Hamilton Lane

Hamilton Lane Private Assets Fund Q2 2021 Update

With Mike Ryan, Head of Product Development & Evergreen Portfolios

Private Assets Fund Today

Hello, and welcome to the quarterly update on the Hamilton Lane Private Assets Fund. This multi-strategy structure for U.S. investors was launched in September 2020 with commitments from Hamilton Lane and a cornerstone institution, and has since grown in net asset value to $197 million.

While the fund has only been investing for 10 months, the portfolio is already diversified across managers, geographies, and sectors. In fact, we closed 10 more private transactions just in the second quarter. Looking at the overall makeup of the portfolio, we are currently overweight our long term target allocation to secondaries, to North American investments, and to growth companies. These reflect some of the areas where we've seen the most attractive opportunities as well as where we have seen appreciation since our entry point. Investors subscribing into the fund today buy into this portfolio at its current fair market value.

Performance Drivers

So far, we've been pleased with the early performance. The fund sits at a cumulative net return of 19.4% for the first ten months through June 30. The second quarter had particularly strong performance, with the fund up 8.1%. While all investments are healthy and held at or above cost as of June 30, four in particular drove 65% of the gains for the quarter.

L Catterton Growth IV was a secondary investment we made early in the quarter with a clear valuation arbitrage advantage. This was a portfolio of growth assets primarily in the consumer technology space, with several high profile companies like Better Mortgage, Tonal, and Savage that had generally benefitted from remote-life COVID tailwinds.

Due to our familiarity with the assets across the broader Hamilton Lane platform, we were able to invest at a substantial discount to fair market value, and that discount was reflected in the Q2 performance.

PharmaZell and **Groupe CEP** are two direct equity investments. We've had a longstanding relationship with the sponsor here, Bridgepoint, as a leading middle market investor in Western Europe. These businesses each focus on a specialty market. PhamaZell manufactures ingredients for phamaceuticals and is based in Germany. Group CEP is a French broker of specialty insurance products. We like the GP's experience in these sectors and geographies. Since our investment six months ago, the two companies have been marked up by an average of 14% due to a combination of higher cash flow and higher comparable company values.

And finally, **Bright Health** is a direct equity investment we made as the first position in the portfolio last year, and was the largest performance driver for the quarter, so let's take a deeper dive into that one.

All other investments are held at or above cost, gross of transaction fees and expenses.

Case Study: Bright Health

Bright Health has two core components. It is a managed care organization — which basically means they sell health insurance directly to U.S. families and medicare participants — and a care delivery model. In other words they partner with or even buy physician practices and other healthcare providers, and they can drive patient volumes from their insured base into their captive provider network. And this hybrid model can lead to efficiencies and better patient care.

Bright Health was formed in 2016, and one of its earliest and largest investors is NEA, a venture and growth GP and a close relationship of Hamilton Lane for over a decade. At first the company took this strategy — sell insurance policies; partner with a provider network; and drive patient volumes to their network — and then raised enough capital to execute it in a few select metro areas around the U.S. In doing so they proved the thesis and iterated to make ongoing improvements. They then raised subsequent rounds of equity to expand to other regions of the country.

We were introduced to the company last year by NEA. At the time the company had about $1 billion in revenue, but was only active in 13 states, and they were raising a round of growth capital to expand in other markets across the U.S.

We underwrote a four-year hold period for this investment, but the business growth ran ahead of plan, and the listed equity markets have been particularly receptive to high growth companies like Bright Health. In June, the company successfully completed an IPO on the NYSE. Now as is typical, we and the other private investors didn't sell in the IPO, and we expect to hold the position at least through the six-month lockup period. The stock price will move around on a month-to-month basis, but at the end of Q2, the public stock is valued at 2.5x the fund's cost 9 months into our investment.

All in all, in Bright Health we have a high growth company, we got access through our GP relationship with NEA, the company has run ahead of plan and listed ahead of schedule. It's a good complement to the diversified portfolio we have built in the Private Assets Fund.

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