Hamilton Lane

# Hamilton Lane
# **Annual Report**
2019

# We Enrich Lives & Safeguard Futures

- Do the right thing
- Integrity, candor and collaboration
- The pursuit of excellence
- A spirit of competition that inspires innovation

Hamilton Lane

# Dear Shareholders,

## How many of these annual letters from CEOs do you read? Hundreds? Thousands? Now, how many do you actually remember? Maybe two? Five?

Those are lousy odds in any field.

What's really the problem here? The fault can't lie with you, the reader. (Well, perhaps it could, but, generally speaking, it's unwise to attack the audience unnecessarily.) The issue could be the writers; although, if they are anything like me, they genuinely intend to say something memorable - something that will keep your eyes from having that droopy, sleepy sensation that overcomes us all when confronted with pabulum. Perhaps, instead, it's the army of lawyers and accountants who greet the drafts of these letters like Charon, the ferryman of Hades. They carry the soul of what began as a compelling investor letter across to the underworld, where the missive is redrafted to death as if the intended audiences are either bots hunting for litigation fodder or lost investors who've forgotten how to read.

Without knowing the exact source of the issue, I'll commit to trying to solve it in two ways: (1) keeping this letter mercifully short and (2) refraining from boring you with endless numbers and comments so hedged that, were the sun to explode into a supernova tomorrow, my last words to you before bursting into flames would be, "See, I told you that could happen…."

Let's begin with the question I get asked more than any other: What will happen to alternative investments generally and Hamilton Lane specifically in the next downturn? (Actually, the question I'm asked most often, and usually immediately prior to the question above, is, "When will the next downturn happen?")

Let's break it down.

### A. What does the next downturn look like for alternative investments?

This is not an easy question to answer. The cause(s), and the shape, of the downturn will significantly impact both the response and the repercussions. Will the downturn be similar to the 2001 era in which a certain sector or two are heavily impacted (in that case, venture and telecom), but the overall economies of the world have a "normal" recession? Will it be broader-based and closer to the 2008 era in which the entire global economy and capital markets are heavily impacted, virtually everything is declining and the only thing that really matters is liquidity? Or, will it be something in between? Will the trigger be a geopolitical event, or rising inflation, or increasing deflationary pressures? Or, will the trigger be that a certain sector becomes overheated and takes chunks of global economies down with it as it deflates?

Spoiler alert: I don't know. People may pretend to, making bold predictions about what will transpire (after all, those get far more attention than boring ones). But, in the end, none of us knows. Despite this, I'll make a prediction anyway: We have had, and likely will continue to have, a period of longer and slower economic expansion off the back of the Global Financial Crisis (GFC). Symmetry is a nice concept, and so I'll predict that the next downturn will be longer and milder than what we expect; a grinding lack of growth.

### B. How will alternative investments, particularly private equity, and Hamilton Lane fare in the next downturn?

One aspect of the next downturn that will make a difference is which investment segments will be most exposed to the hardest hit areas. What do I mean by that exactly? In the 2000's downturn, the venture area was heavily exposed to the internet and dot-com bust. I can remember spending time in front of boards and trustees at that time and the conversation was often focused on whether to be invested in private equity at all, given the heavy losses suffered in venture. It took the venture capital portion of the industry years to recover from being near ground zero of the bust. That was quite a different picture from what occurred in the GFC where the segments that took punishing losses were the public markets and hedge funds. Private equity fared relatively better and investors' questions post-GFC centered around ***how*** to invest in private equity, not if they should.

The undeniable truth about private equity, however, is that it is a long-only asset class. You can't short portfolio companies or funds; you can't short an index that mimics private equity performance; you can't hedge your position. You invest from the long side of the market. That might strike some as a disadvantaged position when markets are headed down, but it's simply not the case. Here's what we've learned and here's how we operate.

The reality is that operating in a long-only, illiquid asset class during a downturn requires investors to do a few things that help counter the fear and greed that lead to so many investment mistakes.

> **"We saw the value of the private equity model demonstrated most dramatically in 2008. As investors were selling every asset that wasn't bolted down, it was the private equity model that forced investors to keep their money ready for investing as asset prices dropped."**

***Think longer term.*** Most people pay lip service to investing for the long term, but does anyone really do it? You don't have much of a choice if you're investing in private equity; instead, your only real option is to think through what happens to your investments over a multiple year period. For managers, this creates a forced discipline and a more measured approach to investing. It requires more conversations and a lot more client engagement. It usually requires a level of trust and understanding that simply isn't necessary if you view an investment as something you sell whenever you are tired, disenchanted or disappointed when markets move. These are the kinds of trusted relationships and partnerships we endeavor to build with our clients, and these are the kinds of investment discussions that allow our clients to look at market movements up and down as part of the cycle of their broader investment programs rather than as points at which to panic or over-extend.

***Do the opposite of what your emotions tell you to do.*** Inherent in any private equity model is an element of the George Costanza truism to do the opposite of what every instinct tells you to do. We all habitually complain about how private equity locks you into vehicles and doesn't allow easy access to your capital; often those complaints are driven by the dreaded specter of illiquidity. We saw the value of the private equity model demonstrated most dramatically in 2008. As investors were selling every asset that wasn't bolted down, it was the private equity model that forced investors to keep their money ready for investing as asset prices dropped. It was the private equity model, with its locked-in structure, that prevented all of us from taking the money out and missing some truly great investment opportunities. It turns out keeping the money with great managers was a better idea than stuffing the money under our mattresses, which (if we're being honest) is where we all thought about putting it at some point or another.

***It's not just private equity.*** One of the most important differences between Hamilton Lane today and Hamilton Lane 15 years ago (as is true of the entire alternatives industry) is that we are much more than private equity alone. Our clients look to us to provide a variety of alternative strategies, whether that's credit, real estate, infrastructure or private equity. They look to us to invest through a variety of different mediums, whether that's through funds, directly in companies in equity or credit, or in secondary transactions. I won't pretend that this allows anything remotely like a hedge strategy for any one of the alternative strategies. However, it does provide different access points to illiquid assets, which are likely to behave differently in a downturn. This provides Hamilton Lane and our clients with the opportunity to identify the strategies that are performing better and focus there. The breadth of alternative strategies continues to grow and offer a solid base for an investment portfolio whether the market is up, flat or down.

***Think strategically.*** Seems pretty obvious, doesn't it? Yet, it is incredibly hard in practice because human nature tends to dictate that we fall in love with the next deal or fund or shiny object that enters our field of vision. Talking strategically isn't helpful if you're still acting tactically. George Soros said it best: "If investing is entertaining, if you're having fun, you're probably not making any money. Good investing is boring." In the history of Hamilton Lane, one of the things of which I'm most proud was the position of our clients' private equity investments during the GFC. We approached their portfolios thoughtfully and strategically, taking care not to get swept up in the emotion of the market even as it grew increasingly heated and amounts invested in private equity rose rapidly. Virtually every client for whom we mapped out strategic investment plans prior

to the GFC maintained the capacity to invest during the crisis. They weren't forced to cut back or stop investing because they had over-invested prior to the downturn. It's that singular focus on building strategically, on leveraging industry data and careful analysis, and on approaching the private markets with the consistency and patience that generates results that makes us confident that the asset class can withstand any future downturn.

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## Fiscal 2019 Highlights

Now we come to the part where we might normally alter our promise to be brief and instead overwhelm our readers with page after page of congratulatory language about how amazing our results have been.

We'll do our best to refrain from such behavior.

The reality is, throughout fiscal 2019, Hamilton Lane experienced significant growth across our entire platform. The success we've achieved is predicated on two core tenets of how we operate: creating strong partnerships and relationships with our clients and attracting, retaining and motivating the people that work at Hamilton Lane. It is with those two goals as backdrop that we offer some key highlights from fiscal 2019 that illustrate our commitment to building the world's leading private markets solutions provider.

### AUM and Revenue Growth

Fee-earning AUM increased approximately 9% in fiscal 2019 with solid growth across both our specialized products and our customized separate accounts. That continued growth led to an increase of approximately 12% in management and advisory fee revenue relative to the prior fiscal year.

### Specialized Funds/Investment Solutions

Subsequent to the fiscal year-end, we closed approximately $1.7B of commitments for our fourth co-investment fund. This amount exceeded our initial target and marks our largest co-investment fund to date. In keeping with specialized product growth, we began fundraising efforts for both our fifth secondaries fund as well as our credit-oriented fund.

### Enhancing the Shareholder Experience

Our Board of Directors approved an increase in the annual target dividend of 29% relative to the prior dividend. This affirms the view that our business is growing well and remains strongly positioned. Also, we were proud to host our first annual Investor Conference in New York.

### Successful Technology Realizations

Technology remains a key strategic focus for the firm and we continue to invest a small portion of our balance sheet capital in leading companies that we view as driving technological innovation and success in our industry. We were happy to see the realization of two of those strategic investments during the year and will continue to seek out these opportunities going forward.

### People

We are proud to foster an inclusive, growth-oriented environment for our employees. This fiscal year, we announced ten senior promotions throughout the firm, which were split evenly between women and men and brought the total percentage of female senior professionals to over 28%. We also announced key developments in areas we view as strategic for future growth, including the opening of a new office in Toronto, as well as senior business development hires to lead efforts targeted at the consultant relations and financial intermediary channels.

### Awards & Recognition

Once again, we were named to Pensions & Investments' "Best Places to Work in Money Management" list for 2018 and are proud to be one of only five companies to have been included on the list for seven consecutive years, since the first published rankings in 2012. Additionally, we were recognized in the top quartile of firms in the "Best Places to Work in PA" for 2018, also appearing on the list for the seventh consecutive year. Part of being recognized as a great place to work lies in our approach to what we do. In that respect, we are proud to have received an "A" grade in Principles for Responsible Investment's Annual Transparency Report in both the Strategy & Governance and Indirect Private Equity categories.

### Community Outreach

We are committed to doing our part to help educate, encourage and support underserved or diverse populations, particularly in those communities in which we live and work. This year, we continued our partnerships with Girls Who Invest and Cristo Rey Philadelphia and were proud to celebrate our 10-year anniversary with the Big Brothers Big Sisters program. This spring, we also hosted our own third annual Undergraduate Women's Private Equity Summit.

## Wrapping Up

Reflecting on this past year, I remain both proud of and encouraged by the firm's continued growth and our many accomplishments. It is a real testament to the way we operate, which I believe makes us truly unique. We remain steadfastly focused on putting our clients, our employees and our shareholders first and will continue in the uncompromising pursuit of our mission to enrich lives and safeguard futures.

If you've ever walked the halls of our offices, you've undoubtedly noticed that music plays a major role in the culture of Hamilton Lane. So, in a nod to our culture, I'd like to end by quoting the late, great Frank Sinatra and say: "It was a very good year."

Thank you for being a part of it.

Sincerely,

Mario Giannini
Chief Executive Officer

## EXECUTIVE OFFICERS

**Mario L. Giannini**
*Chief Executive Officer*

**Hartley R. Rogers**
*Chairman*

**Kevin J. Lucey**
*Chief Operating Officer*

**Michael T. Donohue**
*Controller and Managing Director*

**Randy M. Stilman**
*Chief Financial Officer*

**Erik R. Hirsch**
*Vice Chairman*

**Lydia A. Gavalis**
*General Counsel and Secretary*

**Juan Delgado-Moreira**
*Vice Chairman*

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HAMILTON LANE INCORPORATED

**O. Griffith Sexton***
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**Mario L. Giannini**
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HAMILTON LANE INCORPORATED

**David J. Berkman***
*Managing Partner*
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**Leslie F. Varon***
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