Smart Capital, Strategic Returns: The Case for Middle Market Private Equity

Key Points

Private equity middle market deals offer distinct advantages:

- **Compelling risk/return profile:** Companies with a total enterprise value (TEV) of $1–3 billion USD often maintain low leverage and offer multiple avenues for value creation, contributing to consistent performance across market cycles[1].
- **Flexible liquidity options:** Middle market investments provide fund managers with a broad range of exit strategies, enhancing overall fund flexibility.
- **Robust, diversified deal flow:** A high-volume middle market strategy reduces concentration risk and enables agile, opportunistic investing.

Unlike public markets dominated by a few headline-grabbing tech giants, private equity is not shaped by a handful of outsized players. Private equity deals tend to be smaller than large-cap public stocks, but they span a broad spectrum of sizes. These deals are typically classified as small, middle, large, or mega, with each category offering its own unique opportunities, risks, and return profiles.

At Hamilton Lane, we believe deal size is a critical factor in shaping a fund's risk, performance, and liquidity. While our fund portfolios span all market sizes, our primary focus is on the middle market: deals with TEV of $1–3 billion USD. We view this smaller middle market range as the "sweet spot" for balancing growth potential, stability, and diverse deal flow.

Private Equity Deal Size

Size	Total Enterprise Value (TEV)	Characteristics
Mega/Large	$3-10 billion USD	Involves the largest companies and most established sponsors, often relying on strategic buyers or IPOs as exit paths.
Middle Market	$1-3 billion USD	Serves as a "sweet spot" for diversification, moderate risk, and upside potential.
Small	$1 billion USD	Associated with higher growth potential, but less scale and greater dispersion in performance.

Source: Hamilton Lane Data, January 2025. Note: Other data providers use slightly different segment bands, such as a broader "middle market" up to $5 billion EV. This is Hamilton Lane's standard.

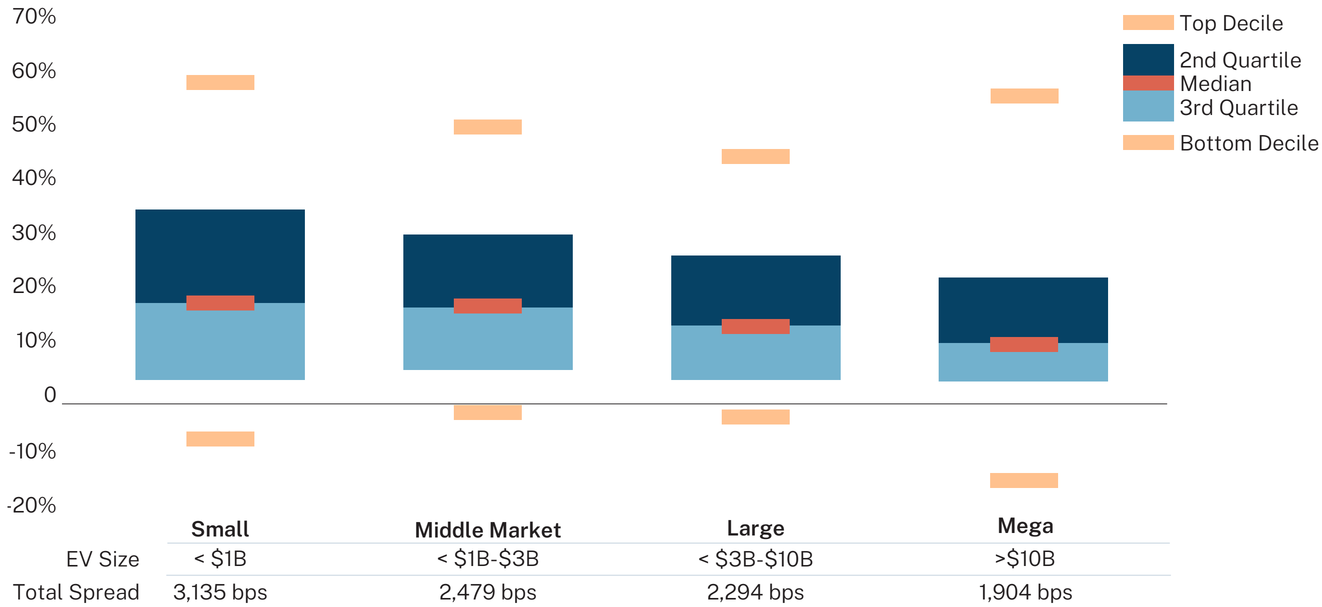
[1] Source: Hamilton Lane Data, January 2025

Here are the benefits of vetting deals with a focus on the middle market:

1. Attractive risk/return profile

Historical data suggests that middle market private equity can demonstrate attractive performance characteristics relative to large and mega deals, with some top-quartile managers achieving notable upside potential and consistent performance across varying market cycles.

Buyout Spread of Gross IRR by EV
Deal Vintages 2003-2024



Source: Hamilton Lane Data, January 2025

Here's what's behind this attractive risk/return profile:

- **Operational agility:** Middle market companies are often more nimble than mega or large companies. As a result, they're able to quickly implement strategic initiatives.
- **Lower leverage:** Middle market businesses typically favor balanced capital structures and organic growth, providing greater flexibility in uncertain markets.
- **Varied growth levers:** Middle market companies can drive expansion through product innovation, geographic reach, and operational efficiency.

2. Liquidity opportunities

"Is quarterly liquidity guaranteed?" It's a common question, especially from investors new to private markets. Semi-liquid evergreen funds are built to offer regular access to capital, but this access is generally not guaranteed. Liquidity depends on both the fund's design and the nature of its underlying assets—and middle market deals can play a key role in enhancing that liquidity[2].

That's because middle market investments give fund managers access to a wider range of exit options, not available to mega deals that often depend on IPOs and a limited number of strategic buyers. Potential exits in the middle market include a much larger set of strategic and financial buyers, including sales to larger GPs, yet these investments are still sizable enough to consider IPOs as well.

[2] JP Morgan Private Equity Insights, A big role for small and middle-market private equity investments, July 2024

3. Diverse deal flow

The middle market encompasses a significantly larger universe of companies compared to the large-cap space. This allows fund managers to be selective in choosing deals. For example, Hamilton Lane sources deals from an active universe of over 500 general partners, creating a broad and dynamic deal funnel[3]. In contrast, mega or large platforms often focus on a smaller pool of proprietary, large-cap deals, which can limit opportunities and increase concentration risk.

The benefits of this diverse deal flow include:

- **Robust portfolio diversification:** High deal volume in the middle market allows fund managers to build portfolios diversified across sectors, geographies, and investment strategies, reducing reliance on any single market or trend.
- **Reduced concentration risk:** High deal volume in the middle market allows allocators to diversify across transactions, limiting exposure to any single deal—unlike large funds with fewer, high-stakes deals.
- **Strategic and opportunistic investment approaches:** Diverse deal flow allows allocators to pivot quickly to high-potential sectors or niches, offering flexibility that a large, highly-focused strategy cannot match.

The Hamilton Lane Approach

For over 30 years, Hamilton Lane has invested in the middle market. Our expansive multi-manager platform complements this focus, providing access and visibility across a wide range of opportunities. Over time, we've built deep expertise and strong relationships, enabling informed investment decisions and access to high-potential deals spanning sectors and geographies.

While many private markets firms claim to target middle market deals, few possess the capabilities or relationships required to access this segment effectively.

Hamilton Lane leverages its unique access to construct portfolios that are well-balanced, provide liquidity, and aim to deliver compelling risk-adjusted returns.

[3] As of August 2025

DEFINITIONS

TEV (Total Enterprise Value): The total value of a company, including equity and debt, minus cash. It offers a complete measure for evaluating and comparing deal sizes in private equity.

IMPORTANT RISK INFORMATION

This document has been prepared solely for informational purposes and contains confidential and proprietary information, the disclosure of which could be harmful to Hamilton Lane. Accordingly, the recipients of this document are requested to maintain the confidentiality of the information contained herein. This document may not be copied or distributed, in whole or in part, without the prior written consent of Hamilton Lane.

There are a number of factors that can affect the private markets which can have a substantial impact on the results included in this analysis. There is no guarantee that this analysis will accurately reflect actual results which may differ materially. These valuations do not necessarily reflect current values in light of market disruptions and volatility experienced in the fourth quarter of 2020, particularly in relation to the evolving impact of COVID-19, which is affecting markets globally.

The information contained in this presentation may include forward-looking statements. Forward-looking statements include a number of risks, uncertainties and other factors beyond our control which may result in material differences in actual results, performance or other expectations.

The opinions, estimates and analyses reflect our current judgment, which may change in the future.

All opinions, estimates and forecasts contained herein are based on information available to Hamilton Lane as of the date of this presentation and are subject to change. The information included in this presentation has not been reviewed or audited by independent public accountants. Certain information included herein has been obtained from sources that Hamilton Lane believes to be reliable but the accuracy of such information cannot be guaranteed.

This presentation is not an offer to sell, or a solicitation of any offer to buy, any security or to enter into any agreement with Hamilton Lane or any of its affiliates. Any such offering will be made only at your request. We do not intend that any public offering will be made by us at any time with respect to any potential transaction discussed in this presentation. Any offering or potential transaction will be made pursuant to separate documentation negotiated between us, which will supersede entirely the information contained herein.

The information herein is not intended to provide, and should not be relied upon for, accounting, legal or tax advice, or investment recommendations. You should consult your accounting, legal, tax or other advisors about the matters discussed herein.

Hamilton Lane (UK) Limited is a wholly-owned subsidiary of Hamilton Lane Advisors, L.L.C. Hamilton Lane (UK) Limited is authorized and regulated by the Financial Conducts Authority. In the UK this communication is directed solely at persons who would be classified as a professional client or eligible counterparty under the FCA Handbook of Rules and Guidance. Its contents are not directed at, may not be suitable for and should not be relied upon by retail clients.

Hamilton Lane Advisors, L.L.C. is exempt from the requirement to hold an Australian financial services license under the Corporations Act 2001 in respect of the financial services by operation of ASIC Class Order 03/1100: U.S. SEC regulated financial service providers. Hamilton Lane Advisors, L.L.C. is regulated by the SEC under U.S. laws, which differ from Australian laws. The PDS and target market determination for the Hamilton Lane Global Private assets Fund (AUD) can be obtained by calling 02 9293 7950 or visiting our website www.hamiltonlane.com.au.

Hamilton Lane (Germany) GmbH is a wholly-owned subsidiary of Hamilton Lane Advisors, L.L.C. Hamilton Lane (Germany) GmbH is authorised and regulated by the Federal Financial Supervisory Authority (BaFin). In the European Economic Area this communication is directed solely at persons who would be classified as professional investors within the meaning of Directive 2011/61/EU (AIFMD). Its contents are not directed at, may not be suitable for and should not be relied upon by retail clients.

 HAMILTONLANE.COM