Hamilton Lane 2017

GP Dashboard

We are pleased to present Hamilton Lane's 2017 GP Dashboard,

which captures the opinions and expectations of general partners from around the world and offers insight into where the GP community believes the markets are headed. This year's survey features responses from more than 90 of the best-known and top-performing general partners in the private markets, providing their views on the broader global markets as well as their specific portfolios.

Highlights from the 2017 GP Dashboard include:

- Revenue growth at portfolio companies exceeded expectations last year; however, portfolio company CEOs continue to worry about growth and **geopolitical uncertainties**
- **More GPs will seek exits** in the coming year in the longest-lasting exit environment in the history of the private markets
- GPs maintain discipline in their own **underwriting standards** while continuing to demonstrate cynicism around competitors' underwriting practices
- Multiple factors are driving the increased use of **credit lines** by general partners
- Despite legitimate geopolitical concerns, **Europe is back in favor** since GPs view it as the market with the most improved risk/reward tradeoff for the coming year
- The **outlook for private markets** returns in the coming year is largely at or below average

93 GPs

22 Average Years in Business

800+ Funds Managed *by GPs in the Survey*

$1.8T Reported AUM *by GPs in the Survey*

Strategy

36% SMID Buyout	25% Mega/Large Buyout	22% Growth Equity
8% Credit	7% Venture Capital	2% Real Assets

Geography

72% North America	24% Europe	4% ROW

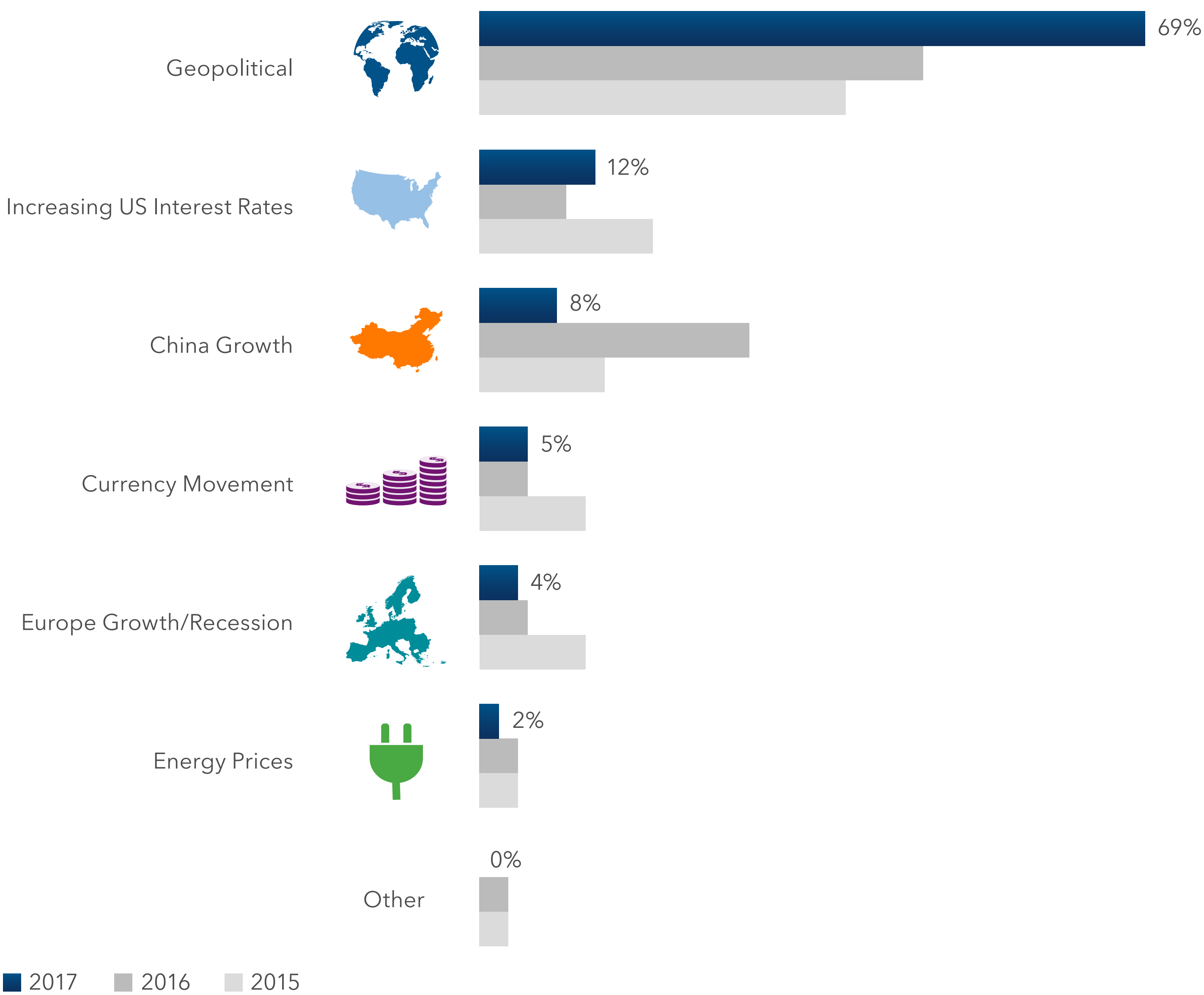
Geopolitical Concerns Top of Mind Again this Year

In this year's Market Overview, we make the argument that private markets investors and general partners all seem to be waiting for something – waiting for markets to collapse, for interest rates to rise, for something to happen that will dramatically alter the geopolitical or economic landscape. And the thing about waiting, is that it can lead to inaction or to people focusing on what *could* happen.

So, in the spirit of exploring this theme further, we begin this year's GP Dashboard by looking at what our general partners are viewing as the most significant risks or concerns for the world macro economy next year. What we find is that, for the third year in a row, geopolitical instability clearly tops the list, increasing this year to the main concern of 69% of respondents. Rising U.S. interest rates has stayed close to the top of concerns year-over-year, while worries over China's growth have abated.

Over the next 12 months

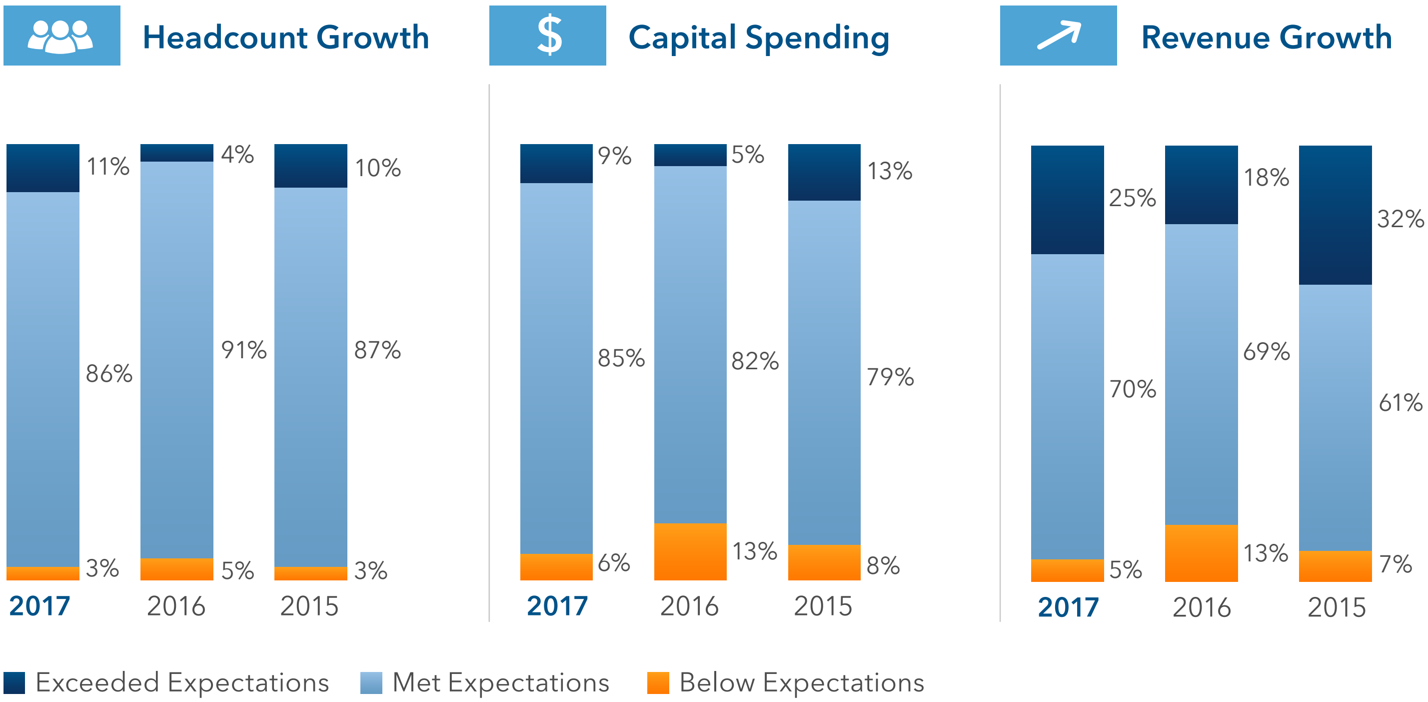
Biggest Risk/Concern for World Macro Economy Will Be:



Portfolio Companies Continue to Meet High Expectations

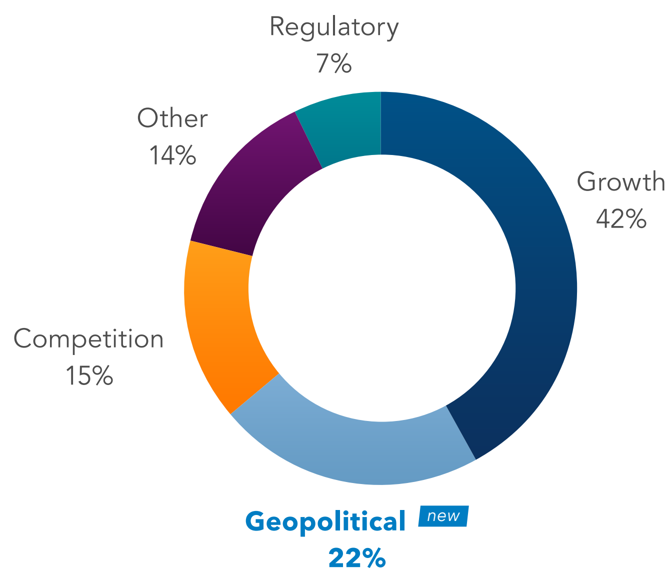
Over the past several years, we have seen private markets fund managers place an increased focus on adding operational skills to drive value creation through their investments in portfolio companies. One noteworthy trend in this year's survey is the growing percentage of respondents reporting that headcount, capital spending and revenue growth actually *exceeded* expectations. With the additional focus on top-line growth, it makes sense to see an increase in this type of expenditure.

Over the Past Year



Similarly, and consistent with the past two years, growth remains the top concern of portfolio company CEOs. Competition worries ticked up to 15% from 9% last year, while regulatory concerns occupied a similar, albeit relatively minor, spot on the list of CEO concerns. We introduced geopolitical concerns as a choice for the first time in this year's survey and, given the current and shifting political landscape, it's not terribly surprising to see that take second place for biggest CEO worry.

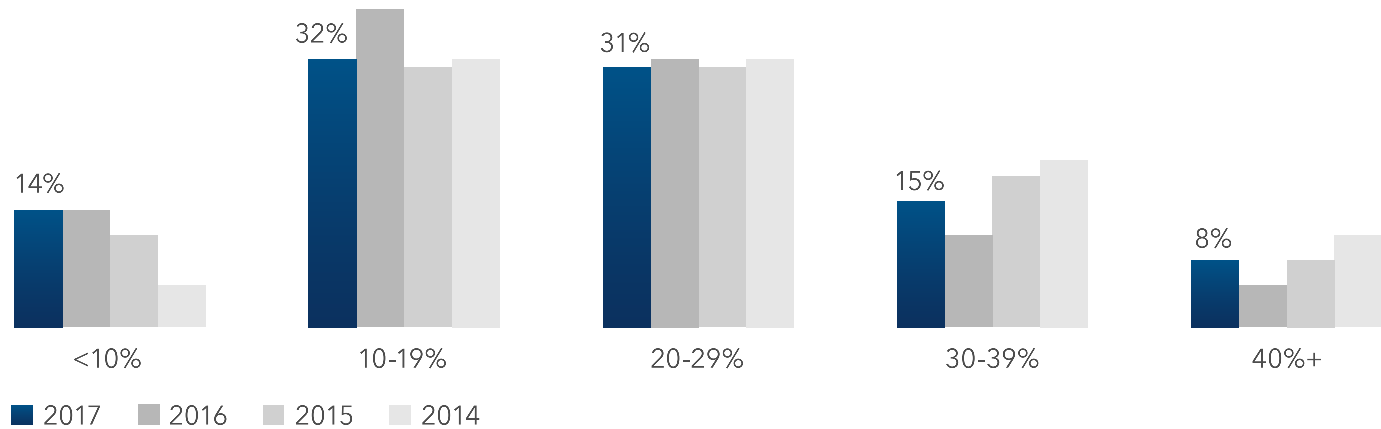
CEO Worries



Meaningful Exit Activity Expected to Continue

From 2014 to 2016, we saw a steady year-over-year decline in GPs pursuing an exit of 30% or more of their portfolios. This year, GPs seem to have shifted expectations, with nearly one-quarter (23%) planning to pursue an exit of anywhere from 30-40%+ of their portfolio over the next 12 months. This is a meaningful increase over last year and, at least in part, reflects a backdrop of the most favorable and longest-lasting exit environment in private markets history. Additionally, we believe the increase in exit activity also is reflective of the continued GP sentiment that this market recovery will not last forever and, as such, GPs are looking to offload companies while the exit environment is still favorable.

% of Portfolio Actively Pursuing Exit Within the Next 12 Months



Underwriting Standards Remain Largely Unchanged

GPs have claimed little change in underwriting standards over the last year – with 86% maintaining the same standards this year as they did in 2016. We also have seen little change in GPs' view that their competitors are underwriting to lower returns, which is most likely a further reflection of what is today's high purchase price environment.

Changes in Underwriting of New Deals in Past Year

	2017	*2016*
Higher	5%	5%
Stayed the same	86%	79%
Lower	9%	16%

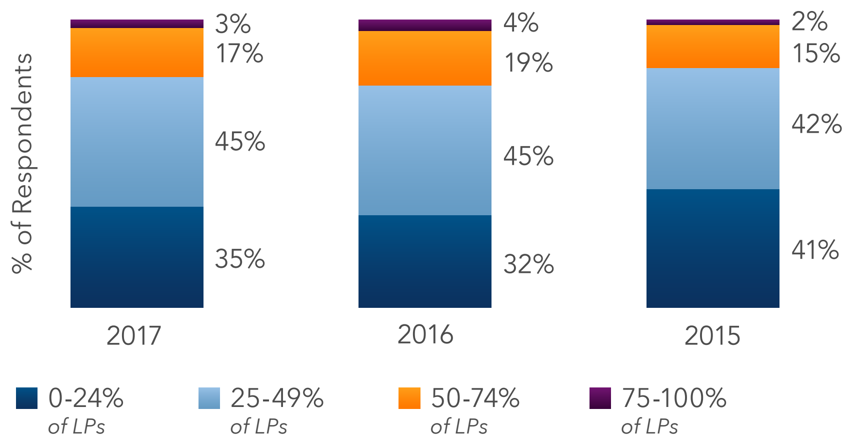
My Competition Underwrites to Lower Returns Than I Do

	2017	*2016*
Yes	48%	43%
Sometimes	45%	46%
No	7%	11%

LPs Remain Interested, Yet Gun Shy on Co-Investments

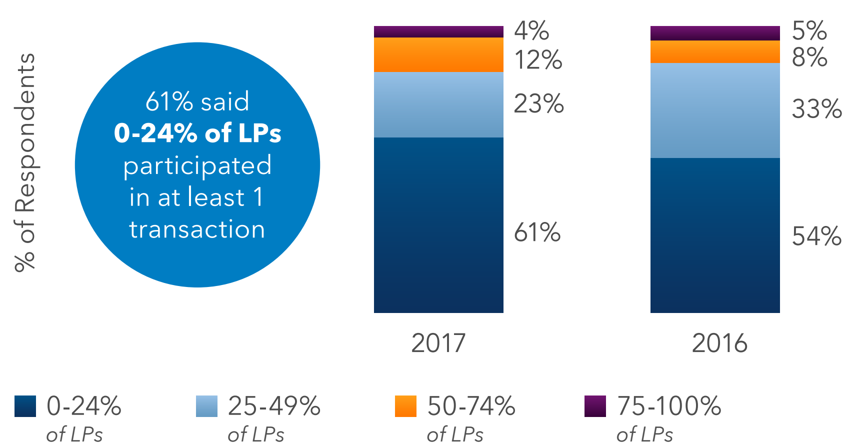
Similar to previous years, a meaningful amount of GPs reported that their LPs continue to seek co-investing opportunities. Given the ostensible benefits that co-investing offers, including lower fees and higher potential returns, this isn't terribly surprising.

% of LPs Asking To See Co-Invest Opportunities



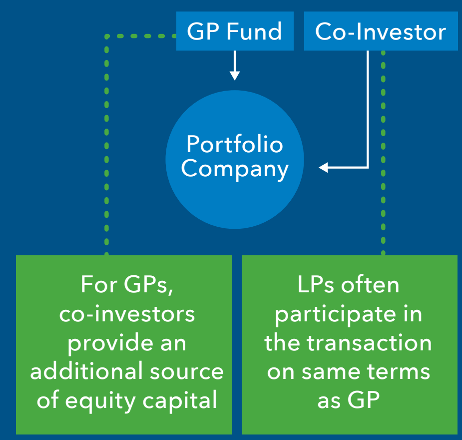
On the flip side, however, the lack of LP participation is glaring; the majority of GPs maintain that, despite conveying interest in seeking CI opportunities, only 0-24% of interested LPs actually participated in a transaction. Even with the meaningful amount of CI capital being deployed – our estimates put that figure somewhere in the range of $350-450B since 2007 – we think it still proves to be a difficult strategy for LPs to execute well without the proper resources.

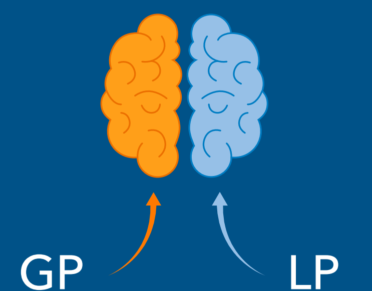
% of LPs Who Participated in at Least 1 Transaction



Why Co-Invest?

LPs invest alongside GPs in individual private equity transactions





GP Perspective	LP Perspective
Manage portfolio exposure	Increase potential for higher returns
Increase size of target universe	Benefit from more cost effective fee structure vs. fund investment
Avoid partnering with other GPs/competitors	Help to diversify private markets portfolio
Help in fundraising process	

Succession Planning

We posed a new question to GPs this year related to succession planning, and you may be surprised by the response. More than half (60%) of GPs polled said they have a formal succession plan in place. We've often said that the private markets as an asset class is still relatively young, thus many pioneer firms are still being run by their founders.

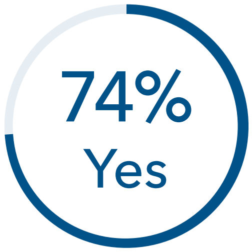
Fund managers are planning ahead to ensure the continued success of their investments and, ultimately, their organizations. We perceive this as a positive development and reflective of the long-term nature of this asset class. Recently, in fact, three leaders in our industry – KKR, Carlyle and Apollo – announced formal succession plans, and we anticipate we'll continue to see other firms rolling out similar plans.

new Do you have a formal succession plan in place?

Administrative Flexibility and Performance Benefits Drive Increased Use of Credit Lines

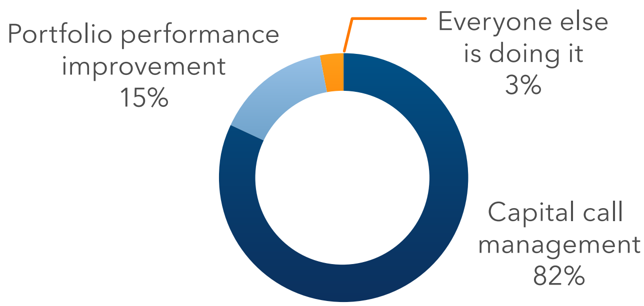
Given the high-profile debate around the use of credit lines by private markets fund managers, we decided to poll our GPs to get a sense of how widely and in what ways they are using lines of credit as a strategy. Anecdotally, we've been hearing from our broad base of general partner relationships that credit line usage has been on the rise since 2009.

Does your firm use lines of credit?

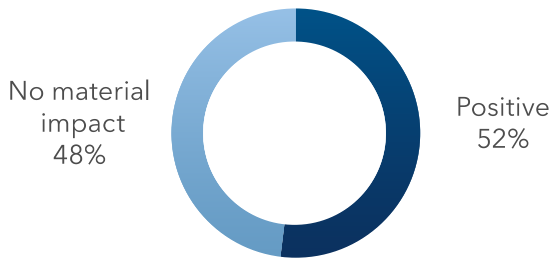


Of the 74% of GPs who confirmed that they do use credit lines, the vast majority (82%) contend that they use them to manage capital calls. Further, 52% of these GPs reported that utilizing lines of credit had a positive impact on overall performance. The desire to manage the administrative challenges of frequent capital calls has led to much higher usage of these lines, not to mention cheap capital given current interest rates. The added bonus is that these lines also help with LP cash flow management, which nicely translates into better IRR management. In the end, this strategy seems to be more about giving LPs what they're looking for: enhanced IRRs.

My Firm Uses Lines of Credit for:



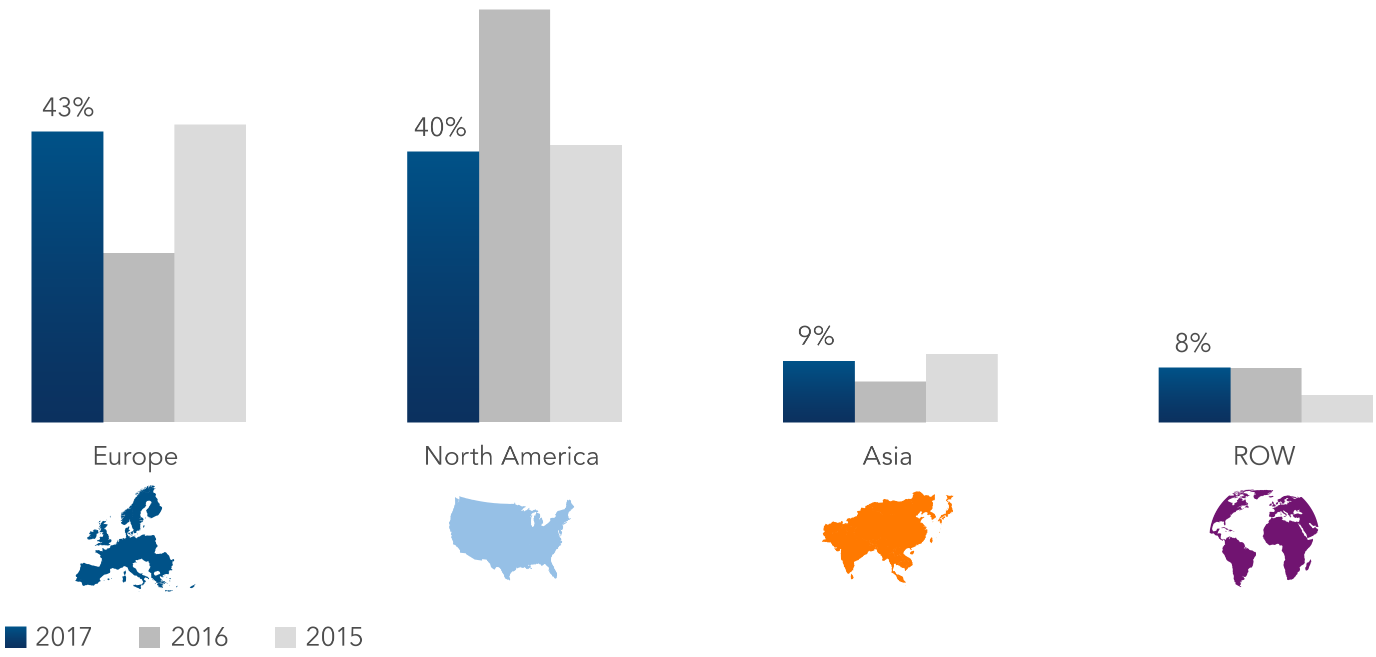
Impact to Overall Performance



What to Expect in 2018

North America has been the darling of private markets investing for the last several years, but this year, there was a clear shift in that sentiment toward Europe. While public markets have been less worried about Europe for a while, the private markets waited to see if there would be significant ramifications from Brexit and other geopolitical changes. Over the last year, however, we've seen interesting opportunities becoming available in Europe, and have observed a growing interest among investors and fund managers in the region. The general sentiment is that the effects of Brexit, while still not fully known, are unlikely to have a major impact on the continuation of business operations.

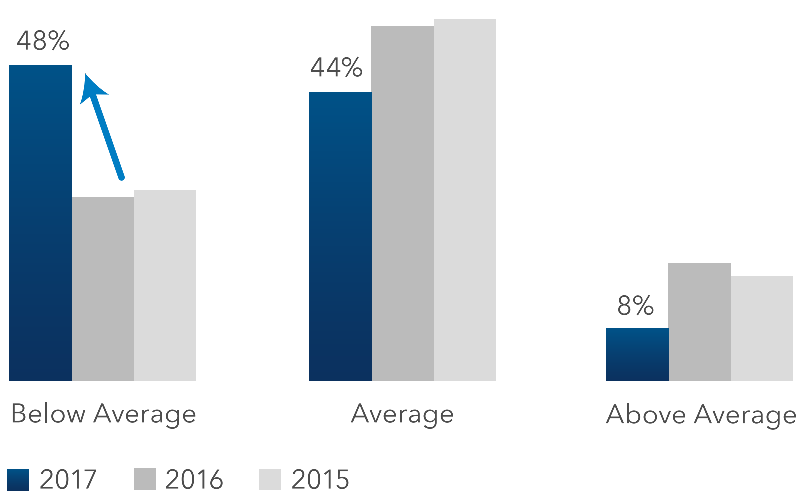
Markets with Most Improved Risk/Reward Trade Off in Next 12 Months vs. Last 12 Months



GPs are more wary when it comes to private markets returns, with nearly half anticipating 2017 vintage year returns will be below expectations. This is essentially in line with our own thinking: that is, while we believe that the asset class will continue to have longer hold periods than historical averages (which is likely to negatively impact IRRs), we believe that longer-term returns will outperform the public markets handily.

Over the next 12 months

PE Returns Will Be:



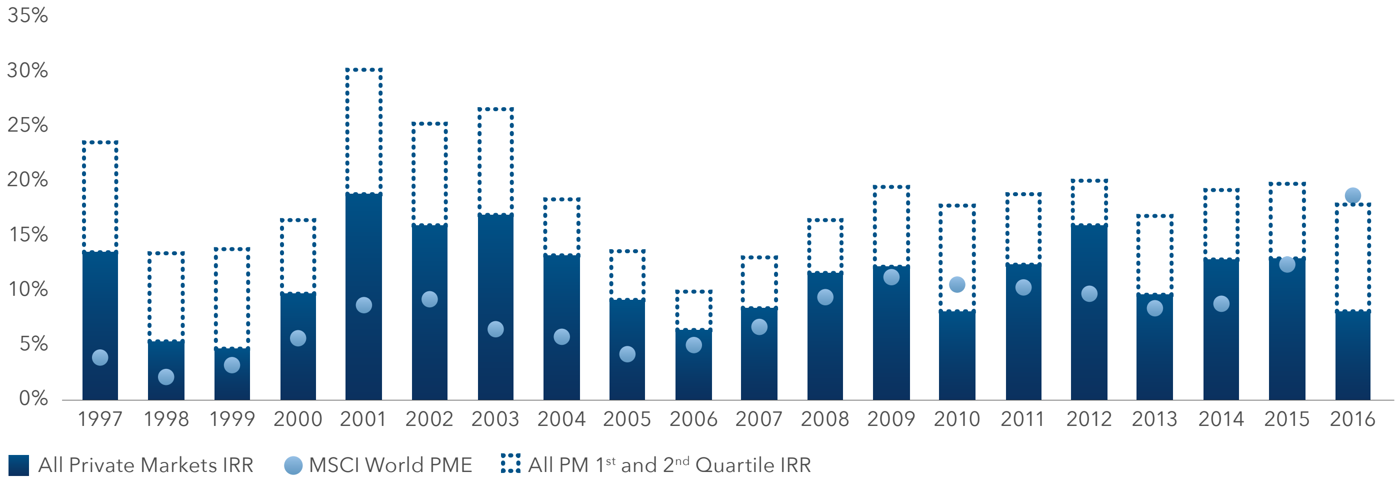
Conclusion

We entered 2017 with a generally unexciting, middle-of-the-road outlook for the private markets, and we're actually happy to say that largely proved to be true. Nevertheless, and as we explore in greater detail in our annual Market Overview, rarely has the macro outlook been so uncertain for the coming year, largely due to world politics and the risk of disruption due to political influence. With the macro so uncertain, the micro stands to be quite interesting across many parts of the private markets. That puts more importance on considering the disruptive possibilities of every micro decision. Still, as far as 2018 is concerned, we're sticking to our guns, and we don't anticipate a recession occurring in the next year.

Not surprisingly perhaps, considering the source, we are advising investors to maintain their commitment pacing in the private markets. It may seem like bland advice, but we don't believe now is the time to stretch to hit allocation levels. We do believe, however, that we will continue to see the private markets outperform its public market counterparts over long-term time horizons.

Private Markets IRR vs. PME

By Vintage Year



Source: Hamilton Lane Data via Cobalt, Bloomberg (October 2017)

Thank you for reading this fourth edition of the Hamilton Lane GP Dashboard. We will continue to conduct this survey and analysis annually, and hope this year's findings were of interest. As always, we welcome the opportunity to discuss any reactions or questions you may have about the GP Dashboard or about the private markets more broadly.

Disclosures

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As of November 17, 2017