Hamilton Lane

NEWS RELEASE

HAMILTON LANE'S 2023 MARKET OVERVIEW: DESPITE VOLATILITY, PRIVATE MARKETS REPORT ANOTHER YEAR OF OUTPERFORMING PUBLIC MARKETS, WITH CLEAR AREAS OF INVESTMENT OPPORTUNITY: PRIVATE CREDIT, SECONDARIES, INFRASTRUCTURE

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- With global inflation at levels unseen in a generation, private market assets continued to outperform public markets in 2022, beating public strategies across the board – in some cases by thousands of basis points.
- Despite concerns that private markets valuations are misleading, Hamilton Lane data shows valuations are generally accurate across most industry sectors, with managers often exiting deals at a premium to reported value.
- Fundraising figures for 2022, while still at historically high levels, will be down compared to 2021 numbers – and Hamilton Lane expects a more challenging fundraising market will persist in the year ahead.

CONSHOHOCKEN, Penn., March 9, 2023 /PRNewswire/ -- Hamilton Lane (NASDAQ: HLNE), a leading private markets investment management firm, published its 2023 Market Overview today. The report is a comprehensive, data-driven review and analysis of private markets investment activity in 2022 with predictions for 2023, underscored by Hamilton Lane's industry-leading database encompassing nearly $17 trillion in assets and 51 vintage years.

Key areas from the 2023 report focused on:

- Private markets' continued outperformance over public markets, not just in 2022 but across long-term timeframes and through market cycles;
- Hamilton Lane data reveals that, despite the popular narrative, private market valuations are generally accurate – the notable exceptions being certain growth and venture investments;
- The firm's prediction that private credit, secondaries and infrastructure will provide compelling opportunities

in the year ahead;

- The trend of private wealth investors accessing the private markets in greater numbers, despite that capital being highly concentrated among a few managers today; and
- Hamilton Lane's outlook on fundraising, which predicts a challenging road ahead and advises investors to employ discipline and proceed with caution.

Private Markets Outperform Across Market Cycles and Strategies

Rising interest rates and inflation led to a downturn in the markets in 2022, with the first half of 2023 expected to remain challenging. The report includes data on how the asset class fared versus public markets in other recent downturns, demonstrating significant outperformance during periods of stress. [see "Performance in Market Cycles" chart]

Despite the downward pressure applied by rising interest rates and inflation in 2022, the data shows that as of Q3 2022, overall private markets demonstrated more resilience than public markets, outperforming public strategies across the board – in some cases by thousands of basis points. For example, buyout outperformed the S&P 500 by nearly 2,050 basis points, while infrastructure and real estate beat the FTSE All Equity REITs Index by more than 3,400 basis points.

Despite Widespread Perceptions, Private Markets Valuations are Generally Accurate

Market Overview data shows that in most sectors, private market valuations began 2022 at a significant discount to comparable traded assets. Over the course of the year, valuation multiples for public equities and private equities converged. Operating performance was healthy and outpaced comparable listed assets. The report also found that managers tended to exit deals at a premium to carrying value: [see "Exit Premiums" chart]

These factors suggest that, at the current time, there is not any blanket over or under valuation of private assets, dispelling the narrative that private markets valuations are overstated today.

Where to Invest: Private Credit, Secondaries and Infrastructure

Even with the challenging investment landscape, the report finds that the private markets – particularly private credit, infrastructure and secondaries – are proving to be areas of opportunity for investors.

- Private Credit: Private credit returns have demonstrated historical consistency throughout all types of market environments, according to Hamilton Lane data. Previous periods of rising interest rates have meant better yield for these securities, especially since most are floating rate, and Hamilton Lane expects this period to be similar. There are multiple cyclical and secular reasons for why private credit will remain a permanent and growing part of the lending landscape, including the fact that banks have largely retreated from the sponsored lending business despite tremendous demand for debt from equity sponsors.

- Secondaries: Supply notably outstrips demand in today's secondary market, where prices are coming down and where the dynamic for buyers is likely to continue improving as more supply hits the market. This is also the area of the market where the most innovation and creativity are occurring around exits and liquidity options, according to the report. [see "Secondary Market Volume" chart]

- Infrastructure: In our opinion, there is no other area of investing with such strong tailwinds behind it. This area is so appealing today that governments globally recognize the need to rebuild and enhance their infrastructure as a social and competitive issue. Hamilton Lane believes there will be ongoing opportunity for investors in infrastructure, with heightened interest in investing in energy transition assets. The contractual structures that characterize many types of infrastructure investments may also provide a hedge against inflation, should it run rampant.

The Rise of Retail

Access to the private markets has expanded significantly of late, with products structured to appeal specifically to non-institutional investors. These offerings resolve some of the friction of traditional private markets funds and provide retail investors expanded access to private markets products.

Today, NAV in the retail space is dominated by a few large players, with the report finding that more than 50% of AUM is concentrated in the three largest managers in 2022. This presents some amount of risk, where the future of semi-liquid funds will inevitably be tied to the success of a few managers.

However, the report also notes that a similar dynamic existed with private equity in the 1980s, with nearly 60% of AUM concentrated in the three largest managers. As private equity gained acceptance, a flood of managers entered the space, decreasing that concentration and spurring the growth of the industry. This poses the question of whether this will play out within the semi-liquid space as well, or whether there will continue to be a few large winners. [see "Market Share of Top Three GPs by NAV" chart]

Should Investors Be Worried?

While the 2023 Market Overview identifies a number of encouraging trends across the asset class, the report also acknowledges the challenging macro environment and knock-on effects for private markets. Although 2021 was a record year for fundraising, 2022 will be down quite a bit and, over the last four years, Hamilton Lane has not seen capital raising keeping pace with deployment. [see Global Private Markets Fundraising]

This is due to a few factors, including the denominator effect, the numerator effect, and what the report calls "the fear effect," where lower public markets almost invariably cause some investor pullback in illiquid investments.

The Market Overview also highlights some worrisome indicators within buyouts and real estate sectors in particular

and encourages investors to proceed with caution. While this is not to say there aren't interesting transactions to be done or high-quality general partners that are raising capital today, the report indicates that investors should be disciplined throughout 2023 and beyond.

Conclusion

In sum, Hamilton Lane expects volatility to persist throughout 2023, as investors cope with inflation, interest rate movements, and ongoing geopolitical disputes. Despite the challenging investment landscape, the 2023 Market Overview finds that the private markets have continued to provide the attractive returns that investors seek, with distinct areas of opportunity in the year ahead.

Mario Giannini, CEO of Hamilton Lane and author of the report, commented: "The asset class is evolving in offerings and structure to meet the demands of a varied and growing set of investors. Those who employ discipline, stay consistent across sectors and through cycles, and view the private markets as a long-term asset class will be best positioned. Perhaps unsurprisingly, we at Hamilton Lane continue to be big believers in this asset class – where data clearly illustrate multiple decades of outperformance versus public market benchmarks."

For more information on any of these topics or to request Market Overview data, contact Kate McGann at **kmcgann@hamiltonlane.com** or +1-240-888-4078.

About Hamilton Lane

Hamilton Lane (NASDAQ: HLNE) is one of the largest private markets investment firms globally, providing innovative solutions to institutional and private wealth investors around the world. Dedicated exclusively to private markets investing for more than 30 years, the firm currently employs nearly 600 professionals operating in offices throughout North America, Europe, Asia Pacific and the Middle East. Hamilton Lane has nearly $832 billion in assets under management and supervision, composed of nearly $108 billion in discretionary assets and over $724 billion in non-discretionary assets, as of December 31, 2022. Hamilton Lane specializes in building flexible investment programs that provide clients access to the full spectrum of private markets strategies, sectors and geographies. For more information, please visit **www.hamiltonlane.com** or follow Hamilton Lane on LinkedIn: **https://www.linkedin.com/company/hamilton-lane/**.

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