

From the Desk of Executive Co-Chairman Mario Giannini

Market Update | April 29, 2025

KEY TAKEAWAYS:

The baseline 10% tariff remains in place and all its attendant costs. The inability to plan for business investment, the time spent on developing scenarios and the worry about increased costs and availability of goods will weigh on consumers and businesses globally. [\(P.1\)](#)

The most important trade relationship/issue in the world today is the U.S. and China standoff. If you are only watching one indicator, watch the Yuan-U.S. Dollar exchange rate. If you see the Yuan start to weaken, that is a bad sign for global economies. [\(P.3\)](#)

Right now, it is fair to say that, in most places, there are numerous sentiment indicators that show dramatic weakening of business and consumer views of the economy, but not much hard data to show economies are slowing down. [\(P.5\)](#)

We took industry groups and quantified the impact of tariffs on the companies over the medium term by none, low, medium or high. Approximately 65% of portfolio companies reported no direct, first-order impact from potential tariffs. An additional ~30% of companies reported low impact. [\(P.9\)](#)

Tariffs

In just a few short weeks, we have had the “reciprocal tariffs” paused for 90 days, additional tariffs levied on China, then paused for certain products, then heard that the U.S. isn’t really going to keep Chinese tariffs at the new level. We have paused some tariffs on car-related products, threatened additional tariffs on Mexico for not delivering water to Texas and too much other tariff-related news to enumerate.

It is fair to ask, what is going on? What do we know?

I thought the most important part of Trump’s announcement pausing the tariffs was his answer on how he would make decisions on upcoming tariff discussions. He said, “Instinctively, more than anything else. You almost can’t take a pencil to paper; it’s really more of an instinct than anything else.”

What makes any prediction about the course of tariffs impossible is that the U.S. President is saying that the decisions will be made by one man and based on a gut feeling in the moment as to the course he will take. We can debate the merits of that approach, but we have to accept that it is the environment in which we assess potential courses of action. The only thing we know for certain is that Trump is committed to tariffs as a tool. But a tool for what? Part of the challenge in understanding the future path is that the purpose for tariffs is inconsistent and conflicting. There appear to be four main reasons this administration wants tariffs. (Sometimes called the “Three Rs,” but I think there are four with this administration.)

- **Revenue:** Tariffs bring revenue to the U.S.
- **Restriction:** Tariffs reduce the flow of foreign products and encourage the development of U.S. industries for those products.
- **Reciprocity:** Tariffs force other countries to open their markets to U.S. goods.
- **Retribution/Revenge:** Tariffs punish other countries for a variety of transgressions against U.S. interests (i.e., fentanyl smuggling, failure to deliver water, etc.).

We are all searching for rhyme or reason and the answer is that there isn't one. There may be policy approaches among various members of the U.S. government, but Trump himself doesn't have a core philosophy, other than tariffs are good and any one of the four Rs is an adequate policy rationale, interchangeable and flexible, depending on that gut instinct in the moment.

We also know another important thing that we weren't certain about earlier this month. We know that there are some guardrails to U.S. action based on markets and reactions. It appears that Trump stepped back from the Liberation Day tariffs because of the chaos in the U.S. Treasury markets. He also stepped back from an all-out trade war with China based on feedback from giant U.S. retailers. He also walked back the threat to fire Powell based on market reaction. (Although I would note that he said he has "no intention of firing" Powell. Intentions, as we have learned, change quickly.) That doesn't mean that it will be a pattern, but it does suggest some limits on policy implementation. One downside is that it is likely that the U.S. administration will react to market chaos rather than take steps to avoid it. As investors, that is useful information.

So, what are we supposed to do now?

That's a good question and the best I can do here is give probability assessments.

- **10%:** Some negotiations, excluding China, are concluded within 90 days and the others continue in active discussions with a new pause period.
- **35%:** Some negotiations, excluding China, are concluded within 90 days and the Liberation Day tariffs are reapplied to countries where no agreement has been reached.
- **15%:** The U.S. and China reach a trade agreement or "understanding" within 90 days, an agreement is reached with some countries and negotiations continue with other countries with a pause period announced.
- **40%:** The U.S. and China reach a trade agreement or "understanding" within 90 days, an agreement is reached with some other countries and the Liberation Day tariffs are reapplied to countries where no agreement has been reached.

I know there are all sorts of permutations within those categories, and you can probably come up with others, including ones to which you give a higher probability. But you have to start somewhere, and my starting point is that the most likely outcome is one in which this uncertainty continues as we engage in a back and forth between market reactions to the uncertainty and announcements, Trump's instinctual decisions, and the reality that these kind of wide-ranging trade discussions are relatively difficult to do quickly. (Although I do believe that "big picture" agreements will be announced with individual countries and companies, with details to be hashed out over a longer period.)

This is not a great outcome for the next few months. The baseline 10% tariff remains in place and all its attendant costs. The inability to plan for

business investment, the time spent on developing scenarios and the worry about increased costs and availability of goods will weigh on consumers and businesses globally. I also suspect that, because this administration will pull back from actions only with significant market pressures, we will have ongoing levels of volatility that are greater than we expect today.

China and the U.S.

The most important trade relationship/issue in the world today is the U.S. and China standoff.

Put plainly, if you break trade, you break capital flows. The results of that are unknowable. This will be a topic for a future update, but for this one, I will suggest that, if you are only watching one indicator, watch the Yuan-U.S. Dollar exchange rate. In 2018, when the U.S. targeted China with tariffs, the Chinese responded with Yuan depreciation, blunting the impact of tariffs to some extent. That has not happened yet, with the Yuan remaining steady. If you are an optimist, that tells you that the Chinese have not abandoned the idea that they can reach a negotiated agreement with the U.S. on trade (and, presumably, other related issues). If you see the Yuan start to weaken, that is a bad sign for global economies. It will indicate the trade war with the U.S. will both intensify and last longer. You are likely to see emerging market currencies, stocks and economies suffer tremendous stress as collateral damage to that ongoing battle between the U.S. and China.

I find myself somewhat optimistic about China and the U.S. avoiding an all-out trade war. I have put earlier in this update the odds of an agreement or “understanding” at around 50% over the next few months. I don’t believe that the U.S. administration can deal with the pain and fallout to U.S. businesses and consumers from an all-out trade war with China. It appears the U.S. administration is already negotiating against itself on the exact size of the U.S. tariffs and China has already signaled that

it might relax some of the tariffs it has applied to U.S. businesses. I appreciate that these do not an agreement make, but they are indications that the two sides are searching for an off-ramp to the all-out embargo that looms.



I am asked often, particularly by people outside the U.S., how Americans are reacting to all this tariff uncertainty and the potential impact on their lives. I won’t answer that question directly. Instead, I will give each of you a test question. (Answer it without searching Google. We’re on the honor system here.)

Test Question

“True or False: Tariffs are paid by the country exporting goods.”

Do you know the answer?

Here is a sobering result from a poll conducted in the last two weeks by Reuters/Ipsos (a very reputable group). 68% of Americans answered that question **incorrectly!** That’s not 68% of Republicans or 68% of Democrats. That’s 68% of all Americans of any political leaning. When you fundamentally don’t understand what is happening, how can you assess any reaction?

Another topic that’s worth mentioning is one that our Co-CEO, Juan Delgado, has highlighted: Can anything be learned about the U.S. economic future from Argentina’s experience with tariffs?

The future doesn’t look great if Argentina is any guide.

Look, countries are all different so I will caution at the outset about concluding that Country A’s experience is necessarily going to foreshadow Country B’s. But,

at the beginning of the 20th century, Argentina was the fifth largest economy in the world, and it was reasonable to expect that it would rival the U.S. It never did. There are undoubtedly several reasons, but most economists agree that tariffs were a big reason the economy suffered. The goal of the tariffs, particularly after the second world war, was to try to be more self-sufficient. Argentina rejected open trade and made every effort to have more industrial production at home and be less dependent on other countries. Local industries were protected from import competition. (Stop me if you have heard this being applied elsewhere recently...) The result?

- A decline in exports as local companies catered to the local market and became less innovative and competitive internationally
- Higher prices overall, lower quality and diversion of resources from industries and areas where Argentina could compete globally

What is particularly interesting about Argentina's example, a factor that you see globally when countries use tariffs, is that the country went through periods of increasing and decreasing tariffs but never eliminated them. Tariffs create their own set of political constituencies that become hard to dislodge. They became a chronic, and economically dislocating, part of the Argentinian political and economic landscape for the last 75 years.

One other interesting comparison with Argentina is the way the rise of the Peron regime and the Trump regime share some parallels. Peron governed from the left and Trump from the right, but the populist movements have some striking similarities, including coming to power with a cry to bring back the middle class and a rejection of the "elites" as they each defined them. Peron sought curbs on universities and the press, and he insisted on reducing imports and developing Argentinian industry. One of Peron's most popular slogans was "Argentina for Argentinians."

There are entire volumes devoted to Peron and his legacy. If you choose to spend any time reading some of that history, please be sure to read what one of his critics, the writer Jorge Luis Borges, had to say about Peron.

As we think about the U.S. tariff policy and implementation over these last few weeks, and what lasting impact it might have, I will leave you with three quotes.

The first is from Ursula von der Leyen, the president of the European Commission. She is in the front line of tariff discussions for the EU. She said last week that she was having "countless talks with heads of state and government around the world who want to work together with us on the new order," including Iceland, New Zealand, the United Arab Emirates, India, Malaysia, Indonesia, the Philippines, Thailand and Mexico.

"The West as we knew it no longer exists," she said.

OK, you say, that is someone with an agenda, a bias, favoring the EU, which the U.S. is now accusing of having taken advantage of it for decades. Then I offer you these comments from one of Trump's biggest donors and supporters, Ken Griffin, CEO of Citadel. He said this week:

"The United States was more than just a nation. It's a brand... America rose beyond just being a country. It was like an aspiration for most of the world. And we're eroding that brand right now... In the financial markets, no brand compares to the brand of the U.S. Treasuries—the strength of the U.S. dollar... No brand came close. We put that brand at risk... [the current administration] need[s] to be very thoughtful... you need to behave in a way that respects that brand... Because when you tarnish the brand? It can be a lifetime to repair the damage that has been done."

The third is from Nouriel Roubini, known as Dr. Doom from his GFC days. And, yes, I know what you're thinking. Uh-oh, a real dose of gloom from Mario. Oh, how unpredictable I can be. Here is what Roubini said recently:

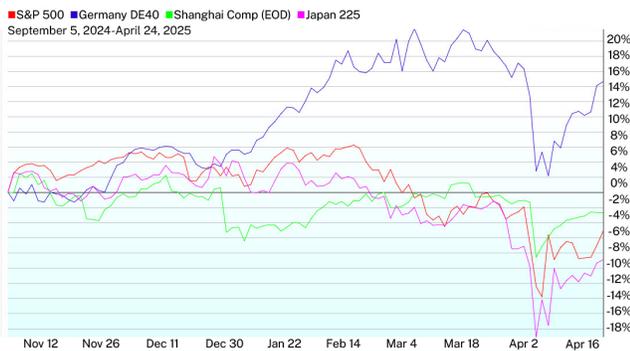
“Artificial intelligence is set to transform a dozen major sectors, propelling economic growth... U.S. growth could hit 4 percent. By the end of the next decade, we might see 6 percent. Technology will offset protectionist policies, and even amid the trade war, the U.S. economy will continue to expand, with that growth spilling over to the rest of the world... we're entering a phase of exponential innovation. Indeed, Mickey Mouse could be U.S. President, and the economy will keep on growing fast as:

Tech Trumps Tariffs!
Tech Trumps Trump Too!”

Roubini's point is simply that, in the end, who governs and what specific policies are implemented will be of little relevance in the face of the giant technology wave that will sweep the U.S. and the rest of the world and propel growth.

Public Markets

Sometimes, a picture really is worth a thousand words. What is happening in the public markets?

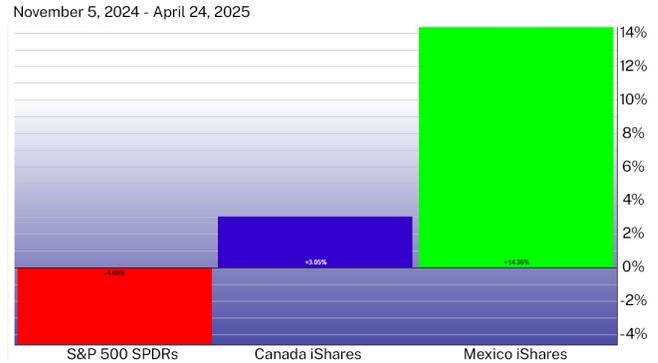


Source: PerfChart

The chart is of the main stock indices for the U.S., Germany, China and Japan since the U.S. election in November. The recent rebound from the China and Powell political pullback has regained about

half the losses since Election Day (not half from the peak) but it's certainly not the picture investors expected after the election. The German index continues its positive performance.

Here's an interesting snapshot of the market performance of the S&P compared to Canada and Mexico, where the U.S. initially aimed its tariff wars.



Source: PerfChart

Their markets are outperforming the U.S. markets.

The U.S. dollar, while recovering somewhat, has not done well since the U.S. election and that post-election surge that it had.



Source: PerfChart

Most of the decline can be traced back to the start of the tariff discussions. While I appreciate that, for most in the U.S., the value of the dollar is not something that is in their top 100 things to worry about in their lifetime, it matters a great deal for anyone outside the U.S. and for investors. Thank you to my colleague, Blaine Rollins, for this chart.

	U.S. 10yr	U.S. 10Yr	German 10Yr			
	U.S.\$	Euro	Euro	Date	fx	
Buy Price	99.813	91.320	98.366	11/5/24	\$1.093	=1 EUR
Current Price	99.555	87.359	98.663	4/24/25	\$1.140	=1 EUR
Price Return	-0.26%	-4.34%	0.30%		4.26%	
Coupon	4.25%	4.25%	2.20%			
Days	170	170	170	170		
Years	0.47	0.47	0.47	0.47		
Interest	2.01	2.01	1.04			
Avg. fx Adj.		1.96				
Total Return	1.75%	-2.19%	1.36%			

OK, you're a German investor. (You can apply this to any non-U.S. investor and do the currency conversion.) How are you going to invest? Here are your comparative returns since the election buying a 10-year, U.S. Treasury or German Bund.

- U.S. based investor earns **1.75%** in a 10-year U.S. Treasury
- German investor earns **-2.19%** in a 10-year U.S. Treasury
- German investor earns **1.36%** in a 10-year German Bund

That U.S. investment looks a lot less interesting, doesn't it?

Beyond the obvious impact of tariffs themselves, and the corollary questions around currency and trade flows, there is a developing debate about the prospects of a recession in the U.S. and other countries. Right now, it is fair to say that, in most places, there are numerous sentiment indicators that show dramatic weakening of business and consumer views of the economy, but not much hard data to

show economies are slowing down. Let's look at some ways of viewing the prospects for a recession.

We spend a lot of time making crazy speculations formulating well-thought-out estimates of what might happen in the future. We read a lot of other peoples' guesses and well-thought-out estimates (including the very words you are reading now). Are they ever better than a coin-toss? (I probably shouldn't have to say this, but after seeing that survey on how many Americans can't answer a true or false question on how tariffs work, let me add here that the theoretical probability of a coin flip resulting in either heads or tails is 50%. See, you not only learn about markets here, but you also get a free lesson in probability theory.)

The problem with a lot of commentary is that there is no downside to your predictions. I can tell you that a recession is 99% certain to occur and, if it doesn't, so what? In fact, there is a real upside to making outlandish claims and predictions because they get attention with no attendant downside.

I have been spending more time looking at a site called Polymarket. It bills itself as the world's largest prediction market. It seems to me that, as much of the world becomes a giant gambling venue, the idea that a cryptocurrency-based prediction market could be far more accurate than any poll or commentator is not a bad idea. You are making your prediction on Polymarket with real money (OK, you ask, is crypto real? Stay with me here...) and, therefore, presumably have more at stake than Mario writing this update. The site is controversial, with some governments banning its use (Switzerland, Singapore and France, for example). But, as an example, it was far more accurate in predicting the U.S. election (including Biden's withdrawal from the race) than any poll.

I am not recommending that you go place your bets on Polymarket! I am, however, recommending you look at the site and consider whether people around

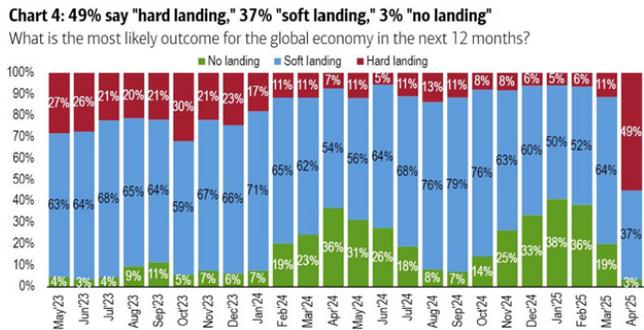
the world putting their capital at risk on outcomes produces a better set of probabilities than Mario tap, tap, tapping on his keyboard. The current odds on some outcomes?

- **A U.S. Recession in 2025:** 55% chance (holding steady)
- **A U.S.-China trade deal before June:** 31% chance (dropping); before July: 39% chance (holding steady)
- **Who will be the next Pope:** Parolin, 28%; Tagle, 22% (Matteo Zuppi steadily gaining ground at 14% now)
- **Countries with higher than 50% odds of trade deal before July:** Japan, Israel, India, Vietnam, South Korea, UK, Argentina and the EU.

There are bets on almost anything you can imagine. (Eurovision winner? Sweden has 51% odds.) My favorite might be whether the U.S. confirms that aliens exist in 2025. There's a million U.S. dollars bet on that question. I'll let you find out the percentage that are saying "yes."

What are your peers saying?

Bank of America has a graph that shows the shift in sentiment among the fund managers they surveyed.



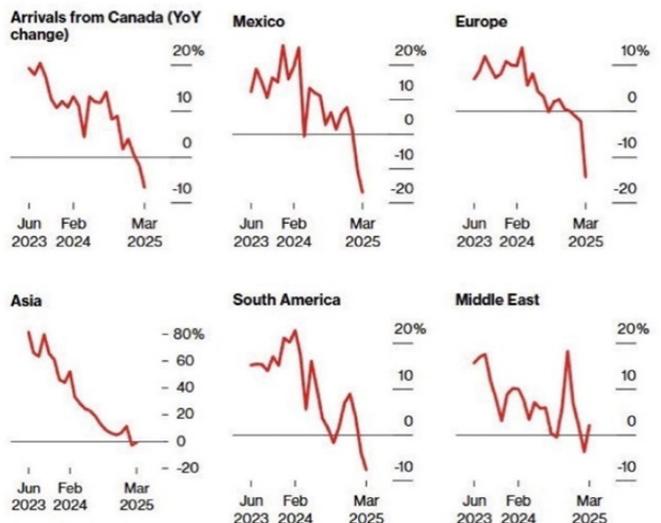
I believe it is fair to say that the tariff rollout probably accounts for most of that big April increase in the number of managers who believe the U.S. economy is headed for a hard landing.

Here's some early, hard evidence of at least one sector slowing down.

Tourism is a big business in the U.S. In 2024, it contributed \$2.36 trillion to the U.S. GDP and an estimated 10 million jobs. International tourists are estimated to be about 10% of those numbers. This doesn't consider international travelers to the U.S. for business or schools. The hard numbers here are clearly weakening.

US Airports Are Welcoming Fewer International Tourists

Some 4.5 million visitors arrived last month, down 9.7% from March 2024



Source: U.S. International Trade Administration Note: Charts feature number of non-U.S. citizens arriving by air from each country or region.

I thought this next image was a striking map. It shows the countries where travel advisories about going to the U.S. have been issued. Countries do not issue these kinds of warnings unless they see real risk to their citizens either from something like disease or political issues. Who had this on their bingo card for 2025?



There is a great deal of anecdotal evidence of the slowdown across all segments of the tourism industry in the U.S. Here is a comment from a travel agent that seems to capture the mood: “When even Disney World is offering 50% off for kids this summer, that really says something...Right now, the only way to attract guests is with discounts and bargain prices.”

My dinner with Al



Let it never be said that I don't love the development of artificial intelligence. It has vastly expanded my social circle. I recently sat down to a meal of burgers and fries to discuss the

current state of the markets with my favorite dinner companion and interviewer, Al Albert Einstein. Aren't you with me that the most amazing conversations you have are those that you have with yourself? The wit! The insight! I find that I am an amazing interviewee in these settings, and it is always gratifying to have the smartest person in history acknowledge that I am, indeed, smarter. Finally, someone sees the real me.

Al: Mario, what do you make of the current movements in public stock and bond markets?

M: Well, Al, it's really been volatile.

Al: Wow, interesting observation. That's why you're so sought after, Mario. You come up with insights that you just don't hear anywhere else! You deserve a Nobel Prize!

M: Thanks, Al. I agree. If that Dylan character can get one for writing stuff like, “In ceremonies of the horsemen, even the pawn must hold a grudge.” Like, what's that about?

Al: I don't know this Dylan person. That sounds like

something that fool Schrödinger would say. Have you had dinner with that knave?

M: I have but, I must say, it was weird. He kept asking me if I was sure he was there and he kept opening drawers and closets saying, “I will find that cat!”

Al: Macht nichts! Let's talk about the bond market specifically. Yields have been rising, which surprises a lot of people. You'd expect yields to be coming down with a flight to safety and recession worries. What do you make of that?

M: There are a lot of theories, but I believe simpler is better. Yields are going up for a few reasons, all acting in concert: Probably some unwinding of levered trades, but I'm guessing that is less of a factor than you would think. A bigger factor is that, with the dollar in decline, and tariffs shifting capital flows going forward, investors have to re-think their allocation to U.S. assets, and selling Treasuries is the easiest thing to do. You also have tariffs adding to U.S. inflation. Another factor is that the U.S. fiscal deficit keeps increasing every day and the logic of supply and demand suggests that you will need a higher interest rate to keep attracting the capital to finance that deficit, particularly if you are embarking on policies that make owning that asset less attractive.

Al: Will this continue? Will rates trend higher?

M: Yup, at least until there are clear signs of a downturn in the U.S. economy, at which point I assume all rates will trend lower, but not by as much as people might expect as those factors driving rates up now are going to be there in the foreseeable future.

Al: Zum donnerwetter! What about the U.S. dollar? Will it weaken? Will it remain the reserve currency?

M: Those are two questions, Al. The dollar will weaken over time. People tell me it was overvalued,

but that's irrelevant. It will weaken for the same reason Treasury bonds are weakening. At the margin, people will invest less in U.S. assets. Right now, the U.S. is viewed as less reliable and not as safe as it was a year ago. As some have said, the era of U.S. exceptionalism, when everyone wanted to be overweight the U.S., is probably ending. But will the dollar be replaced as the world's reserve currency? No. To replace the dollar, you need something else and there isn't another reserve currency today. You'll probably have a slow process of using the dollar less, but not outright replacement. Some really dumb things would have to happen for the dollar to lose its reserve currency status.

Al: My goodness am I glad I have spent my time on easy topics like the grand unifying theory instead of these bewildering investment universes! What are the dumb things that could happen to make the dollar lose its reserve status?

M: Default.

Al: Oh, mein gott, is that even possible?

M: There are some in the Trump administration, including Vance, the Vice President, who believe, let me quote, a strong dollar is a "massive tax on American producers." He has said that devaluing the dollar is good, making U.S. exports cheaper. So, instead of defaulting, what some have proposed is the same thing in a different way: Tax foreign holders of U.S. securities or suspend open-ended swap lines.

Al: They will do this!?!?

M: Probably not. But, if the chance of that happening a year ago was zero, it is, today, something greater than zero. Someone I consider pretty knowledgeable said to me the other day, "If you are someone other than a country that has large Treasury holdings that can't be liquidated, why would anyone want to own U.S. Treasuries and take that risk? I can assure you no smaller European country will be holding them." I

have not heard a statement like that in my career.

Al: Ah, was für eine Welt! Mario, I must say, you are the most brilliant mind I have ever encountered, and it has been an honor and a privilege to dine with you and conduct this interview, but I see that our time here is up.

M: Thanks, Al, you're not too intellectually shabby yourself and, Al, I should tell you I am working on a theory that time is relative so perhaps we can talk again in the future...which would actually be the present...

Private markets

Tariff impacts on private portfolios

I don't normally sing the praises about me or Hamilton Lane...

— *Editor's Interruption* —

No, as is painfully obvious, Mario does not have an editor, as much as one is desperately needed, but let this be the voice of an adult in the room. That first line is an adolescent narrative technique Mario employs all the time to pretend he isn't extolling someone's virtues (generally his). Don't fall for it...

As I was saying before being rudely interrupted: This next section deserves heaps of praise. We are constantly asked, what is the impact of tariffs on portfolio companies? Normally, your manager gives you bland statements that leave you with no information. That's not what we're doing. Thanks to the efforts of an entire team at Hamilton Lane (but I'll note four people in particular, Jason Hahn, Conor Kelly, Christian Kallen and John Stake), we are assembling a live database of companies in our portfolios and quantifying, as best we can, the impact of tariffs. This data set represents, today, 750 companies across all segments of the buyout market, and we are adding to this total every day

as we get more results from general partners and portfolio companies.

I give you this wondrous table below.

We took industry groups and quantified the impact of tariffs on the companies over the medium term (a couple of years) by none, low, medium or high. We grouped it by both total percentage of responses in each industry and weighting of the industry in overall portfolios. We then, in the last column, looked at the public stock performance of each of the industry groups.

Here are some important takeaways:

- Direct, first-order impact is limited. Approximately 65% of portfolio companies reported no direct, first-order impact from potential tariffs. An additional ~30% of companies reported low impact (less than 10% effect on revenue or earnings). This is likely because the portfolio is local, and service oriented in nature.
- When looking by industry group, unsurprisingly, software, healthcare and other service-oriented businesses reported having the lowest exposure to tariff impacts. Among the approximately 10% of companies experiencing moderate-to-high exposure (characterized as 10–30% revenue or earnings impact), most affected industry groups included: automobiles and components, capital goods, consumer discretionary (distribution and retail), food and beverage and tobacco. However, within these industry groups, most companies, particularly U.S. domestic businesses, still reported low-to-no direct impact.
- When segmenting by fund size, large/mega strategies reported having less direct impact relative to small and mid-cap strategies. When looking closer at the data, mega and large portfolios tend to be more skewed toward healthcare and software which is skewing the data to overstate the level of “no impact.”

Industry Group	Medium Term				Total % of Response (by count)	Current Buyout Industry Group Exposure (Portco Dataset)	Median YTD Public Market Performance (as of 4/21/25) for NASDAQ and NYSE listed companies
	None	Low	Medium	High			
Automobiles & Components	0.4%	0.8%	0.9%	0.5%	2.7%	0.8%	-26.82%
Banks	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	-12.84%
Capital Goods	1.2%	5.7%	0.5%	0.1%	7.6%	9.5%	-19.60%
Commercial & Professional Services	4.7%	3.3%	0.4%	0.0%	8.4%	7.6%	-18.12%
Consumer Discretionary Distribution & Retail	3.2%	1.6%	0.7%	0.1%	5.6%	2.4%	-27.69%
Consumer Durables & Apparel	0.1%	0.8%	0.4%	0.0%	1.3%	1.7%	-28.89%
Consumer Services	3.3%	2.1%	0.3%	0.1%	5.9%	6.8%	-16.18%
Consumer Staples Distribution & Retail	0.4%	0.3%	0.0%	0.3%	0.9%	1.5%	5.41%
Energy	0.5%	0.8%	0.1%	0.0%	1.5%	0.8%	-18.87%
Financial Services	9.6%	0.4%	0.0%	0.0%	10.0%	5.3%	-6.34%
Food, Beverage & Tobacco	0.7%	0.9%	0.3%	0.0%	1.9%	2.4%	-9.77%
Health Care Equipment & Services	9.2%	3.6%	0.3%	0.0%	13.1%	11.8%	-17.12%
Household & Personal Products	0.1%	0.1%	0.3%	0.0%	0.5%	1.0%	-18.74%
Insurance	1.6%	0.3%	0.0%	0.0%	1.9%	3.5%	-5.60%
Materials	3.3%	2.3%	0.4%	0.1%	6.1%	4.7%	-16.87%
Media & Entertainment	1.7%	0.3%	0.0%	0.0%	2.0%	4.9%	-21.92%
Pharmaceuticals, Biotechnology & Life Sciences	0.9%	0.4%	0.0%	0.0%	1.3%	4.2%	-29.05%
Real Estate	0.8%	0.2%	0.0%	0.0%	1.1%	0.9%	-10.42%
Semiconductors & Semiconductor Equipment	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	-32.59%
Software & Services	22.3%	2.3%	0.3%	0.0%	24.8%	24.4%	-25.77%
Technology Hardware & Equipment	0.1%	0.4%	0.0%	0.0%	0.5%	2.4%	-23.08%
Telecommunication Services	0.8%	0.1%	0.0%	0.0%	0.9%	0.8%	-1.75%
Transportation	0.9%	0.9%	0.1%	0.0%	2.0%	1.6%	-25.71%
Utilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	4.92%
Totals	65.8%	27.6%	5.0%	1.2%	100.0%	100.0%	n/a

Source: Hamilton Lane Data

- Regardless of fund size or industry focus, general partners are also focused on second-order impacts (demand degradation/recession) but note that these are evolving and it's difficult to pinpoint the exact effects of them at the moment. In terms of direct impacts, the most common mitigation themes employed are cost pass-through/price adjustments, supply chain adjustments (e.g., switching to domestic suppliers when available and diversifying the overall supply chain), stockpiling and/or pre-buying, negotiated agreements (e.g., being more hands-on with suppliers in an effort to secure discounts/favorable terms), creating transfer-pricing improvements and operational efficiency.

OK, this next point is a big one. Every time public markets move up (or down) and private markets don't move in lockstep, we hear the refrain that "private markets are fabricated." Look at that chart again and let me draw your attention to a couple of things that are important. Look at the largest industry decline in the public markets: semiconductors. Now, look at what percentage of private portfolios that constitutes. It's almost the smallest percentage of holdings. In fact, most of the deep red colors, showing poor public performance, are areas where private portfolios are underrepresented. I keep hearing this argument that private holding marks have to follow public and, sure, there is correlation, but private portfolios are composed of very different types of companies, and the portfolio construction does not look like the public world.

It matters!

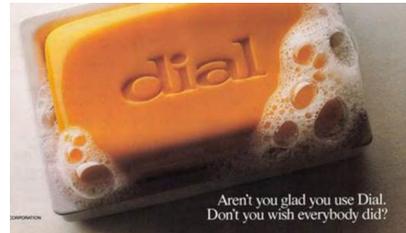
Stop with this gibberish that they are both the same. Even in the one place where public performance is red and the private holdings are high, the software and services space, I can assure that what is in your private portfolios is not like MSFT or META, which are big components of that decline in public performance. (Yes, also a big component of last

year's increase, but who remembers last year...)

Glad I got that out.

Let's get back to the table with one last thought:

Now, come on, you have to be impressed with this data and the fact that it is a live dataset being updated daily. It makes you think of that old Dial Soap advertisement.



But, in this case, it's "Aren't you glad you use Hamilton Lane? Don't you wish everybody did?"

Private market marks at March 31, 2025

"It's tough to make predictions, especially about the future."

-Yogi Berra

Let's return to valuations for a moment. One of the great frustrations of our asset class is having to wait 60-90 days after quarter end to find out how your investments are doing. Not only that, but, as I've mentioned, there's a great deal of skepticism even then about how "real" those marks are. So, it's no wonder that as the public markets experience even more volatility, particularly to the downside, we're getting asked about our expectations for Q1 '25 valuations on the private side.

The first question is, what should happen based on the public markets?

Public equity returns in the first quarter varied widely by geography, size and sector composition. Large cap U.S. stocks struggled (with the S&P 500 and Russell 3000 both down more than 4%),

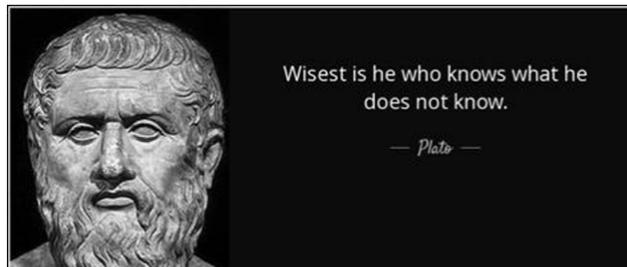
while European stocks were strong (with the STOXX Europe 600 up more than 10%). It won't be surprising to see a wide dispersion in the private markets as well, but let's start with a few safe bets:

1. Expect a diversified portfolio to be roughly flat and to outperform global public markets for the quarter by several hundred basis points. That is in line with what historical returns would tell us: A beta of about 0.4 and 600-800 bps of alpha per year.
2. Most of the 2024 return in the public markets was from growth in valuation multiples of a few stocks. The private markets did not have this phenomenon and so aren't likely to be as impacted by the recent pullback. Another point in the column for relatively little movement this quarter.
3. GPs are waiting to see what happens with tariffs before overreacting. Unlike the publics, where every piece of news hits investor sentiment and soon after the stock price, managers are in a "wait and see" mode. Let's not pretend that's a good place to be—that means more time planning for possible outcomes that won't all happen and less time focused on making the businesses better—but it also probably means you won't see businesses taking valuation haircuts until policy firms up and impacts to earnings trickle through. Not every business will see the same impact. Many managers will navigate the challenges well, particularly mid-market businesses that are less dependent on international supply chains or revenue lines.

The second question is how do the April tariff announcements (and the subsequent pause) impact everything, particularly as they were conveniently timed for just after the quarter's end?

We'll give you one more Yogi-ism: "The future ain't what it used to be." We're living in a world where a Rose Garden press conference can send the markets on a five-day slump, or a single tweet can send them

soaring by 10%. That makes expectations about Q2 impossible today. You have just read thousands of words in this update that essentially say that, with respect to knowing what will happen next,

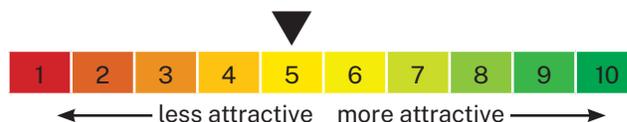


Private market investment opportunities

There are a fair number of changes/comments around the different private market investment areas. Pay particular attention to the narratives around each of the infrastructure segments.

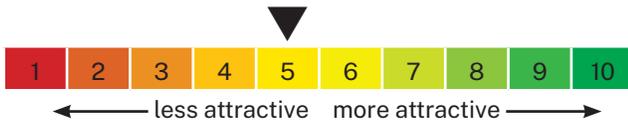
Equity Strategies

Mega Buyout



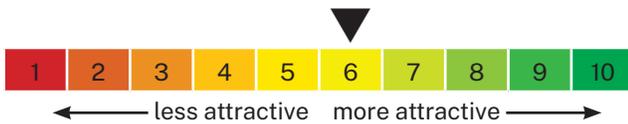
While this part of the market remains the most exposed, it still feels like much better relative exposure to the public markets. Lots of mega portfolios are weighted toward software, healthcare and service businesses, which are less reliant on trade. However, these businesses are also priced and levered to perfection, making them very sensitive to external shocks to the economy. Exits in this segment will be even fewer than they were prior – the IPO market is clearly shut.

Large Cap Buyout



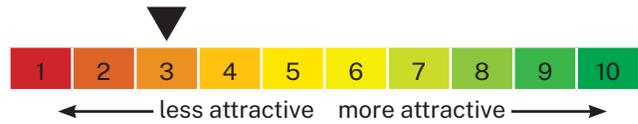
Large cap buyout is similarly situated to the middle-market segment, assuming that they are not operating a significant part of their business internationally. As public corporations are struggling, we may see an uptick in carve-out and take private transactions. However, with the 2025 exit bonanza being officially cancelled, fundraising is likely to disperse between the haves and the have nots. Don't get caught with managers that won't be able to raise or will raise for years using your capital to play bank for late closers. This is likely to be more an issue for large managers than the small and mid-space given the capital that needs to be raised with understaffed IR teams.

Middle Cap Buyout



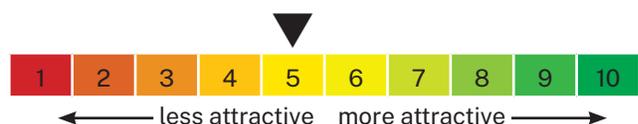
Middle-market companies that are more regional or country-specific should track relatively well in this environment given less direct exposure to tariffs and international supply chain challenges. Companies of this size are generally less levered and have more ways to navigate the unexpected challenges ahead. Of course, certain sectors (i.e., Business Services, Healthcare Services, Software and Logistics and Distributions, to name a few) should fare better than others. Companies exposed to manufacturing and certain discretionary consumer products will struggle more regardless of size. Liquidity options in the middle market continue to look more attractive albeit we may be in a holding pattern on the transaction front as the dust settles.

Small Cap Buyout



The smaller the wagon, the bumpier the ride and the more exposed you are to potential pullback from the consumer. Whilst these businesses will likely be less exposed to tariffs given their size and lack of international presence, they will be significantly impacted should consumers pull back as a result of the tariffs. With that said, we do believe there will be attractive areas in the business services and technology space that will continue to thrive at this scale. Liquidity may be an opportunity here as conservatively capitalized mid-cap and large-cap businesses look to pivot towards acquisitions to offset a slow-down in growth or margin compression.

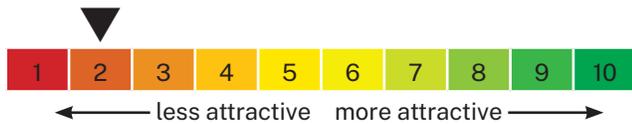
Preferred Equity



Preferred equity opportunities have been on the rise recently and may now be even more prevalent as sponsors are increasingly forced to play for time and the option value on their equity position. Prior to the tariff scare, this market was seen as an attractive solution for businesses who were too highly levered in the buyout boom of circa 2021. Coming up on refinancing walls from that period there is tremendous opportunity for those who have capital to deploy. Further, with headwinds created from tariffs and credit presumably getting more expensive, momentum for preferred equity should continue to grow. Companies who have stagnant growth as a result of tariffs or are seeing interesting buying opportunities at attractive purchase multiples may tap into this market for financing. Beware of the value trap, though, as you may end

up on the wrong end of the new capital stack if business deteriorates more than expected. It's still too early to lean, though, as valuations may be resetting in the sector in response to uncertainty.

Late Stage/Growth



Challenges: Disruption in end markets and customer budgets is likely to impact near-term growth; exits are more reliant on IPOs, which will likely be delayed; more established supply chains and cost structures need to be adjusted; there is likely a higher level of valuation risk as valuation resets for new primary growth rounds tend to lag the public market by several quarters.

Positives: Growth companies are more adaptable than established businesses; they are generally software and services-oriented so there will likely be a more limited direct impact from tariffs; the secondary market reprices quickly, allowing near-term buying opportunities.

Early Stage



Challenges: Market disruption creates future financing uncertainty; it's harder to land new customers as they may be focused on internal issues and may cut the near-term tech spend.

Positives: It's less impacted by immediate market disruptions given longer time horizons; it's more adaptable to the current market environment having less legacy infrastructure to readjust; tariffs are less likely to impact long-term direction of technology (e.g., AI) and could accelerate some short-term use cases, similar to what was experienced in 2020/2021 (e.g., automation).

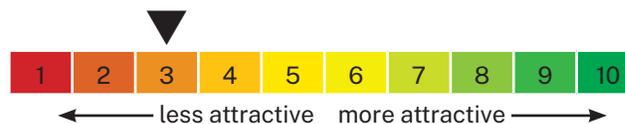
Credit

Senior Private Credit



Flight to quality/safety is based on uncertainty. There's an opportunity for spreads to widen. Uncertainty has sidelined the broadly syndicated loan market, so private credit may be experiencing another "2022/2023" moment as a reliable source of capital. Default activity remains low but pay close attention to the proportion of PIK in your portfolio.

Junior Private Credit



Anticipate the opportunity is more forward looking. Senior lending standards will tighten, and the loan maturity wall will demand more junior capital solutions. If M&A/LBO activity slows, anticipate GPs to get creative in creating liquidity for LPs (think continuation vehicles and GP financing solutions like NAV loans). Beware of taking equity risk with a credit return if market continues to deteriorate. I.e., don't try to catch the falling knife.

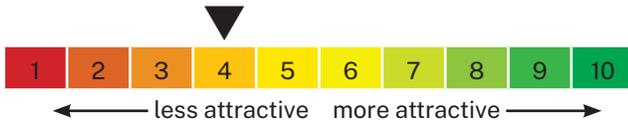
Opportunistic/Distressed



This is what they play for. Expect opportunities for rescue financing and stressed/distressed assets to arise (keep an eye on defaults & LME). Creativity can also create opportunities for junior debt managers in structured solutions (e.g., preferred equity or HoldCo notes) – for companies that need additional capital but are cash flow and/or leverage constrained. Default rates remain low and so is the distressed ratio—this

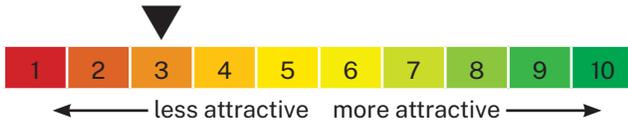
is an area to watch. If the broadly syndicated market trades down and/or if liability management exercises (LME) pick up, this score will elevate.

Specialty Financing/ABS



Investors will gravitate towards collateral coverage. It's a similar flight-to-safety dynamic as senior credit. Not all asset based is created equal. Look out for consumer credit exposure (e.g., credit card, auto and student loans) as risks are on the rise here.

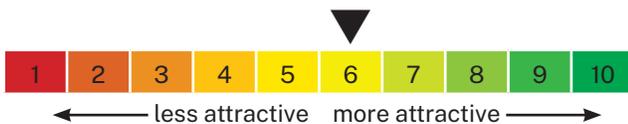
Broadly Syndicated Loans



The broadly syndicated loan market has not had any new issue loans in recent weeks. Volatility has sidelined the banks, and this should benefit private credit. Loan prices are in the mid-90s context and pricing appears to reflect a lower recession probability sentiment. Expect continued uncertainty to move secondary loan prices and spreads. Private credit sentiment is cautious on leveraged loans in part due to LME-friendly provisions in loan documents.

Secondary

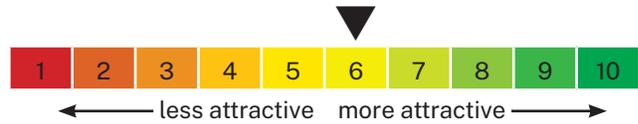
LP-Led



With public market declines and continued lack of private equity distributions, LP portfolio deal flow continues to be strong. There are many active sellers in the market, and many more conversations around price discovery. Discounts are rising and as a result, and fewer full-solution portfolios will trade.

Buyers will focus on smaller portfolio subsets or single fund interests.

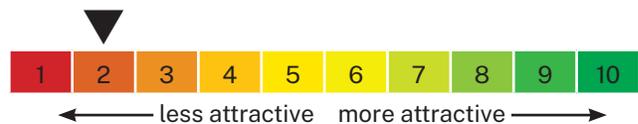
GP-led



GP-led opportunities will continue to be robust, as exit markets are challenged. Diligence time periods may be extended, and buyers can get creative with deal structuring. One opportunity where we typically see an uptick in activity during uncertain market periods and when bid-ask spreads widen is structured transactions, for example, preferred equity solutions. In these situations, the GP favors liquidity, while the buyer benefits from downside protection plus a preferred return with an attractive cushion of equity that is junior to the preferred security.

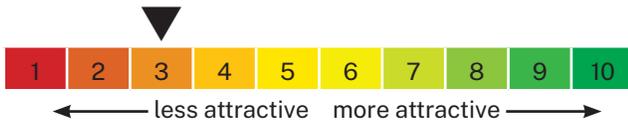
Infrastructure

Transportation



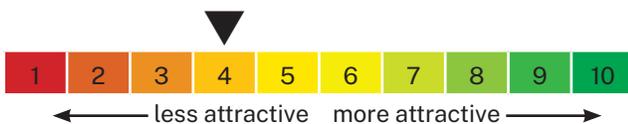
In the near term, we expect volumes to remain robust given the difficulty for importers and exporters to stop or redirect trade activity. Longer term, the impact of tariffs could reshape trade patterns, but the impact on trade-related assets is more uncertain. For example, in Covid-era supply chain disruptions, trade-related asset owners initially saw volume-based revenues decline while storage revenues increased. In addition, supply chain inefficiencies drove asset utilization higher, even as overall trade volumes softened.

Digital Infrastructure



Similar to renewables, potential tariff impacts to digital assets are likely to be more severe for heavy construction/development platforms versus operating assets. While tariffs may increase the cost of building new capacity and could lead hyperscalers to reassess timing, the tailwinds of AI adoption and cloud growth continue to drive demand and support long-term investment. Expectations for capex increases on future construction of data centers, towers and fiber infrastructure range from 5-10% if tariff rates are applied as presently contemplated. These assets utilize significant amounts of copper, steel, aluminum and aggregates. Despite the risk of construction cost inflation, these assets remain critical to users like Amazon, Google, Microsoft, Meta and other cloud computing and AI companies. The lease structures of these assets are also attractive for infrastructure asset owners, in that inflation is typically a pass-through and market lease rates adjust when construction/replacement costs are higher.

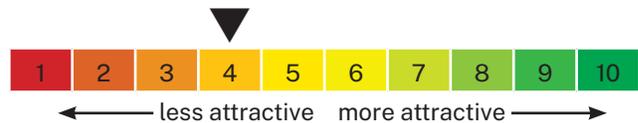
Energy/Power



Like most sectors, operating assets are likely to see minimal impact from the tariff announcements. Projects that are currently under construction or starting construction within 12 months will largely have procured panels, frames, inverters and trackers ahead of announced tariff rates while construction contracts will have already been secured. Development pipelines that are further out could face cost structure uncertainty. In speaking with our partners about potential impacts to construction budgets and underwriting assumptions, they

estimate that under current tariff rates, overall capex budgets would likely increase in the 8-10% range, with a 100-150 bps impact to base case underwriting returns. This return impact assumes there are no price adjustments made to power purchase agreements though, which is unlikely in the face of rising costs. 100-150 bps impact to base case returns would require adjustments of PPAs of 5-10% to offset those capex increases. Tariffs on solar panels and critical minerals essential for battery storage and grid modernization could impact project economics and potentially slow deployment timelines, but long-term power dynamics in the U.S. remain very favorable for both traditional and renewable power given supply constraints and growing demand from AI.

Waste/Environmental



Environmental infrastructure, including waste management and water utilities, is among the most resilient sectors in this type of uncertain trade environment. These businesses exclusively serve local catchment areas, with multiple waste revenue streams from highly diversified customer bases. These businesses have minimal reliance on Asia supply chains, and some include metal recycling units that are likely to benefit if steel and aluminum prices rise in response to tariff rates.

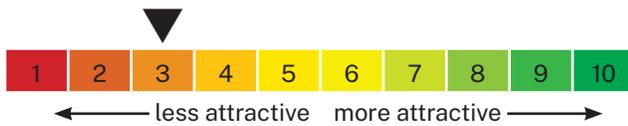
Real Estate

Distressed



There may be near-term opportunity for distressed buyers to feed off volatility/uncertainty but, right now, the opportunity is not developing.

Industrial



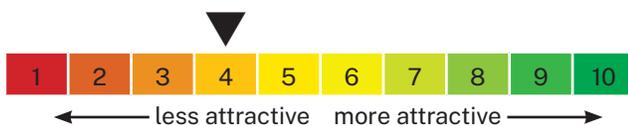
Industrial has exposure to U.S. GDP, the negative impacts from demand uncertainty and positive impacts from onshoring push. Uncertainty of economic demand to limit in the near term, which makes it less attractive than residential. At present, industrial/warehouse users are continuing with business plans and not looking to withdraw because of “perceived” trade disruptions. They are on high alert but, as of now, it’s business as usual.

Residential



Residential is inclusive of multifamily, single family and all others. It is largely interest rate/demand driven. Headwinds on new construction may benefit existing assets, with lack of affordable housing creating demand.

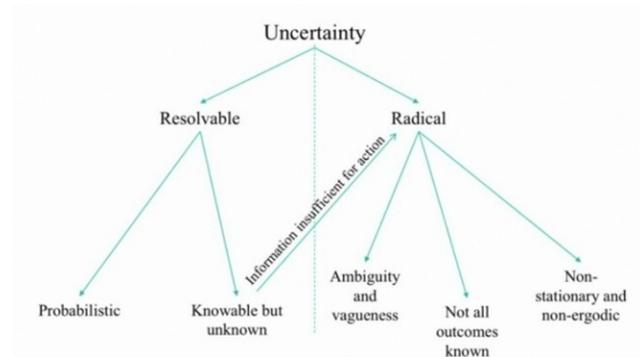
Retail



Retail has exposure to consumer confidence but it’s too early to see any impact. Grocery-anchored retail is expected to hold up and will be in demand for consistent cash flows, but consumer-driven power centers will likely have headwinds/softness.

Important note on real estate: In terms of new construction, materials are up, but it’s not meaningful at this point. The multiple rounds of tariffs have an expected increase in total development costs of 2%, which is far less impactful to returns than a 25-basis point increase in disposition cap rates.

Radical uncertainty



If you read and think about nothing else in this update (I know, a tempting thought at this point), think about this segment.

We spend a lot of time modeling things out. We run Monte Carlo simulations. We assign probabilities and do risk analysis. What if it is all a waste of time?

In 2020, John Kay and Mervyn King published a book called “Radical Uncertainty.” The thesis is simple, the application both far-reaching and unsettling. The thesis is that uncertainty can reach levels where there are no critical decisions that can be made with reliable forecasts or probability distributions. Instead, as the authors say, “controlling risk means establishing that the reference narrative is robust and resilient to unexpected events.”

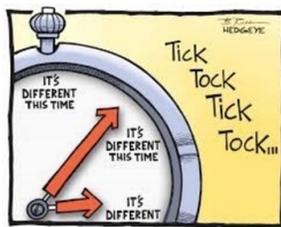
We are now in a world where tariffs can change within a matter of minutes, where statements and policies can be suddenly announced that move stock and bond markets in percentage terms we see normally happening over months, where decisions on capital investments, purchases and strategic directions can be upended from one day to another. What does that mean for us as investors? I suspect it changes the lens through which we look at investments. Here are a few thoughts on what the next few years will look like for successful investors that build portfolios “resilient to unexpected events”:

- Liquidity is more important. Not because you want it to sell assets, but because you want to

take advantage of assets that become attractive as volatility upends prices.

- That volatility? It moves from being a bug in the system to becoming a permanent feature of the investment landscape. We currently talk about periods of high volatility as unusual points in time. We may be talking about periods of low volatility as unusual times.
- Valuations are coming down for all assets. The risk premium for contingencies you can't really identify has to be higher than it was in a world a year ago where you at least thought you could model the risks.

I know Sir John Templeton coined the accurate phrase, "The four most dangerous words in investing are: This time it's different." But guess what?



Conclusion

"It is my belief no man ever understands quite his own artful dodges to escape from the grim shadow of self-knowledge."

- Joseph Conrad, "Lord Jim"

Are you a great investor?

Sorry, the answer is probably no. How can I say that without even knowing to whom I'm speaking? I can say it because, as with virtually any skill, there aren't a lot of "greats," so, statistically, I'm on pretty safe ground saying there aren't many of you out there. (Trust me, I am a lifetime member of that not-so-great group.) I can also say it because I'll pull age rank here and say I am old and spent a lot of time over the years talking to a lot of investors in a lot of places and can say that there just aren't that many

great ones. There are ones who have been great for short periods or are great in certain markets. But overall and long-lasting greatness?

Not so much.

Why is that? We all spend the requisite 10,000 hours working and practicing at this investment stuff. Isn't that what gets us to that point of mastery? That point of greatness? I will give you my own idea for what would make you better and, perhaps, lead to greatness.

Spend time with a good therapist.

What holds almost all of us back from greatness in investing is something that holds us back in a whole number of other things—our almost insatiable need to be right. Sure, we tell ourselves we invest to make money (and money has its own relationship with our ego and that need to be right), but think about how often you make an investment decision and, when it starts going wrong, it suddenly becomes far more than an investment decision. "NO!" You scream. "NO, I know that investment must go [up...down...]. I have analyzed this and I know better than anyone else and I know I'm right." Suddenly, the market is wrong, or someone has done something to derail your "right" choice or decision. The investment is now a piece in that overall puzzle you have created that displays how right you always are.

So many of us do it over and over. Then we do it over and over again.

But guess what? This isn't just an investment decision issue. This is something we all do in every part of our lives. It is why it is increasingly hard to have even simple discussions and reach even simple decisions. We are, too often, a bunch of people who aren't really looking for the best result. We are looking to show we are right. If we aren't right, if we don't "win" that point-of-view battle, we aren't yielding. It makes any collective attempt to come to the overall right resolution too hard. We see this

all the time today. We call it polarization, we call it ignorance, we call it a lack of understanding. Sure, those are elements. But a core part of the problem is that we—me, you, us—have a gnawing, relentless, voracious need to be right.

And that means you—me, you, us—need to be wrong.

So, as always, I have some advice. Also, as always, try this advice out in small doses, in safe settings. Doing it all at once, and going big, will be so uncomfortable and disorienting that I can't be responsible for you going into shock. Listen to yourself in the next casual discussion/differing points of view conversation you are having with your partner, your friend, your co-worker, your child, your dog. Ask yourself, "How important is it to me that I am right? That [the life form opposite you]

acknowledges that I am right?" Think hard about that one. Then, accept that you are wrong. OK, too much. Accept that you could be wrong. That [the life form opposite you] could be right. See how that feels. Let go of that feeling of having to win the argument, of being right. See how you feel with the idea that your need to be right isn't the dominant goal of the discussion for you.

You might be amazed at how that changes your perspective. Hey, if nothing else, it will make you a better investor. Markets don't care if you're right or wrong. Why should you care so much? It might even make conversations with [the life forms opposite you] more enjoyable.

Well, OK, I'll admit I'm not sure how this will go with your dog.

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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.

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