Hamilton Lane®

2018 / 2019

PRIVATE MARKETS SURVEY

Hamilton Lane

We at Hamilton Lane consider ourselves to be pretty straight shooters – we call a spade a spade. Indeed, if you've read our Market Overview, you're fully aware of this – we have lots of data (and opinions) about the private markets, and we're not shy about sharing.

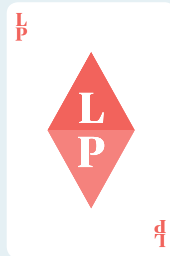
It is through this lens that we present our 2018/2019 Private Markets Survey: a forecast of the investment landscape from some of the premier and most influential practitioners in the space. This includes GPs with a total of $1.4T in assets under management, and an LP base with $5.5T in AUM.

The sentiment from our esteemed group this year is mixed. While the hand in play for private markets investors currently has been a good one, between the volatile geopolitical environment and the record bull run in the public markets that may be nearing an end, our respondents seem to be preparing for a possible wild card or two.

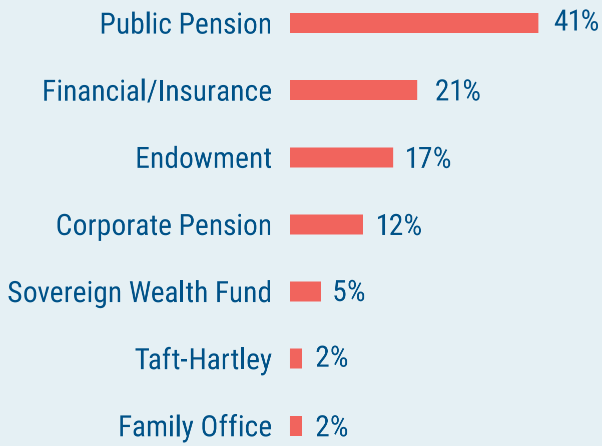
Ante up, and let's dig in.

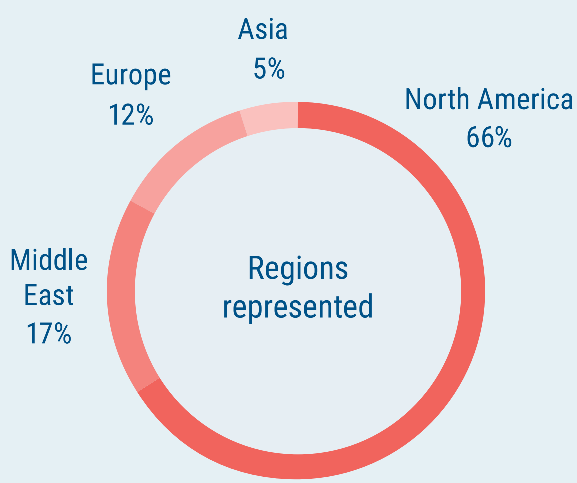
THE PLAYERS

We are a significant investor and allocator of capital to many of the premier general partners across the private markets spectrum. Additionally, our position as a discretionary manager and advisor to some of the world's largest and most sophisticated limited partners gives us unique access to be able to gather and share market intel. Here's a snapshot of this year's Private Markets Survey participants:

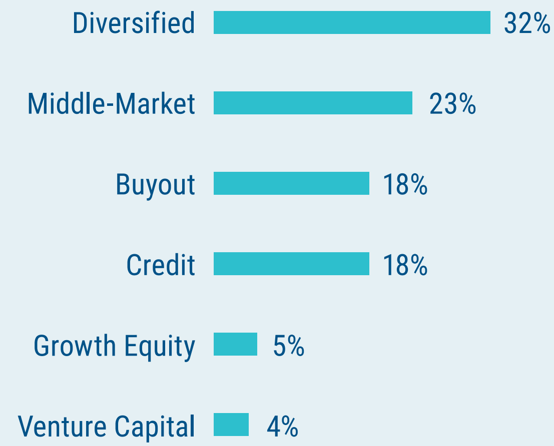


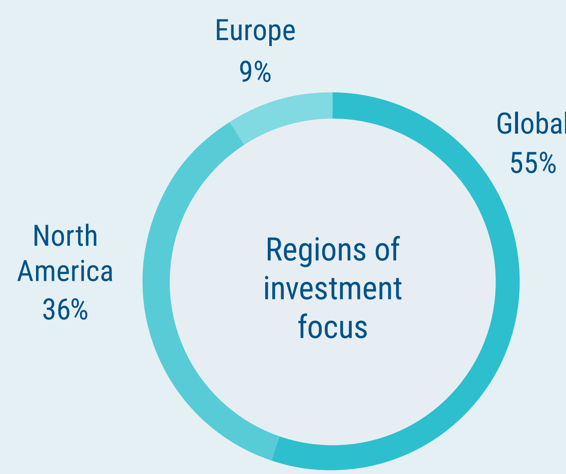
42 LPs
$5.5T AUM





22 GPs
$1.4T AUM





HERE'S THE DEAL

SURVEY HIGHLIGHTS

More than
20%
of GPs believe the public markets will see negative returns over the next 3-5 years

One quarter of LPs surveyed believe public equity returns in **emerging markets** will be greater than 10%

Despite the interest in private credit, **67%** of LPs surveyed have less than 5% allocated to the strategy

41% of LPs plan to allocate to **private credit** from their public credit bucket

61% of LPs would not change their allocation targets to the private markets even with 3 or 4 years of **underperformance**

69% of respondents believe **Brexit** negotiations will result in an agreement to defer agreement

58% of LPs who are invested in a product or fund that focuses on investing in **GP stakes** do it for the attractive risk-return profile

40% of LPs not invested in a product or fund focused on investing in GP stakes do not like the strategy

Half of GPs say that when it comes to **performance**, they care more about performance relative to an absolute target, though 40% care about performance vs. peers

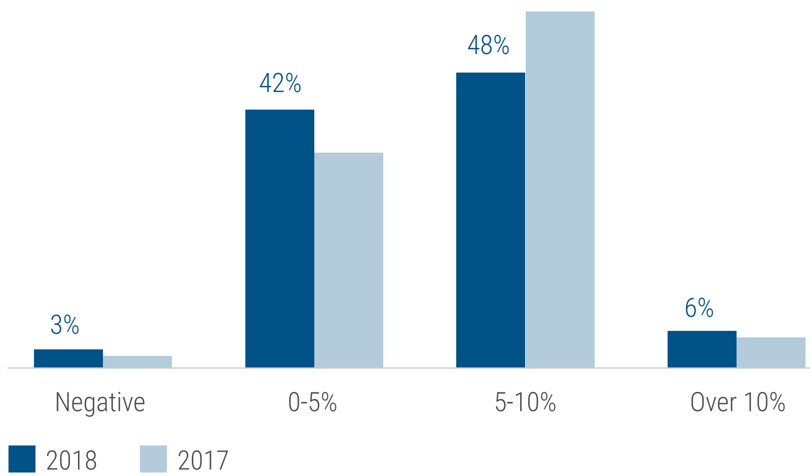
Following Suit

EXPECTATIONS FOR THE NEXT 3-5 YEARS

- Most respondents (48%) expect U.S. public equity returns to be in the 5-10% range
  - Lowered expectations from last year, when nearly 60% believed they would be in that range
  - LPs are more optimistic than GPs
- More than half believe the U.S. Treasury rate will be between 3-4% in three years' time
  - Major uptick in those who expect potentially higher than 4% treasury rate – up from 12% last year to 37% this year

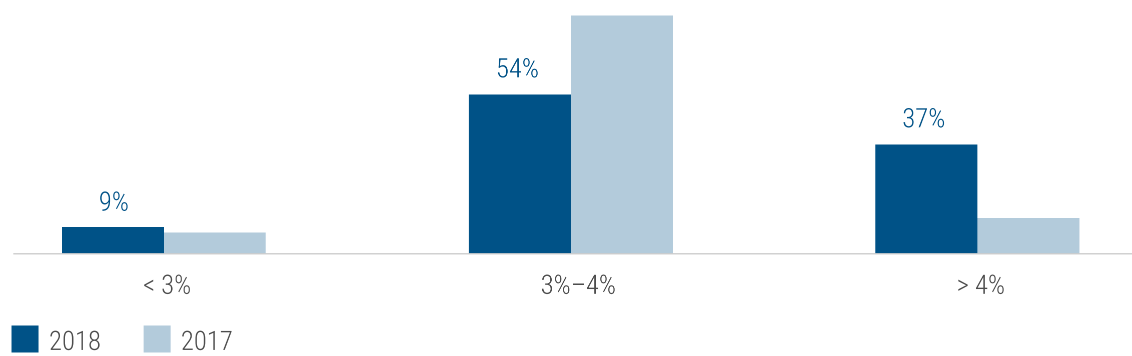
U.S.

I expect public equity returns in the U.S. over the next 3-5 years to be:



Nearly **60%** of LPs expect public equity returns in the U.S. to be greater than 5% over the next 3-5 years compared to only **45%** of GPs

In three years, the 10-year U.S. Treasury rate, currently around 3.1%, will be:



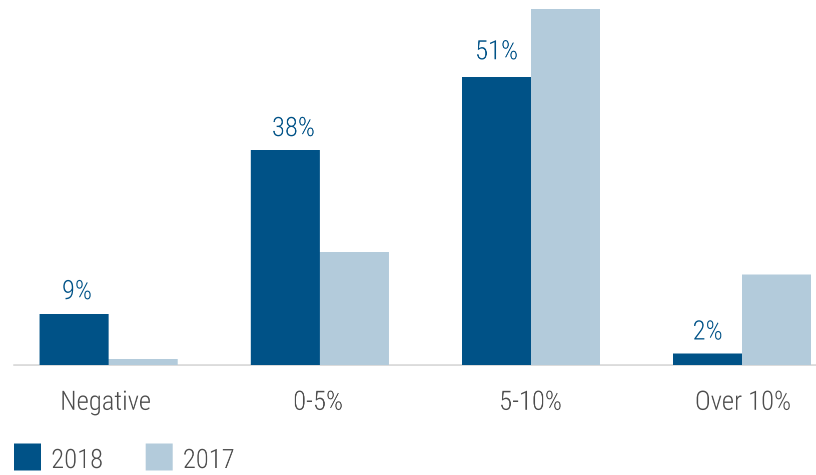
Following Suit

EXPECTATIONS FOR THE NEXT 3-5 YEARS

- Optimism around the European public markets seems to have dulled as well. This year, about half of respondents expect returns for Europe in the 5-10% range compared to 63% from last year
  - GPs are pessimistic on Europe – 21% believe there will be negative returns – and no GPs expect returns in Europe over 10%
- With regard to Brexit, the majority of this group (nearly 70%) believes the cards are stacked in favor of a deferred decision

Europe

I expect public equity returns in Europe over the next 3-5 years to be:

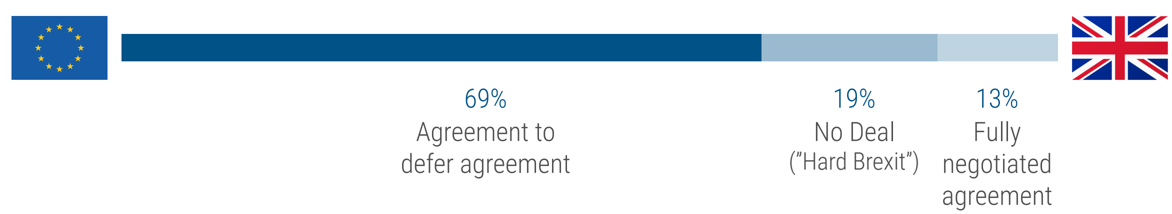


LP

21% of GPs expect negative public equity returns in Europe over the next 3-5 years compared to only **4%** of LPs

GP

The EU-UK negotiations will result in:



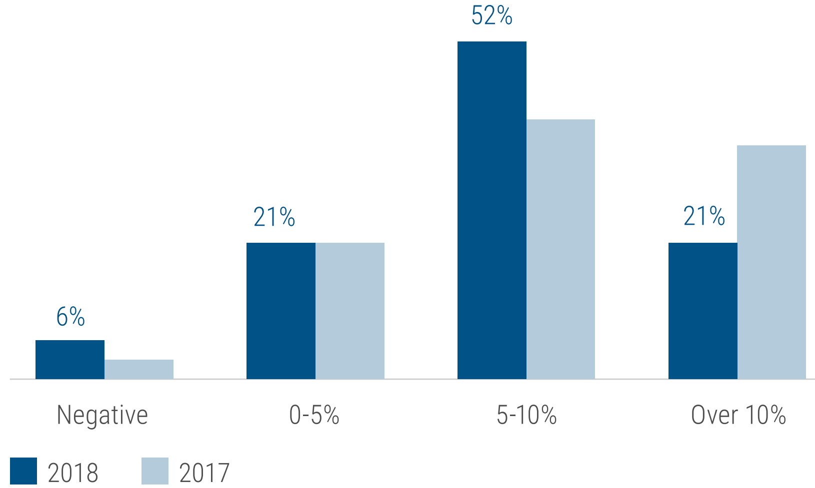
Following Suit

EXPECTATIONS FOR THE NEXT 3-5 YEARS

- Respondents seem to think there may be a few cards to play in the Emerging Markets space, with over half expecting returns in the 5-10% range compared to just 40% last year
    - LPs specifically are also very positive on EM, where a full quarter of them believe returns will be over 10%
- Almost all respondents (92%) expect that private equity returns in the 5-15% range are in the cards over the next 5 years

Emerging Markets

I expect public equity returns in emerging markets over the next 3-5 years to be:



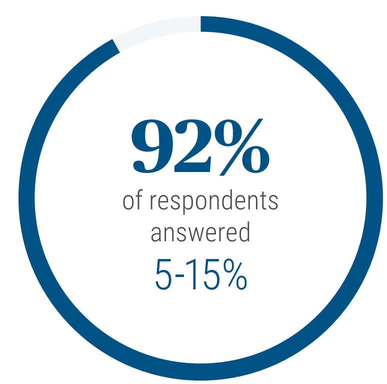
LP

20%
of GPs expect negative returns in emerging markets public equities over the next 3-5 years

GP

PE Returns

What is your expectation for private equity returns over the next five years, assuming public equity returns average 5 percent?

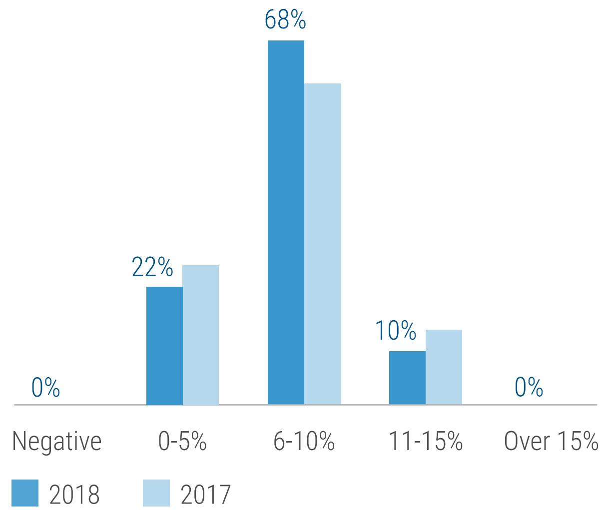


PLAYING THE

Private Credit Card

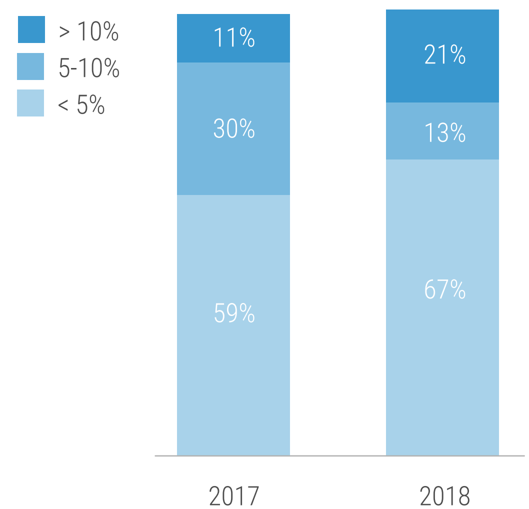
- Most respondents still expect private credit returns to be in the 6-10% range, with no expectations for negative returns or returns over 15%
- Barbell responses around current allocation with uptick in 10%+ category as well as <5% category
- Half will maintain allocation to private debt strategies, and 38% will increase
- In last year's survey, private credit was also the area that respondents said they would increase allocation to the most over the next two years (tied with other buyout at 31%)
- LPs plan to increase allocation to private credit mostly from their public credit allocation

What is your expectation for private credit returns over the next five years, assuming public equity returns average 5%?



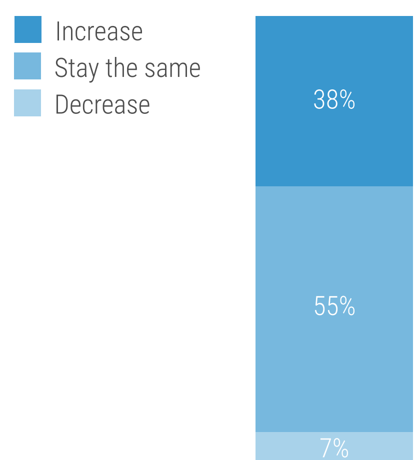
LP

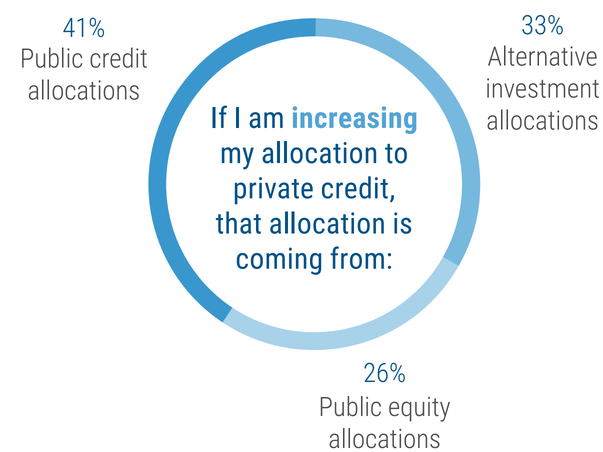
My current allocation to private credit is:



LP

My allocation to private credit strategies in the next year or two will:



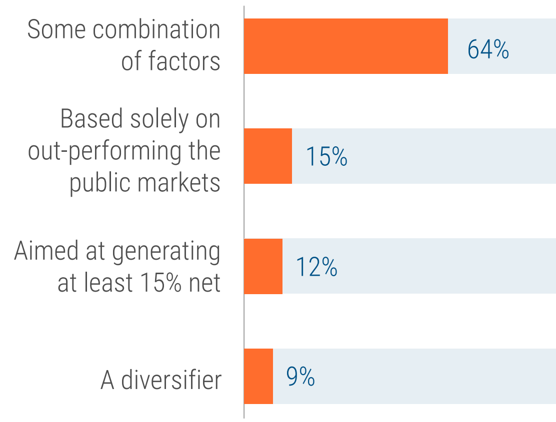


In the Shuffle

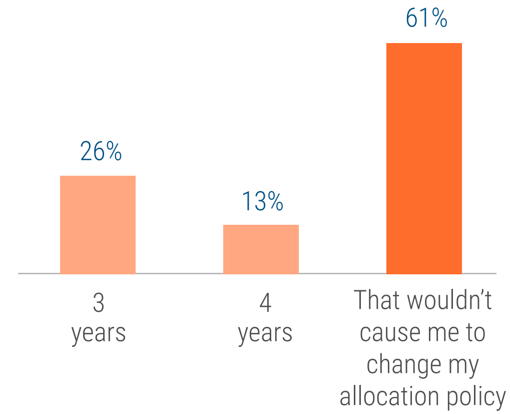
PRIVATE MARKETS ALLOCATION AND PERFORMANCE

- When asked why LPs allocate to the private markets, most said it's a combination of factors:
  - Based solely on outperforming the public markets
  - Aimed at generating at least a 15% net return
  - Used as a diversifier
- Most (61%) of LPs are playing the long game when it comes to the private markets – even 3 or 4 years of underperformance would not cause them to change allocation targets
  - In a similar vein, most LP boards are focused on private markets outperformance over a 5-year basis
- Half of GPs say that when it comes to performance, they care more about performance relative to an absolute target, though 40% care about performance vs. peers

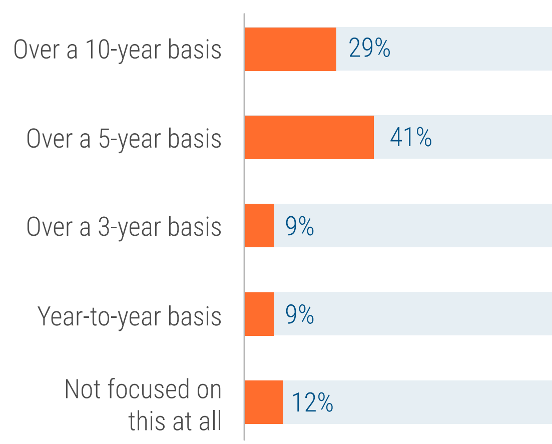
My allocation to the private markets is:

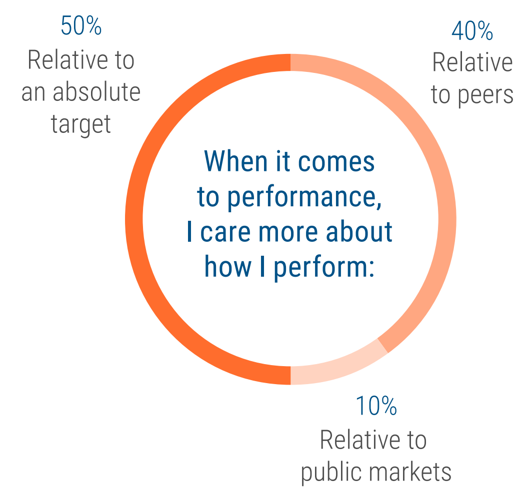


If my private markets portfolio underperforms the public markets for this many years, I will begin to change my allocation targets:



My board/decision-making body is focused on outperformance between publics and privates on a:





Splitting the Deck

GP STAKES

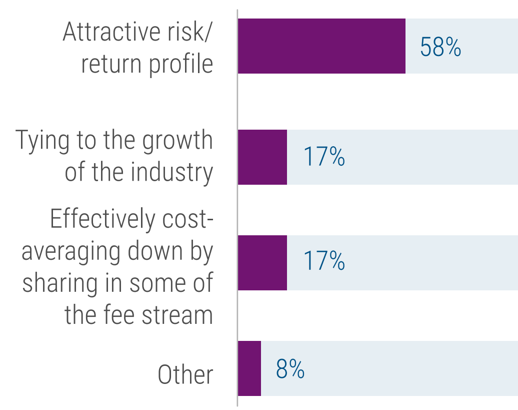
- For the 30% of LPs who said they are invested in a product or fund that focuses on investing in GP stakes, nearly 60% do it for the attractive risk-return profile
- As for the other 70%, almost half (40%) of them do not like the strategy, and 33% of them worry about ultimate liquidity
- Most GPs have, at some point, met with a firm that proposed taking a stake in their business
- Almost half (43%) of GPs who have declined selling a stake in their business did not sell because they didn't see the value add; another 29% didn't have use for the capital injection
- However, if they could, 44% of GPs still believe that selling a stake in their firm would be a good option; alternatively, 28% believe a strategic outside investor would be a better option for their firm

LP

I am invested in a product/fund that focuses on investing in GP stakes:

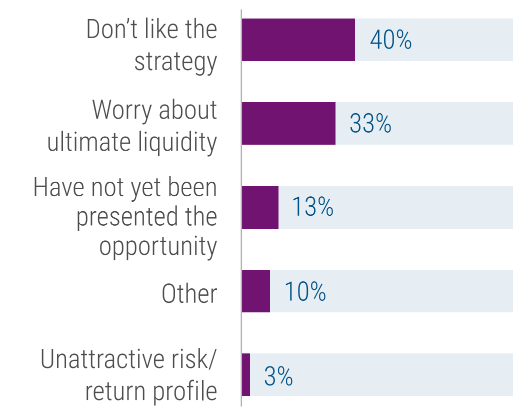
YES

What was the primary reason for the investment?



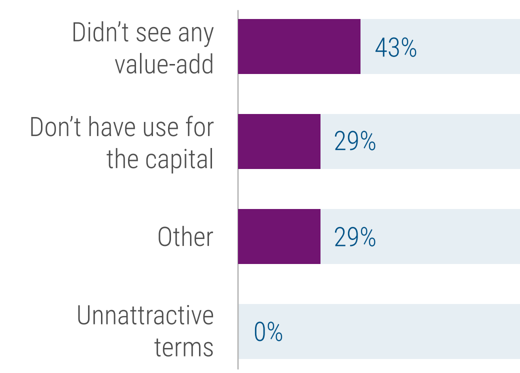
NO

What was the primary reason to pass on an investment?



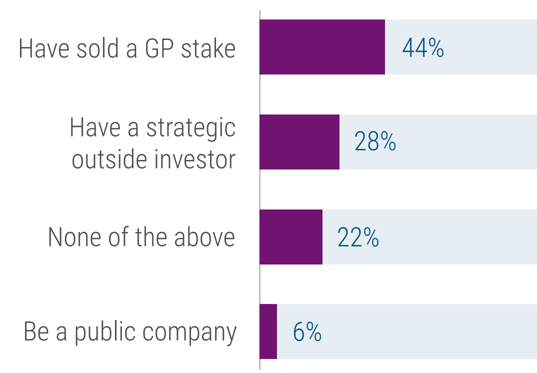
GP

I have declined selling a stake in my franchise because:



GP

Assume you could snap your fingers and make one of these true, the better option would be:



Hamilton Lane

Thank you for reading the 2018/2019 Private Markets Survey. We hope this proves an informative and useful reference tool, and we would encourage you to contact anyone at Hamilton Lane should you have questions or feedback.

WHO WE ARE*

Hamilton Lane is an alternative investment management firm providing innovative private markets services to sophisticated investors around the world. The firm has been dedicated to private markets investing for 27 years and currently has more than 350 employees operating in offices around the world. We're proud to have been named a Best Place to Work by Pensions & Investments for seven consecutive years.

OUR MISSION & VALUES

We enrich lives & safeguard futures

Do the right thing

Integrity, candor and collaboration

The pursuit of excellence

A spirit of competition that inspires innovation

*As of December 31, 2018

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Disclosures

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