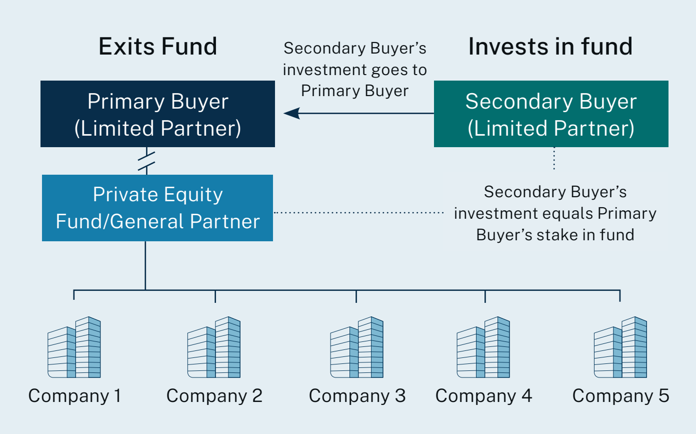
Secondaries: A Primer

What Are Secondaries?

Secondary investments represent the transfer of a private equity interest from one investor to another. Secondary buyers purchase an investor's commitment to a fund and effectively become a replacement investor as a limited partner (LP).



Primaries vs. Secondaries

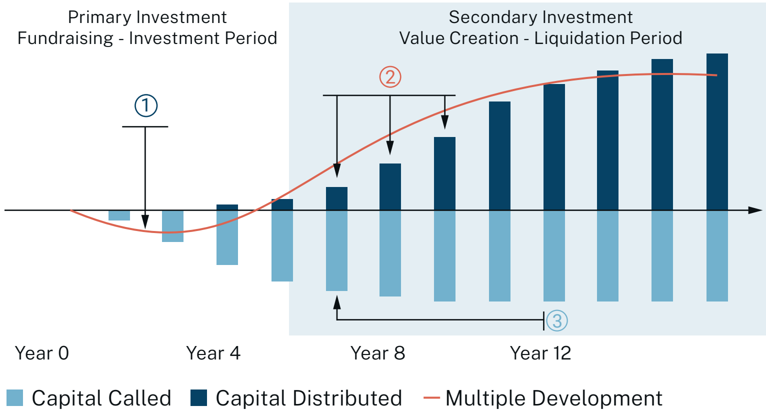
A private equity primary fund commitment refers to an LP's commitment of capital in a fund. This commitment provides the fund with the necessary capital to make investments in various companies.

In a private equity secondary fund commitment, a secondary buyer purchases a commitment to an existing private equity fund from the primary buyer or secondary seller—effectively becoming a replacement investor.

Secondary buyers gain immediate exposure to an existing, mature portfolio which may generate cash flow sooner than primary investments and which may help reduce risk by offering a diversified portfolio across various vintage years, industries, geographies or even general partners (GPs).

Primary Fund Commitment	Secondary Fund Commitment
• The life of the fund is approximately 10 years, with the option to extend one to two years • A fund with one strategy invests in 10-30 companies over a 4-5 year investment period • Primary private equity funds are illiquid • Investors generally have a "lock-up" period	• The life of the fund is typically 10 years • A fund that makes secondary investments in funds of various strategies and vintages, with hundreds of underlying companies, over a 3-year investment period • Offers more near-term cash flow and shorter duration • Provides a mechanism for liquidity for an illiquid asset class • Offers investors the option to sell and transfer interest in a fund/asset to another investor

An Investor's Journey across the J-Curve



For illustrative purposes only.
Diversification does not ensure a profit or protect against loss.
Percentage of LP Capital Distributed

A **capital call**, also known as a draw-down, is where the GP of a fund calls on LPs to supply a portion of the amount of capital that they committed at the beginning of the investment. The timing and amount are at the GP's discretion and, once capital has been called, it is considered "paid-in capital."

A **capital distribution** is cash (or securities) paid to an investor when the fund managers realize their investments in underlying companies. In the adjacent graph, the capital distributed (starting in year four) shows the amount of cash or securities paid to investors. As the fund continues to perform, capital distributions tend to increase.

Quantifying the Benefits of Secondaries

Portfolio Benefits

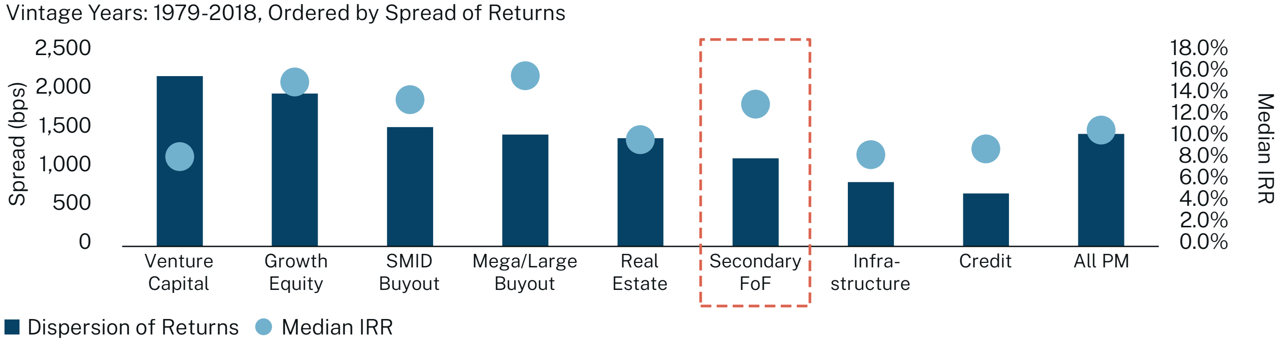
For investors looking to optimize their portfolio strategy, secondaries may be attractive for several reasons.

J-Curve Mitigation	Portfolio/Vintage Diversification	Risk Reduction From Knowledge of Underlying Assets
Investments are purchased further along in their life cycle, with the potential to reduce the negative impact of management fees and accelerating the pace and timing of distributions.	Secondaries may provide investors with the ability to quickly diversify a portfolio by vintage year, investment strategy, industry sector and fund manager.	When evaluating a secondary transaction, the portfolio companies can be carefully analyzed, reducing the "blind pool" risk associated with primary investments.

Secondary Resilience & Risk-Adjusted Returns

Secondaries have historically generated attractive returns and low volatility versus other private market strategies. They have the ability to benefit from growth while capitalizing on wider discounts in volatile or distressed markets.

Dispersion Returns by Strategy
Vintage Years: 1979-2018, Ordered by Spread of Returns

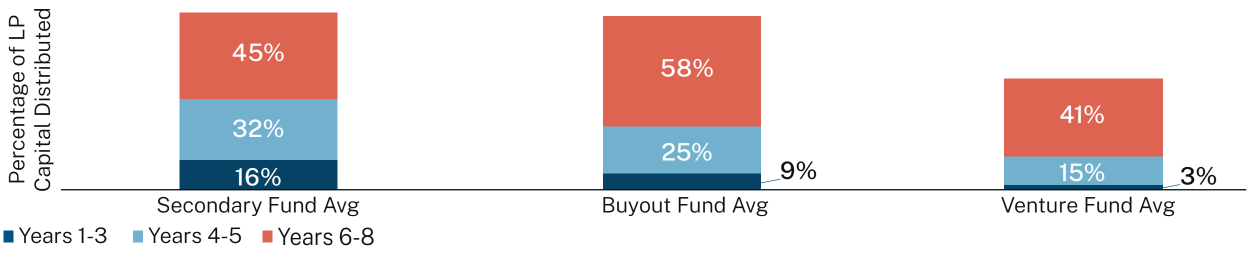


Source: Hamilton Lane Data via Cobalt (January 2023)

Capital Is Distributed Earlier

Secondary funds tend to hold more mature investments than traditional private equity funds. Since private equity investments typically exhibit negative returns in the initial years due to management fees and other expenses, secondaries help investors avoid this stage of the private equity life cycle. And, because secondary funds usually come later in the investment cycle, distributions from exits may be sooner than primary funds.

Percentage of LP Capital Distributed

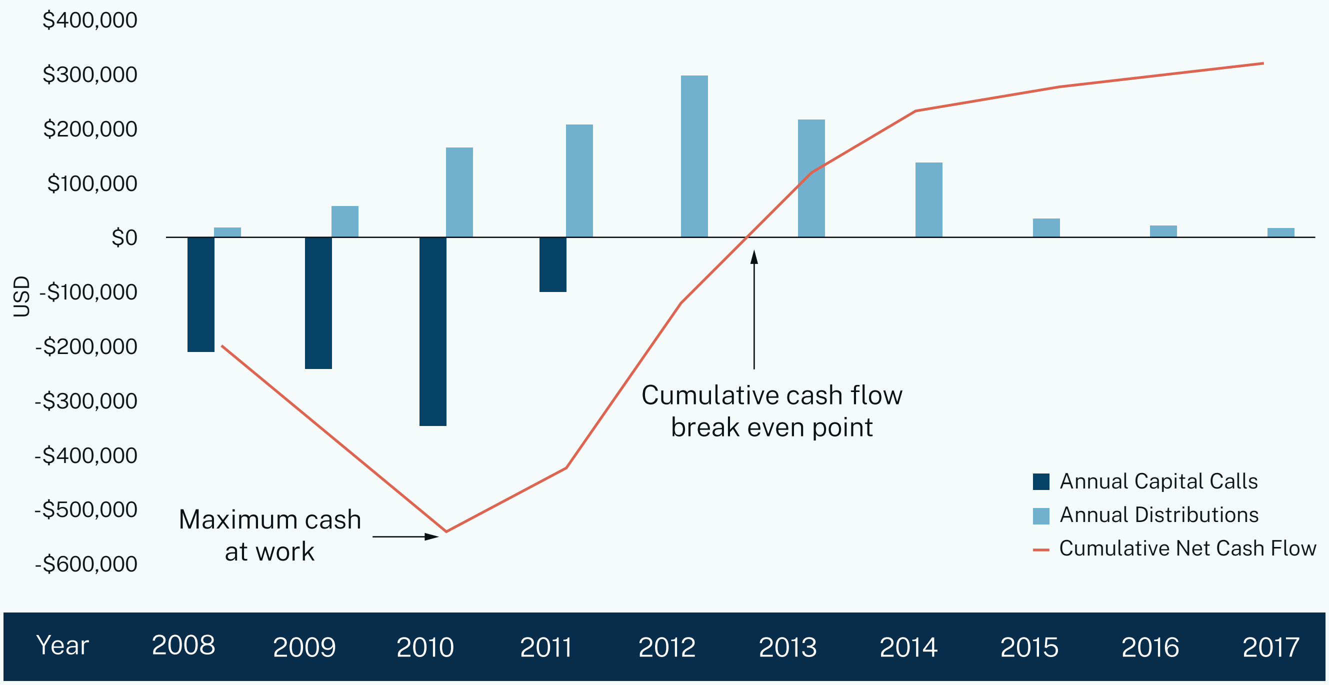


Source: Hamilton Lane Data via Cobalt (As of January 2023)

Hamilton Lane Case Study

Life Cycle of a Secondary Fund

The following scenario illustrates a $1M commitment to Hamilton Lane's 2008 vintage Secondary Fund (HLSF II).



For illustrative purposes only. Past performance is not an indicator of future results
Source: Hamilton Lane Data via Cobalt (As of January 2023).

Expected Cash Experience for Investors

- Investors' capital may be called down periodically during the investment period and should expect to have 80-90% of their commitment invested by years 3-4.

- The value of investors' capital should grow over time and that value will be sent back to investors in the form of distributions, also known as realizations.

Secondary Market Overview

Secondary Market Evolution

Initially a niche strategy, secondary investments have become mainstream.

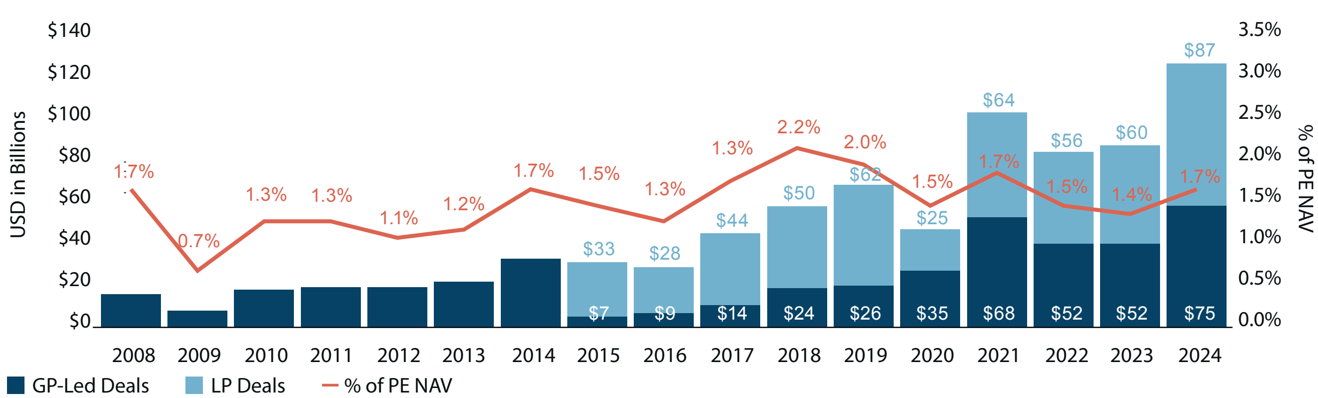
2000-2003 Internet Bubble	2004-2007	2008-2009 Credit Crisis	2010-2014 Recovery	2015-Present
First $1B secondaries deal	**Annual volume of secondaries transactions exceeds $16B**	**Secondaries volume decreases by 50% ($20B to $10B)**	**LP focus on liquidity**	**Strong supply/demand; signs of market maturing**
Industry-wide "dislocation" stimulated activity	Growth of PE fuels growth of secondary market	Liquidity creates buyers market/ distressed sellers	Post-crisis rebound drives record activity levels	Private markets NAV has increased 4x over the past decade
LP secondary volume drives increased buyer interest	Leverage introduced	Pricing levels reduce activity	Regulatory pressures fuel massive divestitures for banks and financial institutions	Higher turnover rate
Market leading players emerge	Intermediary market develops		GP-led solutions become significant part of the market	Greater market acceptance
			Investors engage in more active portfolio market	Broadening of assets available for sale
				Opportunity set has never been more robust

Secondary Volume

*Source: Greenhill Secondary Market Update (January 2020)

Secondary Market Volume by Deal Type

The secondary turnover ratio has consistently ranged from 1.0% - 2.0% for more than a decade



Source: Jefferies Secondary Update (January 2025), Hamilton Lane Investment Database (January 2025)

Transaction Landscape

	LP Deals	GP Deals
Market Dynamics	• LPs increasingly comfortable with transacting directly • High quality funds/GPs are selling more frequently than ever	• One of the largest drivers of growth in the secondary market has been the increasing adoption of GP-led transactions, particularly by small and mid market GPs • GP-led deals have become a market accepted exit path for the strongest assets • Strong GP relationships are key to accessing the best deals
Supply Catalysts	• Increasing NAV is reducing ability to deploy capital • Active portfolio management continues to be a main driver • LPs experiencing a slower pace of distributions from their PE portfolios continue to motivate many sellers	• GPs proactively finding ways to get liquidity for their investors • GPs hold best performing assets longer, while accessing more unfunded capital to capture further upside • GPs are expanding and developing relationships with strategic LPs
Key Takeaways	• LPs are taking a more proactive approach to rebalancing portfolios, revisiting commitment pacing and understanding liquidity needs • Buyers with a tech-enabled information advantage will be best positioned to focus on funds they know in a market that has	• GPs are looking to partner with buyers who possess both primary and secondary scale • Secondary buyers with primary platforms best positioned to identify and access deals with the strongest alignment

Why Do Limited Partners Sell in the Secondary Market?

Liquidity	Allocation Issues	Portfolio Management
• Achieve early liquidity • Permit investments in new funds • Reduce unfunded commitment balance	• "Denominator effect"* • Reduce allocation targets (because declining public valuations and distribution timing can result in excess allocations) • Reduce overcommitment	• Portfolio modification in response to strategic change or change in investment strategy • Lock in fund returns • Reduce duplicative exposure to a single fund, post-merger • Reduce number of GP relationships by selling older funds

*Source: Greenhill Secondary Market Update (January 2020)

Hamilton Lane Case Study

In this case study, you can see how Hamilton Lane manages relationships to execute deals and provide downside cushion through the strategic use of secondaries.

Background

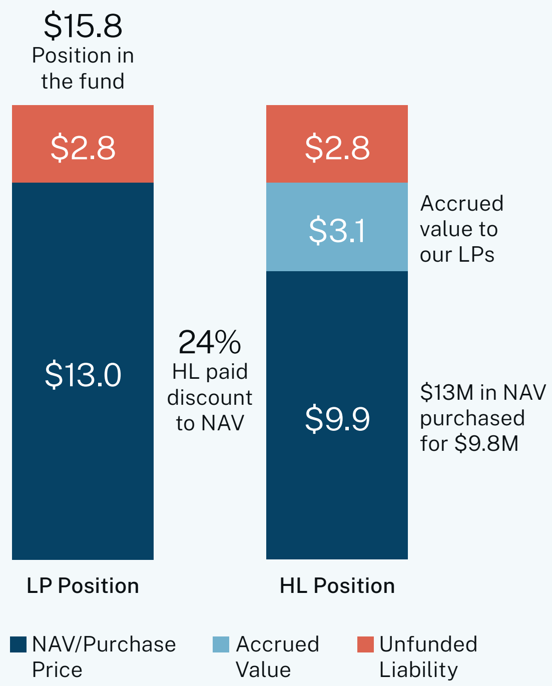
- An LP wanted to sell a mature investment totaling $15.8M. In secondary transactions, pricing is expressed as a percentage of recent net asset value (NAV).
- The LP restricted the offer to secondary investors with strong primary relationships with the GP, which limited competition among buyers.

Transaction

- Hamilton Lane's GP relationship allowed us to purchase, as the secondary buyer, the fund position from the LP, or secondary seller.
- Secondaries are often purchased at a discount to NAV, in this case 24%. This discount allowed us to buy $13M in NAV at $9.9M.

Hamilton Lane's Position

- We received an immediate return of $3.1M, which also provided downside cushion.
- Hamilton Lane will fund all future capital calls and receive future distributions.



For illustrative purposes only. Past performance is not an indicator of future results.

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As of November 14, 2023 unless otherwise noted.

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