Broader Horizons: The Case for Private Markets Investing

> A dynamic and innovative global economy still offers investors plenty of long-term growth opportunities. The caveat: You may want to look beyond public markets to find them.

Increasingly, companies are choosing to stay private longer, or never go public at all, and this could have large implications for investors. As much of the corporate world's growth, innovation – and returns – occur outside of public markets, an allocation to private markets may prove beneficial to meeting long-term investment objectives.

The following investment brief explains the opportunity set within private markets, and why private investments may warrant inclusion – or at least consideration – in most portfolios. The rationale can be summed up in four main points:

Private Markets Represent a Much Larger Investable Universe

When it comes to investing, public companies represent only a small, shrinking tip of a much larger iceberg. Currently, there are only 2,600 public companies with annual revenues of more than $100 million, compared with 17,000 private businesses of that size.[1] By this measure, investors allocating only to public equities are limiting their opportunity set to just 15% of the largest firms in the U.S.

And the number of public companies is dwindling, shrinking from 7,810 at the beginning of 2000, to 4,814 at the end of 2020.[2]

[1] Source Capital IQ, as of February 2021
[2] Source: Research by Professor Jay R. Ritter, University of Florida

At the same time the ranks of public companies are thinning, the indices that invest in them are becoming more top-heavy. Within large-cap indices, an enormous amount of market cap has become concentrated in a small number of firms. Just five stocks account for about one-fifth of the S&P 500 index, as of 3/31/21. For investors allocating solely to public equities, this further limits their exposure to the broader corporate universe.

> Over the past three years, private equity has generated a premium of 33% over public equities.

Private Markets Companies Often Experience Much Innovation and Growth

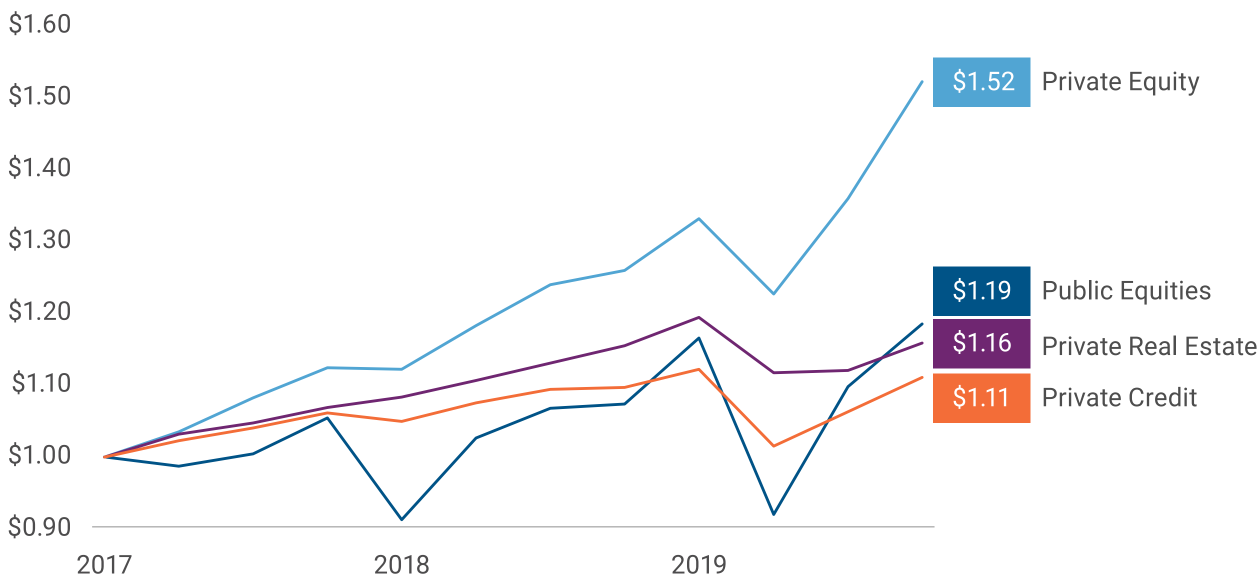
Another reason to consider an investment in private markets is that this is where firms have the potential to experience significant growth. Most companies never go public at all, but those that do are waiting longer to make the transition.

In the technology space, the age, on average, of a new public company has gone from 4.5 years in 1999 to more than 12 years in 2020.[3] As more tangible examples, Uber and Airbnb, two of the 10 largest-ever tech IPOs, waited 10 and 12 years, respectively, before going public, long after they had disrupted the industries in which they operate.

Historical Performance Has Favored Private Markets … And there's Data to Prove it

Perhaps the biggest argument for investing in private markets is the most straightforward: Performance. Here, the statistics speak for themselves. Over the past three years, private equity has generated a premium of 33% over public equities. One dollar invested in the private markets in 2017 would be worth $1.52 today, compared with just $1.19 for a dollar invested in public equities. Private real estate and private credit have also performed quite well compared with public equities when you consider their different risk profiles.

Growth of $1



Source: Bloomberg, Hamilton Lane Data (January 2021)
Note: MSCI World used as a proxy for global public equities.

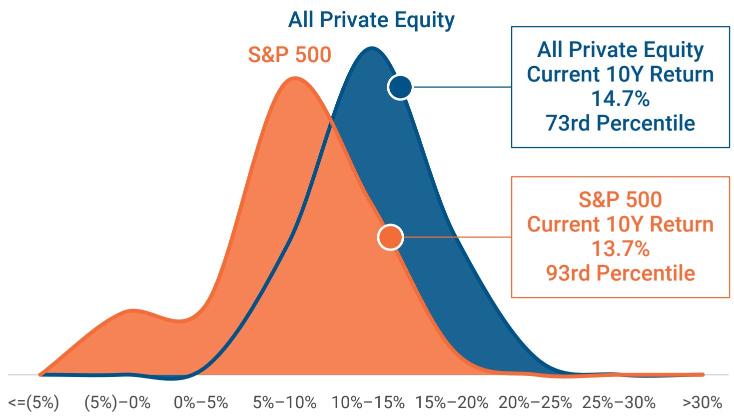
[3] Source: Research by Professor Jay R. Ritter, University of Florida in *Initial Public Offerings: Updated Statistics*

More impressive yet is the consistency of outperformance: Private equity and private credit have each outperformed global public equity and credit markets, respectively, in 19 of the last 20 years.

One could argue that after a protracted period of outperformance, perhaps the tables are due to turn, and favor public equities. But here's what's interesting: Relative to history, it's the public equity market where performance has been most stretched. The S&P 500's current 10-year return is in the 93rd percentile of its return profile over the last 30 years. Private equity's current 10-year return, meanwhile, is in the 73rd percentile.

Rolling 10-Year Return Distributions

1990–2020



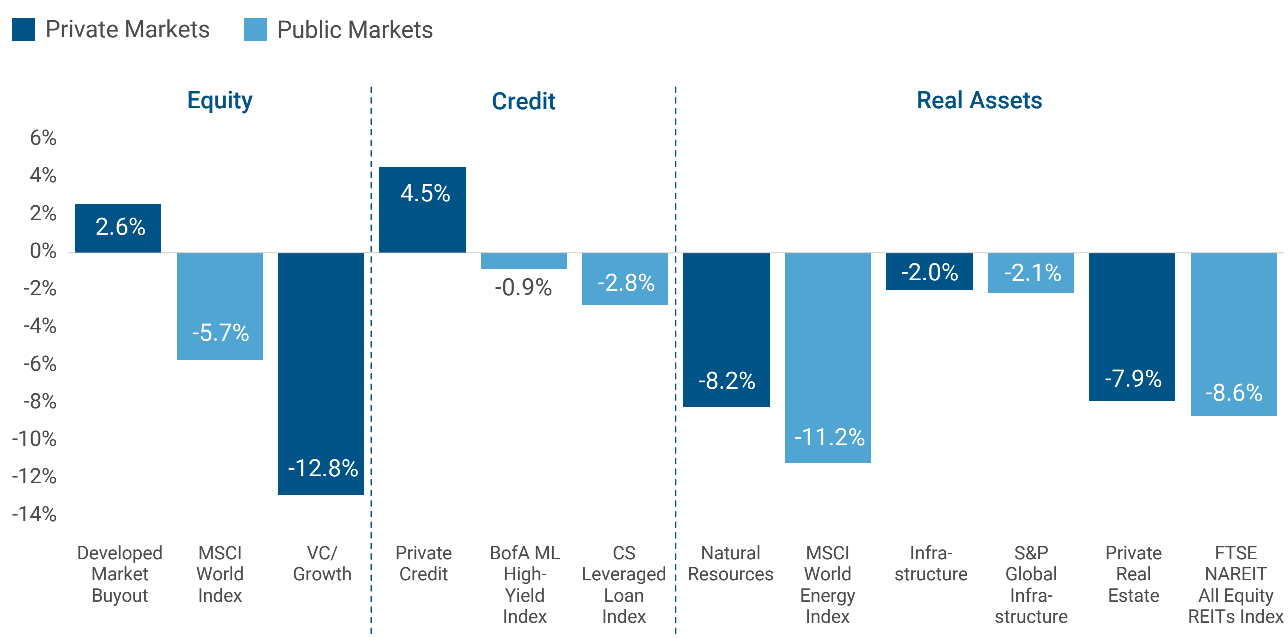
Source: Hamilton Lane Data, Bloomberg (January 2021)

Private Markets have Shown to be Especially Resilient During Tough Times

The most underappreciated aspect of private markets' outperformance is in *how* it was achieved. Namely, demonstrating resilience during market downturns. The chart below shows the lowest five-year annualized performance of various markets over the past 25 years. Developed market buyout and private credit never had negative returns over any five-year stretch.

Lowest 5-Year Annualized Performance

1995–2020



Source: Hamilton Lane Data, Bloomberg (January 2021)
Note: Infrastructure from 2000–2020, Natural Resources from 1998–2020.

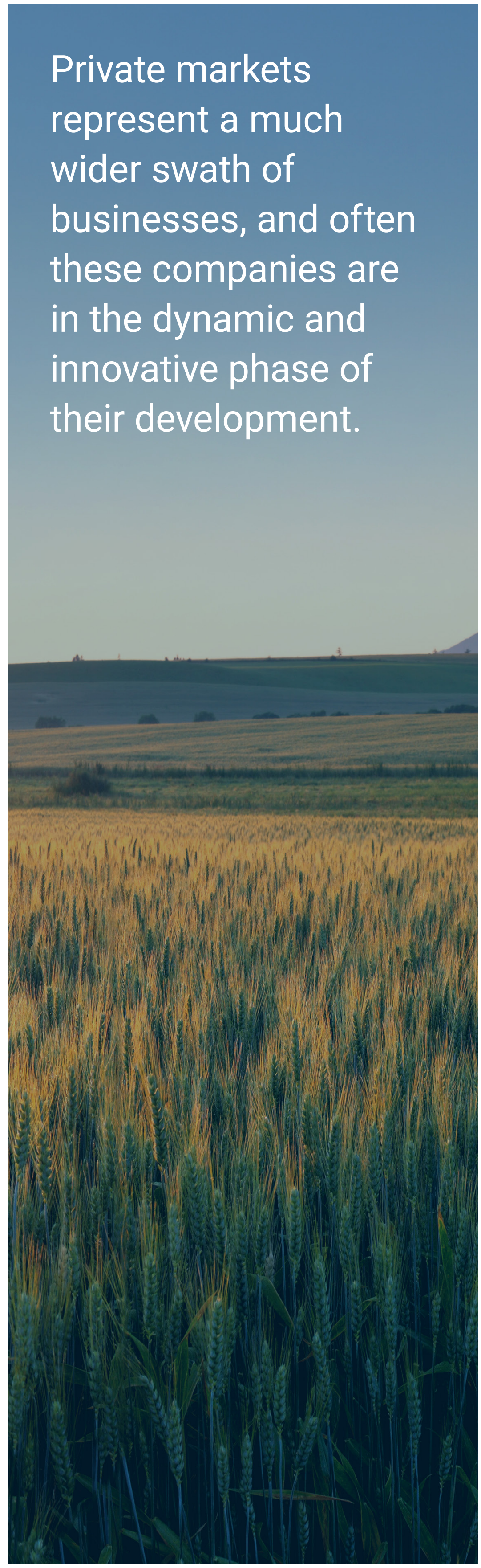
In its worst five-year period, venture capital did experience a loss greater than global equities. But this could be deemed one of the riskier forms of private market investing, and its returns in that worst five-year period did not lag far behind other classes. In short, private markets have largely outperformed their public market counterparts, but often with lower downside risk.

One might say that the different reporting requirements associated with private investments mask when an investment has lost value (i.e., private market values are typically disclosed on a quarterly basis, compared to real-time pricing associated with public markets). But for the end investor, this could also be viewed as a positive feature: Less frequent reporting and redemption limitations remove some of the negative behavioral elements often associated with investing. When investors don't view prices daily, they may be more patient with the investment, hopefully realizing its full potential value over a longer time horizon.

Conclusion: Broaden the Investment Horizon

As investors seek to maximize the return potential of their portfolios, they may want to broaden their scope. Private markets represent a much wider swath of businesses, and often these companies are in the dynamic and innovative phase of their development. Historical returns also may make a case for private market investing, as private equity, private credit, and private real estate have each outperformed their public counterparts consistently over the past two decades.

Innovative fund structures are making private market investments more available to high-net-worth and ultra-high-net worth investors. Of course, there are still factors these investors should consider before entering the space: Private markets are typically less liquid and require longer time horizons, for instance. But given the opportunity, investors may want to take a closer look to determine whether allocating to the private markets asset class makes sense as part of their broader investment strategy.



Private markets represent a much wider swath of businesses, and often these companies are in the dynamic and innovative phase of their development.

Definitions

S&P 500 Index: The S&P 500 Index tracks 500 largest companies based on market capitalization of companies listed on NYSE or NASDAQ.

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

BofAML High Yield Index: The BofAML High Yield index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

MSCI World Energy Sector Index: The MSCI World Energy Sector Index measures the performance of securities classified in the GICS Energy sector.

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.

FTSE/NAREIR Equity REIT Index: The FTSE/NAREIT All Equity REIT Index tracks the performance of U.S. equity REITs.

Disclosures

This presentation 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 presentation are requested to maintain the confidentiality of the information contained herein. This presentation may not be copied or distributed, in whole or in part, without the prior written consent of Hamilton Lane.

The information contained in this presentation may include forward-looking statements regarding returns, performance, opinions, the fund presented or its portfolio companies, or other events contained herein. Forward-looking statements include a number of risks, uncertainties and other factors beyond our control, or the control of the fund or the portfolio companies, 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 of future performance or other events contained herein are based on information available to Hamilton Lane as of the date of this presentation and are subject to change. Past performance of the investments described herein is not indicative of future results. In addition, nothing contained herein shall be deemed to be a prediction of future performance. 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.

Certain of the performance results included herein do not reflect the deduction of any applicable advisory or management fees, since it is not possible to allocate such fees accurately in a vintage year presentation or in a composite measured at different points in time. A client's rate of return will be reduced by any applicable advisory or management fees, carried interest and any expenses incurred. Hamilton Lane's fees are described in Part 2 of our Form ADV, a copy of which is available upon request.

The following hypothetical example illustrates the effect of fees on earned returns for both separate accounts and fund-of-funds investment vehicles. The example is solely for illustration purposes and is not intended as a guarantee or prediction of the actual returns that would be earned by similar investment vehicles having comparable features. The example is as follows: The hypothetical separate account or fund-of-funds consisted of $100 million in commitments with a fee structure of 1.0% on committed capital during the first four years of the term of the investment and then declining by 10% per year thereafter for the 12-year life of the account. The commitments were made during the first three years in relatively equal increments and the assumption of returns was based on cash flow assumptions derived from a historical database of actual private equity cash flows. Hamilton Lane modeled the impact of fees on four different return streams over a 12- year time period. In these examples, the effect of the fees reduced returns by approximately 2%. This does not include performance fees, since the performance of the account would determine the effect such fees would have on returns. Expenses also vary based on the particular investment vehicle and, therefore, were not included in this hypothetical example. Both performance fees and expenses would further decrease the return.

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 licence 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.

Any tables, graphs or charts relating to past performance included in this presentation are intended only to illustrate the performance of the indices, composites, specific accounts or funds referred to for the historical periods shown. Such tables, graphs and charts are not intended to predict future performance and should not be used as the basis for an investment decision.

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.

The calculations contained in this document are made by Hamilton Lane based on information provided by the general partner (e.g. cash flows and valuations), and have not been prepared, reviewed or approved by the general partners.

As of April 7, 2021

Hamilton Lane

About Hamilton Lane

Hamilton Lane (NASDAQ: HLNE) is a leading private markets investment management firm providing innovative solutions to sophisticated investors around the world. Dedicated exclusively to private markets investing for 29 years, the firm currently employs more than 440 professionals operating in offices throughout North America, Europe, Asia Pacific and the Middle East. Hamilton Lane has approximately $657 billion in assets under management and supervision, composed of approximately $76 billion in discretionary assets and approximately $581 billion in advisory assets, as of December 31, 2020. Hamilton Lane specializes in building flexible investment programs that provide clients access to the full spectrum of private markets strategies, sectors and geographies.

Learn more about our approach to the private markets

hamiltonlane.com