

Acceleration of Trends: Part 2

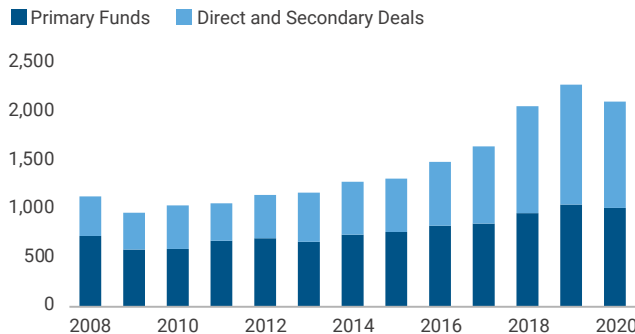
Sector Preference Shifts

June 1, 2021 | Brian Gildea, Head of Investments

One of the key features of the private markets evolution since the early 2000s has been the increasing diversity and optionality available to investors.

In 2020 alone, Hamilton Lane reviewed more than 1,000 new fund investment opportunities. There aren't many areas in our everyday lives where we are faced with so many distinct options – even Baskin-Robbins' 31 flavors doesn't come close. In addition to traditional fund structures, LPs increasingly are investing in the asset class through transactions that aren't captured in the fundraising statistics, including direct/co-investments and secondaries. The investment opportunity set has effectively doubled over the past decade, as illustrated in the chart below.

Opportunities by Hamilton Lane



Source: Hamilton Lane Diligence (January 2021)

This broader opportunity set is evident not only in the number of available investment types, but also in

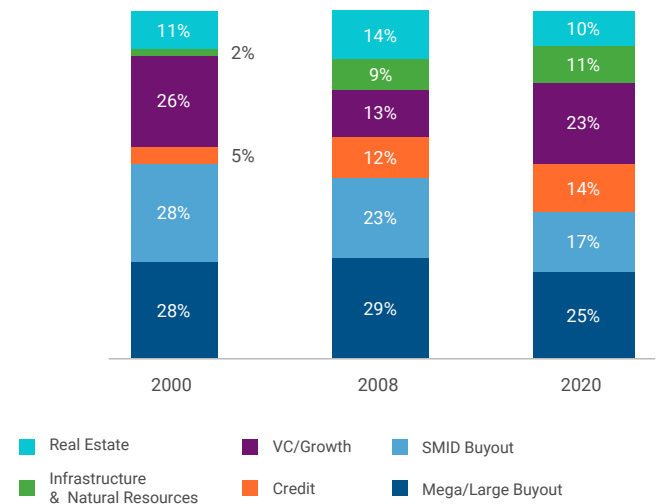
the breadth of strategies. Don't worry, I'll spare you another ice cream analogy here – but you get the picture.

Total Exposure by Strategy

% of NAV + Unfunded

Private Markets Total Exposure: \$0.6T (+248%) → \$2.0T (+194%) → \$6.0T

MSCI World Market Cap: \$19.0T (+4%) → \$19.7T (+140%) → \$47.2T



Note: Total exposure and market cap as of year end for 2000, 2008, and ending Q2 2020

Source: Hamilton Lane Data via Cobalt, Bloomberg (October 2020)

The plethora of opportunities increasingly allows investors to shape their portfolios in line with their own investment views or objectives. (Did the word “plethora” get anyone else thinking about [Three Amigos?](#)) Interestingly, market data and investor sentiment together point to some emerging trends in the ways that investors are shaping their portfolios.

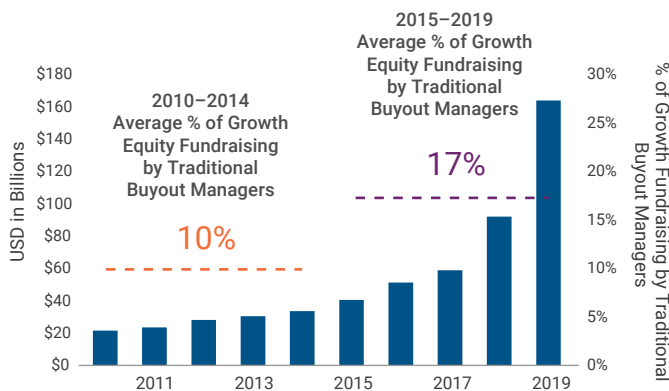
As we noted in our [Market Overview](#), “Certain sectors are proving particularly interesting to investors, and portfolios will increasingly tilt to more direct deals with more of a growth orientation and with increased real asset exposure.”

There is a lot to unpack there, so it’s instructive to examine the various pieces. Direct deals, or co-investments, continue to be broadly of interest to LPs. Co-investments offer LPs a way to work more closely with select managers, average down overall costs (co-investments are often done on a reduced or no-fee basis) and gain more targeted exposure into sectors or assets of their choosing. Single-asset secondary direct investments have similar characteristics, and are appealing for the same reasons.

Two other strategies that were gaining investor attention in recent years saw accelerated mindshare in 2020: Growth equity and infrastructure. Growth equity has emerged as a rising star in the private markets in recent years; just look at the dramatic rise in growth equity fundraising in the chart below.

Growth Equity Global Fundraising

Source: Cobalt (January 2020)

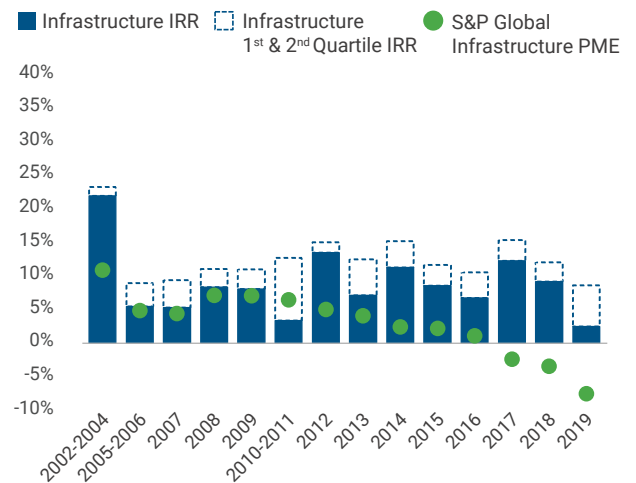


Source: Cobalt (January 2021)

For fear of including too many charts in this piece, I am not including one on growth equity performance, so you will have to take my word for it (or read about it in our 2021 Market Overview). In my opinion, it’s *really, really good*.

Likewise, infrastructure has been a growing part of the private markets in recent years. Investors like the stability, yield and potential inflation hedge offered by real assets. Significant outperformance compared to the public benchmarks for the better part of the past decade doesn’t hurt, either. I recognize that readers might be willing to trust one reference to performance without needing to see it with their own eyes, but two is probably a bridge too far.

Infrastructure IRR vs. PME



Source: Hamilton Lane Data, Bloomberg (January 2021)

While new deal activity paused in the first half of 2020, it rebounded strongly in the back half of the year, with new transactions focused almost exclusively on companies that had performed well through the pandemic. Growth-oriented assets and infrastructure (data centers, broadband and electrification) fared particularly well, reinforcing investor conviction in these areas. Co-investing allowed LPs to add targeted exposure into sectors that were performing well, and to do so with conviction that the investments were well-suited for the current environment, at a time when evaluating sectors that have been impacted was

much more difficult. In 2020, Hamilton Lane received over 700 direct investment opportunities – our highest number on record. The high-volume direct investment activity, focused on strong performing sectors and companies, is enabling LPs to increase exposure to growth and infrastructure.

I'm personally a mint chocolate chip fan, but there's a lot to like about a scoop or two of ice cream, no matter the flavor. Opportunities are out there to be had for those who know where to look – and while we're talking about direct deals, growth equity and infrastructure today, it's anyone's guess as to what will be served up next.

STRATEGY DEFINITIONS

All Private Markets: Hamilton Lane's definition of "All Private Markets" includes all private commingled funds excluding fund-of-funds, and secondary fund-of-funds.

Growth Equity: Any PM fund that focuses on providing growth capital through an equity investment.

Infrastructure: An investment strategy that invests in physical systems involved in the distribution of people, goods, and resources.

Mega/Large Buyout: Any buyout fund larger than a certain fund size that depends on the vintage year.

Natural Resources: An investment strategy that invests in companies involved in the extraction, refinement, or distribution of natural resources.

Real Assets: Real Assets includes any PM fund with a strategy of Infrastructure, Natural Resources, or Real Estate.

SMID Buyout: Any buyout fund smaller than a certain fund size, dependent on vintage year.

VC/Growth: Includes all funds with a strategy of venture capital or growth equity.

INDEX DEFINITIONS

MSCI World Index: The MSCI World Index tracks large and mid-cap equity performance in developed market countries.

S&P Global Infrastructure Index: The S&P Global Infrastructure Index tracks the performance of 75 companies from around the world that represent the infrastructure industry.

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