a third of those managers think prices will be higher over the next 12 months and less than a quarter of them expect any decrease from today's levels. Sobering.

Relative Valuations: Buyout Deals % Equity Contributed

Median by Deal Year



Source: Hamilton Lane Data, Bloomberg (January 2025)

Equity put into deals by general partners remains at elevated levels. Is this a function of general partners using more equity with the view that they will layer in debt later as interest rates decline? Perhaps. What higher equity means for investors is mixed. On the one hand, it reduces the risk of loss and bankruptcy in a deal given the equity cushion. On the other hand, it means that the growth rates of these companies need to be higher to generate your desired return.



Oh, wait, who is that jumping for joy across the green fields, clad in green, with a green banner? Is it the greatest superhero of them all, the Green Lantern?

No, it's your friendly credit managers who are lending to massively equitized companies.

The Lighter Side of... M&A Activity

Every quarter for the last six or seven quarters, investment bankers have informed us that they see a boom in the next quarter in M&A activity. It's coming, we are assured. Now, it's not just investment bankers. Financial news shows, podcasts, social media and news sources all have a consistent theme about the coming explosion in M&A activity. Lord Keynes' animal spirits will be set loose in the business world as a result of the Republican sweep of the U.S. government. Lower taxes, reduced regulations, strong support for business...all will usher in an era of frenzied deal activity.

That could very well be the case, but let's be sanguine about the environment in which that frenzy will occur - already high prices, a challenged fundraising environment and some uncertainty around future inflation and interest rates. We won't even mention uncertainty around minor things that can affect every business - tariffs, trade wars or policies that favor one industry over another. Politicians may very well give, but they can just as easily take away.

Here's what we think. Today, deal activity is low for one fundamental reason. Buyers and sellers cannot agree on a clearing price for their companies. If you're a seller, revenue and earnings are good, the markets and comparable assets are strong and there's no reason you want to accept any discount to what you believe the asset is worth. If you're a buyer, you don't want to pay that value because you aren't sure what the future holds, and you don't want to pay a full price for what could end up being peak earnings for that asset you are buying.



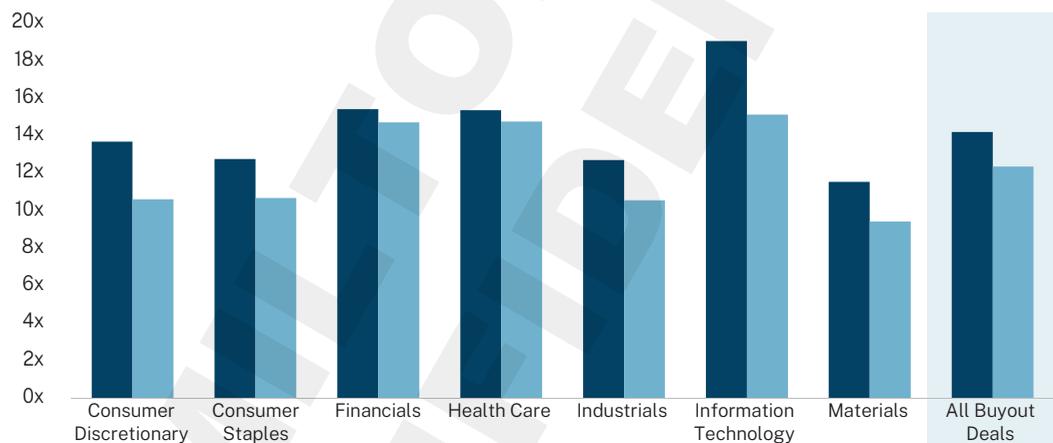
We aren't certain you can digress in a section that is itself a digression, but when it's your own market narrative, we give ourselves full poetic license to entertain and inform.

We suspect you are wondering how we know that the issue in the markets today is the bid-ask spread. We had the same question, but then some members of our Research team, who have access to, as you've heard at some length, data no one else has, but have another quality that sets us apart: they are geniuses who know how to use that data for amazing analysis, came up with an interesting way to quantify that bid-ask spread.

Here's what they asked: What are the holding valuations for companies purchased in 2019 and 2020 (companies presumably ready for sale today) compared to the purchase price for deals in 2023 and 2024?

Bid-Ask Spread: Today

■ Maturing Assets Holding Valuations ■ Market Purchase Prices



Source: Hamilton Lane Data as of 06/30/2024 (January 2025)

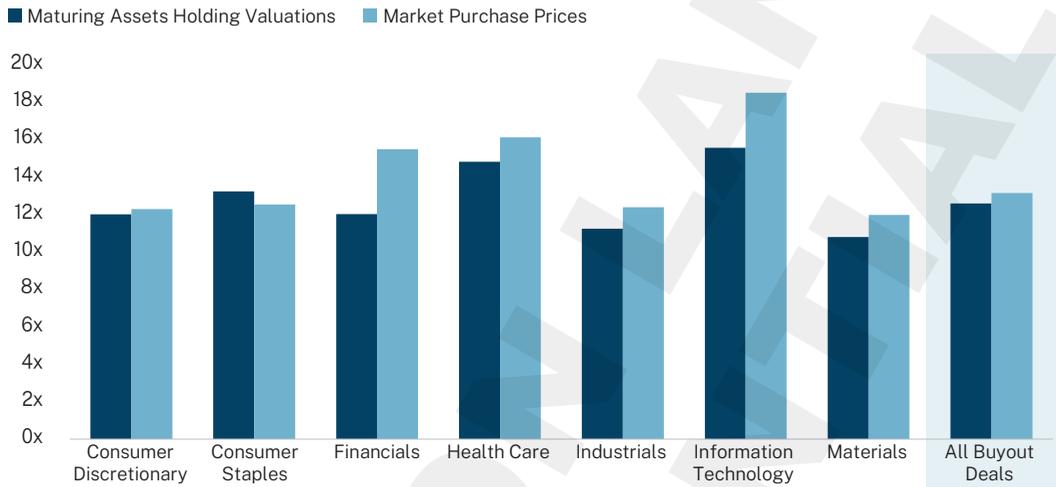
Note: Unrealized Buyout Deals (Holding Valuations of assets from 2019 and 2020 vintages, Purchase Price Multiples at Acquisition for assets in 2023 and 2024 vintages)

Hmmm, that's interesting. In every category, deals in buyout portfolios today are held at valuations *that are higher* than comparables in that industry. Note that in health care, in particular, the delta is relatively small, which might account for that industry having a relatively higher number of transactions. Now, we know that general partners will say that their companies are far better than those that have sold in the market and they very well may be right, but as this higher valuation is true across the entire range of the buyout world, can all those companies really be better?



Ah, we see a fair objection being raised: OK, Hamilton Lane, that's interesting, but how do you know that isn't always the case in the buyout markets? We looked at the same data for the 2021 and 2022 period, when exit activity was robust and private equity was king. How did valuations of the assets ready for sale (those purchased in 2017 and 2018) look?

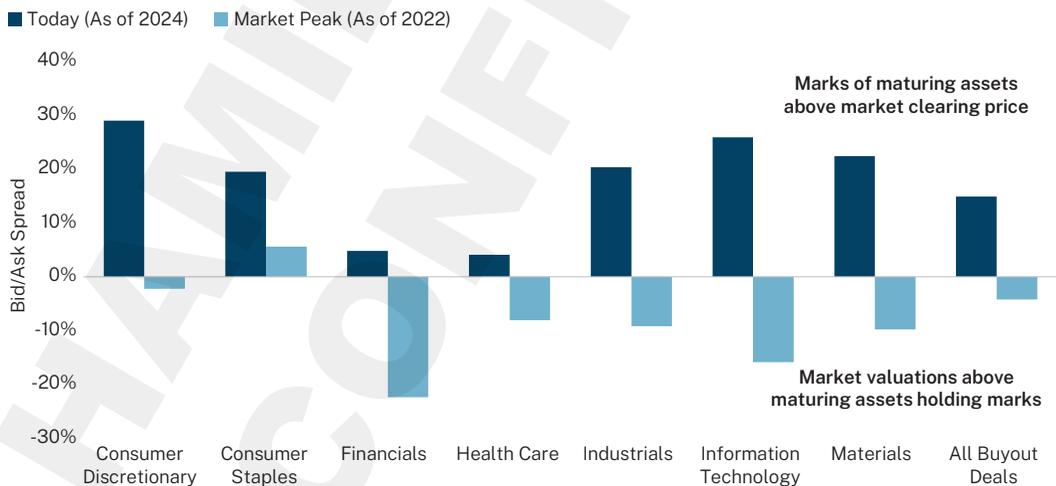
Bid-Ask Spread: Market Peak



Source: Hamilton Lane Data as of 12/31/2022 (January 2025)
 Note: Unrealized Buyout Deals (Holding Valuations of assets from 2017 and 2018 vintages, Purchase Price Multiples at Acquisition for assets in 2021 and 2022 vintages)

It's the exact opposite of today! The bid-ask spread was in favor of the sellers, which is a pretty good explanation for why there was so much selling. For those that prefer to see that difference on one chart, we can do that for you.

Difference in Bid-Ask Spreads



Source: Hamilton Lane Data (January 2025)
 Note: Bid/Ask Spread refers to the percentage difference in Median Holding Value of the Maturing Assets and the Median Market Clearing Price. A value of 0 would depict a sector where the maturing marks are equal to the market clearing price.

If you want to know why exit activity is slow, why M&A activity is light in the private markets, and why so little is moving, just cut this chart out of this book and keep it by your side. Whenever anyone starts to explain why deal activity is sub-par and that explanation takes more than 10 seconds and doesn't include any data that looks like this, take this chart out, end the conversation, and move on to something more productive with your time.



Let's return to our original digression: We have seen these forces collide before and we will make a prediction that it resolves in 2025. But how?



There are two parties here and, while it might be easy to say they reach a compromise price agreement, our view is that it is more likely that one side capitulates. Why would either side do that?

SELLER CAPITULATION: The public markets head down for some time longer than a week or two. That is a wake-up call to sellers and seems to have a clarifying impact on their view that things can only get better. They realize things might not get better and that the price being offered now sounds good. If the seller is a general partner, there's even a handy rationalization: They are not capitulating. No, they are selling a business that has just grown enough to make a decent return on invested capital even at the reduced multiples. Everyone wins! (As we write that, it might not even take a market downturn. General partners might capitulate and sell just from the pressure of their investors clamoring for money back and the need to reduce the inventory of existing investments.)

BUYER CAPITULATION: This is a challenge. Buyers are trying to stay disciplined as they have been buying at high prices for the last four years, and they are getting worried about their portfolio diversification. How many companies can you have in a portfolio that you bought at high prices? But, at some point, they will capitulate because they can't watch prices keep going up and do nothing. Plus, if one or two buyers start buying, well, FOMO takes over. Buyers will be hearing all the talk of rising prices, buoyant returns, happy competitors... it's all too much. If buyers do capitulate, we are comfortable saying that is very unlikely to be a good thing for future returns. On the bright side, it will get some money back to limited partners and help current portfolios.



Fundraising

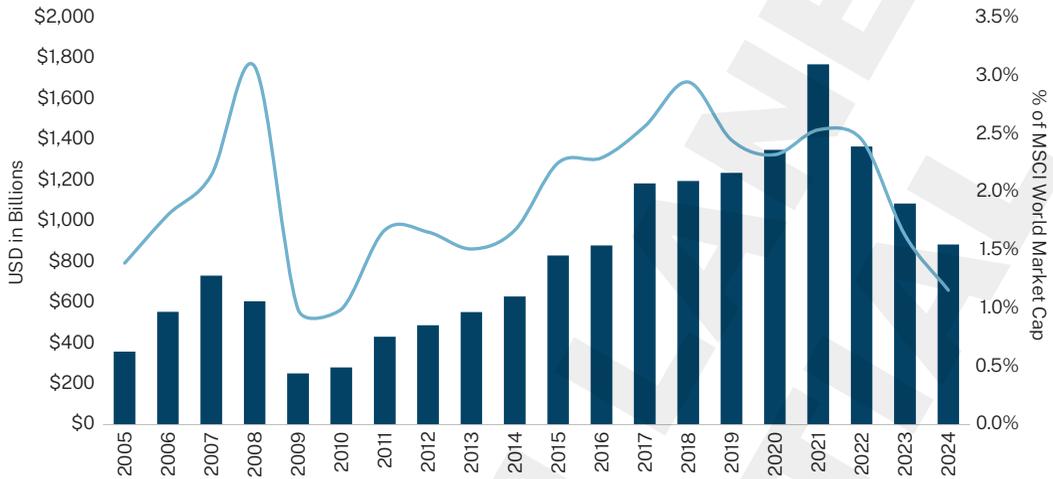
“There are a lot of private equity firms right now that are investing their last funds. They just don’t know it yet.”

MICHAEL BRANDMEYER, GOLDMAN SACHS

THE FUNDRAISING DESERT continues to suffer through another year of drought.

Global Private Markets Fundraising

By Vintage Year



Source: Pitchbook (January 2025)

Note: Excludes Fund-of-funds, secondary fund-of-funds, co-investment funds, core real estate and core infrastructure. Fundraising by vintage year includes funds with at least a first close and funds that have had their final close.

2024 will be the third consecutive year of decline. We have heard people say that “it’s getting better.” When you are down more than 50% from your best year, I suppose the fact that it could be getting far worse could feel like it’s getting better.

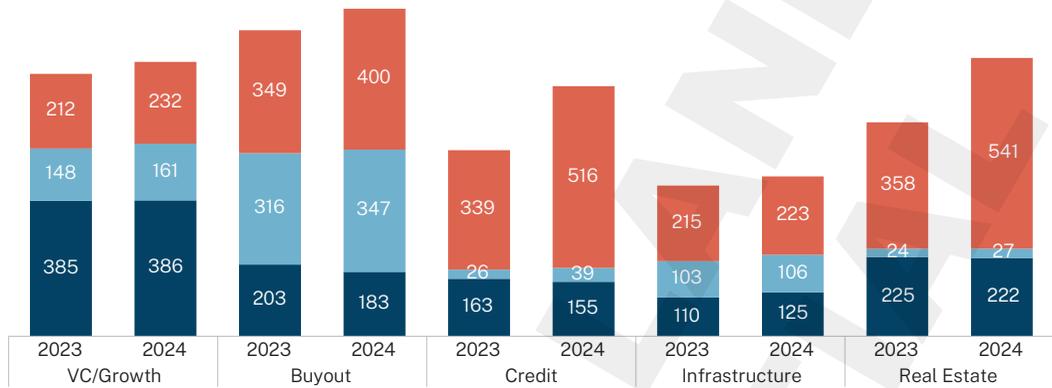
It’s not. The 2024 numbers are at 2015 and 2016 levels. Still feel like it’s getting better? We have been saying for a few years that this is a secular decline, not a one-year phenomenon. At the very least, we shouldn’t expect any rebound without a meaningful rebound in exit activity. One highlight in this gloomy chart is that it doesn’t capture “fundraising” as measured by co-investment activity and evergreen funds. But, as we’ll discuss later, those figures, while significant, are concentrated among certain managers and not a broad-based capital source for most of the general partner community.

We have been saying for a few years that this is a secular decline, not a one-year phenomenon. At the very least, we shouldn’t expect any rebound without a meaningful rebound in exit activity.

Private Markets Opportunities by Strategy

Opportunities Received by Hamilton Lane

■ Primaries ■ Secondaries ■ Direct Investments



Source: Hamilton Lane Diligence (January 2025)

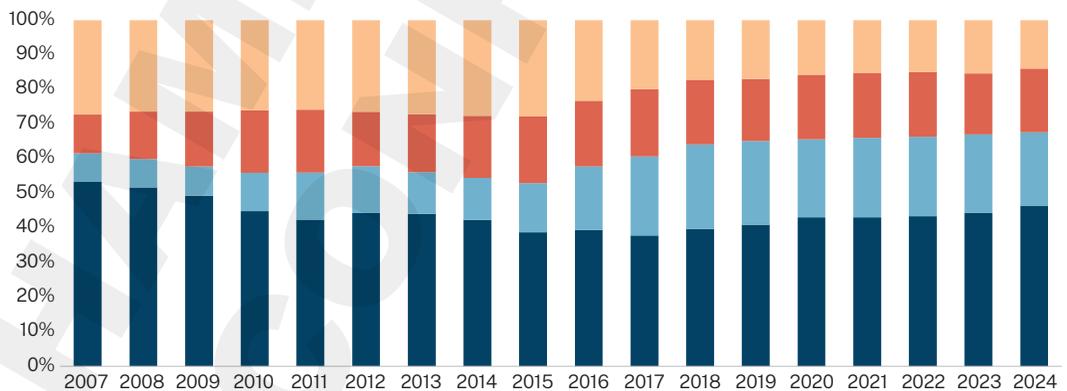
Note: Infrastructure includes both Infrastructure and Natural Resources opportunities.

Our own deal flow indicates what is happening in the markets. Primary fund activity, particularly in the equity areas, has been flat year over year. However, co-investment activity continues to increase. This reflects a number of things: (a) a reduction in the number of co-investment players in the market, (b) a desire by general partners to conserve capital in a tough fundraising environment, (c) greater acceptance by the market of co-investment as a regular way of doing deals and (d) good returns for funds and investors who have done co-investments on a regular basis. Similarly, we're seeing an increase in secondaries activity for some of the same reasons, as well as the fact that both LPs and GPs are interested in secondary deals as a liquidity solution.

Private Markets Fundraising: Trailing Three-Year Private Markets Fundraising

By Strategy

■ Private Equity ■ Venture Capital ■ Credit ■ Real Assets



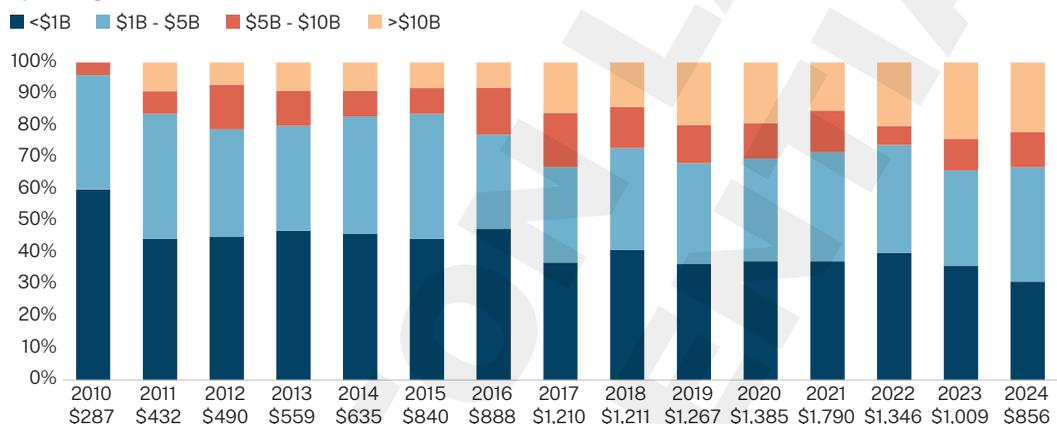
Source: Pitchbook (January 2025)

Note: Excludes fund-of-funds, secondary fund-of-funds, co-investment funds, core real estate and core infrastructure. Private Equity refers to primary funds in Buyout and Growth Equity strategies. Fundraising by vintage year includes funds with at least a first close and funds that have had their final close.

This may be the most counterintuitive chart in this overview. Given the prior two charts and our discussion of private equity performance, we would not expect equity-oriented strategies to be taking increasing market share the last few years after a long period of decline. Perhaps it is the jet stream trailing from the robust return and fundraising of the early 2020s. It may also reflect an increasing concentration of fund managers in the real assets and credit spaces. Or, it may be an indication that, particularly in credit, a large portion of capital is being raised in separately managed account structures not captured here. We are not sure what the cause is for this increase.

Share of Fundraising by Fund Size

By Vintage Year, USD in Billions



Source: Pitchbook (January 2025)

Note: Excludes fund-of-funds, secondary fund-of-funds, co-investment funds, core real estate and core infrastructure. Fundraising by vintage year includes funds with at least a first close and funds that have had their final close.

This chart makes a few interesting statements about where the fundraising, and, by extension, the industry, are going. The sub-\$1 billion category's share of fundraising continues to shrink. It is hard to be a new fund manager. It's always been a challenge, but with limited partner capital constrained, it is especially hard to make the case that they should use their scarce commitment resources on someone new when they are turning away their own existing, and performing, managers. The \$10B+ funds are gaining market share compared to 10 years ago. This is something you would expect to see in a maturing asset management business.

Our view is that the growth of the \$1 billion to \$5 billion segment should be seen as the new definition of smaller/niche. That should grow in a maturing industry along with the largest segment of the market. We have seen that development in almost all parts of the financial industry over time. It is the middle – the \$5 billion to \$10 billion segment here – that is shrinking and struggling to define itself. Too big to be small and too small to be big. Where do they go?

Everyone's board or key stakeholders are asking their investment staff to show them managers and funds that have successfully navigated tough markets. However, the only groups with those track records are the ones that have been around for 20+ years, which tend to be the larger firms.

There have been some very successful fund managers over the last 10 years that have graduated to the \$10B+ category on the back of strong performance.

It is a flight-to-safety play. Everyone's board or key stakeholders are asking their investment staff to show them managers and funds that have successfully navigated tough markets. However, the only groups with those track records are the ones that have been around for 20+ years, which tend to be the larger firms.

Which is dumber?



OR

Comment made by the head of a major private equity investor to Hamilton Lane at a meeting:

HL: "Are you interested in [name of GP fund]?"

LP: "No, we don't invest in any fund over \$2 billion."

HL: "Ever? Why?"

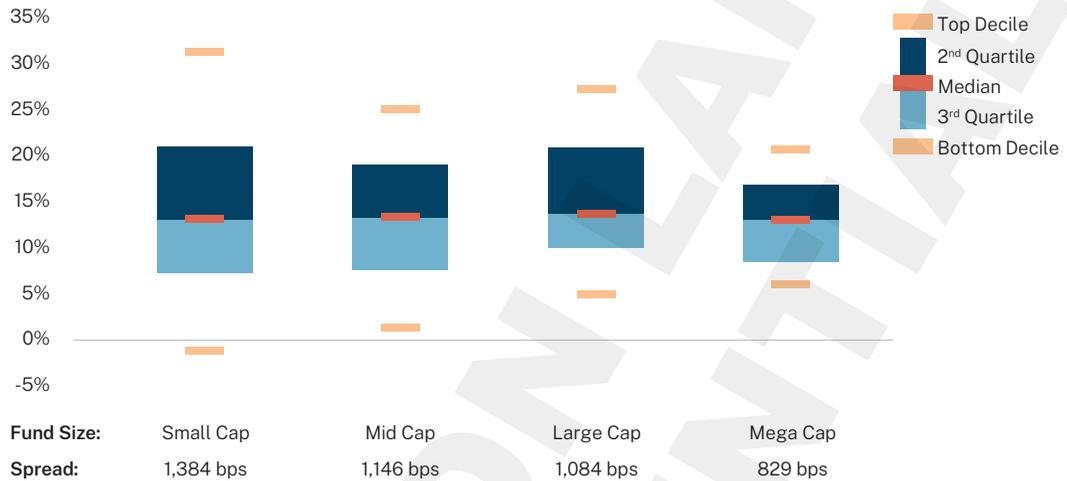
LP: "Any over that and they're too big to generate good returns."

It is an almost religious belief that the size of fund, particularly a large one, dictates return. Generally, small—beautiful and lucrative, and big—greedy and mediocre. Is it accurate?

SPOILER ALERT: *There is zero correlation between fund size and performance.*

Buyout Spread of IRR by Fund Size

Vintage Years: 2000-2020



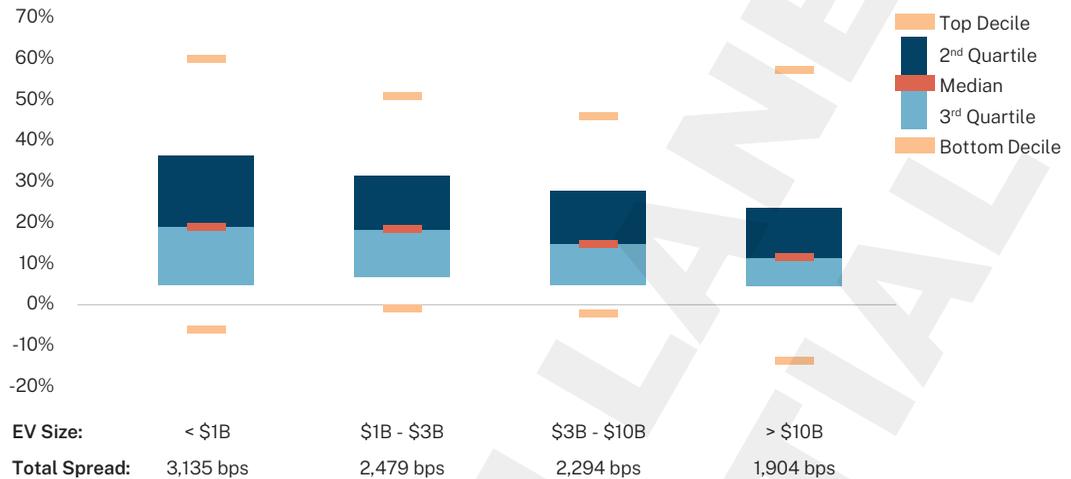
Source: Hamilton Lane Data (January 2025).

Look at how the spread of return, the risk, gets narrower as you get larger. Risk is highest at the smallest end of the market. Are you paid for that risk? This will come as a real disappointment to some (and dismissed as misinformation to others): No, you're not. Investing in small, sub- $\$1$ billion funds gets you the same average return as investing in funds that are 2-10 times larger, but with that added risk. (Yes, we know, you are the unicorn investor that only invests in those funds that are in the top decile of that sub- $\$1$ billion category. Good luck with that self-image.) Larger funds clearly have lower median returns but a lower risk of achieving that return. Is it wise to forgo a good return with lower risk because of a belief that small is inherently better? Wouldn't it be better to have a balanced portfolio? Isn't that what you have on the public side? Are you avoiding the S&P because it has large companies and smaller is better? Ask yourself those questions in the mirror and see how long it takes before you're laughing at yourself.

"But wait," you ask, "Haven't we seen data that says smaller deals historically outperform larger deals?" You have because we have shown it to you. And we'll show it to you again.

Buyout Spread of Gross IRR by EV

Deal Vintages: 2003-2024



Source: Hamilton Lane Data (January 2025)

There is a correlation between deal size and return: the smaller the better. But we are talking about deal size, not fund size. This is why all those large managers are telling you they only do small and middle-market deals. (Your diligence team will have to decide how true that claim is...) Notice, however, that where you aim for better return in the smaller segments, you are doing it with generally greater dispersion, so you need to choose wisely.

Now, when someone tells you that large funds cannot outperform, you can tell them they are incorrect. If they are adamant that facts don't matter, you can tell them that they are using the wrong terminology: Fund size doesn't matter. Deal size does.



Evergreen Funds and Private Wealth

*“Story of our species,” Malcolm said, laughing.
“Everybody knows it’s coming but not so soon.”*

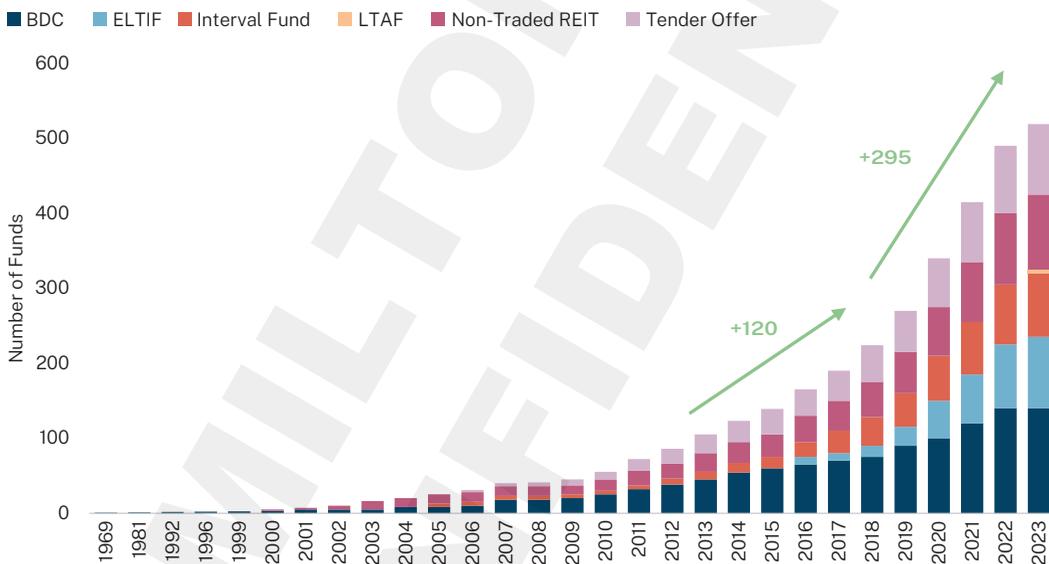
MICHAEL CRICHTON, “JURASSIC PARK”

INTO THIS FUNDRAISING VOID has stepped one of the most important developments in private markets over the last 10 years: the growth of evergreen funds and their acceptance in the wealth channels globally.

Our view is that evergreen structures will come to form a major part of the private markets landscape in a very short time frame, and their place in the landscape will not just be limited to retail portfolios.

Evolving Landscape of Investment Convenience

Evergreen Fund Growth Over Time



Source: Pitchbook (February 2024)

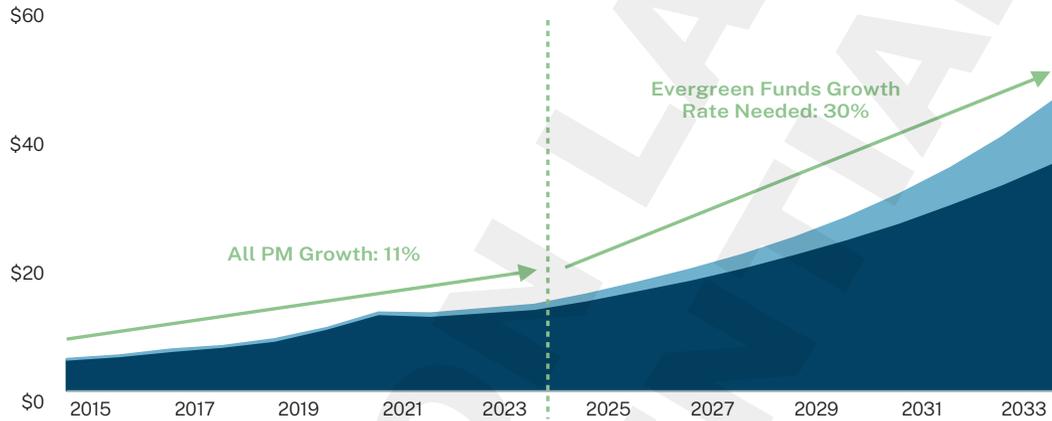
The various types of evergreen funds that have exploded recently show no signs of slowing down. 415 new funds were launched between 2017 and 2023, and we hear anecdotal discussions of hundreds of new funds under discussion and development at any point in time today. They offer an appealing balance between access to the types of private markets exposure institutions have long had with more user-friendly structures and some degree of liquidity.

Our view is that evergreen structures will come to form a major part of the private markets landscape in a very short time frame, and their place in the landscape will not just be limited to retail portfolios. Institutional investors will increasingly adopt evergreen structures as yet another portfolio tool.

Growth of Evergreen AUM

USD in Trillions

■ All PM AUM ■ Evergreen AUM



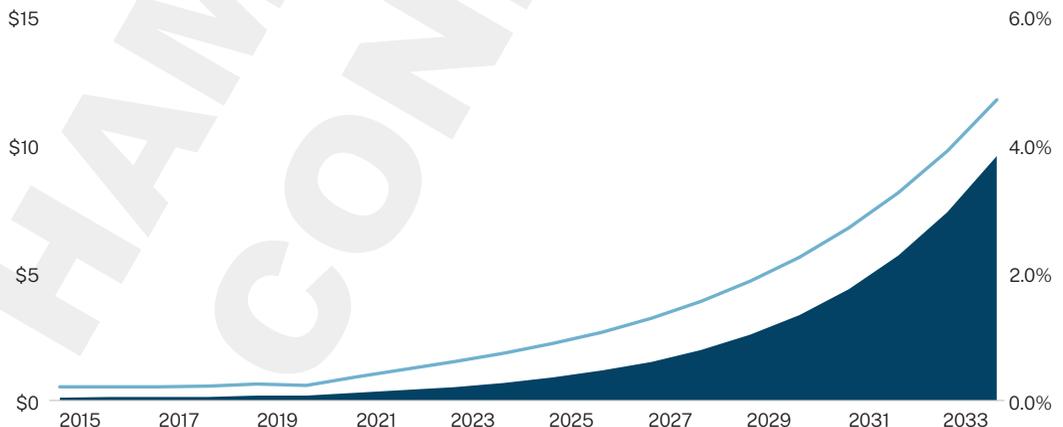
Source: World Bank, Board of Governors of the Federal Reserve System, Hamilton Lane Data via Cobalt (January 2025)

Today, evergreen funds account for roughly 5% of the overall private markets. That’s nearly \$700 billion. Our view is that 10 years from now, evergreen will be at least 20% of total private markets. To reach that level, and assuming the private markets continue to grow at their historic 11% growth rate, evergreen would need to grow almost triple that rate, almost 30%. Can it?

Growth of Private Markets & Evergreen Funds

USD in Trillions

■ Evergreen AUM — Evergreen % Global Wealth



Source: Pitchbook, CapGemini World Report Series 2024 (January 2025)

Let's just look at the U.S. figures. Today, the U.S. high-net-worth channel has less than 1% allocated to evergreen structures. If that figure rose to 5% or 6% over the next 10 years, that 20% overall share of private markets would be achieved. That just doesn't seem that hard. It's especially not that hard when you consider that is only the U.S., and there are massive amounts of capital outside the U.S. that will also find a home with evergreen structures.

Wait, what's that noise we're hearing? Do you hear the voices?



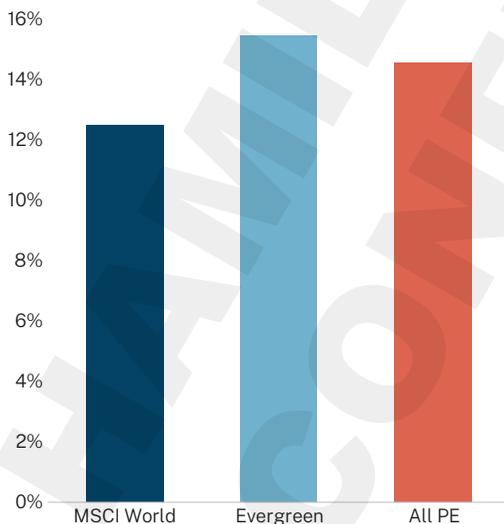
We know the chorus: Nope, evergreens don't get good returns and are too expensive and won't go anywhere.

Sigh.

We looked at 13 equity-focused evergreen funds. While their performance history is short, evergreen funds did slightly better than closed-end PE funds and outperformed the public markets over the last five years. Will this continue? We don't know, but if we are going to argue that evergreen funds don't have good performance, we'd sure hate to see this data.

Performance Cost to Increase Liquidity?

Annualized Returns Q3 2019 – Q3 2024



Source: Hamilton Lane Data, Bloomberg (January 2025)
 Note: Evergreen return is an annualized return calculated using the quarterly return of 13 equity-focused Evergreen funds in the market. All PE represents an annualized combination of Buyout, Venture Capital, and Growth Equity quarterly returns.

Evergreen Return Required for Same End-of-Day MOIC as a Closed-End Fund

| | | | | | |
|-------------------------------------|------|------|------|------|------|
| Evergreen Annualized Return | 10% | 12% | 14% | 16% | 18% |
| Closed-End Fund IRR Required | 16% | 20% | 25% | 29% | 33% |
| Multiple on Invested Capital | 2.1x | 2.5x | 2.9x | 3.3x | 3.8x |

Note: For illustrative purposes only.
 The Multiple on Invested Capital of the closed-ended fund assumes that both unfunded capital and distributions received from the buyout fund grow at a 5% interest rate per annum. Multiple on Invested Capital also assumes a time horizon of 8 years.

This table is the most compelling reason to consider evergreen strategies for all investors, not just high-net-worth investors. Sure, the underlying assets in evergreen funds are the same as (or very similar to) the assets in closed-end funds, but evergreen structures offer two massive advantages:

1. The ability to put all your money to work on day one gives you that magic of compounding returns that investors like Warren Buffett say is the secret to long-term investment success.
2. The evergreen fund manager immediately reinvests proceeds into new investments (in contrast to closed-end funds, which send proceeds back to LPs, putting the onus on LPs to sort out how to stay invested). This keeps the eighth wonder of the world working in investors' favor.

Our corporate finance 101 textbooks tell us that, if your evergreen portfolio delivers a 12% return over 10 years—nothing heroic—then, you'd expect to have 2.5x your initial investment after eight years. Only about 6% of closed-end funds generate a 2.5x TVPI and they typically have IRRs above 20%. (Yes, your private equity portfolio construction 101 textbook tells you that your “nothing heroic” evergreen portfolio is delivering basically top-quartile fund returns.)

While a comparison of evergreen performance to the IRR of single, closed-end fund investments is not exactly a “like-for-like comparison” since it ignores differences in duration, re-investment and control over new investment (a *series* in closed-end funds is a better comparison but is beyond the scope of this humble overview), the trend and simplicity favor evergreen solutions in many situations.

If you haven't figured where we think the private markets world is going yet, let us spell it out more clearly with an analogy: Most of us should be investing heavily in evergreen funds. Period. Here's our analogy. You need a very nice picture on your wall, and you love Van Gogh's style. You can go somewhere and get a beautiful canvas print of “The Starry Night.” It's easy to find, looks great on your wall, is hard to tell apart from the real one and isn't very expensive. That's your evergreen fund/portfolio.



Your drawdown fund/portfolio is, instead, analogous to you going out and buying a canvas (or two...or three), paints in a variety of different colors and brushes, then setting about painting your own Van Gogh, or some other picture that is best suited for your wall. Some of you will have the right blend of talent, time, planning and information to create something that is perfect for the space. It might not be “The Starry Night,” but it will be exactly what is right for your objectives. For you, it’s better than any original Van Gogh.



But is that realistic for most of us? It’s not. Most of us will take the canvases and the paint to create something decidedly worse than that easy canvas print we got online.



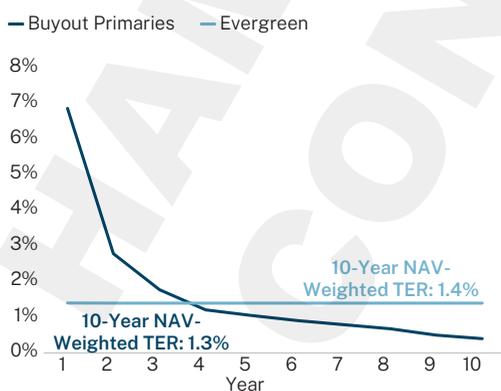
Don’t overthink this.

Ok, what about the higher fee load? (Before we get to that, please note that the prior return numbers are net of fees, so there is that basic fact to consider, but we’ll humor everyone and look at fees separately.)

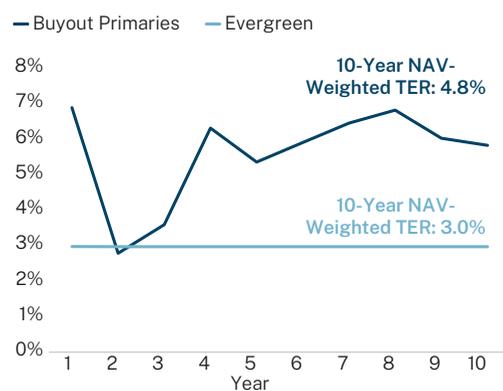
In the chart on the left, we took fees on six evergreen funds and compared the fees and carry to six closed-end funds of the managers that had those six evergreen funds. We assumed the same commitment to open and closed-end funds. We calculate the fees paid as a percentage of NAV (which we refer to as a total expense ratio or TER) to normalize for compounding effects (and because the structure of closed-end fee terms makes it a nightmare to compare the headline fees).

On a management fee basis, the TERs over a 10-year time period are roughly the same. Closed-end fund fees are higher early on but lower once the investment period ends. What about when we account for carry? Take a look at the chart on the right.

Management Fees as a % of NAV



Management Fees and Accrued Carry as a % of NAV



Source: Hamilton Lane Fee Model (January 2025) Note: Evergreen fees were calculated using an average of the fee terms of Evergreen funds in market managed by six different GPs. Closed-end fees were determined using an average of the fee terms of the flagship funds of those same six GPs.

Evergreen funds look *cheaper* once carried interest is factored in. This makes sense, since carried interest for closed-end funds sits stubbornly at 20%, while carried interest for evergreen funds is more frequently 15% (and can be lower!). The better the performance, the cheaper (on a relative basis) evergreen funds look.

The Lighter Side of... Evergreen Funds

Let's talk about a few things we believe may happen in this space.
We'll even provide the odds we give each event.

Evergreen funds grow faster than the overall rate of public markets over the next five years:

100%

Closed-end funds in certain strategies decline and largely disappear:

100%

Evergreen fund fees decline over time:

100%

Institutional investors begin to be bigger players in the evergreen space:

95%

The growth of evergreen funds results in the largest private markets firms getting larger and smaller private markets firms struggling to get any market share:

85%

There is a market decline or major event that causes most evergreen funds to gate investors:

75%

Evergreen fund growth causes increased regulatory scrutiny in various jurisdictions:

65%

Evergreen fund developments cause changes in the closed-end fund structures:

55%

Evergreen funds lose popularity because of lack of real liquidity:

30%

Evergreen funds aren't mentioned in Hamilton Lane's 2026 Market Overview:

2%



How Big Can Private Equity Get?

“Tradition is just peer pressure from dead people, William.”

“FANGS FOR NOTHING,” LAURA GREENWOOD

A BIG CHUNK of this overview has been spent talking about the private equity area. It is the area where, today, there is the most to talk about, given performance, both recent and projected. It is also the most visible of the private market areas. We get asked constantly, how big can private equity become?

Private Equity AUM

USD in Trillions



Source: World Bank, Hamilton Lane Data (January 2025)

Note: Global Financial Markets represent made up of Global Listed Equities

Private equity has grown at a steady and significant pace over the last 10 years. The growth has been driven by a number of factors:

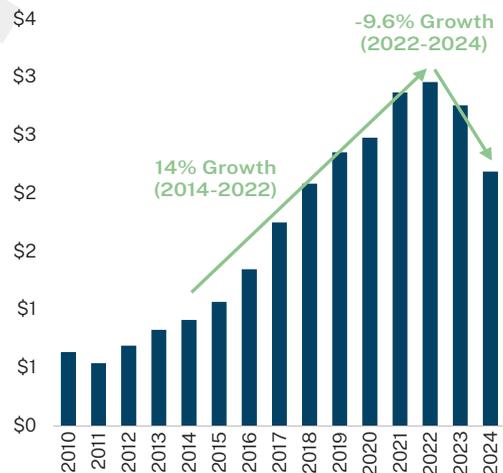
- Strong performance, particularly in growth and venture. From 2012 through 2021 (the peak of the PE market), PE returned over 18% annually. This encouraged continued increases in commitments from large investors with experience in the area and...
- ...new investors drawn to the performance benefits, seeing similar investors growing their private equity portfolios.
- The increase in public markets meant overall assets were growing, and that increased allocation levels to private equity.

Is this growth likely to continue?

It is always risky to extrapolate more recent trends too far into the future, but, as we've noted earlier, what had been consistent, double-digit growth in fundraising has, over the last three years, been declining 10% annually.

Trailing 3Y Fundraising

USD in Trillions



Source: Pitchbook (January 2025)

Even if fundraising continues at these levels, private equity NAV will likely eventually flatten, an outcome the industry has not experienced. Fundraising needs to pick up for industry AUM to grow (unless GPs decide to hold on to their “prized” assets forever).

Hmmm.



Don't go job hunting just yet.

While we don't see much improvement in fundraising in 2025, all is not lost if you're a general partner. We've discussed earlier in this overview that, while there have been rumblings of a private equity M&A renaissance since before the Eras Tour began, we think an uptick in exits is likely in 2025. We know, starting from less than zero only gets you back to zero, but, hey, it's something. Cash coming back should give allocation-limited LPs the confidence to reaccelerate commitments. That is welcome news for fund managers, but it won't fix their fundraising woes. Why?

Because this is not your mother's private markets world. We're not sure how many times and how many ways we can say that. We've been saying it for a few years now. The institutional fundraising market is more saturated than it was 10-15 years ago. More institutional investors are at or near their target allocations, and the pool of new entrants is getting smaller. The outstanding returns and abundant liquidity – especially in venture capital – that drove those institutions to pile into the asset class over that period is due for some reversion to the historical mean. There is runway left in the institutional fundraising market but it's getting a little shorter. So, we'll make another bold prediction:

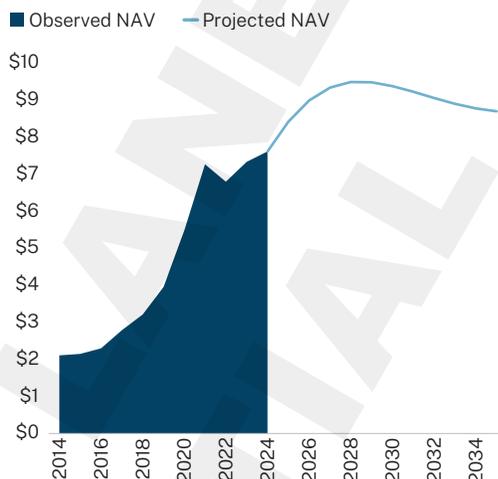
Private markets AUM growth will slow by traditional measures.

Reread that sentence again. Ponder. Think it over. Perhaps you'll see the not-so-subtle asterisk we've given ourselves.

The “by traditional measures” phrase is doing a lot of heavy lifting. Traditional measures of private markets AUM and market size are based on fundraising or the NAV of closed-end funds. This is the data displayed in most private market missives (including this one).

Projected NAV

USD in Trillions



Source: Pitchbook, Hamilton Lane Data, Hamilton Lane Horizon Model (January 2025)

Note: Projected NAV assumes 2024 fundraising levels for future vintage years

But while we expect to see some deceleration in the growth of closed-end fund AUM, we believe flows into the private markets ecosystem will continue at a healthy growth rate. They will just be flowing into parts of the ecosystem that are not tracked by traditional measures.

We just covered one beneficiary of those flows: evergreen funds. Flip back a few pages if you need a refresher. Flows into evergreen funds are not (for now) captured by typical measures of private markets size. That data has proven elusive, but data providers will soon sort out how to incorporate evergreen fund flows and NAV into their data. The trickier private markets flows to capture are those into secondaries, co-investments and separately managed accounts (SMAs) from institutional investors. Limited partners are building internal teams with secondary and co-investment capabilities and using SMAs to access private markets. Many LPs have spent the last decade building relationships with managers in their portfolios and now want to get maximum leverage from those relationships. They are betting that the marginal dollar, euro, yen, baht, dogecoin, etc. is better served by lowering their overall cost via these avenues than by increasing their (very expensive) fund commitments or adding a new fund to the portfolio.

It's very difficult to put a number on these flows. Like lifting Thor's hammer, many have tried but few have succeeded.

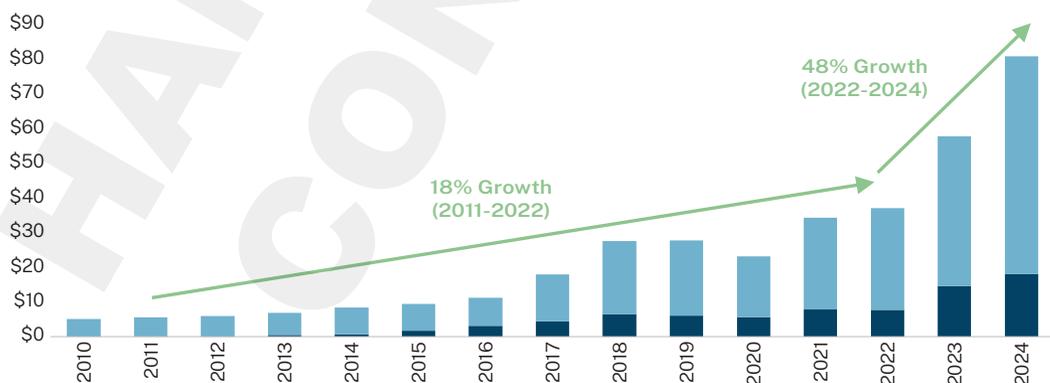


To give you a sense of potential market size, here is the co-investment deal flow that Hamilton Lane has seen over the past few years:

HL Co-Investment Opportunities

USD in Billions

■ Debt ■ Equity



Source: Hamilton Lane Co-Investment Opportunities (January 2025)

The net effect: Traditional measures of private markets AUM growth may show that market growth is slowing. But you are only looking at the surface level, and much of the real growth is occurring down below.



Should you be job hunting? If you are not prepared, whether as a general or a limited partner, for that shift in the way the world invests in private markets, then you should, at the very least, dust off that resume.





What, me worry?

HAN COI

ANE AL

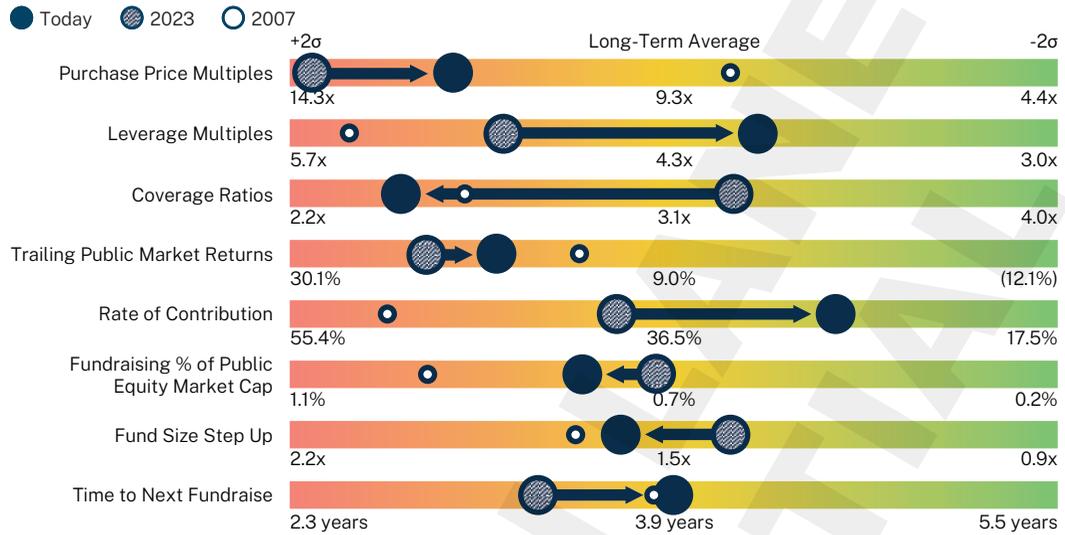
Sentiment Indicators

*“I’ve got a feeling
A feeling deep inside
Oh yeah!”*

“I’VE GOT A FEELING,” THE BEATLES

WE SAY THIS ALL THE TIME. Private markets professionals often believe that they are not subject to fear and greed because they are long-term investors; this is so not true. The same fear and greed swings that drive public markets impact private markets. They’re harder to determine and may not have as big an influence because the time horizons are so different, but they are there.

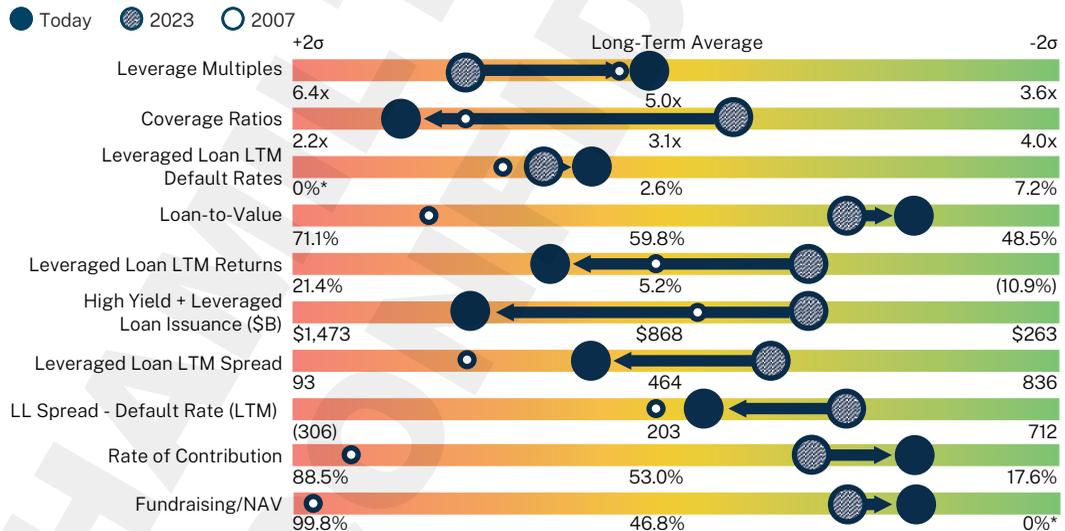
Hamilton Lane Sentiment Indicators: Buyout



Source: Hamilton Lane Data, Bloomberg, Cobalt, Pitchbook, S&P (January 2025)
 Note: Values indexed to beginning of year.

The buyout market is trending slightly more positive, particularly when you look at indicators like purchase price multiples. However, the coverage ratios have gotten far worse. This is another indicator that current portfolios have some headwinds they didn't have a year or two ago.

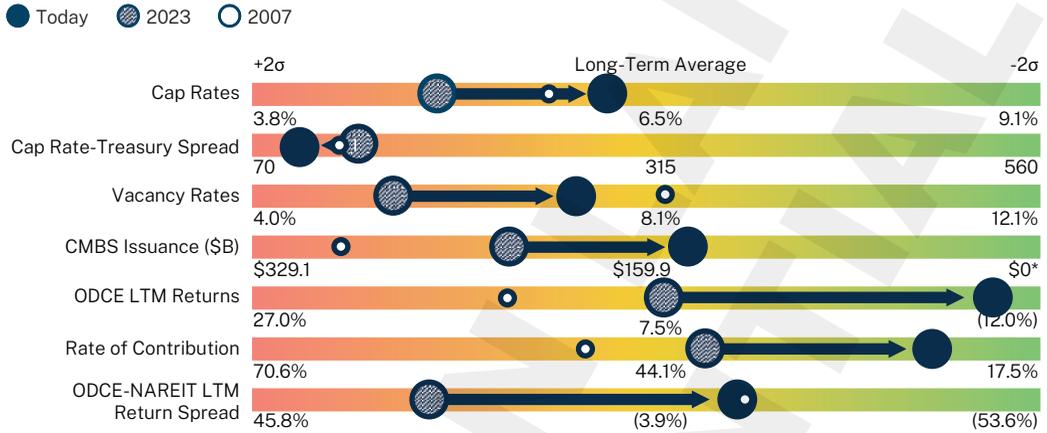
Hamilton Lane Sentiment Indicators: Credit



Source: Hamilton Lane Data, Bloomberg, Cobalt, Pitchbook, S&P (January 2025)
 Note: Values indexed to beginning of year.

The credit market continues to trend positive, but like the buyout market, we all need to watch coverage ratios. They are not trending in a good direction. We assume this is more of a one-time adjustment to rapidly increased rates and that this level will stabilize. We are not seeing any systemic signs of stress in credit portfolios today.

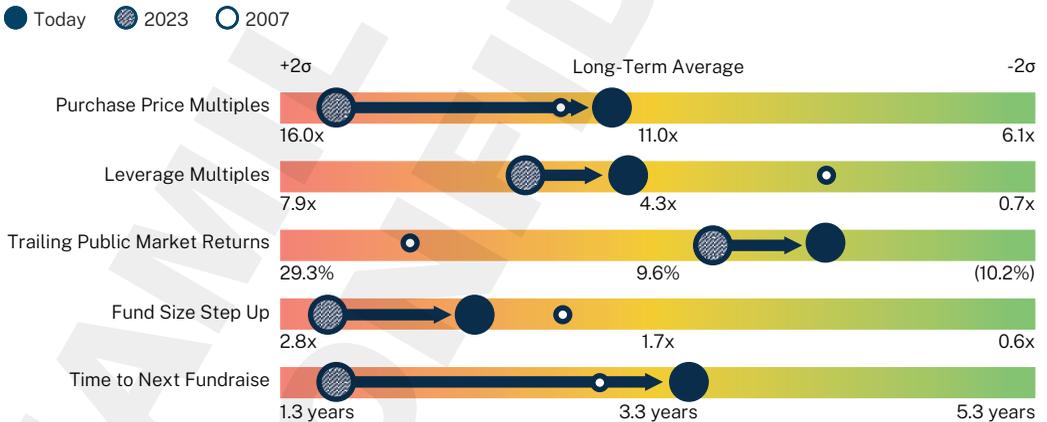
Hamilton Lane Sentiment Indicators: Real Estate



Source: Hamilton Lane Data, Bloomberg, NCREIF (January 2025)
 *Zero used as floor for indicators that cannot be negative
 Note: Values indexed to beginning of year.

The real estate market remains decidedly more positive. The negative movements from 2023 have been minor, while the positive movements have been strong.

Hamilton Lane Sentiment Indicators: Infrastructure

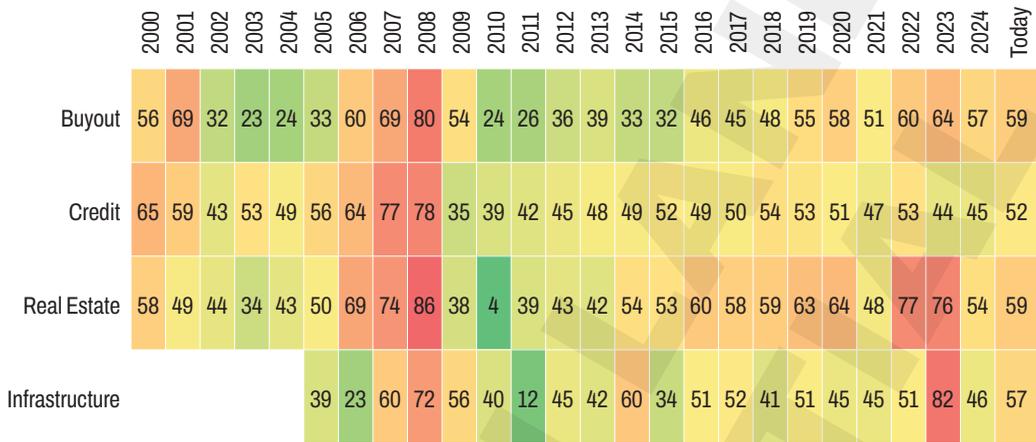


Source: Hamilton Lane Data, Bloomberg, Cobalt, Pitchbook (January 2025)
 Note: Values indexed to beginning of year.

Infrastructure is generally neutral. It's hard to see any real trends pushing in any direction.

The Hamilton Lane Worry Index

The Hamilton Lane Worry Index is a composite of Hamilton Lane’s sentiment indicators. Higher Numbers = More Worry



Source: Hamilton Lane Data, Bloomberg, Cobalt, Pitchbook, S&P, NCREIF (January 2025)

The Hamilton Lane Worry Index (“HLWI”) is a composite view of a wide range of macroeconomic indicators across Buyout, Credit, and Real Assets. Indicators are scaled from 0 to 100 based on their relative value each year, and then averaged to create a market-wide number. Lower numbers represent a generally more favorable environment while high numbers signal a generally less favorable environment. The HLWI is directional and not necessarily indicative of future results.

This remains one of our favorite visual charts. Numbers and colors. What more could an investor want? Maybe a voice that explains it to you, but we’ll work on that in future years. The markets are all generally neutral. Please note that is not a bad thing. A neutral market simply means that investors are not particularly greedy or fearful. Was it George Soros who said boring markets are your best investment friend? They all indicate that they are in “investable zones” with no market dynamic that is creating caution or telling you that you can buy any asset with impunity.

IS THIS THING OVER YET?



A cartoon illustration of a young boy with brown hair and blue eyes, floating in the ocean. He is holding a white sign with a red border that says "WHAT, ME WORRY?". In the background, a shark fin is visible above the water's surface. The sky is a pale blue with a soft yellow glow near the horizon. A large, faint watermark "E" is visible in the upper right quadrant of the image.

**WHAT,
ME WORRY?**

Conclusion

*“And you better start swimmin’
Or you’ll sink like a stone”*

“THE TIMES THEY ARE A-CHANGIN’,” BOB DYLAN

COME ON, WE’RE ALMOST THERE. Don’t fall asleep on us after getting this far!



This year, we have some concrete conclusions. You have stayed with us this long, and you know we are probably more worried than most about the health of the private equity sector, both with respect to portfolios, exits, fundraising and deals being done today.

We do think the odds favor an environment like the 1990s and that means, on the private equity side, greater care. What should you be doing in this environment? A few key themes:

- Credit and infrastructure have won the day over the last two years. Points for those who touted those strategies as risk reducers and – in the case of infrastructure – the source of uncorrelated exposures. For those who are skeptical of equities: Go ahead –add them. It’s that simple.
- That said, we believe the relative value equation for new investments is shifting back in favor of equity. The mid-market is ripe for opportunity. It’s time to consider legging back into venture and growth (assuming you aren’t choking on all you did in 2021 and 2022). We believe AI applications will sweep the business landscape and many of those companies will be incubated and developed in the private markets sphere. Existing venture investments may struggle but newer commitments have higher potential.
- We do like co-investments as a tool to access those equity exposures. Prices worry us, as does a general partner community that might start rushing into deals in a more frenzied environment. We think that likelihood is not great, but it’s there. Pick low price or strong growth. Stop fantasizing about deals with both. They aren’t there and, if you see one, something is clearly wrong.
- Secondaries remain attractive as long as liquidity is constrained. If you can buy identified assets at your preferred price on the private side, what’s not to like? Secondary buyers would do well to prioritize asset quality, which we believe will matter more than discount in the coming cycle.
- The U.S. will likely be the more attractive environment over the next four or five years. No, that is not because we are based here. In an environment where the U.S. will be the most pro-business of any of the major economies, including with tax, regulatory and legal policies, that is a strong tailwind. In addition, if trade friction does increase, the amount of “re-shoring” done in the U.S. will add another headwind.
- We say it every year, but, please, for your own sakes, make this the year you do it: Spend some money on portfolio analytics, whether for construction or analysis. The best investors are moving in that direction in ways that might surprise you, and you risk being left far behind if you don’t keep up to some extent. It might be like investing in the public markets years ago and deciding you really didn’t need that Bloomberg contraption.

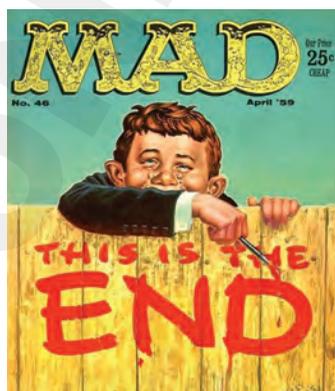


Our industry is maturing and changing rapidly at the same time. That presents a tough combination of danger and opportunity. We have some advice for all participants in this industry, and that includes us.

General Partners: You may tell us you're not worried; you may even believe it. You'd better start worrying. You'd better start running your business the way you run your portfolio companies. (We'll assume you're reasonably good at that...) Would you let your portfolio companies hold their clients' capital for as long as you're holding yours? Would you let your executives ignore performance numbers and their clients' objectives the way you ignore yours? Would you be ok with your holdings having as unclear a view of their competitive landscapes as you do of yours? Yes, it's lucrative today and, yes, it's been a great ride, but be clear, it is going to get a whole lot more competitive and difficult in the years ahead. Remember the managers dismissing ETFs and index investing decades ago? It's not the same analogy, but it's close enough that you'd better get ready. Your clients will be.

Still not worried? Here's another feature of your future: (a) everyone doing evergreen well is working really hard on tech and valuation improvements and (b) once institutions see it, they will want it. It's expensive; it's time-consuming. Are you willing to spend the resources on that? Is your performance so elite that you can tell your clients you won't give them what they're getting from some of their other managers, and they'll be fine with that inferior product? You're sure about that?

Limited Partners: Get your head out of the sand. (We have another expression, but we're polite writers here.) The ways people invest, the structures around investing, are all changing and will overwhelm the way you do business today. Yes, it's been done this way for 40 years. It won't last. We don't know how quickly the changes will arrive, but we sense they are already lapping at our laps. Laugh at tokenization, at blockchain, at evergreen, at AI doing what you do. You have capital, so you will always be part of the system. But there will be others who are wiser with that capital, and they will be at the heart of that system generating better returns.



Endnotes

Page 9 - S&P 500 used as a proxy for public equities.

Pages 10-11 - Indices used: Hamilton Lane All Private Equity with volatility de-smoothed; S&P 500 Index; Russell 3000 Index; MSCI World Index; HFRI Composite Index; Hamilton Lane Private Credit with volatility de-smoothed; ICE BofA US High Yield Index; S&P UBS Leveraged Loan Index; Hamilton Lane Private Real Estate with volatility de-smoothed; Hamilton Lane Private Infrastructure with volatility de-smoothed; Hamilton Lane Private Natural Resources with volatility de-smoothed; FTSE/NAREIT Equity REIT Index; DJ Brookfield Global Infrastructure Index; MSCI World Energy Sector Index. Geometric mean returns in USD. Assumes risk free rate of 2.4%, representing the average yield of the ten-year treasury over the last ten years. (January 2025)

Pages 21 - GP Heritage refers to the traditional home of the General Partner, including their headquarters and founding location. Analysis for all regional buyout funds investing primarily in Western Europe

Page 30 - Deployment pacing cutoff set to Q4 2007 for when the GFC began.

Pages 42-43 - Soft Landing period is defined as Q1 1994 – Q2 1996 for the mid-90s period and Q1 2022 – Q2 2024 for the current period. Mid 90s sample includes funds from vintages 1986 – 1995 with complete valuation history.

Page 94 - Evergreen return is an annualized return calculated using the quarterly return of 13 equity-focused Evergreen funds in the market. All PE represents an annualized combination of Buyout, Venture Capital, and Growth Equity quarterly returns.

Definitions

STRATEGY DEFINITIONS

All Private Markets – Hamilton Lane’s definition of “All Private Markets” includes all private commingled funds excluding fund-of-funds, and secondary fund-of-funds.

Co/Direct Investment Funds – Any PM fund that primarily invests in deals alongside another financial sponsor that is leading the deal.

Continuation Vehicles – A vehicle in which secondary buyers acquire one or more assets from an existing fund.

Corporate Finance/Buyout – Any PM fund that generally takes control position by buying a company.

Credit – This strategy focuses on providing debt capital.

Distressed Debt – Includes any PM fund that primarily invests in the debt of distressed companies.

DM Buyout – Includes any buyout fund that is primarily investing in developed markets of North America, Western Europe and Global

EU Buyout – Any buyout fund primarily investing in the European Union.

Fund-of-Funds (FoF) – A fund that manages a portfolio of investments in other private equity funds.

Growth Equity – Any PM fund that focuses on providing growth capital through an equity investment.

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

Page 96 - Evergreen fees were calculated using an average of the fee terms of Evergreen funds in market managed by six different GPs. Closed-end fees were determined using an average of the fee terms of the flagship funds of those same six GPs.

Pages 106-107 - If a data set is distributed normally, about 95% of all data points will lie within two standard deviations of the mean.

Page 108 - The Hamilton Lane Worry Index (“HLWI”) is a composite view of a wide range of macroeconomic indicators across Buyout, Credit, and Real Assets. Indicators are scaled from 0 to 100 based on their relative value each year, and then averaged to create a market-wide number. Lower numbers represent a generally more favorable environment while high numbers signal a generally less favorable environment. The HLWI is directional and not necessarily indicative of future results.

GP Survey - Please be aware that the information contained herein is based upon results of a survey conducted by Hamilton Lane Advisors, L.L.C. (the “Firm”) of a number of private markets participants. The results of the survey may not necessarily represent the opinions of the Firm or its employees, officers or directors. Publication of this report does not indicate an endorsement by the Firm of the results included herein and should not be relied upon when making investment decisions.

Late Stage VC – A venture capital strategy that provides funding to developed startups.

Mega/Large Buyout – Any buyout fund larger than a certain fund size that depends on the vintage year.

Mezzanine – Includes any PM fund that primarily invests in the mezzanine debt of private companies.

Multi-Stage VC – A venture capital strategy that provides funding to startups across many investment stages.

Natural Resources – An investment strategy that invests in companies involved in the extraction, refinement, or distribution of natural resources.

Origination – Includes any PM fund that focuses primarily on providing debt capital directly to private companies, often using the company’s assets as collateral.

Primary Buyout – a Buyout transaction where a sponsor acquires controlling interest in a company from management or through a strategic sale.

Private Equity – A broad term used to describe any fund that offers equity capital to private companies.

Real Assets – Real Assets includes any PM fund with a strategy of Infrastructure, Natural Resources, or Real Estate.

Real Estate – Any closed-end fund that primarily invests in non-core real estate, excluding separate accounts and joint ventures.

ROW – Any fund with a geographic focus outside of North America and Western Europe.

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

Secondary FoF – A fund that purchases existing stakes in private equity funds on the secondary market.

Seed/Early VC – A venture capital strategy that provides funding to early-stage startups.

SMID Buyout – Any buyout fund smaller than a certain fund size, dependent on vintage year.

Sponsor-to-Sponsor – a Buyout transaction where a sponsor acquires a controlling interest in a company from another sponsor.

U.S. Mega/Large – Any buyout fund larger than a certain fund size that depends on the vintage year and is primarily investing in the United States.

U.S. SMID – Any buyout fund smaller than a certain fund size that depends on the vintage year and is primarily investing in the United States.

U.S. & EU Growth – Includes all growth equity funds investing in North America and Western Europe.

U.S. & EU VC – Includes all venture capital funds investing in North America and Western Europe.

VC/Growth – Includes all funds with a strategy of venture capital or growth equity.

Venture Capital – Venture Capital includes any PM fund focused on financing startups, early-stage, late stage, and emerging companies or a combination of multiple investment stages of startups.

INDEX DEFINITIONS

Barclays U.S. Corporate Aggregate Index – Tracks the performance of U.S. fixed rate corporate debt rated as investment grade.

BofAML High Yield Index – The BofAML High Yield index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

Credit Suisse High Yield Index – The Credit Suisse High Yield index tracks the performance of U.S. sub-investment grade bonds.

DJ Brookfield Global Infrastructure Index – The DJ Brookfield Global Infrastructure Index is designed to measure the performance of companies globally that are operators of pure-play infrastructure assets.

FTSE/NAREIT All Equity REIT Index – The FTSE/NAREIT All Equity REIT Index tracks the performance of U.S. equity REITs.

HFRI Composite Index – The HFRI Composite Index reflects hedge fund industry performance.

MSCI Europe Index – The MSCI Europe Index measures performance of large and mid-cap companies across 15 developed markets in Europe.

MSCI USA Small Cap Value Index – The MSCI USA Small Cap Index is designed to measure the performance of the small cap segment of the U.S. equity market.

MSCI World Energy Sector Index – The MSCI World Energy Sector Index measures the performance of securities classified in the GICS Energy sector.

MSCI World Index – The MSCI World Index tracks large and mid-cap equity performance in developed market countries.

Russell 1000 Index – The Russell 1000 Index tracks the highest-ranking 1000 stocks in the Russell 3000 index by market capitalization

Russell 2000 Index – The Russell 2000 Index is composed of 2000 small-cap U.S. companies.

Russell 3000 Index – The Russell 3000 Index is composed of 3000 large U.S. companies, as determined by market capitalization.

S&P 500 Index – The S&P 500 Index tracks 500 largest companies based on market capitalization of companies listed on NYSE or NASDAQ.

S&P 600 Index – The S&P 600 Index tracks small-cap companies in the U.S. based on market capitalization

S&P UBS Leveraged Loan Index – The S&P UBS Leveraged Loan Index represents tradable, senior-secured, U.S. dollar-denominated non-investment grade loans.

OTHER

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. The formula used here for desmoothing is:

Where $rD(t)$ = the desmoothed return for period t , $r(t)$ = the return for period t , p = the autocorrelation

$$rD(t) = (r(t) - r(t-1) * p) / (1 - p)$$

PME (Public Market Equivalent) – Calculated by taking the fund cash flows and investing them in a relevant index. The fund cash flows are pooled such that capital calls are simulated as index share purchases and distributions as index share sales. Contributions are scaled by a factor such that the ending portfolio balance is equal to the private equity net asset value (equal ending exposures for both portfolios). This seeks to prevent shorting of the public market equivalent portfolio. Distributions are not scaled by this factor. The IRR is calculated based off of these adjusted cash flows.

Sharpe Ratio – The Sharpe Ratio is the average return earned in excess of the risk-free rate per unit of volatility or total risk.

Time-weighted Return – Time-weighted return is a measure of compound rate of growth in a portfolio.

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

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