Hamilton Lane

PRIVATE MARKETS SURVEY

Class of

2017
2018

Most likely to

Become a Private Markets Investment Management Firm

At Hamilton Lane, we're pretty reluctant about making bold predictions and tend not to be too vocal with our opinions. Wait a minute. Strike that. Reverse it.

Still, on occasion, we also like to look to others for their viewpoints. We don't ask just anyone, of course. We stick to asking some of the premier and most influential practitioners in the private markets what they're thinking about the current investment environment and how they anticipate the investment landscape will evolve over the next few years. In this year's Private Markets Survey, we hear from a general partner group with an aggregate of more than $1.1 trillion in AUM and a collection of limited partners from around the world representing more than $1.8 trillion in assets. Not too shabby.

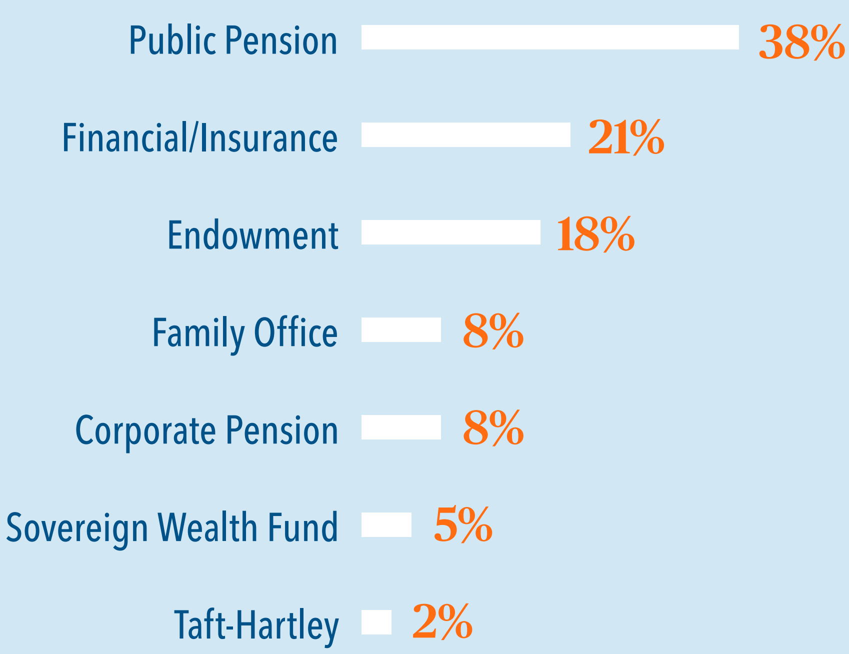
If we had to describe the general sentiment from our group of respondents this year, we'd go with bullish. Read on and you'll see what we mean. In addition to outlining our Q&A from this year, we thought it would be interesting to revisit some of the predictions that our survey respondents have made over the years and see how their soothsayer skills stack up. (Yes, we love alliteration almost as much as we love the private markets.)

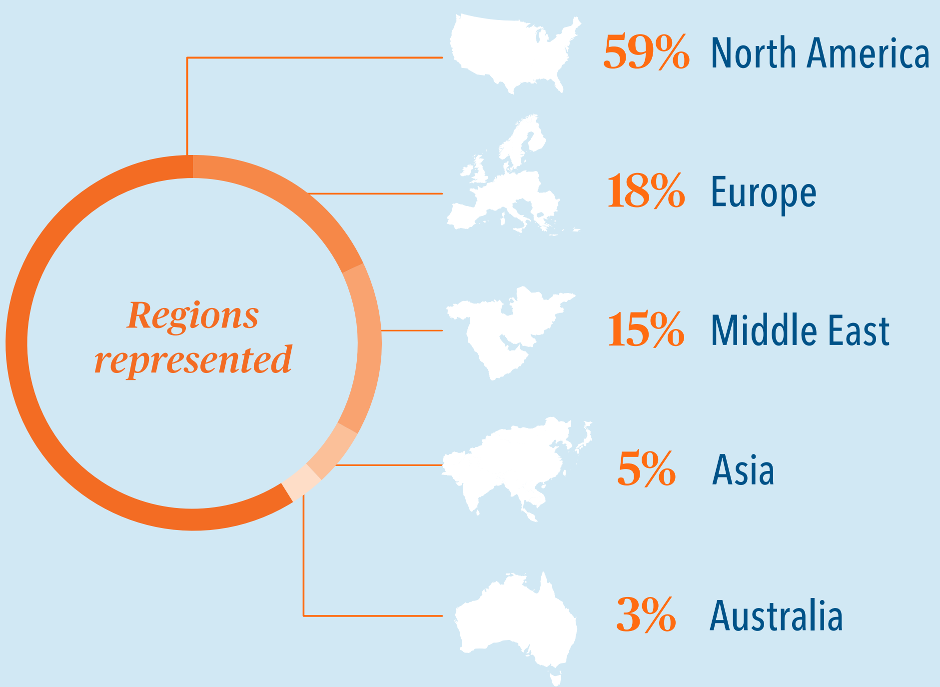
But first...

The Lineup

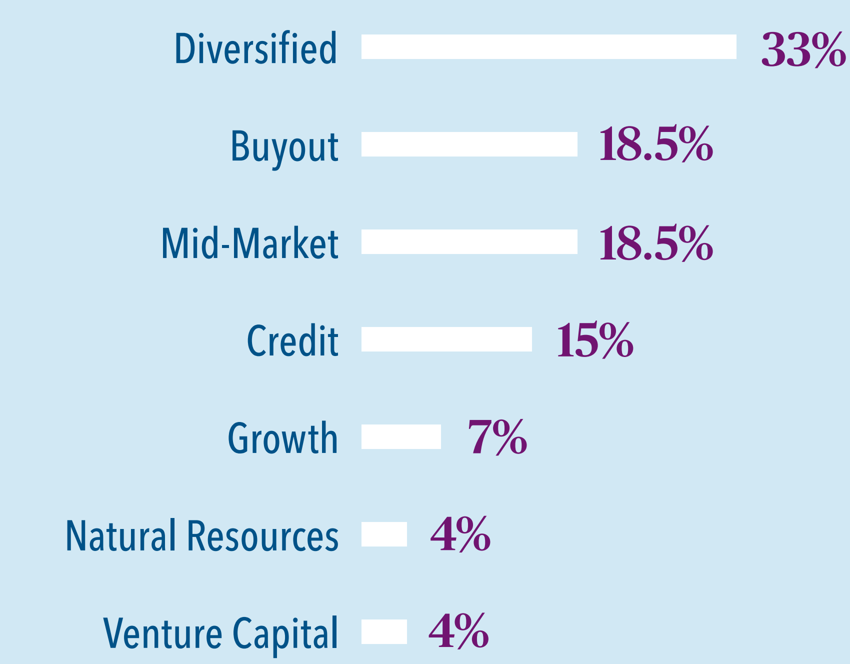
We are a significant investor and allocator of capital to many of the premier general partners across the private markets spectrum. Additionally, our position as a discretionary manager and advisor to some of the world's largest and most sophisticated limited partners gives us unique access to be able to gather and share market intel. Talk about squad goals.

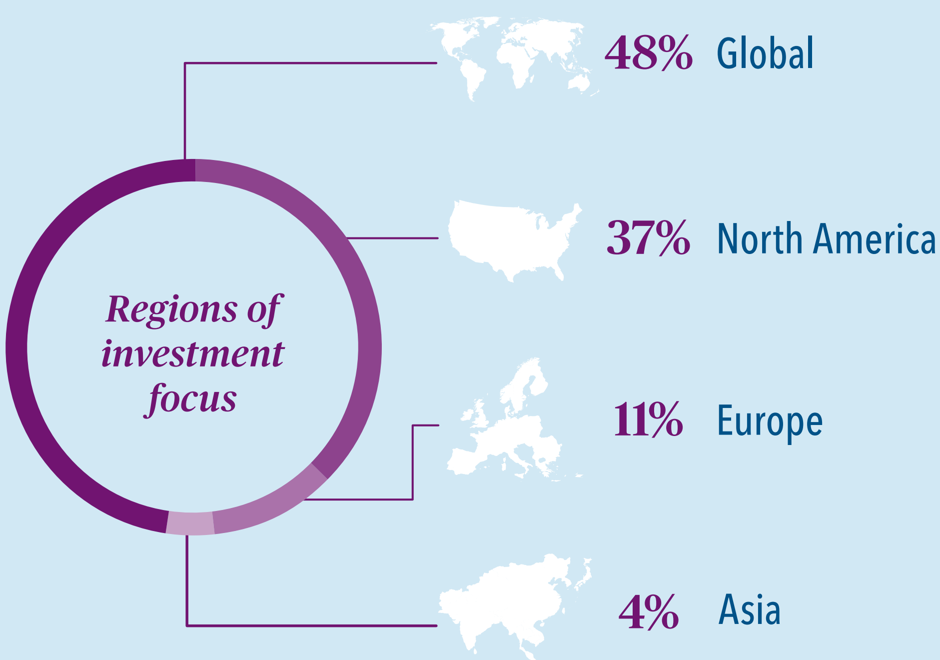
39 LPs | $1.8T AUM

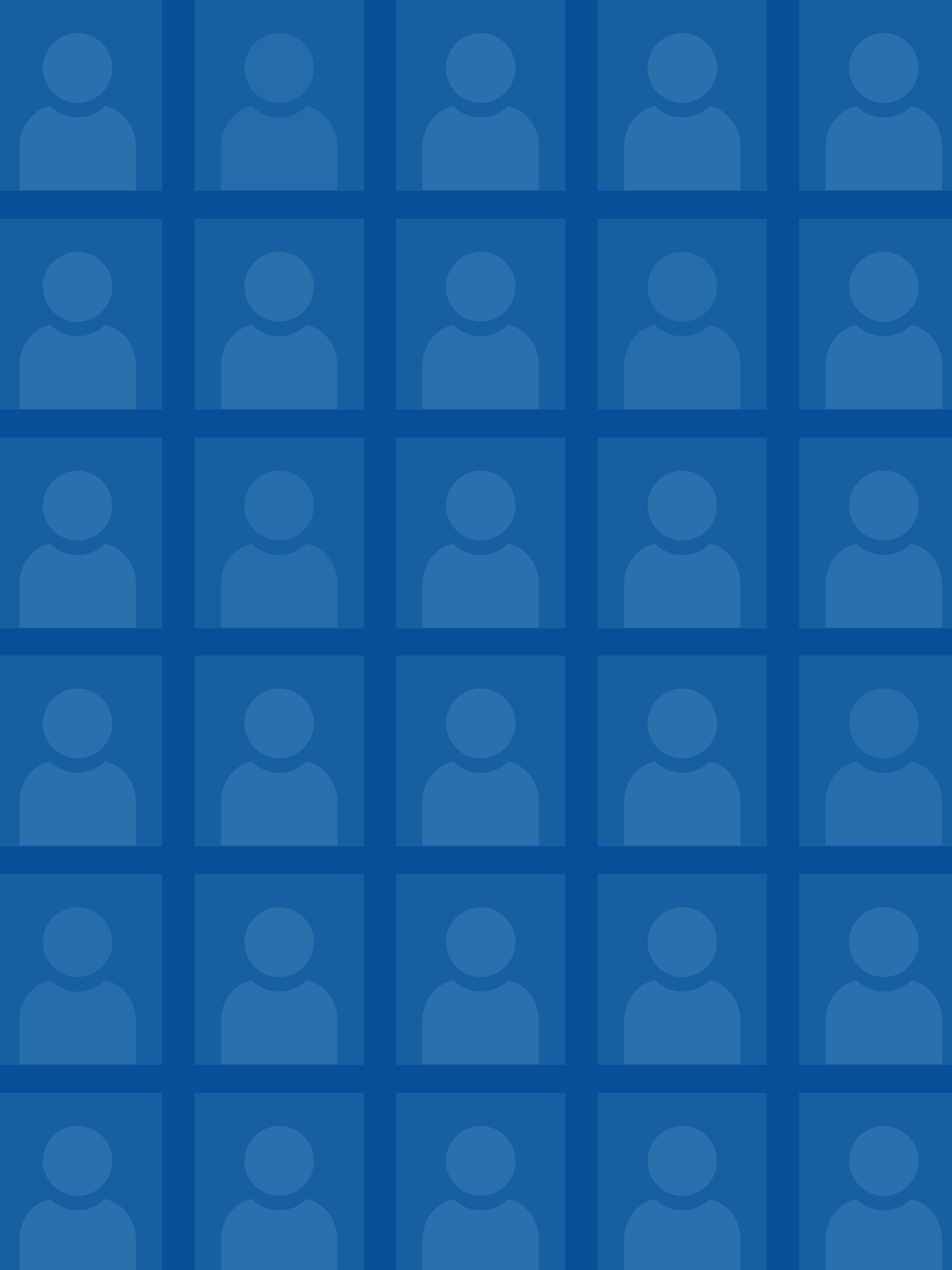




27 GPs | $1.1T AUM







The CliffsNotes

Oh come on, you know you read these instead of the whole book

51%

of LPs feel pressure to manage solely to higher IRR & lower fees

If investing their own capital, 8% of GPs would invest the most in

Europe

41%

of investors have 5%+ current allocation to private credit

31% of respondents plan to increase allocation the most to

private credit

0%

of respondents think

PRIVATE CREDIT

will have negative returns

83%

of respondents are dedicating real time and effort on improving their organizations

Organizations are increasing internal budgets for

infrastructure & technology

33% of respondents plan to decrease allocation the most to

venture capital

Most respondents think the 10-year

U.S. TREASURY RATE

will fall between 2-3.5% in 3 years' time

58%

believe U.S. public equity returns will be 5-10% over the next 3-5 years

66%

of GPs want to invest in more technology/growth-oriented companies

15%

believe European public equity returns will be greater than 10% over the next 3-5 years

36% believe

emerging markets

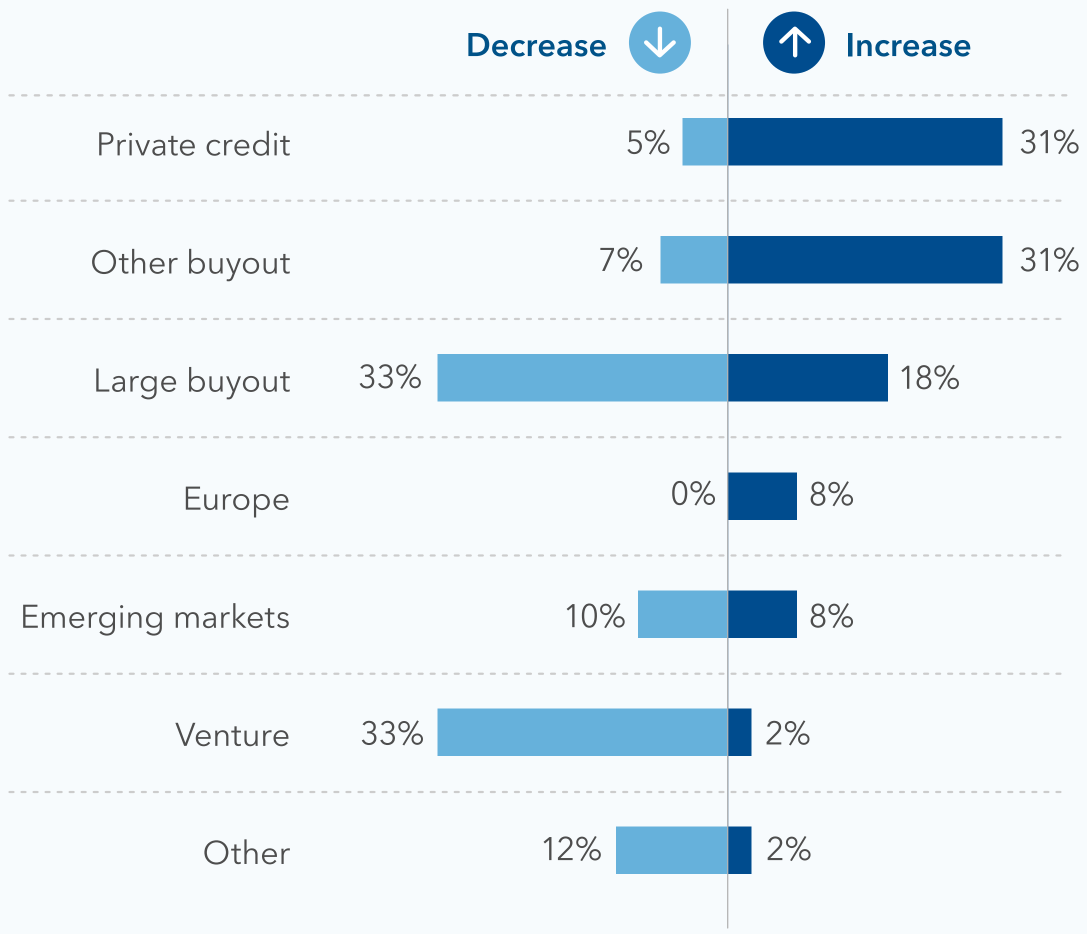
public equity returns will be greater than 10% over the next 3-5 years

61%

of LPs want more exposure to technology/growth in their portfolios

The Cool Kids

LPs **To which private markets area will your allocation increase/decrease the most over the next two years?**



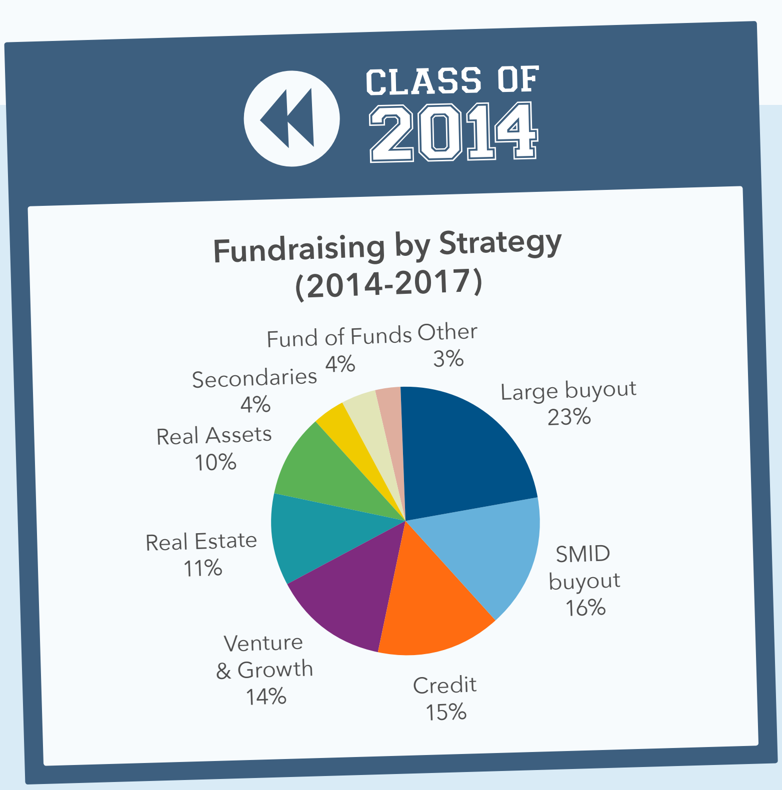
vs. 2016

Other buyout	Private credit	Venture
37% Increase	33% Increase	45% Decrease

vs. 2015

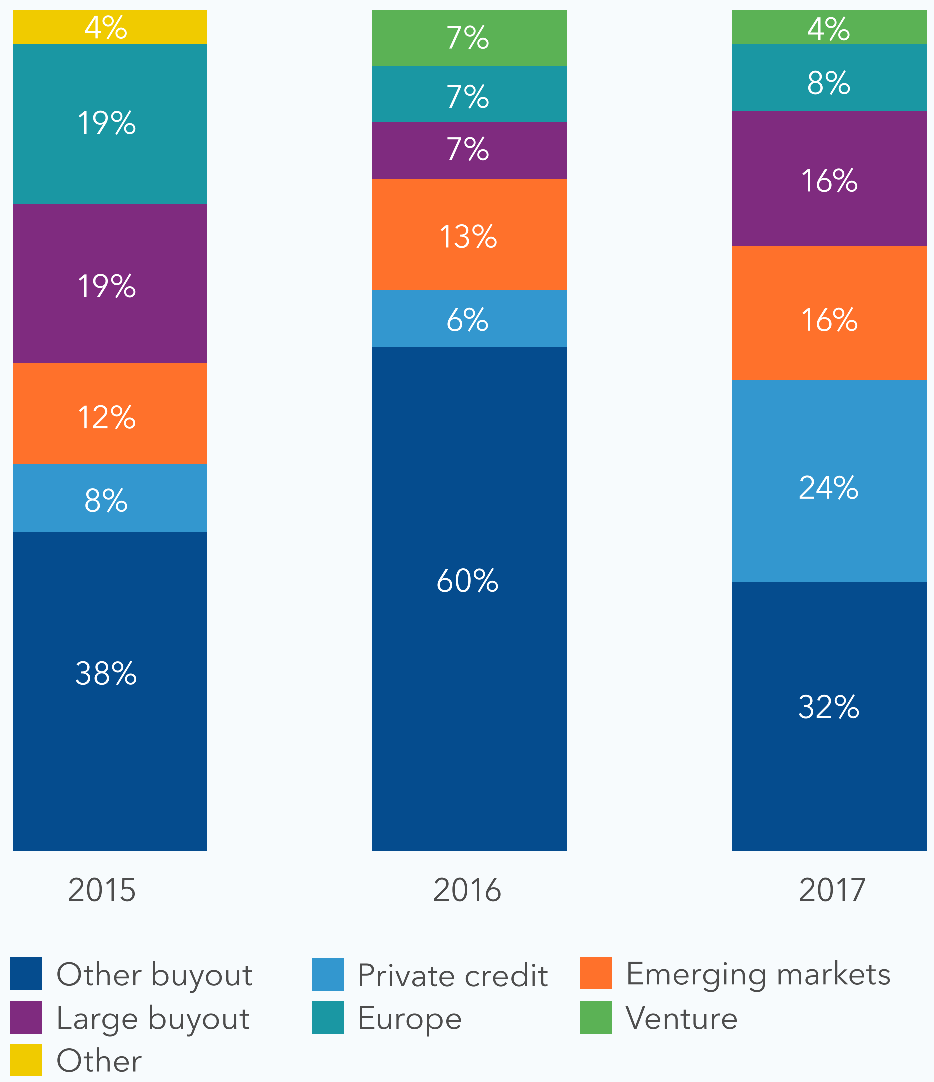
Other buyout	Large buyout	Venture
47% Increase	38% Increase	51% Decrease

- Increasing allocations similar to last year; Europe actually makes the list this year, albeit at a modest percentage.
- Growing percentage of respondents decreasing allocation to large buyout strategies.
- No plans to decrease allocation to the Eurozone over the next two years - instead nearly 8% plan to increase allocation to the region. *That's the first time Europe has made the list since 2013!*



- Despite investors indicating they would allocate more to other buyout than large buyout over the past 4 years, large buyout actually saw the largest allocation.
- Investors made good on expectations for credit allocations, as the strategy saw the third most dollars raised over the past 3 years.

GPs If you were investing your own money and were an LP, where would you allocate the most capital in the next two years?



The picture looks very different this year versus prior years:

- Private credit has become a favorite, increasing from around 6% last year to 24% this year.
- Large buyout makes a comeback, increasing by nearly 10% year-over-year. Other buyout, however, saw a pretty dramatic reduction this year.
- Europe and emerging markets gain favor, but GPs still not overly bullish.

LPs I want additional exposure to **technology/growth** in my PE portfolio

61% Yes

GPs I want to make more investments in **technology-oriented high-growth** companies

67% Yes

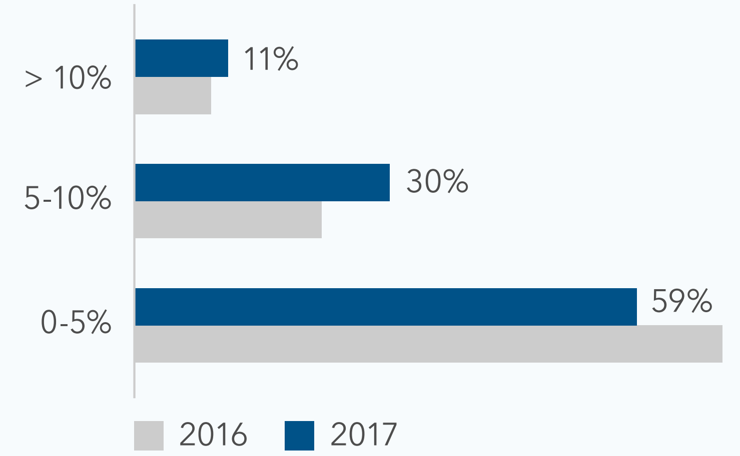
- Dovetailing with the slight uptick in LP interest in the venture capital space, it's not terribly surprising to see a majority of LPs hoping to increase exposure to the space… and GPs intend to deliver those opportunities!

What's Everybody Talking About?

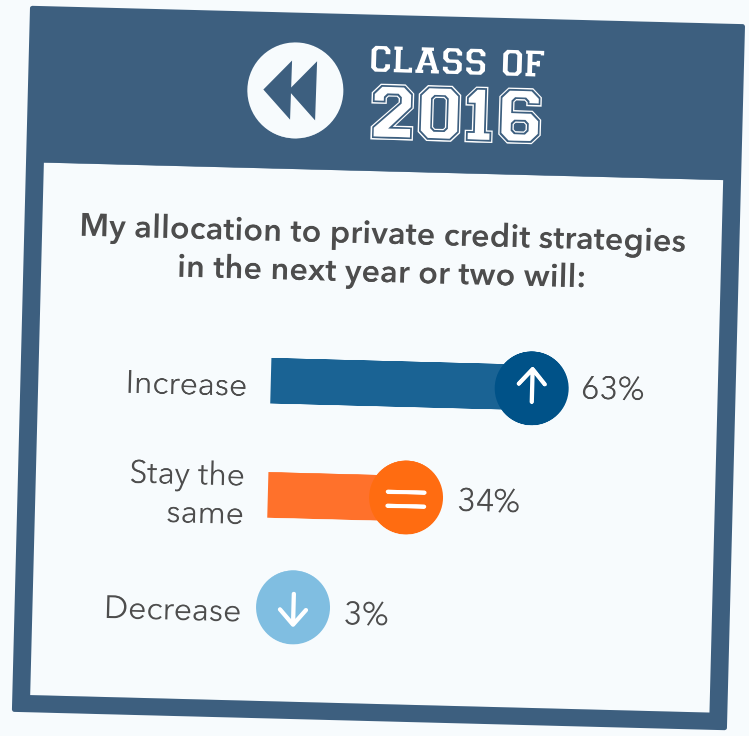
Private Credit, Fees & Interest Rates

LPs

My current allocation to private credit is:

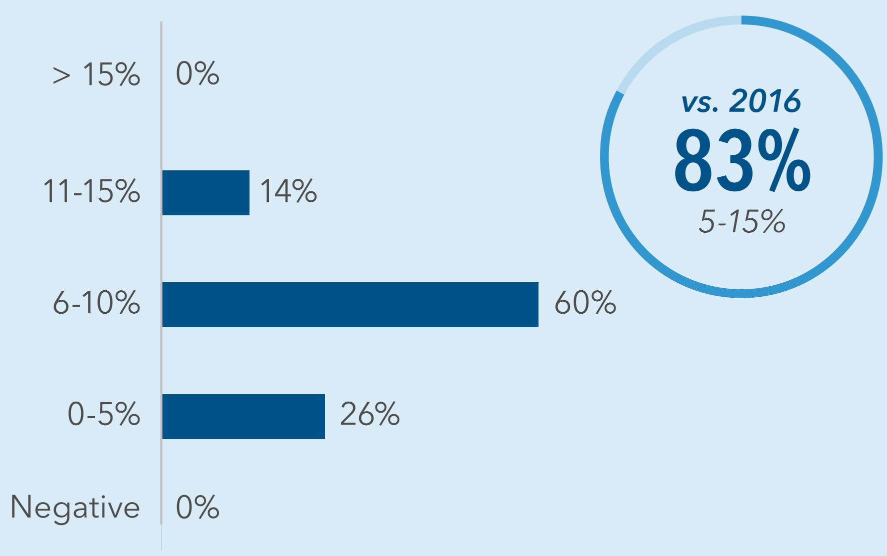


- Allocations to private credit are generally increasing, which we believe is reflective of last year's response that 63% of LPs intend to increase allocation to the strategy over the next couple years.



LPs GPs

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



- Ranges were slightly different last year, but the general trend remains that the vast majority of respondents expect returns in the 6-15% range, with the bulk of responses in the 6-10% category this year.
- Adversely, a growing percentage think that 0-5% range returns are likely over the next five years - 26% vs. 17% in 2016.

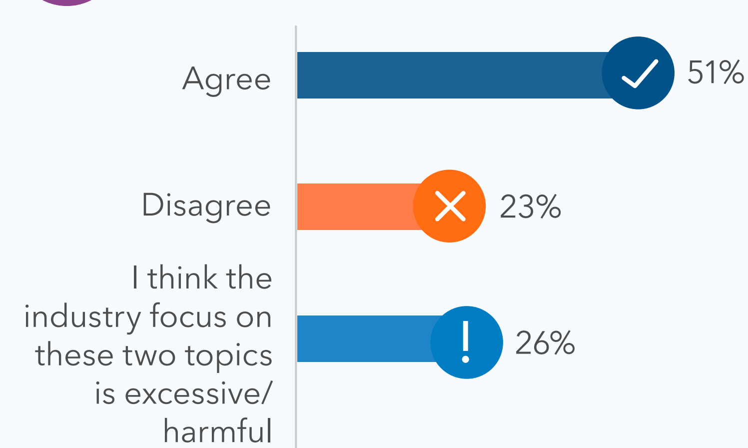
It's also noteworthy to mention that when we broke down the responses, GPs appeared much more optimistic about private credit return potential than LPs, with 24% anticipating returns in the 11-15% range.

We had a feeling a significant amount of participants would respond affirmatively to this question, so we actually covered the topic in this year's [Market Overview](). Specifically, we explored how this reality could be impacting the increased usage of credit lines by GPs as a mechanism for enhancing IRRs.

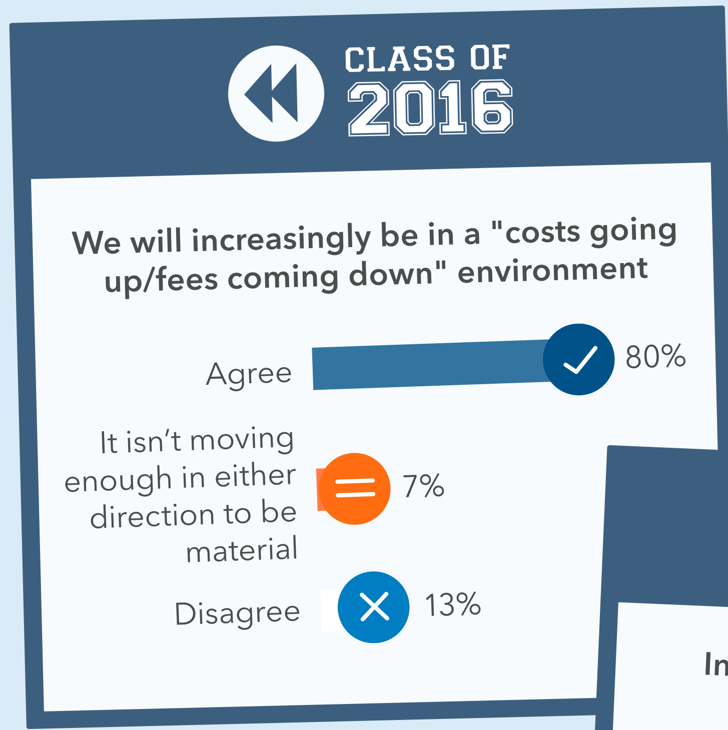
How do we interpret the 26% who responded that the industry focus is excessive/harmful? For those practitioners who actually understand how and why credit lines are being used, vilifying the practice is only muddying the debate. 'Nuff said.

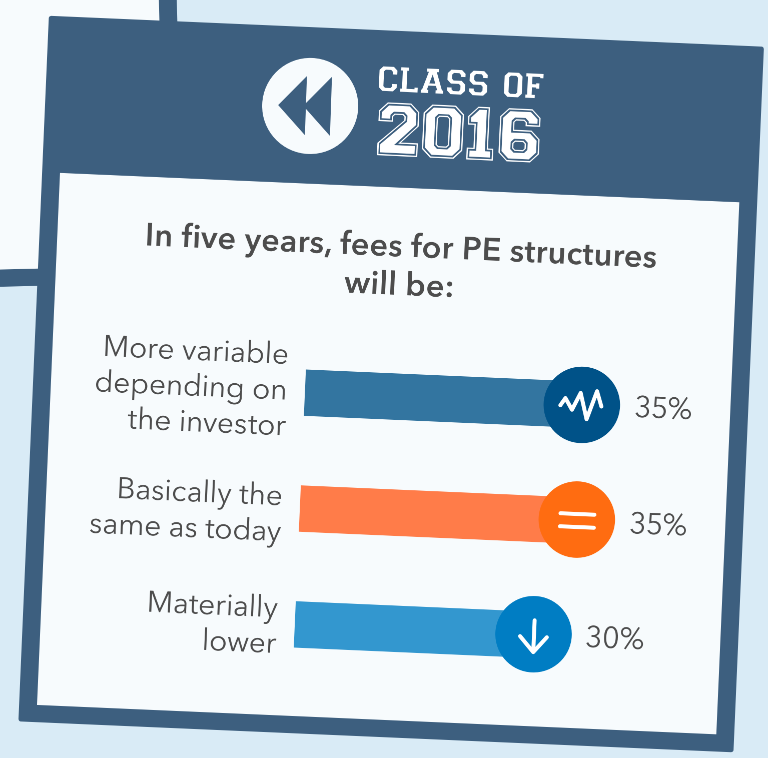
LPs

I feel pressure to manage solely around higher IRRs/lower fees



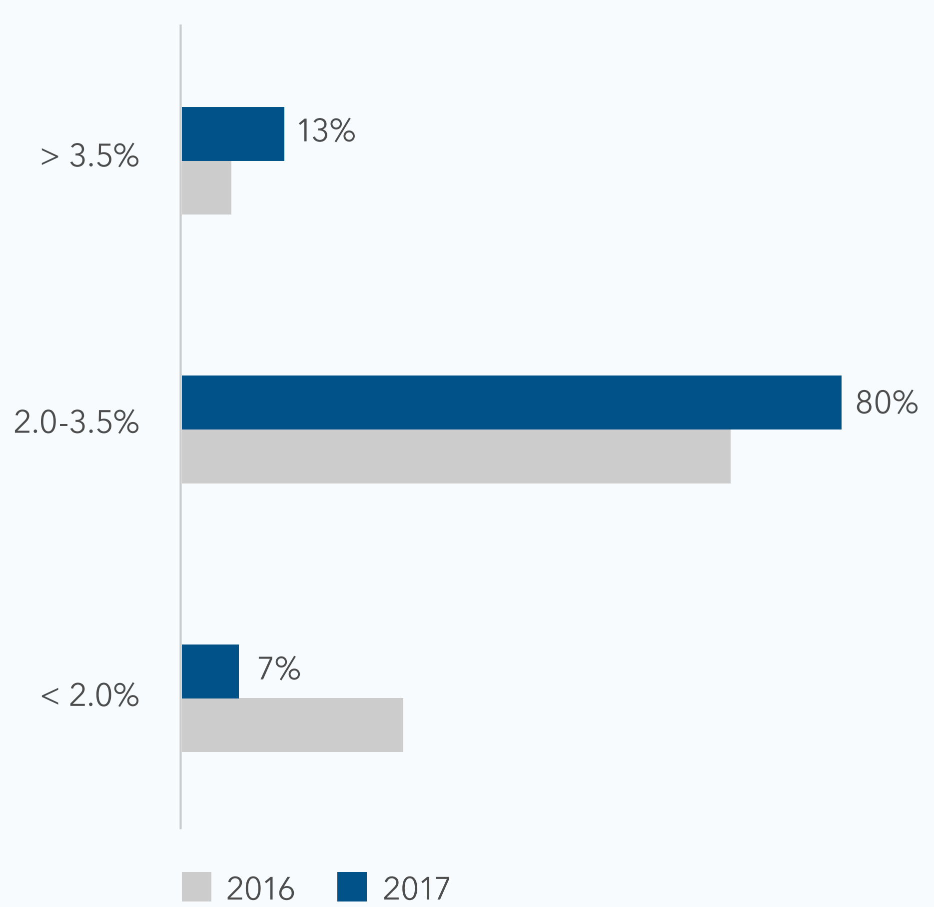
Last year, we asked a few questions regarding fees and fee structures, and responses were pretty split. But take a look at the 30% who thought fees would trend lower, as well as the 80% who agreed costs would go up as fees would come down.

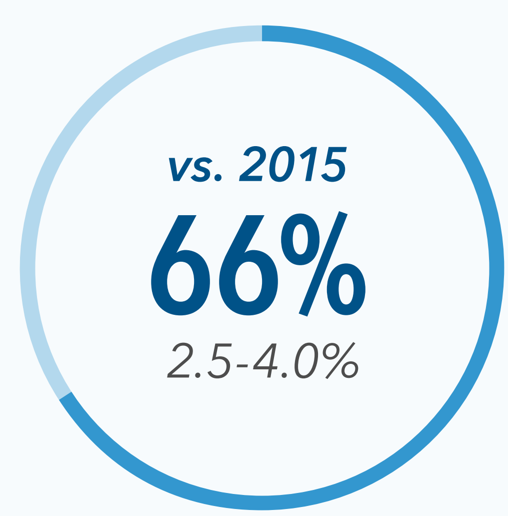




As of yet, we have not seen a material decrease in fees with the one exception of the private credit space, where managers have begun to shift fee structures to account for the different return profile that credit offers.

In three years, the 10-year U.S. Treasury rate, currently around 2.3%, will be:





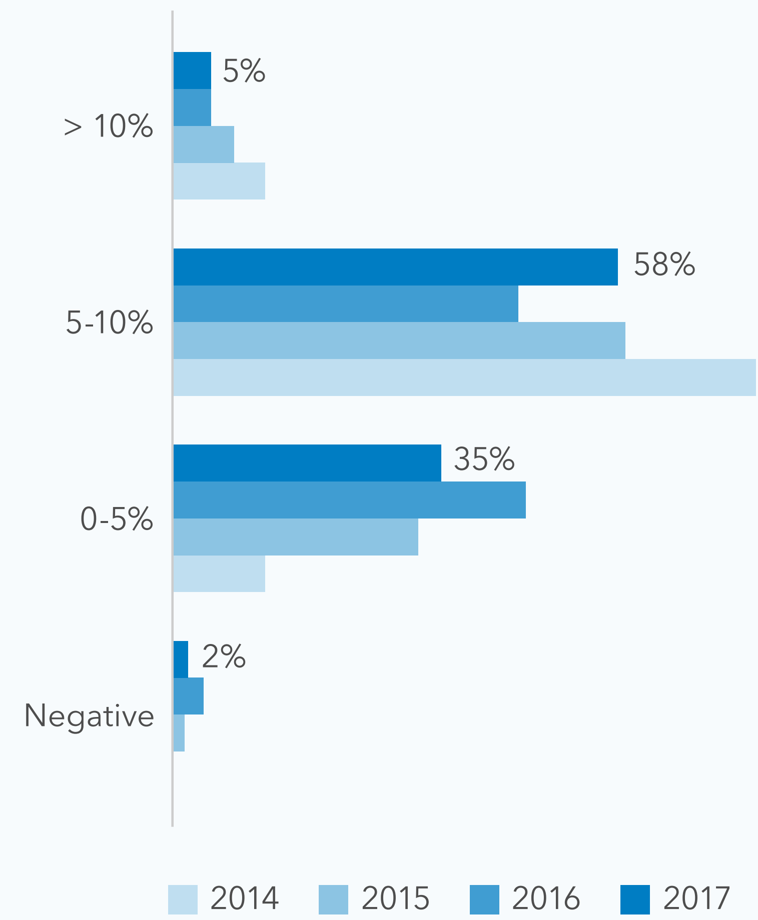
- Fewer respondents expecting the U.S. Treasury rate to fall beneath 2% in three years' time.
- The vast majority expect rates to land somewhere in 2-3.5% range.

The Champs and the Underdogs

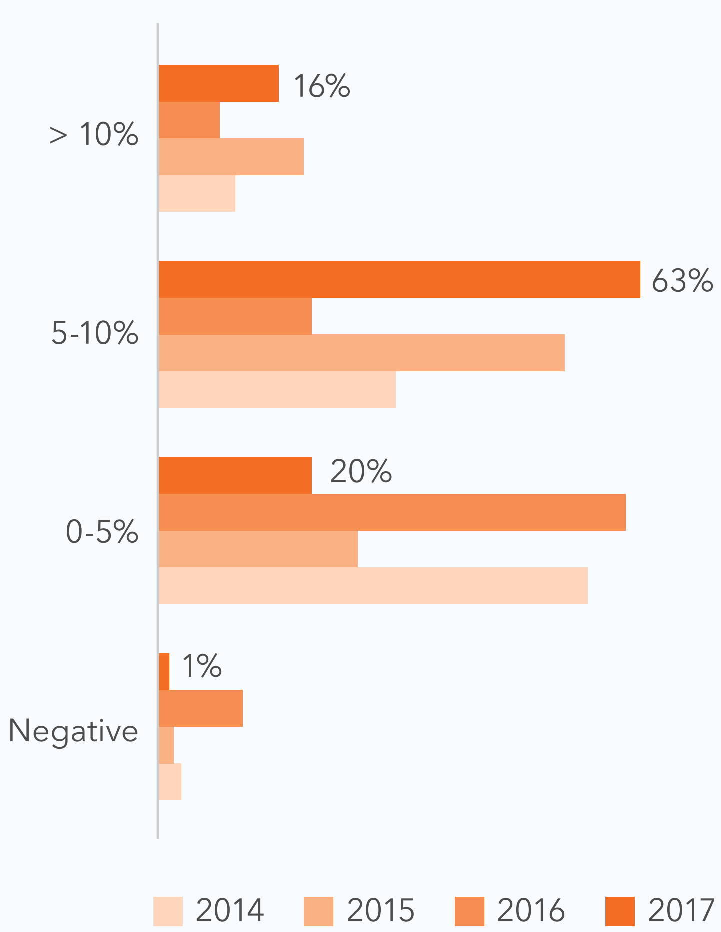
- This year shows a shift toward higher return expectations in the U.S. over the next 3-5 years, with a decrease year-over-year in the 0-5% range in favor of an increase in the 5-10% return range.

When broken out, we see that LPs and GPs are largely in agreement here.

I expect public equity returns in the U.S. over the next three to five years to be:



I expect public equity returns in Europe over the next three to five years to be:

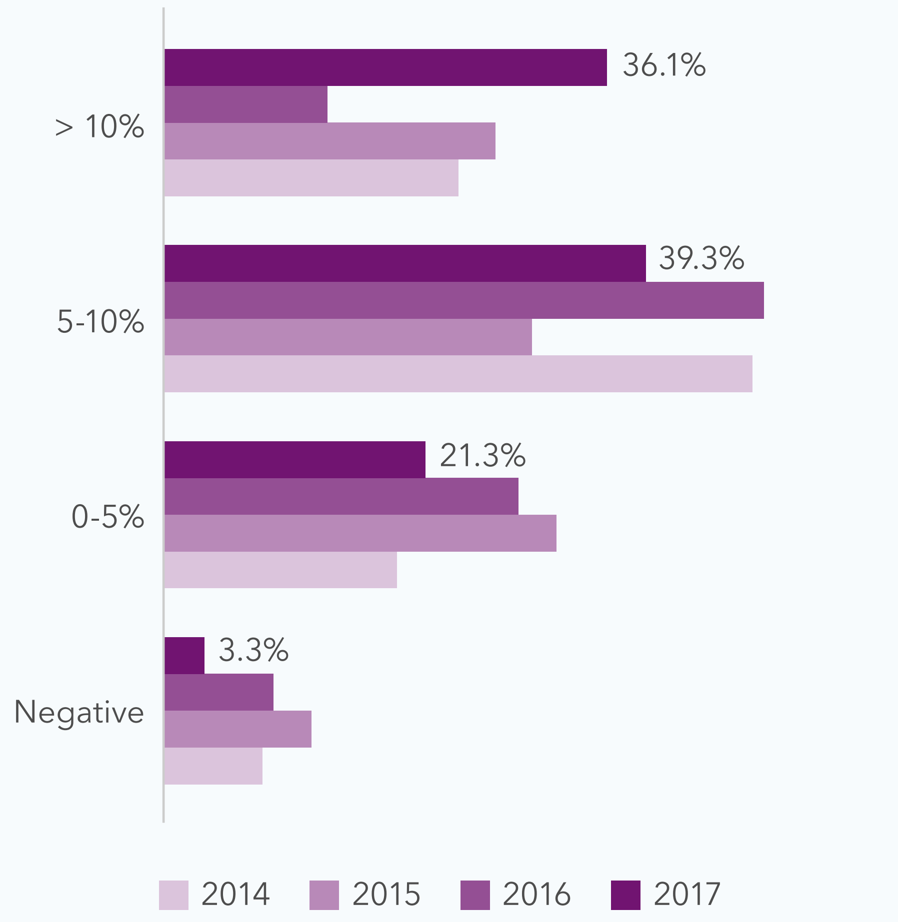


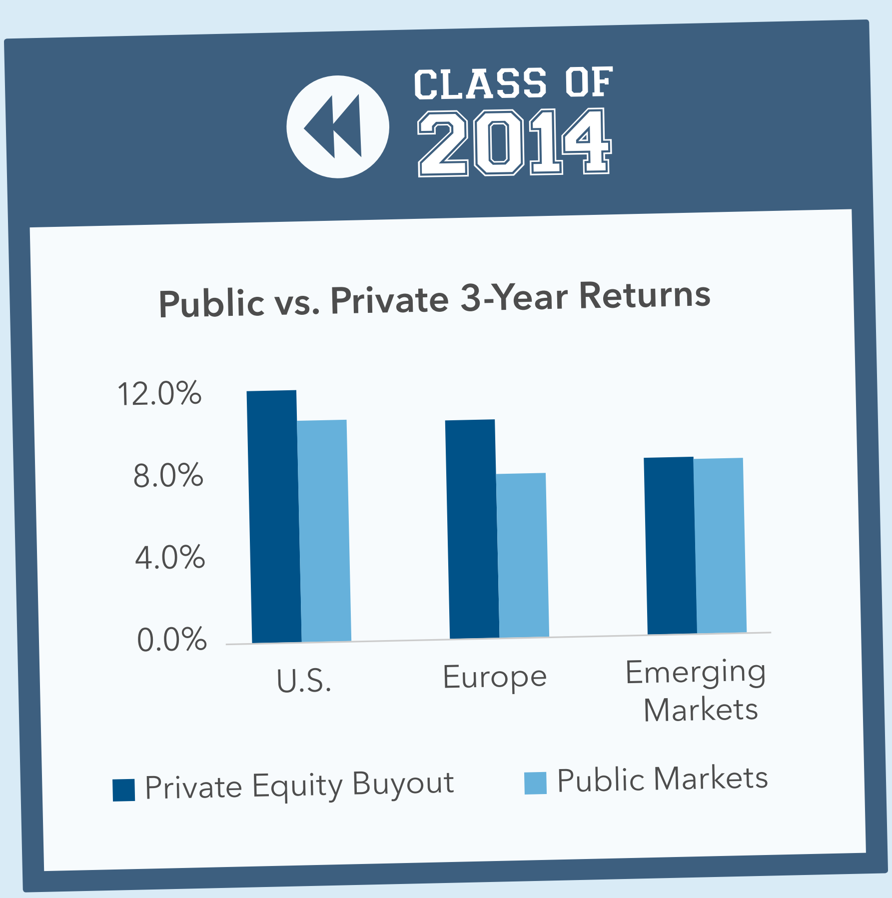
- Expectations for European public equity returns show a dramatically more positive shift, representing an almost total reversal from last year's expectations.
- Expectations in the 10%+ return range almost doubled from 8% to nearly 16%.

Emerging Markets

- Expectations around emerging markets returns saw a fairly dramatic shift in the over 10% category since last year.
- Respondents are significantly more bullish on emerging markets now than they've been the last several years.

I expect public equity returns in emerging markets over the next three to five years to be:

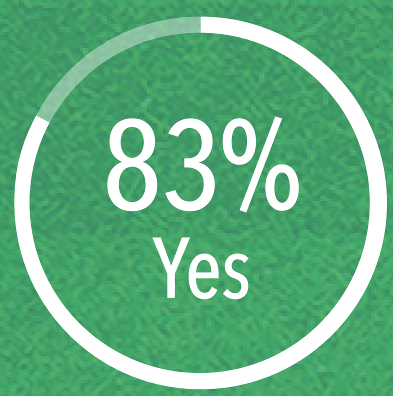




- Emerging market 3-year returns were largely in line with respondents' expectations, especially looking back at 2014 when 48% predicted returns would range from 5-10%.
- Returns in Europe would surprise the nearly 60% of participants in 2014 who predicted returns would be in the 0-5% range.
- Similarly in the U.S., returns outpaced respondent expectations, coming in over 10% on average.

HOME FIELD IMPROVEMENTS

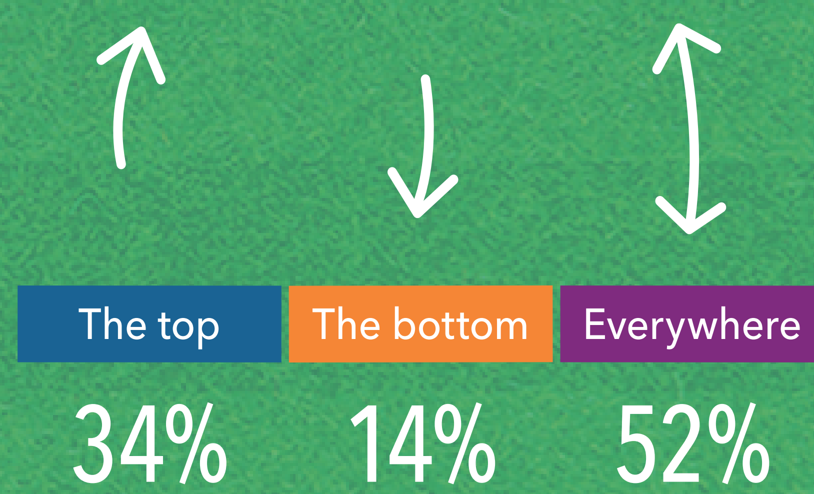
As an organization, we are spending real time and effort on better management/improved execution



- Over the last several years, we've observed a growing emphasis amongst industry participants on improving operational practices and efficiency.
- 53% of GPs reported that they are proactively examining operating practices and system purchases of competitors, but for the most part, don't look to one firm in particular to emulate.

- We find it encouraging to see that, when it comes to ideas for influencing change at organizations, the sources of those ideas, largely, are found everywhere within the organization.

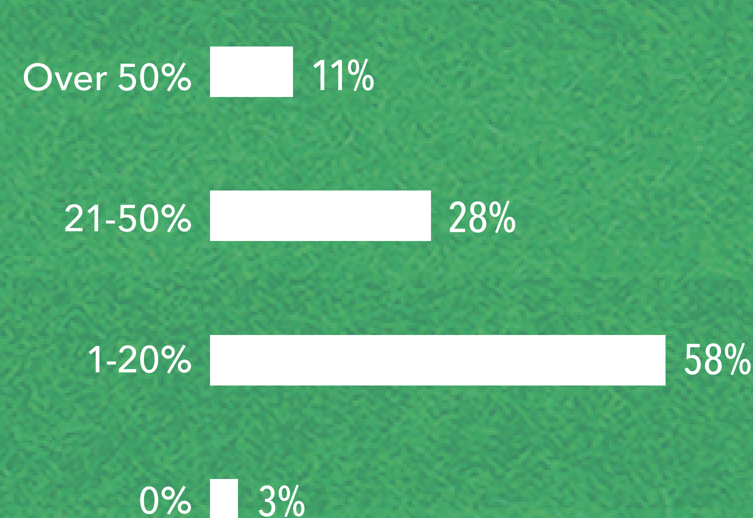
Suggestions for real change in our organization come from



- Last year, 94% of GPs told us that they intend to grow their team over the next 3 years.

Anecdotally, we're hearing more about recruitment efforts geared toward younger generations like Millennials. Perhaps organizational growth taking place more in the lower and mid-levels has increased openness to new ideas from those areas.

My infrastructure/technology budget has increased ___ over the past 3 years



- While nearly 60% report relatively modest increases (1-20%) in their infrastructure/technology budgets, nearly 40% of respondents report they are making meaningful investments (21%+) in these areas.

When analyzing the breakdown, capital spend here is happening much more on the GP side than the LP side. We've explored and weighed in on this phenomenon in recent articles, including this one, where CEO Mario Giannini makes the argument for LPs to invest more in their own infrastructure.

Hamilton Lane

Thank you for reading the 2017/2018 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 26 years and currently has more than 330 employees operating in offices around the world. We're proud to have been named a Best Place to Work by Pensions & Investments for six 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

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*As of September 30, 2017

Disclosures

As of January 29, 2018