Accessing the Infrastructure Opportunity

Hamilton Lane

Key Considerations

Structural Issues	Strategic Issues
• Active vs. passive management	• Key metrics for success - job creation, as other criteria
• Consultant relationship - discretionary vs. advisory	• Industry areas of focus - transportation, energy, communication
• Investment approach - direct vs. fund investing	• Greenfield projects vs. existing projects/privatizations
• Return goals - fixed income orientation vs. private equity like	• Geographic focus - specific states/regions
• Fee structure - management fees, carried interest, other incentives	• Partnerships - willingness to bring in other partners with agendas
• Use of leverage - financial engineering/capital structure risk	• Overall control of program desired
• Holding period range (5-20 years)	

Lower Risk, Lower Return ⟷ ***Higher Risk, Higher Return***

Hire Advisor	**Opportunistic Mandate**	**Discretionary Vehicle**	**Create Stand Alone Co-Investment Vehicle**	**Build a Direct Investment General Partnership**
• Fund Investments Only	• Funds and Co-Investments	• Co-Investments and Fund Investments		

Key Issues

Hire Advisor	Opportunistic Mandate	Discretionary Vehicle	Create Stand Alone Co-Investment Vehicle	Build a Direct Investment General Partnership
• Work with current infrastructure market offerings	• Less structure • Allows for evolution • May be less efficient • Provides flexibility and allows for strategy evolution	• Allows investor to tailor approach to market and mandate • Lower net fees	• Allows for targeted approach • Lower cost than fund only focus	• Highly concentrated • More control • Requires active role • Expensive resources to attract and retain

Infrastructure/Natural Resources Asset Types

Asset Types

- Natural Resources
  - U.S.
    - Augmented supplies of natural gas have impacted the dynamics of midstream assets as well as power generation economics
    - A need for collection networks and processing facilities in new gas producing
    - Fuel costs and regulation now greatly favor new gas-fired power generation vs. coal
    - May look to reconfigure gas import facilities for export
  - In Europe, regulated unbundling of transmission and distribution is leading to strategic asset sales
- Transportation
  - Recognition post-crisis that economics are different from regulated infrastructure
  - Lower than expected traffic volumes have hurt road and airport concessions
  - Recovery in GDP and global trade volumes have improved revenues of ports and logistics assets
  - Some movement on PPPs in the U.S., but progress remains slow
  - Select opportunities may be available to purchase from overleveraged sellers
- Renewables
  - Solar and wind often rely on government subsidies or mandated user tariff for viability
  - Highly regulated sector with incentive structures differing by jurisdiction
  - Government subsidies for clean energies may fall victim to fiscal pressures, as has been the case in Spain
  - Focus on Hydro and wind with a cost advantage to the local base load production

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What We Are Seeing

- Market Opportunity
  - Yield and stability of infrastructure are broadly attractive to institutions
  - Investors risk bidding against parties with a low cost of capital
  - Stable assets with nothing wrong with them are not cheap
  - Opportunity exists in creating assets attractive to passive buyers
    - Structuring/jurisdiction expertise
    - Operating component
    - Development component
    - Aggregation of small assets
  - Higher risk strategies
    - Leverage up small assets
    - Play for exit value
    - Take demand/GDP risk
- Fees
  - Headline fees still at 1.X% and 20% carry
  - Discounts for LPs committing > $200 mil and early closers
  - Lower fees seen in passive core and some debt funds
- Performance
  - Strongest returns in U.S. midstream and gas-fired generation
  - Outside of energy pure plays, the marquee 2007 funds are marked at 6% - 8% net IRRs

2013 Key Facts: Infrastructure & Commodities
50 PPMs Screened
15 GP Meetings Taken
5 GP Site Visits & Full Due Diligence

As of September 30, 2013 (in USD Millions)		
Infrastructure & Natural Resources[1]		
	AUM[2]	No. of Funds
Discretionary	$1,993	21
Non-Discretionary	$7,979	61

[1] Infrastructure and Natural Resources strategies include investments reclassified from other strategies, based on the industry target of the fund.
[2] AUM calculation does not include authorized to invest amounts (ANI). ANI can only be attributed to commingled fund-of-funds and separate accounts and cannot be attributed to underlying investment strategies.

Hamilton Lane Discretionary Infrastructure and Natural Resources Track Record[1,8]
As of September 30, 2013

in USD millions

Vintage Year[7]	Commitment	Paid-In[2]	Distributions	Market Value[3]	TVPI[4]	IRR[5]
2000	$65.6	$65.6	$101.0	$0.0	1.5x	13.22%
2006	$95.0	$101.3	$45.6	$73.5	1.2x	4.34%
2008	$300.0	$260.9	$38.9	$251.8	1.1x	3.70%
2009	$464.5	$429.7	$91.7	$464.4	1.3x	18.75%
2011	$501.8	$193.3	$70.1	$224.3	1.5x	39.42%
2012	$332.4	$72.7	$10.9	$65.9	1.1x	5.97%

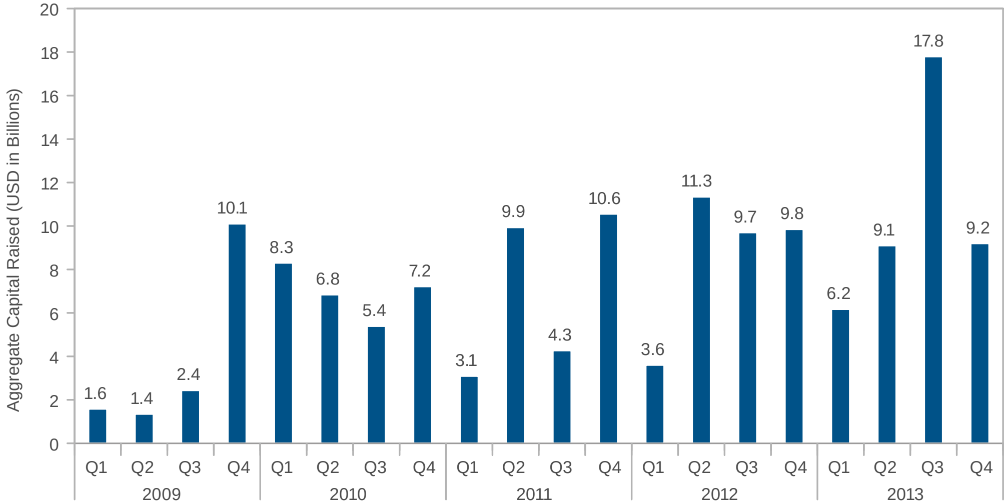
Composite Performance[6]					
	1 Year	3 Year	5 Year	7 Year	10 Year
Hamilton Lane Total IRR	19.28%	16.75%	12.21%	12.34%	13.43%

Please refer to endnotes in Appendix

Infrastructure Markets

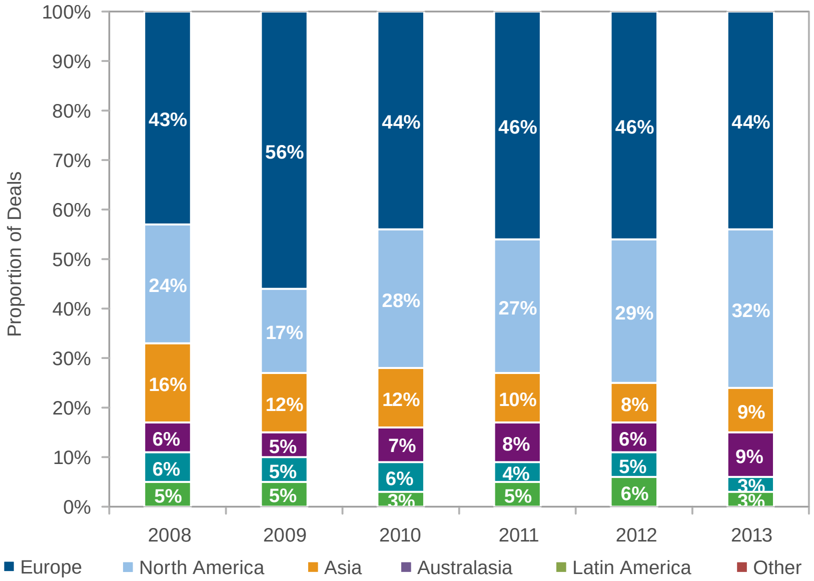
- 2013 Infrastructure fundraising represented the highest level of activity since 2008. As of January 2014, 136 funds in market are targeting $86 billion in capital
  - Primary focus geographies for these funds include North America and Europe
- Deal volume experienced a significant increase late in 2012, however slowed during 2013 with 521 Infrastructure investments closing aggregate deal value of $218 billion (a 10% YoY decrease)
  - Recent deals have been heavily weighted to Energy and Transportation Infrastructure investments in both Europe and North America

Quarterly Unlisted Infrastructure Fundraising
Q1 2009 - Q4 2013



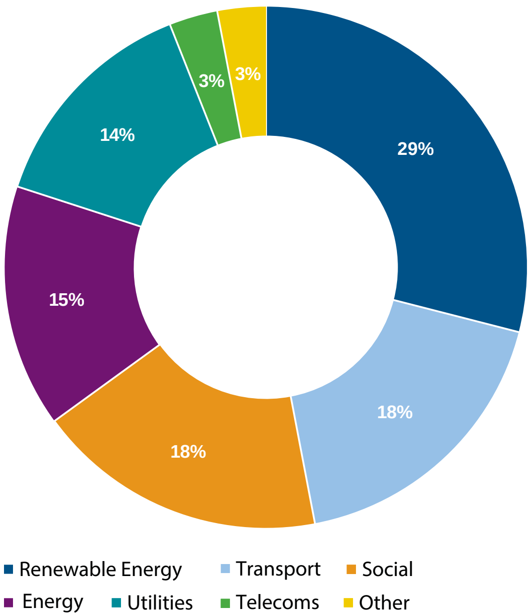
Source: Preqin Infrastructure Online

Breakdown of Infrastructure Deals
by Region, 2008 - 2013



Source: Preqin Infrastructure Online

Breakdown of Infrastructure Deals
by Industry, 2008 - 2013



Source: Preqin Infrastructure Online

Energy: A Potential Game Changer

An Evolving Global Economic Geopolitical Framework, with potential for:

- The U.S. is largely energy independent and has a balance of payments surplus or modest deficit because of reduced energy imports/increased exports
- U.S. industry has the lowest energy cost of any industrialized country
- China's and Europe's energy needs are increasingly reliant on Middle East and former Soviet Union exports

For the United States Economy

- Dramatic shift to balance of payments and positive impact on U.S. dollar
  - Pro: reduced inflation; increased inflow of international capital; continued low interest rates
  - Con: stronger dollar curbs exports of manufactured goods; increasingly isolationist U.S. foreign policy
- Low-cost power impact as raw material source for U.S. industry
  - Pro: increased manufacturing base; increased employment
  - Con: environmental pressure

For Investors

- Infrastructure necessary to extract, process and deliver energy
- Conversion to cheaper power sources
- Export
- Investments uniquely suited to private markets structures